Climate and investment reporting: setting expectations and empowering savers

Government response

June 2022

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Ministerial foreword

We are delighted to publish the government's response to this important consultation and would like to thank all parties who responded to our consultation.

We welcome the broad support our proposals have received and the almost unanimous agreement across industry that Paris alignment reporting and robust stewardship practices are key tools for effective action in addressing climate risks.

In particular, we commend the emphasis some respondents have placed in linking Paris alignment and stewardship more closely. We know it is not enough for schemes to simply tick-box their way to net zero. Effective stewardship, informed at least in part by portfolio alignment assessments, will help trustees drive real-world decarbonisation outcomes whilst delivering long-term value to savers.

Government has listened to stakeholders' feedback on Paris alignment and we have made changes to our statutory guidance to provide further clarity for trustees on their portfolio alignment reporting. Although present data coverage may not be perfect, it is improving rapidly, and our requirements will help to accelerate this process significantly.

Together with our existing Task Force on Climate Related Financial Disclosures (TCFD) regulations, these measures will see UK occupational pension schemes continue to be at the forefront of tackling climate risk. They will ensure that, from October this year more than 80% of UK members will be invested in pension schemes which are helping to limit the climate risk to their members retirement incomes.

Our stewardship guidance also clarifies our expectations on stewardship, and highlights where disclosures can align with reporting to the UK Stewardship Code. We want to ensure that our disclosures are as aligned as possible and we will work with the Financial Reporting Council, to move this forward.

We look forward to seeing industry engage with these measures and we remain committed to working with trustees and supporting them to deliver these changes.

Thérèse Coffey MP, Secretary of State for the Department of Work and Pensions and Guy Opperman MP, Minister for Pensions and Financial Inclusion

Overview: Responses to the consultation

1. The consultation sought views on:
    - Policy proposals, draft regulations and draft statutory guidance to require trustees of larger occupational pension schemes, authorised master trusts and authorised schemes providing collective money purchase benefits to calculate and report a metric setting out the extent to which their investments are aligned with the Paris Agreement goal of pursuing efforts to limit the global average temperature increase to 1.5˚C above pre-industrial levels, and;
    - Draft non-statutory guidance explaining best practice in relation to the Statement of Investment Principles (which describes trustees' climate change and stewardship policies) and draft statutory guidance explaining our expectations across the Implementation Statement (which describes how they have implemented these policies).
2. The consultation[1] was launched on 21 October 2021 and ran for 11 weeks.
3. We received 60 responses to the consultation itself. These were made up of 9 from corporate occupational schemes; 8 from trade bodies; 7 from membership bodies; 8 from dedicated consultancy firms, 5 dedicated master trust sponsors, and 3 that do both; 5 from asset managers; 3 from law firms; 3 from Local Government Pension Scheme (LGPS) bodies; 3 civil society bodies; and 1 each from a statutory public pension fund, a non-profit research company, a campaign group, a global finance company, and an individual consultant and a think tank.
4. Before, during and subsequent to the public consultation, we also conducted a range of informal engagement with stakeholders, including trustees, consultants, law firms, actuaries, civil society bodies, and trade bodies and associations.
5. This document highlights the main issues raised and the government's response but is not an exhaustive commentary on every response received.

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[1] Climate and investment reporting: setting expectations and empowering savers - GOV.UK (www.gov.uk)

Chapter 1: Measuring and reporting Paris alignment

1.1 Background

Trustees' duty to consider climate risk

1. In order to ensure trustees were fully considering this risk and acting in the best interests of pension scheme beneficiaries, the recommendations of the Taskforce for Climate-related Financial Disclosures were embedded into UK law by making the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021[2] ("the Climate Change Governance and Reporting Regulations") and through equivalent Northern Ireland legislation.

2. The Climate Change Governance and Reporting Regulations came into force on 1 October 2021 and impose requirements on trustees of larger occupational pension schemes, and all authorised master trust schemes and authorised collective money purchase schemes, for the identification, assessment and management of climate-related risks and opportunities. This includes requirements relating to governance, strategy and risk management, and requirements to select and calculate climate-related metrics and to set and measure performance against targets.

The Paris Agreement

3. In December 2015, 195 countries committed in the Paris Agreement[3] to holding the increase in the global average temperature to well below 2˚C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5˚C above pre-industrial levels (Article 2.1(a)).

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[2] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (legislation.gov.uk)

[3] The United Nations Framework Convention on Climate Change dealing with greenhouse-gas emissions mitigation, adaptation and finance signed in 2016 - https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

4. In order to meet the 1.5 degrees global warming goal in the Paris Agreement, global carbon emissions need to reach Net Zero in 2050[4]. This transition will lead to a fundamental transformation of the global economy, affecting all types of pension schemes regardless of their investment portfolios. UK pension schemes' investments are internationally diversified, with overseas investment being a key element of the investment strategy, especially in relation to equities[5] and so are acutely affected by a global transition.

Portfolio alignment metrics and climate risk

5. The TCFD's updated guidance[6] has now, amongst other things, recommended that financial institutions should describe the extent to which their activities are aligned with a well-below 2°C scenario (i.e. with the goals of the Paris agreement). We are therefore seeking to broadly align with the TCFD's updated guidance in this area and codify such a requirement for UK occupational pension schemes, as we did when aligning trustee reporting with TCFD's 2017 recommendations.
6. The TCFD's recommendations remain a key part of the government's aim of ensuring the right information on climate-related risks and opportunities is available across the investment chain – from companies in the real economy, to financial services firms, to end-investors.

