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DWP Climate Governance and Environmental Social Governance (ESG) team

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Submitted via email to: pensions.governance@dwp.gov.uk

Dear Climate Governance and ESG team,

Barclays Bank UK Retirement Fund: Response to DWP consultation on pension scheme climate risk governance and reporting

We are writing to you as the Trustee of the Barclays Bank UK Retirement Fund (the UKRF). The UKRF operates under trust law, with £36bn of assets (as of September 2019, the date of our most recent triennial valuation) on behalf of more than 200,000 members. Before we answer your questions, it might be useful if we briefly describe the UKRF's governance and policies on Responsible Investment (RI), including climate risk:

- The Trustee believes that there are significant financial implications resulting from climate-related risks and, as such, it is in the best interests of pension funds, businesses and their stakeholders to consider and address these risks within their long-term strategy and day-to-day operations.
- The UKRF has a stand-alone RI policy. DB and DC scheme assets are subject to the same RI policy and guiding principles. The policy is owned by the Trustee Board who has ultimate responsibility and decision-making authority on RI, ESG (environmental, social, governance) and climate-related issues, risks and opportunities. The Trustee is fully supported by its primary investment manager, Oak Pension Asset Management Limited (OPAM), and other managers investing the UKRF assets.
- The Trustee recently published its first Task Force on Climate-related Financial Disclosures (TCFD) statement describing the UKRF approach to climate change risk. The statement outlines the UKRF status in adopting the TCFD recommendations, and provides examples of the UKRF initiatives and disclosures concerning climate-related risks and opportunities.

We are grateful for the opportunity to respond to the consultation and help to inform policy decisions. We have limited our responses to those questions which are most pertinent to the UKRF. The Trustee is broadly supportive of the consultation proposals, and is confident that greater disclosure will allow better measurement of climate change risks, and thereby enhance the ability of all stakeholders in the investment chain to assess and minimise such risks.

We believe that the proposed regulations should have a good balance between providing pension funds with flexibility to define specific metrics and scenarios, while also offering high-level direction and guidance on implementation. Without high-level guidance we foresee potential challenges in implementation. Given data availability across asset classes varies considerably, regulating in this area may prove challenging, although we do believe that there is a need for consistency in the regulations through the investment chain. Wide variation makes it difficult to compare funds and portfolios. Greater consistency in the process of identifying climate change risks and opportunities, and more specific tailoring in the treatment of different asset classes, would enable trustees to make an informed comparison of risks and opportunities.

We are not yet able to offer specific solutions to these challenges, but we would welcome the opportunity to meet and have further discussion and engagement on these points and those raised in the below responses. Please do not hesitate to contact us directly to discuss any of the points raised in our responses.

Yours sincerely,

Peter Goshawk

Peter Goshawk
Chairman of the Trustee Board, The Barclays Bank UK Retirement Fund

Responses to the consultation questions

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

Do you agree with these proposals?

The UKRF supports the conclusions outlined in the final report of the TCFD on the basis that greater disclosure will allow better measurement of climate change risks and will enhance the ability of all stakeholders in the investment chain to assess and minimise such risks.

The Trustee believes there are significant financial implications resulting from climate-related risks and, as such, it is in the best interests of businesses and their stakeholders to consider and address these risks within their long-term strategy and day-to-day operations.

From our experience, when selecting investment managers, their policy on and approach to climate risks and ESG issues should be an important factor in the process. RI policies and requirements should apply to all pension fund investments although implementation expectations should be tailored according to the different asset classes and the investment mandate in question.

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.

Do you agree with these proposals?

We agree in principle with the proposals as they are broadly in line with our current approach to climate change risk. Within the UKRF, consideration of climate change risks, as well as ESG factors, are incorporated in all elements of the Fund's investment approach, from strategic asset allocation, through manager selection, to portfolio monitoring. As part of the strategic asset allocation process, ESG risks and opportunities are considered, ensuring that forward looking expectations are appropriately accounted for. Climate change is the subject of specific risk management, measurement, stewardship and collaborative efforts as part of the overall investment and RI activities.

While there are a variety of metrics and approaches for identification of climate change risks, there is no commonly agreed approach for identification of climate change opportunities over the short, medium and long term. Flexibility is important, but the absence of consistency makes comparisons over time and across portfolios challenging. We believe that guidance from the Government or regulators on the process for identification of climate change risks and opportunities would be helpful for pension funds, ensuring clarity on reporting expectations, along with consistency and comparability of reports. Similarly, guidance from the Government or regulators on the process for assessing the impact on the investment and funding strategy would ensure consistency in those approaches.

