FAO. Bethan Livesey, Tom Rhodes, Andrew Blair, and David Farrar
Climate Governance and Environmental Social Governance (ESG) team
Department for Work & Pensions
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Westminster
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Sent by email: pensions.governance@dwp.gov.uk

6th October 2020

Dear Sir / Madam,

We write in response to the consultation to require trustees of larger occupational pension schemes, to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. It also invites responses on proposals to disclose these in line with the recommendations of the international industry-led Task Force on Climate-related Financial Disclosures (TCFD). Before commenting on the Code, we felt it would be helpful to provide some background to the Scheme and its approach to responsible investment and climate change.

The BTPS is the largest private sector pension scheme in the UK with close to 300,000 members and approximately £55bn of assets. It is a defined benefit scheme which is managed by an independent Trustee on behalf it its members. The Trustee is a corporate trustee with nine trustee directors. The Scheme was closed to new members in 2001 and closed to future accrual on 30 June 2018.

BT Pension Scheme Management Ltd (BTPSM) is a wholly-owned subsidiary of the Scheme. It is a regulated entity and authorised by the Financial Conduct Authority (FCA). BTPSM is the primary service provider (fiduciary management services, member services, operational and secretariat services) to BTPS. It is led by a board of directors that are authorised by the FCA and are responsible for reporting and providing assurance to the Trustee that the business is well managed and aligned to the Trustee's objectives. The majority of the Scheme's assets are managed by external investment management companies across a diversified range of asset classes including equities, corporate and government bonds, property and alternatives.

The Scheme has a long history of being a responsible investor and engaged owner. It was a founding signatory of the Principles for Responsible Investment (PRI) in 2006, it is a member of the Institutional Investors Group on Climate Change (IIGCC) and a Tier 1 signatory to the UK Stewardship Code. This commitment is articulated in the Scheme's Responsible Investment Policy (publicly available at www.btpensions.net) by the mission statement which explains that the Scheme's investments should be managed to "create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full."

To do this effectively, the Trustees believe that it must integrate financially material environmental, social and governance (ESG) considerations, including climate change, throughout the investment process and also promote active stewardship of the portfolio companies and assets owned by the Scheme.

As there are several proposals, for brevity, where a response to a specific question is not given, please view this as indicating our support for the proposal. Overall, we are very supportive of the proposals suggested in the consultation. The speed at which climate change is advancing not only means that investors need to move quickly to establish the risks and opportunities posed to their schemes and report how they are managing these to members. Further, aligning reporting with the TCFD recommendations ensures that asset owners are not confused by yet another standard.

Question 5
We agree with the proposal but highlight that care must be taken when assessing and reporting existing products and services with lower emissions alternatives, or similar investment opportunities which claim a positive climate impact. At present there is a significant amount of greenwashing in the industry, particularly around what constitutes a green, sustainable, low carbon or net zero investment. We therefore welcome news that the UK government will follow the work of the EU Sustainable Taxonomy to 'cut through the noise' in the market. While currently the taxonomy is relatively complex, we hope all market players, regardless of the investment strategy i.e. sustainable or not, adopt its lexicon. This will mean that when trustees conduct a yearly analysis and report on the positive investments and activities of the scheme to members, they will be doing so in good faith.

Question 6
We support the proposal and echo comments that scenario analysis is very complicated. While we understand the reluctance to prescribe specific scenarios, providing a narrow range of options would be helpful as different service providers are creating their own models which can lead to varying results. This adds to confusion on which scenario is most appropriate. It also means it is hard for a scheme to benchmark itself to others or even for there to be a meta-analysis of how the UK's overall pension scheme landscape is performing against different climate scenarios. Importantly, it also makes it challenging to explain what lies behind a climate scenario to a non-technical TCFD report reader who simply wants to understand what risks are posed to the scheme.
We would further recommend that at a later date, more work is needed on physical scenario analysis to help trustees understand risks and opportunities. Understandably, because it is so complex, modelling in this area lags transition scenario analysis, however a recent paper by the Institutional Investors Group on Climate Change (IIGCC) on physical climate change risks and opportunities, is a good source of information and could be integrated into trustee guidance. Please see here- http://www.acclimatise.uk.com/wp-content/uploads/2020/05/IIGCC-Understanding-Physical-Climate-Risks.pdf

Question 7
We agree with what this proposal is trying to achieve but would highlight the significant levels of investment and resources that climate risk identification, assessment and management will take to implement. These requirements will need fund managers to streamline their reporting, which at present appears disaggregated and inconsistent. Also, if a pension fund has the resources, the purchase and integration of its own climate change data to maintain oversight of the whole portfolio would be a significant and complex project. Particularly for smaller schemes, we suggest that further thought and guidance is provided on how climate risk considerations could be integrated into wider monitoring processes.

Question 8
We agree with most suggestions in this proposal. We note though that while regular updates can ensure consistency and attention to risks and opportunities, climate change data is often out of a

date by a year and only released on an annual basis. Therefore, quarterly reporting runs the risk of being unhelpful. We do however acknowledge that because this is such a fast-moving space, quarterly reporting could capture more regular climate change data being made available.

To better understand and report progress towards Paris alignment, the idea of measuring “portfolio warming” or the “implied temperature rise” (ITR) warrants further work and guidance. There is a growing array of metrics being proposed to measure a portfolio’s contribution, support, and/or alignment with the Paris Agreement. While the intention is helpful, settling on one metric which all schemes can use will help remove confusion as to which one is best; it will also help members understand how their pension scheme is supporting the Paris Agreement. In relation to wider reporting on climate change, we also believe it is important for trustees to focus on meaningful metrics which can be compared and measured over time, and forward-looking metrics as well as backward looking metrics to identify opportunities and innovation. As commented previously in question 5, we are very supportive of alignment with the EU Sustainable Taxonomy.

Regarding which GHG emissions metrics trustees should use, scope 1 and 2 emissions data is widely available, and therefore feasible for trustees to publicise. However, we urge continued policy support to push forwards improvements in scope 3 emissions reporting. Much investor focus to date has been on measuring and reporting scopes 1 and 2, i.e. the emissions from operating a business. However, scope 3 emissions may be the sting in the tail which could surprise trustees who believe that they have decarbonised their scheme through divestment, but in fact are left holding equally significant emissions, for example through having large exposures to banks, whose loan books hold coal investments.

We also call for policy to push for mandatory reporting of emissions from different asset classes, in particular sovereign debt, infrastructure and private equity. These disclosures will help close the gaps in measuring climate risks and opportunities.

Finally, over time further work is needed on defining the role of avoided and offsetting emissions when measuring climate impact. Clearly identifying what investments can offset a portfolio’s emissions will become increasingly important as schemes grapple with how to reduce their emissions footprint and help deliver the Paris Agreement.

Question 9
We support the proposal and believe setting targets that are realistic but stretching will move action on climate change forwards.

Question 10
We agree with the proposal but urge guidance to ensure meaningful and useful disclosures. There is the risk that reporting becomes boiler plate or because this is such a complicated area, information is uninformative and inaccessible for members.

We appreciate the opportunity to respond to the consultation and hope that our comments are helpful. If you would like to discuss our views in further detail, please do not hesitate to contact us.

Yours sincerely,

Frank Naylor
Chief Investment Officer of BT Pension Scheme Management Ltd
On behalf of the Trustee of the BT Pension Scheme