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

From: Trustees of the Unilever UK Pension Fund
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2nd October 2020

Response to consultation: "Taking action on climate risk: improving governance and reporting by occupational pension schemes"

Please find below our views in response to the consultation "Taking action on climate risk: improving governance and reporting by occupational pension schemes" in which you seek views on policy proposals to require trustees of larger occupational schemes, authorised master trusts and authorised schemes providing collective money purchase benefits to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities, and on proposals that these should be disclosed in line with the recommendations of the international industry-led Task Force on Climate-related Financial Disclosures (TCFD).

We would kindly ask that our responses be treated as confidential as far as possible.

Please do not hesitate to contact us, via Helen Christie (email above), with any questions or if we can be of further assistance.

We set out your questions below and our responses in blue.

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?

The Unilever UK Pension Fund is a Hybrid Pension Scheme with DB and DC Sections. Net assets amount to c£11bn as at September 2020. The UUKPF is therefore in scope of the requirements set out in the consultation.

The Trustee strongly supports TCFD and has included a TCFD Statement in the Scheme's Report and Accounts for the last two years.

The Trustees implement their investment strategy using external investment managers and an external stewardship provider. They believe therefore that one of the most important things they can do to support the TCFD is to ensure that these third parties promote the TCFD's recommendations in their dealings with the companies in which the Fund invests. Making TCFD disclosure a regulatory requirement for UK pension funds will increase pressure for climate related disclosure throughout the investment chain and therefore expedite improvements in transparency and availability of climate-related information.

The Trustee agrees that schemes such as ours should be considered to be "in scope" and welcomes such disclosures being made a requirement for other sufficiently resourced pension funds of the type suggested in the consultation.

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?

Yes.

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?

Yes.

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, we support these proposals.

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?

We believe that the assessment of climate risks and opportunities is something that pension funds should be doing in any case, therefore we support the proposals. We would make the following points:

In our experience, risks are more easily assessed (using the available tools and metrics) than opportunities which are more challenging to assess and describe except in general terms. The mainstream scenario analysis tools provided by investment consultants (again in our experience) focus (so far) on quantifying the impact of climate risks rather than the opportunities. We hope that this will develop over time.

It is a challenge to assess the materiality of risks and opportunities in a robust, quantitative, and meaningful way; current approaches rely on many assumptions. The identification of examples of risks (as suggested in would be included in the Statutory Guidance) to consider is helpful, however, although care should be taken not to confine risk assessments to these examples.

The proposal to require trustees to identify and publish the climate related opportunities that they have identified and intend to take advantage could alert other investors to an investment we intend to make. This could prove detrimental to the Fund's (and beneficiaries') immediate financial interests. It could also potentially harm negotiations making the investments more expensive.

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?

We agree that schemes should assess the resilience of their assets, liabilities and investment strategy as described. We would make the following points:

- We note that the recommendation is to undertake this analysis at least <u>annually</u>. While we understand and accept that this area of analysis is quickly developing and so there may be advantages to completing the exercise frequently, we have a number of reservations:

    - The modelling is based on forward-looking assumptions of how different asset prices will react to different future global warming scenarios. This is inherently uncertain. There may be a limit to how accurate the modelling can be.

    - This is a reasonably costly exercise and one which (even for our large pension fund (c. £11bn) we cannot do in-house.

    - Implementing meaningful actions on the basis of the analysis (e.g. introducing a new mandate) will take a considerable amount of time, potentially longer than a year, by which time the analysis would be renewed. It was our intention to conduct the modelling in conjunction with the triennial valuation and investment strategy review; integrating it with this established process would enable all risks and opportunities to be considered in the round. This would also enable us to assess the impact of changes to the investment strategy to account for climate risks/ opportunities on the Fund’s overall investment objectives.

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?

Statutory guidance in these areas is welcome, but many of these areas are far from straightforward, particularly those relating to determining which climate-related risks are most material.

Providing a list of risks to consider would be helpful from a process perspective, but these should be reviewed regularly given how quickly this area is developing. As noted above, care should also be taken not to confine risk assessments to these examples

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?

We are supportive of these proposals but note the following comments:

- Monitoring GHG metrics quarterly (as proposed under the "Targets" section) will be a challenge. Carbon footprinting is a detailed exercise and we outsource this work. It is currently time and resource intensive and the (limited number) of external providers that offer this service may not have the capacity to repeat this exercise quarterly.

- More importantly, we would not expect there to be much change in the outcome of the analysis from quarter to quarter. Many actions that we envisage taking to reduce GHG metrics would certainly take longer to have an impact than one quarter.
- We would want to review how frequently the corporate data on GHG emissions is updated; this underlies the analysis we do at Fund and portfolio level.
- Current analysis tends to focus more on identifying the risks rather than the opportunities; we will need to consider how we use the reporting to identify investment opportunities.

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?

Yes

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?

We agree with the proposals set out in Q10 (a), (b), (d), and (e). For 10(a) we note that either including the TCFD Statement in full or a website link should be acceptable.

We do not agree with the proposal set out in 10 (c) that trustees should notify members of the link to the TCFD Statement annually via the annual benefit statement. We are supportive of the aims of encouraging engagement with and by members on the scheme's climate related performance and its impact on investments, however, we would prefer that the approach taken allows schemes flexibility on how and when this engagement takes place to allow for the particular circumstances of their schemes rather than placing additional regulation on trustees.

In particular we would prefer any regulations allow trustees the scope to decide on the best way to communicate this to members. This would allow trustees to choose to use, for example, an annual newsletter where the context could be explained. Adding a link in a benefit statement is adding complexity to what is meant to be a document that helps members consider retirement income and risks confusing members and diverting attention away from the objectives of the statement and may not be the best way to encourage members to engage on this topic.

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?

Yes.

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?

No.