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For the attention of:
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TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES

Overview

We welcome and support this consultation by the Government and we are broadly supportive of both the rationale for mandated pension scheme Task Force on Climate-related Financial Disclosures (TCFD) reporting and also the pragmatic, market-driven approach the Government is proposing to take.

Our detailed comments on the consultation questions are set out below but at a high level our main comments on the proposals are:

- for the majority of schemes (particularly defined contribution (DC) schemes and open defined benefit (DB) schemes) the proposals should be broadly effective and fit for purpose given the Government's policy intention;

- statutory guidance should build upon and be consistent with the TCFD alignment guidance work already undertaken by the Pensions Climate Risk Industry Group (on which we have separately commented);

- further consideration should be given to the position of schemes nearing their "end game" (buyout, self-sufficiency or consolidation) for whom climate change risks may not be as relevant/significant in respect of the scheme's investment portfolio (although recognising climate change may be relevant in other ways for those schemes);

- similarly, a stronger distinction needs be drawn in regulations and guidance between climate change risks in relation to scheme investments and risks in other contexts, such as bulk annuity purchases and assessing the employer covenant. These risks are very different in nature and should be assessed in different ways;

- a flexible, market-driven approach to reporting should help mitigate against "box-ticking" and/or outdated target setting but it may also produce a wide variety of approaches which could prevent useful and relevant comparisons being drawn in order to benchmark schemes and drive change in trustee investment behaviour. An important component to the effectiveness of these proposals will be the monitoring of the emerging market by the Department for Work & Pensions (DWP) and the Pensions Regulator (tPR) and the giving of clear guidance as to what "good" and "effective" TCFD governance and reporting looks like;

- in formulating its guidance the Government should be clear as to what the aims of the disclosures are and who the intended audience is, recognising the significant difference between pension scheme beneficiaries and corporate shareholders;

- given that the effectiveness of TCFD reporting will be significantly influenced by the quality and availability of relevant data, we urge the Government to continue to work with the Financial Conduct Authority (FCA) as part of this consultation and CP20/3 to put in place a clear, consistent and compatible reporting framework for asset managers and trustees but which recognises the differences between the intended audiences of the TCFD reports; and

- the flow of reported information from corporates to investors will also be an important factor for pension scheme trustees and asset managers alike. Given that reporting by corporates is still developing (for example, see the recent release by the World Economic Forum of a set of metrics developed by the Big Four accounting firms for companies to use for ESG reporting internationally), this supports a flexible (not prescriptive) approach to initial TCFD reporting and strengthens the argument that (currently at least) there is limited gains in requiring pension schemes to set their own metric targets (see below for further detail).

We would welcome the opportunity to discuss our comments further with you should that be helpful. Otherwise we look forward to the Government's response and to commenting on future regulations and guidance once published for consultation.

Detailed responses

<u>Question 1</u>

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?

<u>Response</u>

We agree that the initial focus of TCFD reporting should be on the largest occupational pension schemes as well as those which are regulated to higher standards of governance. We therefore broadly agree with the proposed list subject to the following points:

- We would recommend that the Government consider an exemption from full TCFD reporting for those schemes which have secured a buy-in of all or substantially all of their assets through the purchase of bulk annuity contract(s) with a regulated insurer and are looking to buyout within a short period (e.g. 2-4 years). In our view this would be justifiable as for those schemes there should be little to no risk of climate-related factors impacting on the security of members' benefits (given Prudential Regulation Authority's requirements imposed on insurers and the Financial Services Compensation Scheme). Even if relevant, such risks could only be identified by looking through to the underlying assets backing the relevant policy or policies (which insurers will not want or be able to disclose) and even then there would be very limited scope (if any) for trustees to address any risks identified. It would be more appropriate in such cases for trustees to, at most, signpost the TCFD report of the relevant insurer(s) to the extent it is available.
- We understand the rationale for treating DB superfunds as "normal" occupational pension schemes pending the Government putting in place the applicable regulatory framework. However, given that the Government expects high standards of governance in relation to all superfunds (established through tPR's assessment process), in our view there is a good rationale for establishing TCFD reporting by superfunds from the outset and without any asset threshold test requirement (but with reporting in line with "second wave" schemes i.e. by 31 December 2023 at the latest). This is consistent with tPR's own guidance issued in June in respect of DB superfunds.

- The Government may wish to consider extending the list of in scope schemes to include those schemes which are solely or predominately invested through the same common investment fund (CIF) where the assets of the CIF are above the relevant asset thresholds.

<u>Question 2</u>

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?

<u>Response</u>

We broadly agree with the Government's proposed approach to scope and timing of the new requirements.