1.2 Mandatory portfolio alignment measurement and reporting

Question 1 of the consultation asked if you agree with the proposal to amend the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to require trustees of schemes in scope to measure and report

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[4] https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/

[5] Estimates vary between 70 and 80% of quoted equity investments are invested overseas. See figure 7.5 of The Purple Book 2020 (ppf.co.uk) [DB schemes] and figure 23 of UK pension surveys: redevelopment and 2019 results [direct holdings of equities across all schemes]

[6] 'Guidance on Metrics, Targets and Transition Plans (October 2021)' 2021-Metrics_Targets_Guidance-1.pdf (bbhub.io)

their scheme's Paris-alignment by adding a requirement for them to select and calculate a portfolio alignment metrics and to report on that metric in their TCFD report.

Summary of Responses

7. Respondents were largely supportive of the proposal to measure and report a portfolio alignment metric, with a majority agreeing they are forward-looking, and useful for trustees to better understand their exposure to climate-related risks and opportunities.

   "We are supportive of greater focus on forward-looking climate-related metrics, which, alongside carbon emissions-based metrics, will give trustees a better understanding of their investment exposure to climate-related risks and opportunities". **Association of Consulting Actuaries**

8. However, a small number of respondents were opposed to any regulatory requirement to calculate and report a portfolio alignment metric.

   "We support the current regulatory approach, which allows trustees to calculate a portfolio alignment metric as one of their additional climate change metrics. **Investment Association**

9. Most respondents highlighted concerns about data availability and quality when calculating and reporting a portfolio alignment metric. Data concerns were also emphasised in relation to asset classes beyond listed equities or fixed income.

   "We think this metric will provide a valuable additional data point for stakeholders…but feel insufficient attention is being given to the quality and availability of data for reporting. The LGPS has a diverse range of investments, but for a significant proportion of them the required information is not available". **Nottinghamshire Pension Fund**

10. A number of stakeholders also highlighted methodological discrepancies in calculating and reporting portfolio alignment metrics Some respondents considered that reliance on diverse data assumptions and methodological approaches could result in subjective and incomparable portfolio alignment metric outcomes across pension schemes. Some respondents emphasised that these

issues were particularly relevant for Implied Temperature Rise (ITR) models and were concerned that this could unintentionally drive increased divestment.

"We would note that targeting a single number to improve a portfolio's temperature alignment could incentivise the wrong behaviours. For example, trustees may focus on lowering this figure through divestment rather than engagement with transitioning assets". **IIGCC**

11. Noting the challenges flagged above, many respondents welcomed the application of the 'as far as they are able' principle.

    "To place an obligation on pension schemes to report absent the availability of this data cannot in our view succeed in bring about the change it is clearly accepted is needed. Hence the importance of the DWP's pragmatic principle that pension schemes are to fulfil these requirements as far as they are able". **Association of Member Nominated Trustees**

12. Most respondents welcomed the flexibility in allowing trustees to select the portfolio alignment metric most applicable to them and some stated that the flexibility in the choice of portfolio alignment metrics would help to address methodological challenges.

    "Schemes should at the current time be left to decide which portfolio alignment measure they adopt…. It should be recognised that methodological challenges remain in calculating portfolio metrics and that this will be an iterative process. Nonetheless, these challenges can be resolved over time and do not present reason to delay implementation. Indeed, mandating their disclosure will help to increase momentum in addressing such challenges" **Aviva**

13. Some respondents suggested that portfolio alignment metrics should better reflect trustee's stewardship activities.

    "Care must be taken to choose metrics that reflect the trustees' holistic efforts to decarbonize portfolios, including stewardship and engagement efforts". **FCLT Global**

Government Response

14. We welcome the support for the proposal to require trustees to measure and report their pension scheme's portfolio alignment. It is encouraging that industry

is broadly in agreement regarding the utility of portfolio alignment metrics in understanding climate-related risks and opportunities. The acknowledgment that portfolio alignment metrics can help trustees act and inform their stewardship and engagement practices is particularly welcome.

15. In our consultation, we acknowledged that the accessibility, coverage, and quality of the data, needed to measure and report Paris alignment, is a key challenge. We also acknowledged that trustees may only be able to obtain full data for some assets, such as equities and corporate debt.

16. As most respondents recognise, the 'as far as they are able' principle helps address data availability concerns in relation to certain assets when calculating a portfolio alignment metric. The principle gives trustees the flexibility to obtain data within the boundaries of what they regard to be reasonable and proportionate for their holdings.

17. There has already been rapid advancement in data availability, and we anticipate further improvements in transparency through the planned implementation of the UK Sustainability Disclosure Requirements (SDR), as set out in *Greening Finance: A roadmap to sustainable investing*[7] As described in that document, the Government and regulators will implement a best in class coordinated framework for sustainability reporting by firms and investment products across the economy and the Government intends to take forward legislation on this when parliamentary time allows. This is also complemented by work undertaken by the FCA who are working closely with HM Treasury on the development of a sustainable investment labelling regime and the UK Green Taxonomy. The labelling regime will help consumers select investment products based on their sustainability preferences and will be supported by the underlying SDR disclosures.

18. The UK Government has supported the establishment of a new standard-setting board – the International Sustainability Standards Board (ISSB) – whose standards are expected to form a core component of the SDR framework, and the backbone of its corporate reporting element. This will improve data coverage and help schemes obtain high quality, transparent, reliable and comparable reporting by companies and asset managers on climate and other sustainability matters. The Government (led by BEIS) will assess each Standard that is issued to ensure it is fit for purpose, and will have the ability to modify any standard in terms of its UK application. The Government will rally other countries around the work of the ISSB to take forward important work to develop a global baseline for

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[7] Greening Finance: A Roadmap to Sustainable Investing - GOV.UK (www.gov.uk)

sustainability reporting, which will be key to considering the internationally diversified portfolios of UK pension schemes.