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.

Do you agree with these proposals?

Whilst the UKRF agrees in principle with the proposed regulations, we would suggest that assessment expectations be tailored according to the different asset classes as data availability varies significantly across asset classes and investment strategies.

Regarding the requirement to carry out scenario analysis on the funding strategies, it is our view that disclosing information covering liability profiles and covenant strength may be sensitive and require comprehensive consultation with corporate sponsors, while also attracting material increase in advisory fees to support such assessments. This activity may be better aligned to a triennial funding valuation cycle for defined benefit schemes.

Based on our experience, distinction between transitional and physical impacts of climate change would be helpful. The potential impact of climate change on assets would depend firstly on the global response to climate change and secondly on the actions taken to address the rising direct risks and opportunities. In the event of a strong response and increased global pressure to limit greenhouse gas emissions and global warming below two degrees, transitional aspects could become more prominent in the short term. With a limited response to climate change, some assets are likely to be affected in the long term by physical effects such as extreme weather and higher temperatures.

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

Do you agree with these proposals?

We believe that there are significant financial implications resulting from climate-related risks and, as such, it is in the best interests of pension funds, businesses and their stakeholders to consider and address these risks within their long-term strategy and day-to-day operations. The combination of a requirement to implement the TCFD recommendations on climate-risk reporting with increasingly more detailed and demanding regulatory requirements should ensure that ESG and climate change risks are regularly monitored, managed and, to the extent possible, minimised.

The UKRF previously engaged in a research initiative to measure future climate-related risks and understand how some of the Fund allocations could be affected by different climate scenarios. Based on our experience, processes for identification, assessment and management of climate-related risks could be complex and lengthy, and disclosing full details of such complex stress tests can be counter-productive for receivers of such information. The UKRF would suggest that guidance from the Government or regulators on the level of required disclosure be helpful for pension funds, ensuring clarity on reporting expectations and the intended audience for these disclosures.

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.

Do you agree with these proposals?

We agree that Trustees should not be mandated to use a specific measure but also suggest that guidance from the Government or regulators on climate risk reporting (in particular related to non-emissions-based metrics) would be helpful for pension funds, ensuring clarity on reporting expectations, along with consistency and comparability of reports over time and across portfolios.

We would suggest that assessment expectations be tailored according to the different asset classes as data availability varies significantly across asset classes and investment strategies. For example, as credit assets are becoming an area of focus for mature UK pension funds, this will likely require specific guidance from the regulators on climate risk reporting. In addition, DC schemes invested in pooled funds will require greater look through on underlying assets and more emphasis on investment manager disclosure. There is already significant and growing guidance on broader ESG and climate risk issues in the public domain. Clear, consistent and proportionate guidance from Government and regulators, drawn up in conjunction with the industry, would be very welcome.

We believe that there is a need for consistency in the regulations across the investment chain: underlying asset managers, and the companies and assets that the managers invest in need to have similar (or more stringent) obligations and requirements compared to pension funds. For example, currently the data availability of scope 3 GHG emissions from underlying companies remains very limited, which creates insurmountable challenges for asset managers and pension funds seeking to aggregate information at the investment portfolio level. The FCA work in this space will be helpful but as pension funds have Global portfolios, similar regulations need to be introduced across the Globe.

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

Do you agree with these proposals?

The UKRF agrees in principle with the proposed regulations to set at least one target to manage climate-related risks and to disclose those targets. We also acknowledge the benefits of calculating performance against those targets.

Disclosing details of such performance, however, can potentially be counter-productive to consumers of this information, especially at this early stage, as it will require sufficient context and deep understanding of the overall investment strategy.

Based on our experience, guidance from the Government or regulators on performance reporting would be helpful for pension funds, ensuring clarity on reporting expectations, along with consistency and comparability of reports.

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?

While we are fully supportive of greater transparency and disclosure we believe there is a clear difference in the depth of information required by Trustees, regulators and by scheme members. Our belief is that a simpler method of communication should be made available to members that is more likely to be understood by the average pension fund member.

The objective should be to encourage members to continue to engage with their pension savings rather than being daunted by the complexity of such disclosures. The proposals as drafted will see complex information on climate change being numerously signposted to members, and it is unclear what members are expected to be able to do with this publically available information with regard to their individual pension savings.