Contact Names: Mark Hedges / Vikas Sidhu

Scheme Name: Nationwide Pension Fund

Telephone: 0845 602 9273

Email: mark.hedges@nationwide.co.uk / vikas.sidhu@nationwide.co.uk

Nationwide Pension Fund (NPF) is responding to the consultation issued by the Department for Work & Pensions in which it is seeking views on policy proposals for UK pension schemes to assess and manage climate risks and opportunities and the recommendations of the industry-led Task Force on Climate-related Financial Disclosures (TCFD). NPF welcomes the opportunity to provide its views and formally respond to the consultation.

NPF is a c. £6bn defined benefit corporate pension scheme for the employees of the Nationwide Building Society. The Fund provides benefits to c. 30,000 members who are a mix of active, deferred or retired participants. The Scheme closed to new members in 2007 and will close to the future accrual of benefits at the end of March 2021. The Fund is invested in several asset classes across the risk-return spectrum ranging from government bonds through to private market funds. It is currently invested in over 50 individual asset managers. In the private markets' portfolio alone, the Fund is exposed to 770 individual assets.

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?

Nationwide Pension Fund (NPF) fully supports the purpose and intent of the TCFD reporting requirements and believes that it is a positive step towards appropriately accounting for climate-related risks.

However, we are a scheme of c£6bn and believe it will be an onerous and resource intensive process that we are under-equipped to deliver. Applying this to schemes down to £1bn in assets is likely to be beyond their resources.

Mandatory disclosures should be for largest and best resourced schemes with a threshold of £10bn with smaller schemes encouraged to move towards this type of reporting over a much longer time scale. We note that there are proposals in Question 2 for longer time periods for smaller schemes and we comment on this below.

A more appropriate alternatively may be that lower standards or partial reporting could be set for those with less than £10bn of assets that are less resource and time intensive.

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?

Whilst NPF agrees that the timeline for compliance should be weighted towards schemes with larger net assets, we would highlight that greater distinction could be made between the very largest pension schemes and those which only just exceed the £5bn asset threshold.

TCFD proposals require a significant amount of dedicated resource in bringing the scheme in line with the recommendations set out and given the dedicated resource

imbalance between NPF (c. £6bn assets) and the largest UK schemes (over £50bn assets), we would ask that further consideration is given to the proposed deadlines for compliance to account for this.

This will be particularly onerous for schemes with limited resource that are likely to have to outsource this work. This will add to the costs of the scheme requiring the use of third-party consultants. We consider that a longer time scale for smaller schemes to adopt the proposals would better enable them to develop the reporting necessary to meet the requirements. Alternatively, a set of less onerous requirements could be set for schemes of say less than £10bn.

A further distinction could be around whether a scheme is open or closed. A closed defined benefit will be on a path to de-risking with half or more of its assets invested in UK government fixed rate or index linked gilts and the trend being to increase these and reduce its exposure to return seeking assets. Over time these funds will move towards c. 90% plus in such investments so that they can engineer a buy-out. Consequently, the climate change reporting will cover a smaller allocation and yet the quantity of work, resource and assessing stress testing scenarios is unlikely to diminish in a linear fashion. The cost will be disproportionately for those funds that are better funded and more progressed along their de-risking journey.

A more appropriate threshold may be to set this around the size of holdings of non-gilt assets as pension funds can make meaningful decisions around their allocations to non-gilt assets; however once they are closed to new members they have little option but to invest the majority of their matching assets in UK gilts and linkers.

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?

NPF would support the ongoing review of the regulations and statutory guidance with a view to strengthening, updating and providing further clarity where necessary. We believe that this could be done on an ongoing basis rather than at a fixed date of 2024.

However, as noted above we consider that the threshold may be set at too low an initial level. We consider that the work required for reporting is resource intensive and potentially more costly for smaller schemes who will be required to outsource much of the required work.

Consequently it will be important that before any extension is made to smaller schemes that a cost benefit analysis is undertaken to assess how much time, resource and cost has been incurred and whether or not the reporting has led to any meaningful change to asset allocations that would not have been achieved in any event. This last point is the most important in certain respects as unless investment behaviours change as a result of the changes to reporting then the process offers limited benefit in terms of trying to assist in addressing climate change risks.

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?

NPF broadly agrees with the proposals outlined. We would note that the frequency of monitoring climate change risk through quantitative and qualitative measures should be proportional to the size of the scheme and resources available. Whilst the trustee meets at least quarterly, this should be seen in the context of its wider remit and responsibilities which often mean there is limited time to discuss additional items. We would support annual monitoring of data, complemented by more frequent non-data-based assessments as appropriate.