19. An absence of total data coverage does not prevent trustees from commencing the measurement and reporting of portfolio metrics and the Paris alignment of their pension scheme assets. As SDR is implemented, the availability and accuracy of data will increase, and such metrics will improve.

20. We acknowledge respondents' concerns with methodological challenges when calculating and reporting portfolio alignment metrics. However, we don't believe that these methodological concerns are strong enough to delay the implementation of portfolio alignment metrics or prescribe one portfolio alignment metric over others.

21. Indeed, in the face of methodological challenges, we think it is necessary to provide trustees with flexibility to select the type of portfolio alignment metric which best reflects their circumstances. As a number of respondents highlighted, allowing trustees the flexibility to select a portfolio alignment tool of their choice, will give industry the space to consider the suitability of tools and drive standardisation.

22. We anticipate that market initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ)[8] will be key to this. One key GFANZ workstream is portfolio alignment measurement. This workstream will support the development and adoption of portfolio alignment metrics and drive convergence in the way portfolio alignment is measured and disclosed.

23. We note that some stakeholders are particularly concerned about the data and methodological assumptions associated with ITR models and its potential to drive divestment decisions. However, as we emphasised in the consultation, pension schemes are already reporting emissions and emission intensity metrics which show that they are a long way from net zero.

24. Government has always been clear that blanket divestment from certain assets is the wrong approach. For example, it would undermine the need to deliver an orderly transition to net zero, due to the wider economic and social impacts it would have, including on our energy security. Trustees need to recognise the systemic nature of climate risk in order to fully understand it is not one which can be addressed simply through asset allocation. Effective engagement and

[8] Launched in April 2021, GFANZ is a global alliance that brings together existing and new net-zero finance initiatives into one sector-wide strategic forum.
[About | Glasgow Financial Alliance for Net Zero (gfanzero.com)](https://www.gfanzero.com/about/)

stewardship of high-carbon companies can drive down real-world emissions and reduce the climate risk to which a scheme is exposed.

25. Our policy provides trustees with the flexibility and autonomy to select binary measurements or benchmark divergence tools if they are especially concerned about the use of ITR models. As market practice around portfolio alignment metrics also continues to evolve, we are keen to future proof our measures and not inhibit the development of tools by prescribing the use of one type of portfolio alignment metric.

26. We acknowledge that due to methodological discrepancies, comparability between schemes using different portfolio alignment tools will be initially difficult. However, although broad comparability is a desirable outcome that we anticipate will in time emerge, it is not the key driver of this policy intervention.

27. It is well established that the schemes in scope of our measures have different investment horizons, strategies and portfolios. Asset classes too have significantly different transition pathways based on the sectors in which they operate. The requirement to disclose - rather than pressurise trustees to adopt blanket divestment – allows trustees to explain to beneficiaries the role of engagement they are undertaking with high-emitting firms who they have identified are furthest from net zero.

28. We welcome therefore the emphasis some respondents placed on linking portfolio alignment and stewardship more closely. Alignment with net zero targets alone does not drive real world decarbonisation outcomes.

29. As flagged by some respondents, trustees may find the IIGCC's Net Zero Investment Framework[9] and Net Zero Stewardship Toolkit, useful resources for complementing portfolio alignment metrics and their stewardship activities. The Net Investment Framework puts forward metrics to measure alignment whilst setting out implementation actions, such as engagement efforts, to effectively achieve portfolio alignment. The Net Zero Stewardship Toolkit sets out a framework for stewardship and engagement strategies based on companies' portfolio alignment assessments, including voting policies and escalation actions.[10]

30. In summary, we do not intend to make any changes to our original proposal to require trustees of schemes in scope to measure and report a portfolio alignment metric.

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[9] Net Zero Investment Framework Implementation Guide – IIGCC
[10] IIGCC Net Zero Stewardship Toolkit – IIGCC

1.3 Timing and Scope

Question 2 of the consultation asked if you agree with the proposal that:

(a) trustees who are subject to the requirements in Part 1 of the Schedule to the Climate Change Governance and Reporting Regulations on or after 1 October 2022 (including trustees to whom the requirements are re-applied in accordance with regulation 3(4), 4(4) or 5(4)) will be required to select, calculate and report on a portfolio-alignment metric and to publish the findings in their TCFD report within 7 months of the relevant scheme year end date in the same way as they are for other metrics. This will apply to:

- trustees of a trust scheme which had relevant assets equal to, or exceeding, £5 billion on their first scheme year end date which falls on or after 1st March 2020, and who remain subject to the requirements in Part 1 of the Schedule on 1 October 2022;

- trustees of a trust scheme which has relevant assets equal to, or exceeding, £1 billion on a scheme year end date which falls on or after 1st March 2021; and

- trustees of all authorised master trusts and authorised collective defined contribution schemes.

After 1 October 2022

(b) trustees will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric in accordance with regulations 3(4), 4(3), 4(5), 5(3) and 5(5) of the Climate Change Governance and Reporting Regulations, in the same way as they would be for other metrics:

- trustees of a scheme with relevant assets of less than £500m on a scheme year end date which falls after 1 October 2022 will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero;

- trustees of an authorised scheme which ceases to be authorised after 1 October 2022 (a "formerly authorised scheme") and which had relevant assets of less than £500m on the scheme year end date immediately preceding the scheme year in

which authorisation ceased, will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric with immediate effect;

- trustees of a formerly authorised scheme which has relevant assets of less than £500m on a scheme year end date after authorisation ceased, will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero.

Do you agree with these policy proposals?

Summary of Responses

31. The majority of stakeholders supported our proposals on aligning the scope of the new requirement to apply to all trustees who are subject to the Climate Change Governance and Reporting Regulations, and on the timing of its introduction.

