LCP's response to the DWP consultation on taking action on climate risk

7 October 2020

I am writing on behalf of Lane Clark & Peacock LLP in response to the consultation document "Taking action on climate risk: improving governance and reporting by occupational pension schemes" issued on 26 August 2020.

Who we are

Lane Clark & Peacock LLP ("LCP") is a specialist consulting firm with over 740 personnel in the UK and Europe, including 135 partners, 199 qualified actuaries and 92 part-qualified actuaries in the UK. We have offices in London, Winchester and Ireland.

The provision of actuarial, investment and pensions administration advice, benefits, and directly related services, is our core business. About 90% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 10% relates to insurance consulting and business analytics. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Our view on the consultation

We welcome the proposals which we believe are necessary and important to drive a step change in trustees' management of climate-related risks.

We find the proposals to be detailed and well thought through, providing a clear direction of travel. If implemented as proposed, we expect they will prompt significant action by larger schemes, and we support this. They will also define and engender good practice to be followed by smaller schemes.

We agree with most of the proposals in the consultation document. However, we have a number of comments on the detail and also provide responses to the questions raised in the consultation and these are set out in the appendix.

We are happy for LCP to be listed as a respondent to the consultation, and for our comments, which represent the collective view of a number of partners within LCP, to be attributed to LCP. We hope that our response is helpful and if you have any questions, or would like to discuss anything further, then please contact Claire Jones (claire.jones@lcp.uk.com, 01962 873373) or Ian Gamon (ian.gamon@lcp.uk.com, 01962 872718).

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About Lane Clark & Peacock LLP

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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?

Climate change poses material financial risks to schemes and we agree with the Government that pension schemes should be doing more to manage these risks. We therefore support the general thrust of these proposals and agree mandatory TCFD reporting is appropriate for the largest pension schemes to help drive rapid change in pension schemes' practices. We also agree that mandating TCFD-aligned governance and reporting will help remove any 'first mover' disadvantages for schemes that have already taken action by adopting the TCFD recommendations or similarly the guidance from PCRIG.

We believe the TCFD framework is appropriate, providing a consistent and comparable way for schemes to report in a decision-useful and efficient way.

We agree the proposed list of schemes which will be in scope of the regulations, (a) to (c) above, is appropriate. This equates to more than 75% of pension schemes' assets and 80% of members which is substantial but, in our view, necessary in order to bring meaningful change in pension schemes' practices and to improve climate-related disclosures by asset managers and, in turn, by the companies they invest in. Including schemes with lower net assets at this stage would only provide a marginal benefit in meeting the policy objectives and yet substantially increase the regulatory burden on schemes.

While we agree that authorised master trusts should be included in this first wave, we note that non-commercial master trusts typically don't have the necessary governance structures to comply with these requirements and doing so may put an unnecessary strain on them. We would suggest these non-commercial master trusts (with less than £1bn in total net assets and with suitable definition for eligibility) are not mandated to report but could be strongly encouraged to do so.

Your consultation proposes that in the case of hybrid schemes, the total assets of the scheme are used for the purpose of assessing whether the net assets threshold has been met, and that the requirements apply to the whole scheme. In our view this is reasonable. It is unclear whether the same approach will be taken for other sectionalised schemes (such as a defined benefit pension scheme with more than one section). Consistent with your proposal for hybrid schemes we suggest these other sectionalised schemes are in scope if the relevant net assets of the whole scheme exceed £1bn.

Finally, we note pension consolidators are not explicitly mentioned in the guidance, but we would expect them to be subject to the TCFD requirements.

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 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 £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; 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 the policy proposals?

Overall, we are pleased that the evolution of market practice has been considered in the transition proposals by adopting a phased roll-out for non-master trust schemes. The proposed timings seem complex because they are linked to scheme year-ends, but this link makes sense given the desirability of aligning with other scheme reporting. However, the timings for the first TCFD reports are tight and potentially unworkable as many affected schemes would be required to publish their first report less than 7 months after the scheme year-end and/or report on a period that partly pre-dates the new requirements. We suggest dropping the constraints arising from the 31 December 2022 and 2023 deadlines and instead require schemes to report within 7 months of the first scheme year end after the new climate governance requirements apply to them.