We note the Government's proposals to base the asset test on the relevant scheme's annual report and accounts. Some schemes (e.g. industry wide schemes such as the Electricity Supply Pension Scheme (ESPS)) report both on a "higher" scheme level and on a "lower" section level (the ESPS uses the term

"Group" level). Generally, we can see the attraction (i.e. for consistency and simplicity of approach) of the regulations applying at the "higher" scheme level; however, this may cause difficulties and ambiguities for some schemes (for example the ESPS invests at a "Group" level with each Group having its own Statement of Investment Principles (SIP)). We would recommend that the regulations and guidance make clear how the TCFD obligations are to operate in respect of such schemes and at what level.

Whilst there clearly needs to be a cut-off if one accepts a phased approach to implementation, the Government may wish to more generally encourage occupational pension schemes to voluntarily report in line with TCFD proposals as best they can (recognising that TCFD reporting can be implemented by degrees – see for example the draft guidance issued by Pensions Climate Risk Industry Group) by requiring schemes to include in their ESG polices whether or not they report in line with any TCFD recommendations (with consequential impacts on implementation statements). This would, as a minimum, require all trustees to consider whether to undertake TCFD reporting and may encourage some schemes (particularly those close to or approaching the relevant asset thresholds) to adopt full or partial TCFD reporting even though not required by the regulations to do so.

We would recommend that once a scheme comes within the scope of TCFD reporting requirements then it should continue to report unless the "buyout exemption" noted above applies. This will be simpler to regulate and is consistent with the Government's broad intention that all large asset owners should report in line with TCFD. There could be a simplified reporting requirement or exemption for 'de minimis' schemes who have less than £50m-£100m in assets as a result of mergers, bulk transfers-out etc.

<u>Question 3</u>

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?

<u>Response</u>

Yes. We agree that a general review of the effectiveness and scope of the TCFD reporting process should be undertaken following the initial publication of "second wave" TCFD reports (i.e. 31 December 2023 at the latest).

<u>Question 4</u>

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?

<u>Response</u>

We start from the position that climate change is, in principle, a financial factor like any other which can impact on pension scheme investments and, consequently, member outcomes. As such there is already a robust legal framework (at the heart of which are the fiduciary duties of trustees) which is intended to ensure such risks are recognised, considered and (where appropriate) mitigated.

In line with the Green Finance Strategy, the Government wants to ensure that the largest UK occupational pension schemes specifically report on climate change risks and in a manner consistent with other financial institutions and asset owners. The Government considers that the TCFD framework is an established and generally accepted framework for doing so (with which we agree). As the consultation draws out, at the heart of the TCFD reporting is building the consideration of climate change factors into all aspects of governance and risk management processes. We therefore recognise that new governance obligations on trustees will be required to ensure conformity of approach. We agree that the governance items the consultation has highlighted are the right ones to concentrate on.

However, we recommend that the proposed new <u>governance</u> obligations and duties (as distinct from any associated <u>disclosure</u> obligations) are cognisant of and consistent with the existing legal, statutory and regulatory framework in relation to the investment of pension scheme assets. In particular, we would ask the Government to be mindful of existing statutory restrictions in respect of the delegation of trustee investment decisions and/or the exclusion of liability for the performance of investment functions under sections 33 and 34 of the Pensions Act 1995.

We agree with the Government that the general governance regime for occupational pensions schemes (and associated statutory Code of Practice) needs to be consistent with and recognise any TCFD governance and reporting requirements so as not to create a double administrative burden for in scope schemes.

An additional area the Government may wish to consider looking at further if it wishes to promote trustees' knowledge and understanding of climate change risks is whether such matters ought to be prescribed under section 248(5)(c) of the Pensions Act 2004 or included within the relevant Code of Practice in relation to the principles relating to the investment of scheme assets.

<u>Question 5</u>

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?

Response

We agree in principle with the Government's proposed approach to disclosing climate change risks and the suggested areas of guidance. In particular, we would like to see particular focus in the guidance given to the following areas:

