



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

Co-operative Group consultation response 02/10/2020

Question 1

We propose that the following schemes should be in scope of the mandatory climate governance and Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements set out in this consultation:

- a) trust schemes with £1 billion or more in net assets
- b) authorised master trusts
- c) authorised schemes offering collective money purchase benefits

Do you agree with our policy proposals?

As the sponsor of a number of defined benefit pension schemes of differing maturities and levels of de-risking, and also of a defined contribution pension scheme, the Co-op is supportive of measures to encourage pension schemes to consider climate risk.

The initial focus on schemes that would be expected to have greater governance capacity is reasonable, and the list of in scope schemes is consistent with that approach.

We do believe that a minor point of clarification is needed in assessing “net assets”. Chapter 2 paragraph 16 of the consultation document defines net assets as “*those attributed to the scheme in the annual report and accounts, less any “external liabilities”*”. As annual report and

accounts need to include a value for any annuity policies held in the name of the Trustees (i.e. buy-ins), the assessment of a scheme's net asset value on the face of it would appear to include such policies.

We believe that buy-in policies should explicitly be excluded from the value of net assets for the purposes of assessing whether a scheme is in scope. Doing so would be consistent with our interpretation of the intention of paragraph 54 of chapter 2, which notes that *"There likely will be some circumstances in which it will be disproportionate to expect trustees of a once-large scheme to continue to produce a TCFD report when its assets become very much reduced. For example... the trustees of a DB scheme may carry out a series of bulk annuity transactions which result in their net assets for the purposes of the annual report and accounts being gradually reduced to a very small proportion of their original amount"* (albeit we note that the implication in the consultation that buy-in policies are excluded from the report and accounts is incorrect under current accounting standards; it would also be extremely unusual for a scheme to conduct a series of buy-out policies).

Given that trustees that have de-risked and hold such investments have no control over the underlying assets (by design), and as we would expect that the impact of these assets would be covered by the insurers' TCFD reporting, we would propose that the value of buy-in policies should explicitly be excluded from the value of net assets for the purposes of assessing whether a scheme is in scope.

Question 2

We propose that:

- a) trustees of schemes with £5 billion or more in net assets on their first scheme year end date to fall on or after 1 June 2020 are subject to the climate governance requirements from 1 October 2021 and the trustees must publish a TCFD report within 7 months of the current scheme year end date or by 31 December 2022 if earlier
- b) trustees of schemes with £1 billion or more in net assets on the first scheme year end date to fall on or after 1 June 2021 are subject to the climate governance requirements from 1 October 2022, and the trustees must publish a TCFD report within 7 months of the current scheme year end date, or by 31 December 2023 if earlier
- c) trustees of master trust or collective money purchase schemes which are authorised on 1 October 2021 are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report in line within 7 months of the current scheme year end date, or by 31 December 2022

After 1 October 2021:

d) trustees of master trust or collective money purchase schemes which become authorised are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report within 7 months of the current scheme year end date

e) where schemes cease to require authorisation, the climate governance and TCFD-aligned reporting requirements fall away with immediate effect, unless they remain in scope via the asset threshold on the previous scheme year end date

From 1 June 2022 onward:

f) trustees of schemes not already in scope of the requirements and with £1 billion or more in net assets on any subsequent scheme year end date:

are subject to the climate governance requirements starting from one year after the scheme year end date on which the £1 billion asset threshold was met

must publish a TCFD report within 7 months of the end of the scheme year from which the climate governance requirements apply

g) trustees of schemes in scope of the requirements whose net assets fall below £500m on any subsequent scheme year end date cease to be subject to the climate governance requirements with immediate effect (unless they are an authorised scheme) but must still publish their TCFD report for the scheme year which has just ended within 7 months of the scheme year end date

Do you agree with the policy proposals?

The proposed implementation timescales for trust-based schemes appear reasonable; we cannot comment on master trust or collective money purchase schemes.

Legislation or further guidance should provide clarity on the approach under paragraph 63 of chapter 2 for schemes that have fully bought out their liabilities with an insurer or transferred to a pensions consolidator within a scheme year, as it is questionable what value the final TCFD report (for the scheme year ending after the risk transfer event) will have, or who the anticipated users are.

Question 3

Subject to Government deciding to adopt any of the governance or reporting requirements proposed in this consultation, we propose to conduct a review in 2024 on whether to extend the measures to schemes with below £1 billion in net assets which are not authorised master trusts or an authorised scheme offering collective money purchase benefits, and if so how and on what timescale.

This review would be informed by consideration of TCFD disclosures by occupational pension schemes to-date, their impact, and the availability and quality of both free and paid-for tools and services.

We would propose also to review any regulations and statutory guidance which had been put in place to identify whether any of this needs to be strengthened or updated.

