<u>Introduction</u>

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in the UK financial services industry committed to growing sustainable and responsible finance in the UK. Our vision is a fair, inclusive and sustainable financial system that works for the benefit of society and the environment. UKSIF was created in 1991 and has over 240 members and affiliates including pension funds, financial advisers, fund managers, banks, research providers, consultants and NGOs.

We welcome this consultation. Disclosure by asset owners of all kinds is a key step to improving climate-readiness throughout the financial system, and disclosure by pension funds will benefit pension beneficiaries and savers of all types. This is to be welcomed and encouraged. TCFD disclosure is an important short-term tool and we welcome the attention being paid to it.

Our replies to your questions follow.

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?

We are broadly supportive of your proposals.

The view of UKSIF members is that climate risks are real and immediate, and they believe that all fiduciaries and stakeholders should be taking steps to mitigate them. As such our members would see plans to limit applicability as a concern. Yes, the work linked to TCFD is relatively new and the techniques are still developing, and yes as you say, larger entities are currently better prepared. But the need is for all to react sooner rather than later, and it would be disappointing if the setting of applicability limits was interpreted as evidence that the need for action was not universal. We accept that that is not your intention, but you should guard against that risk.

The message to all pension providers must be that climate-related work is coming and they must prepare for it. The Minister's opening words *"Climate change is the defining challenge of our time"* are exactly right and there is no size exemption.

In terms of more detailed comment we would suggest that the limit in a) is reduced well below £1bn. We note £500m is used as a limit elsewhere in the consultation, but it could be lower still.

We also suggest that all discussion of these limits stress their initial or interim nature. (See our response to question 3).

We support 1b and 1c.

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?

In general we would prefer compliance sooner rather than later. The December 2023 date for some schemes feels late. We feel regulators shouldn't be averse to pushing for earlier compliance once the importance of an issue is recognised.

We are cautious on clauses releasing schemes from the obligations such as g). We would expect the requirements to be extended to other schemes as soon as possible *en route* to universality. We think once a scheme starts reporting it shouldn't stop. Perhaps a lower limit could be set, such that it is £500m to begin reporting and perhaps £100m to stop.

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?

We feel 2024 could be too late depending on the length of the review process. A review ending late in 2024 may mean action only "biting" in late 2026 or conceivably 2027 if the lead times in this consultation were to apply. One of the way-points on Paris-alignment is to halve emissions by 2030. If we assume that the aim of this work is to cause as much of the UK pensions regime as possible to meet the Paris objectives, then leaving regulation for any area as late as 2027 is sub-optimal.

If you could commit to a rapid review in 2024, perhaps with implementation by October of that year then we might be more supportive of that date.

The various stakeholders in UK pensions usually work well together. We would suggest a process of informal ongoing review across the sector with a formal review in early 2023. The direction of travel in techniques and the level of compliance will be clear by then.

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?

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?

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?

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?

<u>Response to questions 4,5,6 and 7.</u>

We think it entirely appropriate that governance and the role of trustees and their (broad) equivalents account for nearly a third of the formal questions linked to this consultation. (We will not seek to outline who holds the fiduciary responsibility in all types of pension schemes. In our view someone does, and the duties you propose to lay on trustees should be matched in other types of structure. For the sake of simplicity we will simply refer to trustees.)

The role of trustees and other fiduciaries will be central to how well UK pensions manage climate risk. There are several linked challenges for all those involved in regulating this including:

- Making it clear where the responsibility lies
- Making the responsibility proportionate- showing that trustees do not have to become expert in climate change but must seek appropriate advice
- Outlining what minimum acceptable criteria linked to climate are in terms of actions such as manager and adviser appointment, and the setting of investment policy, whilst recognising that full expert understanding of climate risks cannot be demanded
- Outlining what the minimum criteria are for reporting in this area, recognising that full expert understanding of climate risks cannot be demanded

These and other challenges must be addressed against a rapidly evolving background of data and techniques. (Among the UKSIF membership the last two issues are receiving enormous attention. Pension fund members are already looking to implement and report; our many data provider members are sourcing, analysing and presenting data in many different ways; fund manager members are continually looking to understand business and market risks and opportunities across many fields with climate being perhaps the central one; and financial adviser members report growing interest in the topic from their clients.)

Against the background of the need to make regulatory interventions in a fast-moving environment we think your suggestions, rooted as they are in TCFD, are sensible and we support them. We support the *"as far as they are able approach"* at this stage- it may need to be made more firm in time.

It is clear that the proposed statutory guidance will have a key role in making the regulations effective. We would urge that work on the drafting begins at once and that it is carried out with as much formal and informal contact with stakeholders as possible.

In the context of metrics and scenario analysis, the consultation says "For metrics, we propose that trustees are required to obtain data from their asset managers" (p27). This phrase did concern several members. As indicated above, a large number of member firms are putting considerable effort into metrics, data and scenarios. It is right that they be allowed to make a return on this effort. Care must be taken in setting the guidance in this respect. It is clear that increased disclosure by fund managers and advisers on how they reflect climate risk is essential now that the risk is widely recognised as financially material, but they and other players should be allowed to retain commercially valuable intellectual property. Possible routes might be to limit disclosure by trustees (but not to trustees) to portfolio level data rather than sector or factor level, or to limit disclosure to the key variables used – temperature change, speed of change, sea-level change etc. This area should be a focus of consultation as the guidance is drafted.

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?

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 to questions 8 and 9

We broadly agree. Our caveats are based on feedback from UKSIF members on points of detail.

Some members say that the pace of work in areas such as metrics and data is such that you could probably be more precise. They suggest for instance that you could go further than "*one GHG emissions--based metric*" and could instead discuss its nature. If this is possible we would support it; whilst things are moving fast, and we are supportive of the *"as far as they are able"* approach, where precision and utility is possible it should be encouraged.

In other UKSIF work the frequency of climate reporting has been raised, and the consultation discusses it. Fund Managers are firmly of the view that for most portfolios annual reporting is enough. We think this would benefit from further discussion before the guidance is drafted.

Most UKSIF members are looking to develop work on scope 3 emissions, but the vast majority caution that it is currently difficult. We welcome the language used about the difficulty and the direct linkage to "*as far as they are able*" wording.

Several member comments raise the question of whether trustees should be mandated to report on one specific measure as you rule out (question 8). Our sense is that is too soon now, but that a few effective, widely-understood and usefully-accurate measures may appear in a relatively short period. The regulatory regime should be able to react to the opportunity that represents. This should be considered as part of the review you suggest for 2024 and which we have argued could happen sooner. The positive implications of a widely-accepted measure (if it appears) for direct engagement with individual beneficiaries and savers should be considered.

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 these proposals. We note that the Government has expressed support for the UKSIF proposal that there be a "register of SIPs"[1] and we hope a register of TCFD reports can appear as well.

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?

[1] Included in our report on SIPs: https://uksif.org/changing-course-pension-fund-sip-review-2020/ and further on the Government response in a Lord's debate here

We feel that what is broadly the existing regime is acceptable as long as compliance is no worse than with other areas of the current pension’s regime. If it was to become apparent that compliance was lagging we would expect more rigorous interventions.

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.