- the guidance needs to be clear as to the aims of the disclosures and the intended audience. If the intended audience is scheme members then reporting should be suitably tailored in order to maximise engagement. The Government should be mindful that members are not easily analogous to shareholders in the TCFD context, for example other than their right to transfer-out and make active choices within a DC scheme members have no rights to direct the investment of scheme assets, that is the responsibility of the trustees. Similarly, whereas shareholders can exercise voting powers and ultimately withdraw capital, the same cannot be said of pension scheme members. Members may lobby and make their views known to the trustees (in particular through a member nominated trustee, where relevant) but ultimately they have no legal rights to enforce or compel investment changes. This should be reflected in the Government's guidance.
- as part of the guidance on the "levels at which the identification and assessment of risks and opportunities should be carried out" – how this should be applied for DB master trusts and industry wide schemes such as the ESPS and the Railways Pension Scheme (particularly where the relevant "section" or "Group" is well below the relevant threshold test).
- what short, medium and long term means for different schemes and different situations. For example, how would these timeframes be viewed for a DB schemes with an investment and funding objective to buy-in or buyout the majority/all scheme assets within a 10 year time horizon.
- how schemes with predominantly liability matching investments should view climate-related risks (particularly where assets such as bonds and gilts are issued by financially strong issuers with potentially weak carbon impact or Paris alignment scores – e.g. US Treasury bonds).
- the extent to which trustees are required to "look through" investments such as private equity, hedge funds, pooled funds (both active and passive) and bulk annuity policies when analysing and setting strategy and then subsequently reporting on scenario analysis and metrics or whether it is acceptable to "signpost" or "piggy back" off any relevant third party TCFD report (e.g. if a scheme is invested in a unit linked life policy or policies can the TCFD report of the relevant insurer/asset manager be signposted/used to satisfy the pension schemes reporting requirements).
- the extent to which trustees can rely upon disclosures and TCFD reports prepared by their asset managers and the obligations (if any) on trustees to "re-interpret" or reframe those disclosures for scheme TCFD reporting requirements.

NB: The above points also equally apply in relation to the guidance applicable to scenario analysis and reporting on greenhouse gas (GHG) or alternative metrics (questions 6 and 7 below).

We agree that trustees of DB schemes should not consider the impact of climate risk and opportunities on investment alone but ideally should consider the exposure to their sponsor to these risks and how it could impact the sponsor covenant. However, we recognise that climate change risks in relation to investments are very different to risks in relation to the sponsor covenant and both regulations and guidance should recognise this and clearly distinguish between the two. For the climate reporting disclosures, we are of the view that the content relating to funding and the sponsor covenant (to the extent included) should be kept at a high level and reference the level to which these risks or issues have been taken into account in the discussions. Many funding negotiations are sensitive and confidential and therefore trustees should not be obliged to disclose the full detail of the conversations, where they relate to climate risk.

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?

Response

We agree that scenario analysis will likely prove to be one of the most challenging areas for pension schemes to produce high quality disclosures. However, we see the value of using scenario analysis to understand investment portfolio exposures to climate-related risks. We also agree with the value of looking at scenario analysis in relation to the total portfolio and asset class at a sector level to get a better understanding of where the risk exposures lie.

We also agree that, at present, quantitative scenario analysis is a rapidly developing area and as such a prescriptive approach to such disclosures is not to be recommended. However, the Government's proposed approach (of allowing schemes significant flexibility in how to approach scenario analysis, whether qualitative or quantitative) may lead to a wide variety of disclosures in terms of quality, detail and scope (particularly the interpretation of the "as far as the trustees are able" requirements).

We understand that the Government's hope is that the first wave of disclosures (from the £5bn schemes) will encourage "best practice" disclosures and approach from schemes in the "second wave" i.e. that the "market" will drive and develop good behaviours and outputs. Whilst we can see the rationale for this we would recommend that the DWP, FCA and tPR monitor and work closely with those first wave schemes, investment consultants, asset managers and cross-industry groups to develop the relevant guidance to ensure that disclosures are meaningful, high quality and as far as possible broadly consistent and comparable. This also goes to the wider question of regulation and enforcement of the new TCFD reporting regime (see response to Question 11 below).

The management of climate risks will rely, in part, on the asset management community providing useful and timely data analysis on the climate exposures of asset portfolios. It will be important for the DWP and FCA to work closely (particularly in relation to the current FCA consultation CP20/3) in order to ensure consistency between asset owners and asset managers with regards to climate risk management and disclosures.

In respect of assessing the impact of climate change scenarios on the sponsor covenant we consider that this is a very different type of risk than investment risk (which TCFD is primarily aimed at). We therefore consider there is an argument that employer covenant risks should be excluded from "normal" TCFD reporting requirements (at least to being with) and to the extent covered at all should be subject to separate requirements and/or guidance.

To the extent the Government does include employer covenant risks within the requirements we would recommend careful thought is given to how those risks should be assessed and that sponsors should be consulted on any proposed disclosures (in part to avoid inconsistency with the sponsors' own TCFD disclosures, if any). Suitable protections should also be built into the disclosure regime to prevent the publication of any proprietary or commercially sensitive information which may have been used in the preparation of any scenario or covenant analysis (for example disclosures on covenant and funding impacts should only be made at a very high level).