32. A significant number of stakeholders also supported the proposal not to have a phased roll-out.

    "Given the number of savers, schemes and assets at risk of climate change in corporate schemes with between £1bn and £5bn, we believe they should be brought into scope at the same time as larger schemes." **Nest**

33. Linked to this is the acknowledgement by some stakeholders that schemes cannot afford to wait for perfect data to start measuring their portfolio alignment and should begin reporting guided by the 'as far as they are able' principle.

    "We agree that the focus for UK pension schemes should be on getting started, rather than waiting for perfect data, and welcome the "as far as they are able" principle allowing trustees to make reasonable and proportionate efforts to obtain the relevant metric." **Society of Pension Professionals**

34. A number of stakeholders highlighted that the schemes in scope should have the necessary climate governance processes in place to be able to do portfolio alignment reporting and indeed, some of the larger schemes, upon which these

measures fall are already considering calculating some form of portfolio alignment metric.

"By this point, many of the processes established to meet TCFD requirements will have been embedded such that the addition of a portfolio alignment metric should not be seen to be as being overly burdensome for those schemes which are due to report in the coming year." **Hymans Robertson**

35. Nevertheless, some stakeholders noted that it will be important that guidance is produced well in advance of the new regulations coming into force, especially for those schemes who have not previously considered calculating a portfolio alignment metric.

36. A significant number of stakeholders flagged that our proposed coming into force date will result in reporting requirements falling on trustees before they fall on asset managers, upon who trustees will rely for the data to calculate their portfolio alignment.

"We note that most schemes will be expected to provide data prior to the date (currently proposed to be June 2023) by which the FCA is expecting fund managers to report such data. As we say in response to Question 1, for all but the very largest schemes, pension schemes will need to rely on their fund managers for this data but as things stand, they will not be able to do so." **Associated Member Nominated Trustees**

37. In response to this sequencing concern and also as a point on timing generally, a number of respondents suggested that the coming into force date of the regulations be delayed by a year to 1 October 2023.

"….suggest that the new metric is postponed by one year. While it is probable that a large number would choose to report on this additional metric when they come into the scope of the regulations on 1 October 2022, for those who felt it presented a challenge, this will give them more time to prepare." **PLSA**

38. Another alternative approach suggested by some respondents to compensate for the relatively quick introduction of the new metric, and sequencing mismatch with FCA requirements, is to limit the requirement to 'Binary' only in the first year of the requirements.

Government Response

39. We welcome the broad support for the speed with which we are introducing this regulatory requirement. It is important that industry continues to recognise the now well-documented urgency of the threat climate change presents, in particular the need to collectively transition to a low carbon economy. This presents risks and opportunities to all pension schemes and their members, regardless of their size, structure, mandates or investment strategy. Therefore, it is significant that by including schemes between the £1bn to £5bn bracket we are capturing around an additional 30%[11] of assets under management without delay.

40. When consulting on our TCFD measures there was broad consensus that Schemes with £1bn or more in assets have the resources in place to allow them to implement and report on the range of governance and assessment measures set out in the Regulations to a high standard, with a high probability of overall benefit to the members.

41. As some respondents have pointed out in response to this consultation, the frameworks are already being put into place following the introduction of those measures on 1 October 2021, putting the schemes in scope on a sound governance footing to calculate a portfolio alignment metric. We are further encouraged by reports of schemes already calculating (or considering calculating) a portfolio metric as an additional metric, as evidence that this can be done on the timescales we proposed.

42. We agree that clear, coherent and timely Statutory Guidance will be a key resource for trustees, as they seek to prepare for the additional requirement to calculate a portfolio metric. That is why we have published our updated Statutory Guidance alongside this consultation response, ahead of the requirement coming into force. More details on the Statutory Guidance can be found at section 1.5 of this chapter.

43. As well as the Statutory Guidance, DWP played a key role in producing and publishing the Pensions Climate Risk Industry Group Guidance which is a useful resource to all trustees, whether they are in scope of the new requirements or just starting out. This too will be updated to reflect the amendments we are making to the Climate Change Governance and Reporting Regulations.

44. Whilst we acknowledge that it is not an entirely optimal outcome for trustees to be required to report against alignment metrics before asset managers in scope of

[11] Impact Assessment on climate change risk – governance and disclosure (TCFD) proposals - GOV.UK (www.gov.uk)

the FCA’s TCFD regime are required to report them, we do not believe this is a strong enough reason for delay. We consider the argument that pension schemes will need to rely wholly on their fund managers for the data to calculate a portfolio alignment metric to be flawed.

45. As outlined clearly in the statutory guidance, a scheme would be entirely compliant with the regulations if they chose to calculate a portfolio alignment metric using a binary tool, for example the Science Based Targets initiative’s (SBTi) open source tool. When using this particular tool, the main source of data is the tool itself, not asset manager reporting.

46. It is for this same reason that we do not feel it is necessary to delay the introduction of the requirement by a year. All trustees in scope of these Regulations should have the necessary governance capacity and expertise to calculate at least a binary portfolio alignment metric, especially when considering there are open source tools available and they are guided by the ‘as far as they are able’ principle.

47. A binary calculation can in turn be a decision useful metric in establishing a link between portfolio alignment and stewardship activities. Companies without binary targets and/or Science based targets and which are high carbon emitters, can be identified and prioritised for engagement. Equally, based on the company alignment status (or lack thereof), key alignment issues can be highlighted by the outputs of tools such as TPI or SBTi which can then inform the basis for voting decisions.