We believe that requiring the largest schemes to implement their governance requirements by 1 October 2021 (which will be less than one year from when the regulations are laid) will potentially be challenging owing to the number of steps required for full compliance. However, schemes should already be managing climate risks, particularly those with over £5bn of assets, and the 2019 Green Finance Strategy gave large schemes plenty of warning that this was coming. Therefore, given the urgent nature of the issue, in our view the phased implementation strikes an appropriate balance between risk to members and governance burdens.

In a similar vein, our understanding from the consultation is that the largest schemes would first need to carry out scenario analysis during the scheme year in progress on 1 October 2021, monitor metrics and targets from the quarter in progress on 1 October 2021, and have all the other ongoing governance requirements in place on 1 October 2021 (or 1 October 2022 if £1bn - £5bn). We suggest clarifying this – or the correct interpretation if we have misunderstood – in the statutory guidance.

We also note that the consultation document does not clearly state that the TCFD reporting years are aligned with scheme years, but this appears to be implied.

Table 2 of Chapter 2 states that the governance requirement for "schemes coming into scope" must be met for the next scheme year beginning "on or after 1 October 2022 + n". We believe this should be "on or after 1 June 2022 + n" to be consistent with the policy intent described elsewhere in the consultation document.

Paragraph 54 of Chapter 2 suggests that bulk annuity contracts will reduce the net assets of schemes for the purposes of their annual report and accounts. However, since 1 January 2015 in accordance with FRS 102, we understand that pension schemes' accounts must include bulk annuity contract values in their net assets. Nonetheless, we do agree that bulk annuity contracts should be excluded from the net assets of schemes when determining whether they are above the £5bn (or later £1bn) threshold. Therefore, we suggest the regulations define net assets as the value reported in a scheme's annual report and accounts but excluding the reported value of any bulk annuity contracts.

This raises the question of how to define bulk annuity contracts and in particular whether any of the emerging insurance-like products[1] should also be excluded from the 'net assets' test. We would propose that, to be consistent with excluding insurance company bulk annuity contracts, the carve-out from 'net assets' should only apply to PRA-regulated insurance contracts and under which the assets are not redeemable (except perhaps in the event of insolvency of the insurer). Similarly, we would expect that any large schemes, which hold bulk annuity contracts and are in scope despite excluding these contracts from their 'net assets' test, would have the option to include or exclude those contracts from their TCFD-aligned governance and reporting framework.

[1] For example, we are aware of a number of non-insurance products under which capital is provided to defined benefit pension schemes to support a journey plan to an insurance buy-out. In return for providing this capital, the capital provider will receive a return of any surplus at the point of buy-out.

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 agree it is appropriate to conduct a review in 2024 and, as indicated in Guy Opperman's ministerial foreword, to consult on the extension of the proposed measures to smaller schemes. As the consultation recognises, the cost burden for smaller schemes could be significant and so we would suggest some of the detailed requirements could be eased for such schemes – such as the frequency of measuring metrics and undertaking scenario analysis. We do however believe all schemes should be considering these requirements, irrespective of size, over the next few years, but in a manner proportionate to the resources available.

We also agree it would be appropriate to review the regulations and statutory guidance applying to larger schemes to reflect the experience of those schemes and developments in the availability of data and frameworks for managing climate risk. For example, it may be reasonable at that time to introduce a requirement for larger schemes to assess and report on the extent of alignment of their strategy with achieving 'net zero' emissions by 2050.

Question 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 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?

We agree with each of the above proposals. The proposed activities, which will be set down in regulations, are in line with our expectations of the Government's intention to adopt the TCFD's recommendations which was well-trailed. Notwithstanding this, the regulations will require a step-change in the climate approach of many schemes, particularly the smaller ones within scope.