We are supportive of considering a 2ºC or lower scenario when looking at climate-related scenario. We would also recommend the consideration of a 4ºC scenario as the comparator climate-related scenario. The 4ºC pathway is a helpful and realistic scenario to consider and to make informed investment decisions alongside the 2ºC pathway. Higher warming pathways above 4ºC can provide extreme results that may not be helpful in leading to meaningful action by trustees.

There is also value in looking at the impact of a shock via a stress test approach. Stress tests are useful to understand the impact on scheme investments if there was, for example, an "overnight" re-pricing event linked to climate change, such as the introduction of policy to accelerate the timeframe to becoming carbon neutral, which could have a significant impact on the outlook for certain asset classes and/or sectors.

In terms of frequency, scenario analysis should typically be carried out once every three years or following any significant changes to the investment and/or funding strategy.

Also see response to Question 5 above.

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?

Response

Broadly yes, we agree with the Government's proposed approach to integrated risk management. In particular, we consider a key area of the guidance will be the extent to which trustees can/should delegate monitoring of climate change risks and what additional steps (if any) trustees should take to assess the effectiveness of this beyond the existing framework for delegation of investment decisions. The guidance should also cover how this potentially interacts with the scheme's policies in respect of asset manager performance, monitoring and incentives required to be set out in the SIP.

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?

Response

We are supportive of the regulations and statutory guidance not specifying metrics that trustees have to use, although we note that weighted average carbon intensity (WACI) is a recommended metric of the framework. Climate risk monitoring and management is a developing area, allowing trustees the flexibility to consider the use of different metrics over time, which will allow them to keep up to date with the progress across the industry. Part of this will be the development of metrics that will be available across all asset classes (including credit assets, illiquid assets and private assets) so trustees will be able to make better informed decisions across their total portfolio. We recognise this will mean pension scheme data potentially being less comparable (particularly from the outset of the reporting obligations) but we also consider that the focus should be on schemes looking at what the right metric for their situation is.

In choosing a metric to monitor climate risk exposure (either an emissions based or non-emissions based metric), it is important to truly understand what that metric is demonstrating and what the limitations are. It may be appropriate to consider more than one metric in order to get a balanced view of climate risk exposure. For example, WACI is commonly used due to its availability when looking at the carbon intensity of an equity portfolio. However, the metric is a snapshot in time and backwards looking in nature and so it does not provide any insight into how particular companies are changing their business plans in order to move towards a low carbon economy.

Metrics are only helpful if you are able to interpret the output and make informed decisions following that. In our view guidance should encourage trustees to understand the strengths and weakness of a range of different metrics and the type of targets that could be set in relation to these. This can help trustees have a better understanding of what targets can have the biggest impact in helping to reduce climate risk or help support a transition to a low carbon economy and what a feasible target could be.

We believe that quarterly disclosure of climate-related metrics can be onerous to produce (given the current limitations on data availability) and may create short-termism in terms of decision-making. The recent amendments to the Occupational Pension Schemes (Investment and Disclosure) Regulations requires trustees to focus more on longer-term investment decisions and monitoring, therefore we believe this should also be a focus in respect of climate metrics and targets (see below). Most climate metrics do not vary significantly on an annual basis therefore, we would suggest annual disclosures at this stage.

Also see response to Questions 5 and 6 above.

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?

Response

Yes broadly although we recommend that the Government consider an exemption (at least initially) from target setting to the extent it is either not practical or relevant for the trustees to do so. Arguably it is premature to impose any form of target setting on trustees at this stage, given likely issues with data flows and metric developments.

The concern is that for schemes with predominantly liability matched investments and short time horizons, prescriptive target setting might not necessarily mean improved member outcomes (for example if the scheme's time horizon to buyout or consolidation is short). In our view targets should not be set for the sake of target setting, they should be grounded (as the TCFD regime as a whole should be) in increasing the security of members' benefits and improving member outcomes for the long term.

Given the nature and objectives of pension schemes will differ depending on the unique circumstances of each scheme, it should be made clear in the statutory guidance that targets will be scheme specific and should not just be about reduction but focus on forward looking transition metrics and green/sustainable solution targets.

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?

Response

We agree that it is important for the success of the TCFD regime for reports to be made publicly available (not just available to scheme members). Public disclosure will allow a higher degree of scrutiny and accountability in relation to trustee attitudes and approaches to climate change risk.