48. However, to be clear, we do not believe that being prescriptive in statutory guidance, to direct trustees to only calculate a binary alignment metric is the right approach. Indeed, whilst all trustees retain the option to calculate a binary alignment metric, a number of respondents welcomed the flexibility to select a portfolio alignment tool which reflects their specific circumstances. This aligns with the updated TCFD guidance and we believe remains the most appropriate policy.

49. This approach may not alleviate concerns some stakeholders have that while we wait for market standardisation to emerge some trustees, who lack the necessary knowledge and understanding of these metrics, will be vulnerable to being upsold less credible portfolio alignment tools. However, we would simply reiterate that if trustees of the smaller schemes in scope do not feel confident they will have the necessary expertise or resource to meet this requirement they should consider consolidating their members into a scheme which does have effective climate governance.

50. In summary, we do not intend to make any changes to our original proposals on the scope and timing of this measure.

1.4 Disclosure and Penalties

Question 3 of the consultation asked if you agree with the proposal for all schemes in scope to incorporate the requirements to measure and report a portfolio-alignment metric into the existing Climate Change Governance and Reporting Regulations so that the requirements are subject to the same disclosure and enforcement provisions as the other metrics requirements.

Summary of Responses

51. This proposal received unanimous support from the stakeholders which responded to this question, agreeing the approach was logical, clear and consistent. A number of respondents also highlighted that this approach had benefits of ensuring that no additional reporting and administrative burdens were placed on trustees whilst still delivering clear accountability to members.

    "It would be confusing for stakeholders if a new report is mandated and hence we support new disclosure requirements being merged into existing disclosure duties." **Scottish Widows**

52. Broad support for our enforcement regime for TCFD reports was established in the two public consultations on those measures. However, as with those previous consultations, a number of respondents have again focused on the role TPR will play in supervising the new requirement, stressing the new and complex nature of the new requirement.

53. Some respondents also stated that it will be essential for TPR to give clear guidance on its enforcement policy with regards to calculating and reporting a portfolio alignment metric.

    "…it will be essential for the Pensions Regulator to give clear guidance on its enforcement policy with regard to its new powers under the regulations, especially its interpretation of the "as far as they are able" test." **Society of Pension Professionals**

Government Response

54. We welcome recognition from a number of respondents that the inclusion of a portfolio alignment metric in the TCFD report is a logical and consistent approach. Consequently, we do not intend to make any change to this proposal.

55. Government has always viewed the requiring of a portfolio alignment metric as a natural addition to the existing TCFD requirements, and so should be disclosed and enforced in the same manner. As highlighted, this also avoids adding any additional administrative or reporting burdens on trustees.

56. Following COP26 there is growing government, regulatory, industry and public interest in the sustainability and wider socio-economic value of investment practices. In particular, the steps financial institutions are taking to transition to Net Zero. Therefore, we maintain that reporting portfolio alignment specifically has the potential to be particularly impactful when communicating a scheme's progress in transitioning, and further building on the accountability already put in place by the existing TCFD measures.

57. We also note the continued focus from some stakeholders on the role TPR will play in monitoring compliance of portfolio alignment metrics specifically, and the calls for guidance on the approach they will take.

58. TPR has published guidance on our Climate Change Governance and Reporting Regulations[12], which TPR will update to cover its approach to regulation of calculating and reporting a portfolio alignment metric, ahead of the measure coming into force. TPR also published its climate change strategy on 7 April 2021[13] which sets out its strategic response to climate change and how it can help trustees meet the challenges from climate change.

59. In general, we continue to agree with the regulatory approach of initially focusing on engagement and working with industry to overcome challenges. However, there are limits to that approach. Both DWP and TPR are also keen to communicate a strong expectation that schemes seek to comply fully as soon as the requirements are introduced.

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[12] Climate change governance guidance | The Pensions Regulator
https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting
[13] Climate change strategy | The Pensions Regulator
https://www.thepensionsregulator.gov.uk/en/document-library/strategy-and-policy/climate-change-strategy

1.5 Regulations and statutory guidance

Question 4 of the consultation asked:

(a) Do you have any comments on the draft amendments to the Regulations?

(b) Do you have any comments on the draft amendments to the Statutory Guidance?

Please include in your answer any comments you have on whether you consider that they meet the policy intent stated in this chapter.

We particularly welcome comments on the definition of “portfolio alignment metric” and whether respondents think it reflects the policy intent?

Summary of Responses

Draft amendments and modifications to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

60. The vast majority of respondents welcomed and stressed the importance of the “as far as they are able” principle being applied to obtaining the data required to calculate their selected portfolio alignment metric, using the data obtained to calculate that metric in relation to the scheme’s assets and using the portfolio alignment metric they have calculated to identify and assess the climate-related risks and opportunities which are relevant to the scheme.

    “We welcome the retention of the “as far as they are able” principle for the portfolio alignment metric similar to the first three required metrics, noting the existing challenges with coverage and data availability.” **HSBC Bank Pension Scheme**

61. However, there were two respondents which flagged the difference between the ‘as far as they are able’ principle of the DWP measure and the ‘as far as practicably reasonable’ principle of the FCA measures, suggesting that our regulations be amended to marry up with the FCA wording.

    “It would be preferred for the language regarding trustee requirements should be aligned to the FCA’s Final TCFD (Climate Disclosure) rules for asset managers

published in December 2021 where the threshold is ‘so far as reasonably practicable’ rather than ‘as far as they are able’ for consistency.” **AXA**

62. A significant number of respondents welcomed the definition’s explicit reference to the climate change goal of limiting the increase in the global average temperature to 1.5 degrees Celsius above pre-industrial levels.

