

# Taking action on climate risk:

Consultation on regulations



6 Bevis Marks  
London EC3A 7BA  
United Kingdom

T: +44 (0)20 3170 5916  
E: [info@cardano.com](mailto:info@cardano.com)  
[www.cardano.com](http://www.cardano.com)



# Taking action on climate risk: improving governance and reporting by occupational pension schemes

## Consultation on regulations

Cardano Risk Management Limited (“Cardano” or “we”) response to a consultation on “Taking action on climate risk: improving governance and reporting by occupational pension schemes” as published by the Department for Work and Pensions (“DWP”) in January 2021.

## Introduction

Overall, we welcome the regulations, which are ambitious, but necessary.

As we said in response to the October consultation, implementing the UK’s rightly ambitious net zero policy is difficult and expensive (we said, “much more so than the DWP estimate”). This is precisely why clear and definitive legislation is required.

The regulation provides the detail necessary to begin preparing the TCFD report. Nevertheless, we see the regulation and guidance as a starting point, and we encourage the DWP to continue to work with trustees in the months and years ahead to support the industry in meeting the UK’s climate objectives.

In our October response we recommended that the DWP “support a framework that:

- Pools resources to produce commonly accepted views (both on climate change scenarios and the likely impact on broad asset classes)
- Provides clear guidance on acceptable parameters that can be used in climate risk assessments”

We re-state these recommendations. For example, the industry would benefit from further guidance on the treatment of derivatives, use of proxies (particularly for overseas and illiquid holdings) and the process of aggregating the disclosures from third-party managers where methodologies differ.

We set out further recommendations in the text that follows.

## Questions 1 – 4 Scope and Timing, Trustee Knowledge, Governance and Strategy

We expect the quality of disclosures to improve over-time – as the quality of corporate disclosure improves and as trustees develop the knowledge and skills necessary to oversee their climate targets.



A recurring theme of our submission will be that the quality of a pension fund's disclosure is determined by the quality of the underlying data. As such, we recommend that:

- The Pensions Minister encourage his ministerial colleagues to expedite corporate GHG emissions metrics and scenarios, including unlisted companies.
- The Pensions Minister use G7 and G20 meetings as well as COP 26 as an inflection point for international harmonisation.

In our experience, trustees are wholly committed to increased climate integration and reporting requirements. However, for most trustees, responding to the climate crisis requires a new set of skills. As such, we recommend that:

- The DWP continue to work with the industry to improve the guidance / tools available for trustees to meet their climate-related objectives.

## Question 5 Scenario Analysis

We agree with the proposed scenarios. We also see benefit in a 'usable' scenario or forecast. As well as 'book-end' scenarios, trustee decision-making will benefit from a scenario that is probable.

As such, we recommend:

- The DWP provide further guidance on a disruptive "policy response forecast", such as the PRI's Inevitable Policy Response programme.

## Question 6 Risk Management

We agree with the proposed regulations.

## Question 7 Metrics

We agree with the proposed metrics. In our experience, the first challenge is obtaining and aggregating holdings data. Once the holdings data is in place, we can publish the metrics provided by our third-party data provider.

The second challenge is the interpretation of the metrics to support investment decisions. We note the considerable variability in disclosure resulting from differing methodologies. In particular:

- Incomplete or poor-quality corporate disclosures, in particular, scope 3 emissions
- "Black box" service provider methodologies, in particular, on physical risks

We recommend the DWP work cross-ministry and cross-regulator to address these issues. We agree that this does not prevent trustees preparing TCFD reports in the interim.

We also note the plan by the FCA to consult on TCFD-aligned rules for asset managers in the first half of 2021 with final rules to be published by the end of 2021 to be enforced in 2022. This improved flow of data will enhance the ability of trustees in their pursuit of effective climate risk governance.



## Question 8 Targets

In our October response, we recommended that the DWP:

- Phase in the requirement to set targets so they apply one year after the initial metrics are adopted.

We repeat this recommendation and note the challenges involved in setting targets based on metrics prepared using corporate disclosure data from the Coronavirus pandemic and recovery.

In addition, we recommend:

- The DWP support trustees in setting net zero emissions targets, with meaningful interim targets.
- The DWP review the IIGCC PAll net zero framework and the UN PRI Asset Owner Alliance net zero framework and support the industry coalesce around methodologies and interim targets.
- The DWP recognise that trustees will need to adjust targets as data quality, data aggregation methodologies and use of proxies improves.

## Question 9 Disclosure

The FRC review draft responses to the stewardship code and we'd recommend a similar set up, where trustees can prepare draft TCFD reports, subject to confidential feedback. There is understandably some nervousness and further regulatory support would be welcome.

## Question 10 Penalties

No comments.

## Question 11 Impacts

No comments.

Response submitted on 8 March 2021.

For questions or comment, email Will Martindale, Group Head of Sustainability at:

[w.martindale@cardano.com](mailto:w.martindale@cardano.com).



