# DWP: Taking action on climate risk

As a global asset manager with approximately £230bn[1] assets under management, Russell Investments is continually evolving techniques to incorporate climate-related risks and opportunities into our investment portfolios. In our experience, this is an investment topic that can lack transparency and consistency. As such, we welcome the DWPs proposal to improve climate risk governance and reporting by occupational pension schemes.

We have been a supporter of the TCFD since 2019 and have actively taken steps to meet the 11 recommendations of the TCFD. In addition to developing a climate risk policy, we have created a working group to develop and integrate climate risk modelling and assessment throughout our investment process. We have also started incorporating climate-related metrics into our standard equity portfolio reporting and anticipate expanding to other metrics and asset classes.

Before responding to specific questions requested in the consultation, we note several high-level observations.

- We are supportive of mainstreaming climate-related risks and opportunities and see this proposal, to implement the TCFD recommendations into the practices of pension schemes, as a step in the right direction
- Whilst it is widely recognized that there will be gaps in data, and especially so when looking at total portfolio level metrics, we agree that schemes should start somewhere and look to close those gaps as data availability improves. These gaps also extend to robust modeling which we expect will improve as data and capabilities of modelling such complex risks further develop.
- We believe that the assessment of climate related risk on liabilities are still underdeveloped and this will require further investigation.

We elaborate on several of these points in the consultation questions that follow. We have limited our responses to the questions that were relevant to us and where we had a comment. We have also limited our comments to reflect our opinions in relation to defined benefit trust schemes as we do not have a money purchase business in the UK. We welcome the opportunity to discuss any of these further.

1. **We propose that the following schemes should be in scope of the mandatory climate governance and TCFD reporting requirements set out in this consultation:**

   a. **Trust scheme with £1bn or more in assets**
   b. **Authorized master trustees**
   c. **Authorized schemes offering collective money purchase benefits**

   **Do you agree with our policy proposals?**

   We agree that trust schemes with £1bn or more in assets should be in scope of the mandatory climate governance and TCFD reporting requirements. We believe that the estimated cost of complying with these requirements (as set out in the consultation document) is a reasonable spend for the significant risk and opportunities involved with climate risk

[1] As at 30 June 2020

2. **We propose that:**

   a. **trustees of schemes with £5bn 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 £1bn 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 if earlier.**

**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 £1bn 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 £1bn asset threshold was met; and**

   - **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 our proposals?**

We agree with the policy proposal. Although the multiple criteria and differing deadlines may create confusion, we appreciate the need to stagger the introduction of this mandatory requirement. This staggered approach with schemes of £5bn or more going first will mean that best practice principles can start to form in the first year, which will be of use to the smaller schemes. We also believe that the start date of no later than 31 December 2022 for the first tranche allows sufficient time for those schemes that have not yet considered climate related risk and opportunities to get up to speed accordingly and build the required infrastructure required to meet these requirements.

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 bn 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?**

   We agree with this policy proposal and it seems reasonable to review the adoption of the proposal in 2024 prior to extending to schemes with below £1bn in assets. The cost of adoption is likely to be the main barrier for smaller schemes however in some instances the burden of meeting these requirements may be shared with the pension scheme's service provider.

4. **We propose that regulations require trustees to:**

   a. **establish and maintain oversight of climate risks and opportunities, and**
   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; and**
   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 process 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?**

We agree with these proposals along with the matters detailed in Box1a, Box1b and Box2. We would like to make the following additional points:

- Whilst the proposal is to make the trustees ultimately accountable for the scheme's handling of climate-related risk and opportunities, the trustees will most likely need to delegate this responsibility to a specialist provider. To ensure this doesn't end up being a box-ticking exercise, we recommend focusing on the quality of the data and reporting.

- Recognizing that tools for addressing climate-related risks are still very much developing, we recommend allowing for a phase-in over time.
- While the practical implementation may be outsourced, we recommend that the scheme bear accountability for the quality of the analysis.

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 would approach this more cautiously. The short/medium/long term is currently difficult to disentangle. With regard to funding strategy, it is too early to have confidence that changes would be appropriate as data is not yet robust. We recommend calling for an assessment phase prior to making it a requirement for pension schemes.

Where applicable, the statutory guidance should align more explicitly with other relevant regulation. For example, asset managers operating under EU regulations will have to disclose various climate-related risks under SFDR rules. Other regulations address non-financial disclosure by companies. Even where the regulations impact different entities (asset managers vs asset owners vs investee companies), close alignment will be critical to achieving real progress on the incorporation of climate-related risks into the financial system.

6. **We propose that regulations require trustees to assess the resilience of their assets, liabilities and investment strategy and, in the case of 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 broadly agree with this proposal however note that scenario analysis of climate-related risks is widely acknowledged to still be in development. While tools are available for conducting scenario analysis on a portfolio of corporate assets for example, some other asset classes are less available. Even where tools do exist, whether the quality is sufficient to be decision-relevant is unclear. This is not to say that scenario analysis should not be a cornerstone of understanding climate-related risks, since only through direct use and evaluation will these tools improve, but regulation should reflect the developing nature of this space, with standards starting low (describe steps taken, shortcomings with current tools, engagement taken to improve the tools, etc.), and increasing over time. The emphasis should be on progress and quality rather than ticking a box.

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.**
c. **We also propose the regulations require trustees to disclose:**
d. **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 agree that climate related risk should be brought mainstream, and this can be achieved through clear guidance on identifying, managing and integrating climate related risk into the overall risk management framework. We agree with the guidance in box 8 of the consultation document and would suggest considering the following additional items:

- Guidance on how to manage gaps in data
- Where trustees have determined that the data available to identify, assess, manage climate-related risks is particularly weak, describe what steps were taken to engage on this issue
- guidance on how to manage inconsistent data across various asset classes

8. **We propose that regulations require trustees to:**

a. **Select at least one 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 broadly agree with these proposals and would make the following comments:

- Make scope 1 and scope 2 mandatory and scope 3 optional based on availability of data, with the potential to have a phase in period (for e.g. up to 4 years) specified. This is a reflection of the reality that Scope 3 reporting levels are far lower than Scope 1 and 2, and furthermore where the data for Scope 3 does exist, the quality is much lower in that it is often not comparable between companies. Some will report only upstream Scope 3, others both upstream and downstream, because of the complexity of the calculation, estimation error is much more prevalent.

- We would encourage using WACI as a prescribed measure to encourage consistency.
- We are supportive of the quarterly disclosure requirements, however recognizing that carbon data is disclosed by companies annually, the frequency of the disclosure need not be a key consideration. If the reporting burden to aggregate this information across all asset classes is high, annual is sufficient from a risk standpoint.
- The current proposal works well for equities and corporate fixed income, where Scope 1 and 2 reporting and estimate levels are high and non-emission data can be obtained across a range of other criteria such as fossil fuel reserves, renewable energy exposure, etc. However, allowance should be given for other asset classes to select and report on other relevant metrics

**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?**

We agree with this proposal in principle as it is a sound reflection of the recommendations from the TCFD. Similar to the recently released IIGCC Net Zero Investment Framework, we would recommend these be referred to as “reference targets” with the intention that they are used as a reference points to guide policy rather than strict reporting, or binding targets, in an effort to discourage taking actions that are simply to hit a target.

**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?**

We have no specific comment.

**11. We propose that:**

- **a. 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?**

We have no specific comment.

**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?**

We have no specific comment.

**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?**

We have no specific comment.

## Important information



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