Do you agree with these proposals?

We agree that a further review is appropriate before extending requirements to smaller schemes, and that requirements for these schemes need to be proportionate.

Question 4

We propose that regulations require trustees to:

- a) adopt and maintain oversight of climate risks and opportunities
- b) establish and maintain processes by which trustees, on an ongoing basis, satisfy themselves that persons managing the scheme, are assessing and managing climate-related risks and opportunities.

We also propose that regulations require trustees to describe:

- c) the role of trustees in ensuring oversight of climate-related risks and opportunities
- d) the role of those managing the scheme in assessing and managing climate-related risks and opportunities, only insofar as this relates to the scheme itself and the processes by which trustees satisfy themselves that this is being done

We propose that statutory guidance will cover the matters in the box above.

Do you agree with these proposals?

No response.

Question 5

We propose that regulations require trustees to identify and disclose the climate change risks and opportunities relevant to their scheme over the short, medium and long term, and to assess and describe their impact on their investment and funding strategy.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes.

Question 6

We propose that regulations require trustees to assess the resilience of their assets, liabilities and investment strategy and, in the case of defined benefit (DB), funding strategy, as far as they are able, in at least two climate-related scenarios, one of which must be a 2°C or lower scenario and to disclose the results of this assessment.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, although we note that a quantitative assessment of the impact of these scenarios on the strength of employer covenant is likely in many cases to be challenging and/or spurious, and so a qualitative assessment will be more appropriate in many cases.

Question 7

We propose that regulations require trustees to:

- a) adopt and maintain processes for identification, assessment and management of climate-related risks
- b) integrate the processes described in a) within the scheme's overall risk management

We also propose the regulations require trustees to disclose:

- c) the processes outlined in part a) above

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes.

Question 8

We propose that regulations require trustees to:

- a) select at least one greenhouse gas (GHG) emissions-based metric and at least one non-emissions-based metric to assess the scheme's assets against climate-related risks and opportunities and review the selection on an ongoing basis
- b) obtain the Scope 1, 2 and 3 GHG emissions of the portfolio, and other non-emissions-based data, as far as they are able
- c) calculate and disclose metrics (including at least one emissions-based metric and at least one non-emissions-based metric) used to quantify the effects of climate change on the scheme and assess climate-related risks and opportunities

We also propose in regulations that trustees be required to disclose:

d) why the emissions data that is estimated does not cover all asset classes, if this is the case

We propose that trustees will not be mandated to use a specific measure to assess the effects of climate change on the scheme's portfolio.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes.

Question 9

We propose that regulations require trustees to:

- a) set at least one target to manage climate-related risks for one of the metrics trustees have chosen to calculate, and to disclose those targets(s)
- b) calculate performance against those targets as far as trustees are able and disclose that performance

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

No response.

Question 10

We propose that, for all schemes in scope:

- a) the trustees should be required to publish their TCFD report in full on a publicly available website where the report is accessible free of charge
- b) the trustees should be required to include in the Annual Report and Accounts a website link to the location where the full TCFD report may be accessed in full
- c) the trustees must notify all members to whom they must send the annual benefit statement of the website address where they can locate the full TCFD report – this must be set out in the annual benefit statement
- d) the trustees should be required to report the location of their published TCFD report to the Regulator by including the corresponding website address in their scheme return
- e) the trustees should also be required to report the location of their published Statement of Investment Principles (SIP), Implementation Statement and excerpts of the Chair's Statement by including the corresponding website address or addresses in their scheme return

Do you agree with these proposals?

Is there a better way to notify members of where to find this information?

For example, for DB schemes, might the summary funding statement required by regulation 15 of the Disclosure Regulations be a more appropriate way to signpost members to this information?

No response.

Question 11

We propose that:

- a) The Pensions Regulator (TPR) will have the power to administer discretionary penalties for TCFD reports they deem to be inadequate in meeting the requirements in the regulations
- b) there will be no duty on TPR to issue a mandatory penalty, except in instances of total non-compliance where no TCFD report is published
- c) in all other respects, we propose to model the compliance measures on the existing penalty regime set out in regulations 26 to 33 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015
- d) failure to notify members via the Annual Benefit Statement or to include a link to the TCFD report from the Annual Report will be subject to the existing penalty regime set out in regulation 5 of the Disclosure Regulations

Do you agree with this approach?

No response.

Question 12

Do you have any comments on the new regulatory burdens to business and benefits, and wider non-monetised impacts we have estimated and discussed in the draft impact assessment?

No response.

Question 13

Do you have:

- a) any comments on the impact of our proposals on protected groups and how any negative effects may be mitigated?

b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats

c) any other comments about any of our proposals?

No response.