    “We welcome reference to 1.5 degrees (as opposed to previous language on ‘below 2 degrees’).” **Cardano**

    “It is essential to establish this threshold as the target –the interpretation of the Paris Agreement was initially focused on the goal of keeping the global average temperature rise to below 2 degrees, but since the IPCC special report in 2018, the focus has now shifted to 1.5 degrees as congruent with Net Zero alignment.” **Pension Protection Fund**

63. A small number of respondents flagged that, despite agreeing with the definition of a portfolio alignment metric, it will be important to keep it under review.

    “We agree with the current definition however encourage DWP to keep it under review and update it as appropriate in the light of global policy movement, changes to scientific modelling, greater coverage of different asset classes and industry innovation.” **BT Pension Scheme**

64. However, a small number of respondents raised concerns about the reference to 1.5 degrees in the definition.

    “We are concerned about the explicit reference to 1.5 degrees warming for the alignment metric. Whilst this is simple and aligns to the broader COP26 goal of “keeping 1.5 degrees alive”, there is evidence that this is highly unlikely.” **Institute and Faculty of Actuaries**

65. Two respondents also flagged a potential unintended consequence of including explicit reference to 1.5 degrees in the definition of a portfolio alignment metric.

    “…they could choose Paris alignment with a target of, say, 2 degrees and apply that. This is because the same definition ("portfolio alignment metric") is used when prescribing what cannot be chosen as the fourth metric (in the definition of "additional climate change metric") as when prescribing the new compulsory metric. We presume that this outcome is not intended. If not, the definition should

be refined (or it may be easier to have two separate definitions).” **Association of Pension Lawyers**

66. The same respondent also had concerns over the expression "gives the alignment".

“In the definition of "portfolio alignment metric", the expression "gives the alignment" could, we think, be improved. Is "measures alignment" or "measures performance…against" better, or some other more precise language?” **Association of Pension Lawyers**

Draft amendments to the Statutory Guidance

67. Several respondents welcomed the stipulation in the guidance that, regardless of the type of portfolio alignment they use, trustees should ensure they understand the methodology that underpins it.

“We are pleased to see that the draft amendments to the statutory guidance (new paragraph 164) say that inconsistent metrics should not be aggregated and note the existing guidance (current paragraph 160) that trustees should concisely disclose the methodology for their metrics.” **Lane Clark Peacock**

68. In addition, some respondents stated that trustees should also be transparent about the methodology of their chosen metric.

“Given portfolio alignment metrics are relatively new, we think DWP should set out the methodology they would like applied such that data will be consistent across scheme disclosures. Failing that, a second-best option would be to require schemes and investment managers to explicitly disclose their relevant methodology used. This will help stakeholders better understand, reconcile and compare the approaches taken by different schemes, who (for example) may each be using different data providers with different methodologies.” **Aon**

69. Some respondents agreed that it was appropriate to expand the list of additional metrics, however they felt some of the additions were not suitable for trustees.

“Within the expanded list of additional metrics we believe that some (carbon price, senior manager remuneration) are not particularly suitable for direct

consideration by pension scheme trustees and would propose that these are removed.” **Hymans Robertson**

70. One respondent recommended that we also expand the range of portfolio alignment tools cited in the statutory guidance.

    “IGCC recommends that the broader range of alignment metrics recommended by NZIF should also be incorporated into the statutory guidance to support a more holistic assessment of portfolio alignment…..In relation to real estate, IIGCC recommends that trustees calculate the alignment of their assets using the Carbon Risk Real Estate Monitor tool (CRREM).” **IIGCC**

71. Two respondents suggested that rather than a have a prescribed list of metrics in statutory guidance it would be better to take a principles-based approach.

    “A principles-based approach rather than a prescriptive list of three metrics would future-proof the requirements and better enable DWP to meet the policy intent.” **Barnett Waddingham**

72. Two respondents also highlighted the need to provide further emphasis in the statutory guidance that climate change presents a systemic risk, not just a portfolio risk.

    “We would consider it helpful to remind trustees of the importance of considering system level risk when reporting on Paris alignment. Climate change is an example of a systemic, macroeconomic risk that cannot be managed through portfolio construction or asset allocation alone.” **Client Earth**

73. One respondent also flagged that the description of a Net Zero goal in the guidance was not accurate.

    “The draft guidance includes the paragraph "For a country, company or investor, a “Net Zero” goal or target means ensuring that their own emissions (or, for an investor, the emissions attributable to their assets under management) reach “net” zero by 2050.". This is not accurate: to give two diverse examples, India is targeting net zero by 2070 and Aviva by 2030. The reference to the year 2050 could be omitted but that renders the paragraph circular. We therefore suggest deleting the paragraph, as we are not sure what it adds given that the 2050 target in the Paris Agreement is covered elsewhere.” **Association of Pension Lawyers**

74. Several respondents raised the issue that trustees should report the percentage of assets in each section of the scheme.

"We would suggest – perhaps in paragraph 174, or elsewhere – that schemes are encouraged and expected to disclose… the percentage of the assets in each section (or, if the reporting is by asset class, sector, geography or on some other characteristic), on which the scheme is reporting." **Railway Pension Scheme**

Government Response

Draft amendments and modifications to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

75. Whilst we acknowledge the FCA's principle shifting from 'best efforts' to one which "requires that firms assess whether it is 'reasonably practicable' to disclose additional metrics taking into account matters such as the likely time, costs, resources, and practicalities,"[14] we do not believe this has an impact on trustees' ability to comply with our Regulations.

76. Our policy position remains that all schemes in scope of our regulations have the necessary capacity to (guided by the 'as far as they are able principle') at the absolute minimum do a binary calculation of portfolio alignment for listed equities, and then report their findings. As previously flagged, depending on the tool they use they would not be entirely, or indeed even partially reliant on their asset manager reporting. We therefore don't propose any changes to our principle - which has already been tested in two previous consultations – for a portfolio alignment metric.

