

Date: { DATE \@ "dd MMMM yyyy" }
Email: alexander.burr@lgim.com

One Coleman Street
London EC2R 5AA
Bank of England

Att: Bethan Livesay, Tom Rhodes, Andrew Blair, and David Farrar
Climate Governance and ESG team
Department for Work and Pensions (DWP)
Email: pensions.governance@dwp.gov.uk

Re: DWP - Public consultation - Taking action on climate risk: improving governance and reporting by occupational pension schemes

Dear DWP team,

The Legal & General group of companies ("Group") is a top 20 global asset manager, the UK's largest provider of individual life assurance products and a market leader in managing retirement risk for pension schemes, both in the UK and US.

In addition, Legal & General Investment Management ("LGIM") is one of the largest international investors globally with assets under management of £1.2 trillion (as at 30 June 2020). We manage assets for a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. As a significant investor, we share a responsibility to ensure that global markets operate efficiently and uphold the highest level of corporate governance and sustainability standards to protect the integrity of the market over the long term.

We welcome the positive steps that the UK Government has taken stimulate a transition to a low-carbon economy and make progress on reaching its 2050 Net-Zero target. Specifically, it is very encouraging to see that Department for Work and Pensions (DWP) and the Financial Conduct Authority (FCA) are taking a leading role in ensuring that issuers and asset owners integrate, manage and disclose climate-related risk through mandating reporting that is aligned with TCFD recommendations.

These actions are in line with the UK's 2019 Green Finance Strategy, which expects issuers and large asset owners to be disclosing in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations by 2022. We are also pleased to see the *Pensions Schemes Bill* is advancing through the legislative system. For information, L&G Group Plc has published its second report¹ describing our climate related financial disclosure in line with the voluntary disclosure recommendations of the TCFD.

LGIM was delighted to have be part of the Pensions Climate Risk Industry Group (PCRIG) that has produce a detailed guidance for trustees on aligning their pension scheme with the TCFD recommendations. We hope that once this is finalised it will be a valuable resource for Trustees in assessing, managing and reporting climate-related risks in line with the Taskforce on Climate-Related Financial Disclosures (TCFD).

¹ <https://www.legalandgeneralgroup.com/media-centre/reports/tcf-d-report-2019/>

This consultation is therefore very welcome, and we are pleased to be given the opportunity to share our views and have provided a joint response from both L&G Group Plc (as a corporate) and LGIM (as an investor). We broadly agree with the recommendations by DWP, however, would like to highlight a select few key points that we hope will be valuable in taking this proposal forward:

- *Data quality and availability* - For a more efficient allocation of capital, we need the market to be able to accurately price-in material Environmental, Social and Governance (ESG) risks and opportunities. In this context, in order for climate-related risks and opportunities to be clearly understood by pension schemes and their end-investors, we need access to relevant, comparable, consistent, and verifiable information. The source of this information flows along the investment chain from investee companies, in both the listed and private space, through asset managers and to pension schemes. The quality of disclosures along the chain are therefore dependent on the quality of disclosures from the investee company. In our recent submission to the FCA we highlighted this point, recommending mandatory reporting in the listed space and introducing regulation that will cover private companies. There is a sequencing element to the various regulation at present, and it will take time for disclosures to improve (which we note that DWP has recognised). It is therefore necessary that the mandatory nature of this policy is reflected right across the investment chain;
- *Timing* - the consultation outlines the request to calculate the performance of a schemes assets against the GHG emissions-based metric and the one other non-emissions- based metric. This does not seem aligned with the annual reporting of issuers. We do not believe quarterly analysis and reporting is helpful in supporting long-term value creation and encourage short-termism. We would recommend DWP amends this calculation to be on an annual basis;
- *Harmonisation and comparability* - As referred to above, we welcome government action to improve climate-related disclosures. We understand the government is coordinating TCFD policy proposals through the TCFD Taskforce and would like to take the opportunity to remind the government that it is critical that the UK regulatory framework is harmonised across the investment chain. It is not efficient for DWP to mandate disclosures on Pensions Schemes that are not mandated by the FCA on issuers. We are aware that the FCA will be consulting TCFD disclosures for asset managers in their capacity as regulated firms in early 2021.

As mentioned earlier, we need greater levels of comparability and consistency of disclosures - globally - to be able to accurately assess and price climate-related risks and opportunities. In relation to achieving such consistency and comparability by Schemes, we note DWP's proposal to disclose against two scenarios. Whilst we are conscious that climate modelling has significant complexities and that there are various developing methodologies, we do feel there is scope to support Schemes further on scenario analysis. We would recommend that DWP explore guidance through a high-level framework.

- *Monitoring, enforcement and education* - Whilst acknowledging above points, it is important that DWP and the TPR encourage, monitor and enforce high-quality reporting. We do not want this to become a 'tick-box' exercise and are supportive of statutory guidance that will support Trustees to develop transition strategies to align assets behind. We encourage the government to provide sufficient resources to the TPR to ensure that it has the necessary skills to accurately assess 'quality' rather than just compliance and point out to Schemes where reporting could be improved. Another area that the government may wish to explore is the education element for broader stakeholders, members may not yet fully understand the risks and challenges that climate change poses to the Scheme they are part of.

If you would like to discuss any of our responses further, please do not hesitate to contact me directly.

Yours sincerely,



Meryam Omi
Head of Sustainability & Responsible
Investment Strategy
Investment Stewardship
Legal & General Investment Management



Alexander Burr
ESG Policy Lead
Investment Stewardship
Legal & General Investment Management