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?

It would be helpful for the short, medium and long-term time horizons to be less ambiguous and better defined. NPF would have concerns in disclosing risks relating to the employer covenant which could be highly sensitive and think this should be excluded from the final report.

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?

NPF is supportive of undertaking multiple scenario testing in order to help understand the resilience and impact on assets, liabilities, covenant and investment and funding strategy. Given the relative resources available to the trustee, this undertaking would likely require close cooperation with the scheme's investment consultant. We recognise that detailed fund-level testing would be onerous and difficult to complete. As such an approach by broader asset class would be preferable and consistent with the type of general stress testing and scenario analysis currently reviewed by the trustee. For example, NPF's private markets portfolio had, as 31 March 2020, 770 separate assets spread across multiple geographies, jurisdictions, industrial sectors all with different approaches and all constantly changing as assets are realised and new investments made by the fund managers. Attempting to model this portfolio for climate change risk is well beyond the capability of the Fund in terms of resource, time and costs. The only realistic and meaningful way of assessing this is to make broader asset class assumptions, particularly given that any individual asset in a portfolio like ours is on average likely to represent less than 0.026% of total assets.

This area of work is highly resource intensive and will be costly for smaller schemes who will have to engage third-party consultants to undertake the work on their behalf.

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?

We support the inclusion of climate change risk processes, assessment and management being embedded within the scheme's overall risk management framework as this will ensure climate change risk is including within all risk decision-making activity. However, NPF would welcome clearer guidance on how to integrate and embed climate-related risks and opportunities into existing frameworks as well as better defining what constitutes material or non-material.

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?

NPF would highlight that obtaining appropriate and relevant emissions-based metrics for scores of investment managers, across a wide range of asset classes, spanning multiple jurisdictions, presents a significant challenge for the trustee. There is a reliance on asset managers to disclose emissions data, ideally on a standardised basis to allow easy comparison and interpretation, which in turn will facilitate NPF in being able to both assess climate impacts of investments and report emissions-based metrics across the portfolio. The approach to non-emissions-based metrics will similarly be reliant on the ability of asset managers to develop and disclose standardised data.

The pace at which asset managers can improve disclosure and reporting standards should be factored into TPR expectations, especially given the expectation that where emissions data that does not cover all asset classes will need to be explained and disclosed. NPF would expect that other schemes will be in a similar position and that ultimately the ability to disclose metrics will be down to the progress made by asset managers.

We would also note that efficient portfolio risk management inherently leads to wide diversification across a range of geographies, and non-UK managers will be governed by the pace of adoption of TCFD disclosures within their native jurisdiction. This may mean that schemes' ability to provide emissions data may initially be incomplete and may take some time to improve.

Standardisation will also be an issue as if asset managers from different jurisdictions take different approaches to disclosure the ability of pension funds to aggregate information will become more difficult and time consuming.

Asset managers themselves may have issues collating the emissions data; large institutional managers may find the resourcing of this process easier than smaller boutique managers whose resource is more limited and focus on their particular

investment strategy. This too will mean supply of emissions data may be varied in terms of timing and quality.

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?

Whilst NPF understands the intention for setting targets, it would be preferable to put this forward as good practice or a useful way to monitor performance, rather than as a statutory requirement. In our view, anchoring compliance to specific targets risks overlooking qualitative factors that may be more relevant in driving positive outcomes.

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?

NPF agrees that the proposals are broadly appropriate

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?

NPF is supportive of the imposition of penalties as a last resort to ensure broad compliance. However, we would caution that as industry understanding is still developing, it would be more helpful if TPR takes a supportive approach by refining guidance and understanding that compliance will be a gradual and iterative process.

Consequently, TPR's first steps should be to understand why a scheme has failed to comply and then to seek ways in which it can support compliance rather than immediately impose penalties.

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?

Whilst NPF agrees that the requirements are a positive step, as previously outlined we would note it represents a significant resource burden to bring the Fund into line with the recommendations outlined. As such we would encourage that this is factored into the TPR's expectations once reporting commences.

We would particularly recommend that before any extension of the requirements to smaller schemes is considered that TPR undertake a cost-benefit survey. This should assess how much time, resource and cost has been incurred and whether the reporting has led to any meaningful change to asset allocations that would not have been achieved in any event.

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?

NPF does not have any response to make in relation to this question.