77. We welcome support for the definition's explicit reference to the climate change goal of limiting the increase in the global average temperature to 1.5 degrees Celsius above pre-industrial levels. As flagged in our original consultation as countries across the globe increasingly legislate for Net Zero, trustees will need to identify the risks and opportunities associated with the transition to a net zero economy.

78. Policymakers, companies, investors and consumers all need to make the necessary commitments to ensure this transition happens. Indeed, The Paris

[14] PS21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

Aligned Investment Initiative's Net Zero Investment Framework[15] - to which a significant number of UK pension schemes are participatory members – states that "the Framework is based on the expectation that governments and policymakers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement".

79. Research suggests that there are significant global economic benefits of keeping future temperature rise to 1.5°C. For example, the UN's The Intergovernmental Panel on Climate Change (IPCC) found that "risks to global aggregated economic growth due to climate change impacts are projected to be lower at 1.5°C than at 2°C by the end of this century."[16].

80. To the respondents who have concerns around the definition of a portfolio alignment metric referencing 1.5°C we would emphasise that our policy intention is not for trustees to meet a mandatory 1.5°C target by a certain date, nor is there a requirement to set one (although trustees may choose to).

81. Instead, it is to ensure they calculate and communicate progress towards alignment across their scheme's portfolio over time, distinguishing between the leaders and the laggards within sectors based on ambition, and satisfying themselves that mechanisms are being put in place by high-carbon emitters to transition. It is not about penalising firms that are high carbon emitters today or shifting investment away from them, especially if they have a clear and credible plan to transition to net zero.

82. We acknowledge that the regulations will not legally prevent trustees from measuring alignment with a different climate goal as their additional climate change metric. However, we believe we have provided adequate deterrence against this by removing portfolio alignment metrics from the list of the additional climate change metrics in the statutory guidance to which trustees must have regard. Where trustees choose to calculate an additional portfolio alignment metric as their selected additional climate change metric the guidance indicates that they should explain why they have done so in their TCFD report. We have no evidence currently either from this consultation or from our informal engagement that trustees have any intention of taking this approach.

83. The use of 'gives' in the definition was deliberate for consistency with the other metric definitions in the existing TCFD regulations. The reasoning behind this

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[15] Net Zero Investment Framework Implementation Guide – IIGCC
[16] Summary for Policymakers — Global Warming of 1.5 ºC (ipcc.ch)

choice is that while the metric needs to measure the extent to which the assets are 'aligned', crucially it also needs to 'give' an alignment outcome.

84. Therefore, we do not intend to make any changes to the definition. Nevertheless, we recognise the calls for the definition to be kept under review considering any relevant changes to global policy or agreement as entirely reasonable. Climate risk governance is a policy area that has evolved rapidly in recent years and government will continue to be minded of any political or industry developments which could impact upon the full suite of TCFD measures we have introduced.

85. In the course of finalising the regulations, we have made a small number of minor technical changes to the draft regulations. In particular, we have addressed an inconsistency in the regulations to ensure that - in a scenario where trustees of a scheme are caught by the requirements of Part 1 of the Climate Change Governance and Reporting Regulations from 1 October 2021 but fall out of scope before 1 October 2022 and then fall back into scope at a later date - in the first scheme year in which the new requirements apply, they can also rely on the easement set out in Part 1, paragraph 21 of the Schedule to the Climate Change Governance and Reporting Regulations, in respect of the relevant new portfolio alignment metric requirements, as it is the first time the trustees have to select and calculate a portfolio alignment metric.

Draft amendments to the Statutory Guidance

86. We welcome support from respondents for the guidance that trustees ensure they have an understanding of the methodology which underpins their chosen metric. Similarly, we agree with stakeholders that transparency is key to enhancing trustee and wider industry understanding and prevent misleading and unhelpful comparisons between different types of metrics. Transparency in this regard will also act as a key driver towards greater data coverage and standardisation of methodologies and the input judgements that underpin them.

87. Therefore, we have amended statutory guidance further to emphasise the point that trustees should describe the methodology and data assumptions used when disclosing their portfolio alignment metric. In the interest of consistency, trustees should be clear about the methodology that underpins their portfolio alignment metric whether they use binary measurements, benchmark performance or ITR models. Newly inserted paragraph 176 in Part 3 of the statutory guidance sets this out clearly.

88. We acknowledge significant stakeholders' concerns that some additional metrics are not suitable for pension schemes. Therefore, we are removing 'Carbon Price(s) (external and shadow/internal)' and 'Amount of senior remuneration

impacted by climate considerations', from the list of additional climate change metrics.

89. In response to some respondents suggesting the expansion of portfolio alignment tools in the statutory guidance, we have included the Carbon Risk Real Estate Monitor tool (CRREM) as a tool that trustees can use to assess the net zero alignment of their real estate holdings. This tool was recommended by a number of respondents and is endorsed by the IIGCC's Net Zero Investment Framework. This will be a useful tool for assessing an asset class which is exposed to the physical and transition risks associated with climate change.

90. In response to the proposal for a more principle-based approach in statutory guidance, we favour a prescribed list of TCFD aligned metrics which still provides trustees with flexibility to select a portfolio alignment tool which reflects their specific circumstances, including their investment strategy and governance capacity. Without this we believe it would make it harder for trustees to understand what was being expected of them, especially as to many trustees these metrics will be completely new, and relatively complex.

91. By prescribing the choice of metrics our statutory guidance allows trustees to focus fully on calculating and reporting their chosen metric effectively. A principles-based approach would also make it more difficult for TPR to regulate the disclosures and conclude whether a report covers the matters it is supposed to – this would in turn mean trustees would have less certainty over whether they had met requirements or would be subject to further intervention by the Regulator. Finally, the prescribed list, will hopefully facilitate greater methodological standardisation and, in time if not immediately, allow for more comparability between reports.