Under the proposals for statutory guidance in Box 2, covering the delegation of assessing and managing climate-related risks, it is positive to see reference to employees, the employer and advisers to the scheme. In addition to this, we suggest the statutory guidance includes specific reference to the trustees' investment managers. This is particularly relevant for schemes with fiduciary managers to help trustees understand the extent to which they may or may not delegate their responsibilities.

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 agree. Climate change can no longer be left to be addressed a part of a generic environmental, social and governance (ESG) policy. Nor can it be restricted to a consideration of investments only; climate risks and opportunities must be integrated throughout scheme management, including covenant and funding for DB schemes.

We do however have some comments as follows:

- In box 4 (page 59), "short, medium and long-term" needs to be defined.
- It would help if what is expected under S2 ("Assess, on an ongoing basis, the impact of the identified risks and opportunities on the scheme's investment and, in the case of DB, funding strategy") was clearer, particularly to avoid duplication with the requirements under scenario analysis. Based on the TCFD recommendations, we believe the expectation under strategy is primarily a qualitative assessment of the risks and potential impacts to schemes, whereas a quantitative assessment of impacts is expected under the scenario analysis "as far as able".
- Similar to our comment in response to question 4 on the governance proposals, it would be helpful to include guidance for trustees on the extent to which they can delegate the consideration of climate-related risks and opportunities in their investment strategy to their investment managers. We would expect the guidance to highlight that: trustees retain ultimate responsibility for managing climate-related risks; they cannot push down this responsibility to their investment managers; and ongoing active monitoring of how their investment managers are managing this risk is necessary.

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 support the requirement to assess how schemes' assets and liabilities would be affected by different climate-related scenarios, including at least one which assumes global average warming of 2°C or lower from pre-industrial levels. We believe this will be a step-change in the climate approach of many schemes, particularly the smaller ones within scope. In our experience, very few currently carry out climate scenario analysis and many schemes will find this requirement demanding.

We believe schemes should conduct scenario analysis as a minimum once every 3 years but assess, on an annual basis, whether circumstances / developments require the analysis to be reviewed more frequently. This follows a similar approach to the existing requirement elsewhere in legislation to review a scheme's Statement of Investment Principles at least every three years and without delay after any significant change in investment policy. Examples that could lead to scenario analysis being undertaken more often than every 3 years would include any significant changes to the model or assumptions used for scenario analysis – since models are evolving rapidly – or a significant change in the macroeconomic environment.

Other comments:

- Paragraph 58 (page 61) requires some adjustment where it says: *"Schemes will need to assess their assets/liabilities and investment/funding strategy against these scenarios."* as liabilities are only relevant for DB schemes, and there should also be a reference to the sponsor covenant for DB schemes.

- Covenant considerations should be included in scenario analysis if practical, with reference to the sponsor's own action and analysis on climate change. This could be done qualitatively, at least initially.
- Paragraph 61 (page 62): this seems slightly confusing and it would be better simply to state that trustees must choose at least one scenario of 2°C or lower in line with the TCFD recommendations.

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 agree with the above proposals. However, we note that there are few references to stewardship in the consultation. In our view stewardship is a critical element in the management of climate risk. We would like to see the importance of using shareholder voting rights, engagement and advocacy emphasised in the statutory guidance as a key tool for trustees to manage climate risk. Schemes should be putting pressure on their investment managers to exercise shareholder rights and engage with investee companies in a way that is aligned with the trustees' objectives on climate risk management.

Also, in relation to stewardship, the statutory guidance could impose higher expectations on schemes with segregated mandates and/or an in-house investment team who will have greater scope to exercise their voting and engagement policies through their investment managers.

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 agree with the requirement to calculate metrics to assess the 'carbon footprint' of pension schemes and adopt ongoing monitoring and reporting of those metrics. In our experience, metrics are an effective tool to engage trustees in the consideration of climate-related risks and from there to take an active approach to managing those risks.

