DWP Consultation on Climate Change in response to the governance and reporting requirements set out in the TCFD

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?

Johnson Matthey Plc is a FTSE 100 Company which is publicly committed to Sustainability Development Goals with its vision being a world that is cleaner and healthier today and for future generations.

Every year, the Company undertakes a comprehensive review of group environmental performance across all the manufacturing, Research & Development facilities and large offices under its control. It is fundamental to Johnson Matthey that it manufactures efficiently and responsibly to drive both economic and environmental performance.

Like the sponsoring employer, the JMEPS Trustee is seeking a cleaner and healthier world today and for future generations. However, the Trustee is concerned at the implications of the requirements set out in the Consultation Document. Trustees are already burdened with considerable regulatory requirements and the demands upon them are becoming even greater.

The Trustee is also concerned at the autocratic approach and feel that a more persuasive tone would be better. This is yet a further regulatory burden falling on trustees, many of whom have full time roles in the organisations that employ them. The threats of penalties and fines could result in many trustees resigning from the role.

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?

Please see the comments under Question 1.

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?

Although, the JMEPS Trustee considers a review to be beneficial, the prospect of all pension schemes, some with assets as low as £15m, having to take on the reporting requirements could be a step too far as smaller schemes do not have the staffing resources to comply and the proposals would result in disproportionate additional costs falling on them. The Trustee suggests that there should be a de minimus figure of £250m.

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?

Yes, but hopefully the requirements of the trustees will be proportionate, persuasive and less autocratic than the proposals set out in the Consultation Document, otherwise many will resign.

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?

The Trustee is supportive of the proposals but DWP must give trustees some slack and flexibility. The Trustee is supported by a small in-house pensions team of 8 staff. The in-house pensions team have no in-house investment officer unlike some of the schemes with over £3billion of assets and the Trustee relies on two investment consultants (one for DB, the other for DC) and primarily eight investment managers. It is important to note that the Trustee Directors have no direct or indirect contact with the companies in which JMEPS invests. It follows that the Trustee relies on the instructions to, and decisions taken by, the investment managers.

If the DWP's proposals are enacted, the Trustee will have to commission external support in order to fulfil the obligations at an estimated cost of at least £50,000 per annum, more than three times the DWP's estimate.

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?

No – whilst the Trustee understands and supports the intentions it is concerned at the additional responsibilities and work falling on trustees, as well as the additional cost. For example, the JMEPS Trustee will have no option other than to commission an external adviser to assist with the requirements at an estimated cost of at least £50.000 per annum.

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?

Please the answer to Question 6.

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?

The Trustee understands and supports the need for the UK to be a net zero emitter by 2050. However, the proposals are highly regulatory and will impose a huge burden on trustees of pension schemes. There is a real risk of pension schemes being overwhelmed by the regulations

and data requirements. The DWP's estimate of the additional costs of £15,000 per annum shows a mis-understanding of what these requirements will mean for trustees, particularly those, and there are many, who do not employ an in-house investment manager.

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 – the Trustee considers these requirements to be excessively bureaucratic and costly. The main responsibilities of trustees is to secure adequate funding to enable them to meet the members' benefits.

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 - the Trustee considers that the proposals are excessive and that the bureaucracy associated with the TCDF reports, new Implementation Statements and Chair's Statements is likely to overwhelm some Trustees.

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 the Trustee suggests the TPR adopts the advice and persuasive route. Many trustees have full time roles in their organisations. The threat of fines and penalties will cause many trustees to resign.

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.

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?

The Trustee is not convinced that the autocratic route is desirable, rather one of persuasion and guidance would be far more helpful and productive.