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10 March 2021

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Dear Emma, Tom and David

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

We welcome the opportunity to respond to the Department for Work and Pension (DWP) second consultation on Taking action on climate risk: improving governance and reporting by occupational pension schemes, which consults on the draft Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, the draft Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 and the related draft statutory guidance.

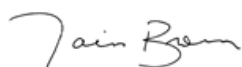
While the regulations will, undoubtedly, accelerate climate-related risks and opportunities rising to the top of UK pension schemes' agenda, we have focussed this response on the draft statutory guidance – and questions 2, 5 and 7 – given its important role in helping trustees develop their understanding around climate risk and improving the governance, mitigation and reporting of risks to their schemes.

We welcome the way in which feedback to previous consultation has been considered and, where deemed appropriate, reflected in the draft guidance. We also support the clear message in the guidance that perfection should not get in the way of progress particularly as data is good enough to allow better decisions to be made today, both on investments (risk and opportunity) and around alignment. While issues around scenario analysis may remain, incomplete data can still be useful in helping trustees identify carbon hotspots in their portfolios or help identify areas that are set to benefit from the transition to a low carbon economy. As understanding develops, industry should be encouraged to share their experience and learn together.

We would also note that we have seen a significant acceleration around the net zero or alignment theme, even since the publication of this consultation, with the majority of UK defined contribution scheme providers now making net zero commitments. We understand why the DWP is not consulting further on this given the need to focus on the regulations, however, we anticipate further schemes committing this year and believe there may be a need for regulatory guidance in this area.

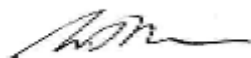
We hope that you will find our response helpful. Please do not hesitate to contact us if you would like any further information or wish to discuss any points in more detail.

Yours sincerely



Iain Brown

Partner, Ernst & Young LLP



Gareth Mee

Partner, Ernst & Young LLP

Enc.

APPENDIX I – Responses to consultation questions

Consultation Question 1

- a) **Do you have comments on the proposals to change the “reference date” used for the purposes of determining whether a scheme is in scope, or the arrangements made for schemes which obtain their audited accounts later than 1 October 2021, or 1 October 2022?**

- b) **Do you have comments on the draft regulations on scope and timing?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 2

- a) **Do you have any comments on the draft regulation on trustee knowledge and understanding?**
- b) **Do you have any comments on the draft guidance?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We note that the draft regulations would prescribe that trustees who are subject to the TCFD reporting requirements must have knowledge and understanding of the principles relating to the identification, assessment and management of risks to occupational pension schemes arising from the effects of climate change. Whilst we appreciate that the statutory requirements on trustees will necessarily be aligned with the scope of the draft regulation (e.g. trust schemes with £1 billion or more in net assets), climate change also creates risks for smaller schemes.

We note that DWP “will take stock in 2023 and consult more widely again in 2024 before deciding whether to extend the regime to schemes with less than £1 billion in assets, however, we believe that all trustees should, possibly as part of The Pensions Regulator supervisory expectations, enhance their knowledge and understanding of the financial risks from climate change to a level that is proportional to the nature, size and complexity of their schemes. Whilst specific regulations for trustees of less than £1 billion in assets may not be the right route, other options could include updating the The Pension Regulator’s Trustee Toolkit to include a climate change specific module that trustees are expected to complete within a fixed period after its release.

Consultation Question 3

- a) **Do you have any comments on the provisions on governance in the draft regulations?**
- b) **Do you have any comments on the draft statutory guidance on governance?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 4

- a) Do you have any comments on the provisions on strategy in the draft regulations?**
- b) Do you have any comments on the draft statutory guidance on strategy?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 5

- a) Do you have any comments on the provisions on scenario analysis in the draft regulations?**
- b) Do you have any comments on the proposal that relevant contracts of insurance, are within scope for scenario analysis?**
- c) Do you have any comments on the draft statutory guidance on scenario analysis?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

- a) We have no material comments at this time.
- b) In our opinion it would be sensible to remove contracts of insurance from both the asset and liability side (thereby netting out the change in assets and liabilities) as trustees may not have clarity on what assets are being held by the insurer and the insurer would not be segregating the assets on a scheme by scheme basis.
- c) In our view the guidance does not provide any steer to trustees on the time horizons over which scenario analysis should be applied. It would be helpful to clarify whether the scenarios are meant to tie in with the short/medium and long-term time horizons that the trustees will need to comment on with regards to climate change risk and opportunities.

Consultation Question 6

- a) Do you have any comments on the risk management provisions in the draft regulations?**
- b) Do you have any comments on the draft statutory guidance on risk management?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 7

- a) Do you have any comments on the provisions on metrics in the draft regulations?**
- b) Do you have any comments on the draft statutory guidance on metrics?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We welcome the fact that the guidance is specific around the metrics that trustees could use. This is a technical area where trustees need guidance and support and this chapter will deliver on that. That said, the focus of this chapter is metrics for financed assets (i.e. scheme investments), and we

believe that the guidance could include greater detail on how covenant climate risk metrics should/could be included.

Consultation Question 8

- a) Do you have any comments on the provisions on targets in the draft regulations?**
- b) Do you have any comments on the draft statutory guidance on targets?**

Please include in your answer any comments on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 9

- a) Do you have any comments on the draft regulations on disclosure? b) Do you have any comments on the draft statutory guidance on disclosure?**

Please include in your answer any comments on you have on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 10

- a) Do you have any comments on the draft regulations on penalties?**

Please include in your answer any comments you have on whether you consider that they meet the policy intent stated in this chapter.

We have no material comments at this time.

Consultation Question 11

In relation to the changes we have made to the original policy proposals, do you have any comments on the regulatory burdens to business and benefits, and wider non-monetised impacts which are estimated and discussed in the draft impact assessment?

We have no material comments at this time.

Consultation question 12

Do you have any other comments you would like to raise?

We have seen a significant acceleration around the net zero or alignment theme, even since the publication of this consultation, with the majority of UK defined contribution scheme providers now making net zero commitments. We understand why the DWP is not consulting further on this given the need to focus on the regulations, however, we anticipate further schemes committing this year and believe there may be a need for regulatory guidance in this area.