We do however have some comments on specifics of your proposals as follows:

- We believe that requiring only two metrics does not go far enough. We would prefer to see at least three GHG metrics (one related to each of operational emissions, operational emissions intensity and potential future emissions, ie fossil fuel reserves) being required.
- We suggest that trustees of DB schemes are also encouraged to consider setting and monitoring a covenant-based climate metric – ie a metric based on the scheme sponsor's climate-related risks. Although it would not be appropriate for the trustees to set targets for a covenant-based climate metric (since the trustees have no control over it), we believe DB-scheme trustees should consider the sponsor's target setting as part of their regular covenant monitoring process.
- We note the requirement for trustees to obtain Scope 1, 2 and 3 GHG emissions of the portfolio "as far as they are able". In our view this presents some challenges:
    - The quality of Scope 3 data, and hence its usefulness to trustees, is currently questionable. We suggest it would be more appropriate for Scope 3 to be voluntary and separately disclosed and for this to be subject to review in 2024 when reporting of Scope 3 by companies is likely to be more widespread and robust.
    - It would also be helpful to provide guidance on how trustees should allocate emissions to certain asset classes (such as government bonds and real assets) which are difficult to assess in this respect.
- We suggest trustees should be able to include "negative" emissions in their metric calculation, provided they also disclose the total emissions both with and without the assumed impact of any offsets. The disclosures should distinguish between purchased carbon credits and offsets directly generated by the scheme's investments (such as investment in forestry or renewable infrastructure).

- Investment managers may be able to provide emissions-related metrics such as weighted average carbon intensity (WACI) for trustees' investments without trustees needing to obtain the GHG emissions themselves. For some asset classes, emissions-related metrics may be more practicable than data on the emissions themselves. For example, for sovereign debt, trustees might consider the country's production emissions per capita without trying to allocate a share of emissions to their own holdings. We suggest M2 is amended to reflect that option, ie requiring trustees to obtain the data needed to monitor their chosen metrics rather than the emissions data per se. (Although, as noted in our comment below, we would see merit in requiring total GHG emissions to be disclosed as well as the WACI metric.)

- We would like to see disclosure of total emissions alongside the other metrics. For instance, we agree it is helpful to use WACI for comparison purposes, but it is also important to tackle total emissions if trustees want to manage climate-related risk, and therefore disclosing total emissions from a portfolio as far as practicable is important (particularly for the largest schemes).

- There are different definitions of WACI and related metrics available. We suggest you specify the preferred definition of WACI in the statutory guidance to encourage consistency of approach across asset managers and trustees.

- We acknowledge that collecting data and calculating metrics quarterly could be onerous for some schemes and may be too frequent for some asset classes (such as private assets and property). However, we believe it is important for trustees to monitor metrics in an appropriate time frame relative to their targets, eg quarterly monitoring against an annual target to provide an early warning to take action if the scheme is off track against it. We also recognise that it is more difficult to calculate such metrics for some asset classes. Taking these points together, we support the proposal to require the quarterly calculation of metrics and acknowledge that for certain asset classes where the data is not readily available the calculations may be less frequent. Nevertheless, trustees should keep pressure on their managers to provide data quarterly and disclose where this has not been possible.

- We agree the proposed disclosure under point (d) is important and should encourage investment managers to improve their data in this area.

- At this stage we can see the benefits of not mandating trustees to use a specific measure to assess the effects of climate change on the scheme's portfolio given the early stages of this reporting.

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?

We agree these proposals in general however we have some comments on the details as follows:

- As with the proposed requirement for quarterly calculation of metrics, we support the requirement for quarterly measurement of performance against the target(s) as far as able to provide an early warning to take action if the scheme is off track against them.

- It would be helpful to provide some example targets, time frames and key performance indicators to help trustees define an appropriate methodology for their scheme. We would not expect examples to form part of the statutory guidance, so if feasible we suggest the final guidance from PCRIG incorporates this.

- Schemes using pooled investment funds will find it more difficult to set targets because they are not able to change the mix of their underlying investments. (We note that pooled funds are not just used by smaller pension schemes; large DC schemes often invest in pooled funds on investment platforms.) For example, schemes may be relying on anticipated reductions to the carbon intensity of a pooled fund which is being led by the investment manager altering its investments and engaging with the underlying investee companies. The pace at which those reductions come through in the pooled fund's average carbon intensity will be outside the trustees' control and so in practice targets may be difficult to achieve. Whilst these issues will present challenges for schemes using pooled investment funds, they should provide the impetus for the investment managers to incorporate targets within their pooled funds or risk losing their appointment to another investment fund which is more clearly aligned with trustees' targets. We suggest the statutory guidance acknowledges these challenges and sets out expectations on trustees if their targets are not being met for reasons beyond their control.