Public disclosure may also means sponsors take a more proactive role in how their pension schemes manage ESG risks (and climate change in particular), particularly where there might be a concern that the trustees' approach is not aligned to that of the sponsor. Our experience generally is that those pension schemes which have already made significant efforts to report in line with TCFD have done so through proactive encouragement from the schemes' sponsors.

As noted above we consider that relevant safeguards should be introduced to protect against the publication of confidential or commercially sensitive sponsor information (particularly in respect of listed sponsors).

If one accepts that the TCFD report should be made freely and publicly available (along with the scheme's SIP, implementation statement and Chair's statement) then the only way to reasonably do so is through publication on a website. The question is then whether and how to signpost the website and information to members (clearly there should not be any obligation to signpost it to the whole world). In our view this should be done in the most impactful and consistent method possible, which on balance is likely to be through the annual benefit statements (particularly if they are simplified in line with the Government's stated intentions). Ideally members should be provided with one link which provides access to the whole range of scheme disclosures (TCFD report, SIP, implementation statement and the Chair's statement). Where members of DB schemes do not receive annual benefit statements then the information should be alternatively signposted, this could be through the summary funding statement or other member communications.

We consider it should be possible to legislate to avoid any unnecessary duplication between the SIP, ESG policy, implementation statement and TCFD report and would recommend the Government look to do so to manage the compliance burden on larger schemes.

Given the limited number of schemes in scope of the TCFD reporting requirements (at least initially) and the obligation to provide the information through the scheme return to tPR, one further possibility might be for tPR's website to host links to the relevant TCFD documents. TPR's website is already seen as a significant source of pensions information (codes, master trust authorisation confirmation, guidance, section 89 reports, enforcement actions) so it would be consistent with that approach to contain significant investment information for pension scheme members and the public.

An additional consideration for trustees will be how they communicate the information to members and the form/style of the report which should be suitably tailored. See response to Question 5 above.

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?

Response

We broadly agree with the proposed approach, particularly the non-application of mandatory fines in all but the most obvious of non-compliance cases. We have the following comments on the enforcement of the new regime:

- What does the Government mean by "total non-compliance where no TCFD report is published"? Would it include for example missing the statutory deadline by a day or so?
- In order to effectively enforce the new regime, tPR will also need to "upskill" in terms of its familiarity with climate change risks and TCFD reporting. Each case worker will need to have a clear and consistent understanding of what "good" TCFD reporting looks like for each relevant scheme. We consider that monitoring and enforcement will be most efficiently undertaken through the current 1-2-1 supervisory level (we assume the majority of the first wave schemes that are in

scope will already have individual supervisors). TPR should therefore be given additional budget and responses to effectively monitor the new regime.

- In our view, a system of fines alone will not be as effective as publicly benchmarking the quality of scheme disclosures and approaches. We would therefore recommend DWP and tPR investigate the feasibility of developing a scoring or tiered system for pension scheme TCFD disclosures (similar to that developed by the Transition Pathway Initiative for listed companies). Given the limited numbers of in scope schemes and the guidance which will be developed it should be possible to develop such a system and it would assist the tPR in concentrating its resources on those lower performing schemes.

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?

Response

The consultation document makes the assumption that many large pension schemes will have in-house support and therefore they will have the resource to be able to produce the disclosures and the supporting analysis. In practice not all large schemes currently have sufficient in-house investment expertise to be able to carry out any climate-related analysis on behalf of their schemes. This will place greater reliance on the support of external experts and consultants, which may increase the cost estimate provided in the impact assessment section of the consultation.

A number of pension schemes whose sponsor is already or is intending to report in line with the TCFD framework have welcomed the regulations and see this as a way of more effectively aligning the sustainability ambitions of the pension scheme with the sponsor.

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

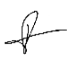
c) any other comments about any of our proposals?

Response

None.

SPP response ends

Yours faithfully



Fred Emden
Chief Executive, The Society of Pension Professionals

The Society of Pension Professionals (the "**SPP**")

SPP is the representative body for the wide range of providers of advice and services to pension schemes, trustees and employers. The breadth of our membership profile is a unique strength for the SPP and includes actuaries, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and specialists providing a very wide range of services relating to pension arrangements.

We do not represent any particular type of pension provision nor any one interest-body or group. Our ethos is that better outcomes are achieved for all our stakeholders and pension scheme members when the regulatory framework is clear, practical to operate, and promotes value and trust.

Many thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds. The SPP's membership collectively employs some 15,000 people providing pension-related advice and services.

This consultation has been considered by SPP's Legislation and Investment Committees comprising representatives of actuaries and consultants, insurance companies, investment houses, pension administrators, pension lawyers and product providers.