- Regarding the language used for M3, we believe the intention is to "Maintain at least one target and review at least annually" instead of "At least annually, set at least one target". This is because some trustees may look to set a 5-year target for example, broken down into different milestones, against which they can then review their progress annually. We do however acknowledge that it is not beneficial for trustees to set a very long-term target without interim targets. We request that this is clarified in the wording.

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. We believe that having this information in multiple places should help bring it to members' attention and enable its easy access. We also believe this is preferable to making the information available to members on request. Having the documents online matches the requirements for schemes' SIPs and Implementation Statements and so an established process should already be in place to enable that.

We appreciate the concerns raised around including a full TCFD report in the Annual Report and agree that a link in the Annual Report to the full TCFD report is sufficient, with the option for trustees to include a high-level TCFD summary in the Annual Report if desired.

For DB schemes, it would also be helpful for the annual summary funding statement to be required to include reference and a link to the scheme's latest TCFD report, where applicable, alongside the other additional documents which need to be listed there.

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?

We agree these are appropriate measures to encourage compliance.

Whilst we would fully expect schemes to comply with the regulations, there may be circumstances in the transition years where, for practical reasons, there are delays in implementation or reporting. We oppose enforcing mandatory penalties. Instead, in these cases, we would expect TPR to be able to apply discretion.

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?

We believe the current estimates for compliance, which total around £15,000 per scheme, significantly understate the expected cost to large and medium-sized schemes, particularly in the first year of reporting. We set out more context behind our view below:

- One-off costs of £262 per large and medium sized schemes vastly underestimates the costs we would expect to see in practice. In general, trustees of these types of schemes would receive a training session from their consultants on new issues for which fees would likely be incurred. There would also typically be one or more independent professional trustees on the board whose hourly charges are higher than the £29 allowed for in your estimate.

- We also expect there will be ongoing costs for trustees to keep abreast of developments in this area. Ongoing training and familiarisation will be necessary and we would anticipate consultants' time and associated costs with this.

- Regarding metrics and targets, a cost of £2,500 may be reasonable for some schemes where the information is able to easily obtain information from their managers. However, for schemes with lots of different managers, this will be much a more intensive exercise. The cost of purchasing third party data, for example from providers like Trucost, Sustainalytics or MSCI, is also not included which could be significant.

- We note the estimated costs for ongoing reporting total less than £1,000 per scheme per year. However, the TCFD report is a bespoke report with significant technical content which will require specialist knowledge to prepare. We would therefore anticipate a much higher cost to schemes than currently estimated. We would anticipate its costs to be more like the costs of producing an annual chair statement which is typically several thousand pounds.

- On scenario analysis, we recognise there is a range of approaches and there will be a wide range of costs depending on particular scheme circumstances. However, we believe your estimate of £12,000 in a scheme's first year and £10,800 per scheme per year in following years is reasonable.

- We agree that the governance activities proposed under the new regulations would simply codify existing fiduciary requirements of trustees and as such it is only the incremental cost of TCFD reporting that is additional. However, the proposed regulations prescribe activities, such as quarterly metric calculations, which may be a step further than some trustees might go in the absence of the regulations. Also, for some schemes – perhaps those with mature liabilities and close to winding-up through an insurance solution – the proposed governance activities may not be proportionate for their circumstances. These situations suggest that in practice additional costs would be introduced for some schemes to follow the proposed regulations.

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?

We expect the proposals to impact protected groups to the same extent as all people. As is the case currently, we would expect trustees to provide information in alternative accessible formats where requested to address the needs of protected groups. Therefore, in our view, no additional provisions are necessary to mitigate negative effects on protected groups or provide for information in alternative accessible formats.