92. We agree that climate change presents a systemic risk to pension schemes that cannot be managed simply through asset allocation. We have therefore emphasised this point by inserting new Paragraph 119 and amending paragraph 111 of Part 3 of the statutory guidance.

93. Following review of our description of a "Net zero" goal or target in the proposed amendments to the statutory guidance, we agree with the observation that this definition is not entirely accurate and is not adding any value. We have therefore removed this paragraph from the statutory guidance.

94. Finally, we believe new paragraph 162 in Part 3 of the statutory guidance already covers the issue on reporting the percentage of assets in each section of the scheme. However, we have amended this slightly to clarify that, like other metrics, the portfolio alignment metric should also be reported at section level for

a multi-section DB scheme or for each popular default in the case of DC schemes where appropriate.

95. Below is an index of the final changes we have made to the existing Statutory Guidance to provide further clarity and support for trustees when complying with the requirements. Paragraph numbers refer to the final version of the guidance published alongside this consultation response:

We have amended the text of the guidance in the following paragraphs: 1-2 (footnotes only), 7 (PART 1), 1 (footnotes only) (PART 2), 111, 117-118, 174-175 (PART 3).

We have added the following paragraphs to the guidance: 3 (PART 1), 119, 156-172, 176 (PART 3).

1.6 Impacts

Question 5 of the consultation asked: Do you have any comments on the new regulatory burdens to business and benefits of requiring schemes to measure and report their Paris alignment?

Summary of responses

The regulatory burden of the proposals

96. There were 33 responses to this question. Numerous stakeholders responded recognising the potential benefits of the proposals relative to the burdens associated with them.

"Reporting always comes with a cost, but we think that it is totally appropriate to continue to drive up standards of governance and reporting to help achieve important societal aims. With regards to this consultation, we believe that the new requirement will not add significant cost […]" **Smart Pension**

97. Whilst most responses recognised the benefits of requiring schemes to measure and report their Paris alignment, some raised concerns with the burden of activities, anticipating additional burdens to what was suggested in the impact assessment.

98. These responses referenced burdens for the following broad types of activities:

- Activities explicitly in the stated baseline of assumed compliance with pre-existing regulations and fiduciary requirements;
- Activities whereby a scheme understood the requirements to mean going ‘above and beyond’ what was set out in the policy and incurring additional burdens; and
- Activities that may be more challenging for certain schemes given their investment strategies, but do not account for the ‘as far as trustees are able’ requirement, which is set out in the regulations.

99. While most respondents agreed with the assessment of burdens provided, two respondents requested further analysis on the impacts of the proposed regulations.

“…that impact assessment does not directly address and assess the introduction of a portfolio alignment metric as is now proposed. We therefore feel that this observation has not been demonstrated.” **The Society of Pension Professionals**

100. Multiple respondents raised concerns about the impact of proposals on small schemes, whose reliance on consultants and third-party providers mean any burden associated with this policy would be disproportionate for small schemes.

“The cost of third-party data and tools to calculate and publicly disclose portfolio alignment metrics can be significant and place a disproportionate burden on smaller schemes which have limited resources.” **Border to Coast**

101. One element some respondents felt had not been accounted for in the impact assessment, was the anticipated costs of engaging with external consultants/third party analytics. Some respondents provided estimates of this cost, ranging between £7,000 to £30,000.

102. Multiple respondents stated that the proposed requirements would result in additional burdens to trustees not accounted for in the impact assessment.

“The largest burden may well be in ensuring that these metrics are explained properly to stakeholder groups and in dealing with queries and questions around methodology, data and alignment.” **Nottinghamshire Pension Fund**

103. Some respondents raised concerns about availability and limited coverage of open source tools for reporting portfolio alignment metrics.

"Whilst various data sources are freely available, the coverage provided by these is currently low, and in any event will not cover private asset classes." **Aviva Staff Pension**

104. A small number of respondents commented on the timing of the proposed regulations.

"…we believe that the proposed timing will cause an unnecessary burden that, given the delay in the rest of the investment chain falling into scope of climate disclosure requirements, will make no material difference to our understanding of the climate risk posed." **PLSA**

Government response

105. The majority of responses to this question provided valuable feedback and insight. There were a number of constructive points raised which we have considered and responded to below.

106. **Impact on small schemes** – The scope of proposals is consistent with existing TCFD regulations i.e. trustees of all Occupational Pension Schemes (OPS) with £1 billion or more in relevant assets, authorised master trusts and authorised schemes offering collective money purchase benefits. Therefore, small schemes will not be disproportionately burdened by these proposals.

107. **Cost of external consultants/ third-party data analytics** – We do not deny that trustees who choose to obtain independent assurance of their disclosures would incur additional costs. However, this would be a voluntary choice by the trustee and is not a mandatory requirement under our proposals. It is therefore not accounted for in the impact assessment.

108. **Additional burden to trustees** – Trustees adhering to their fiduciary duty should already have effective systems of governance, strategy and risk management of all financially-material risks, including climate change. Therefore, for the purposes of calculating new burdens, putting trustee duties insofar as they apply to climate change on a statutory footing is already accounted for in the impact assessment.

109. **Availability and limited coverage of open source tools** – We recognise the limited coverage of open source tools in paragraph 169 of the statutory guidance

consulted on[17]. That is why we proposed the ‘as far as trustees are able’ approach, to calculate a portfolio alignment metric. As sighted earlier in this chapter and in the statutory guidance there are multiple open source tools which are currently available to trustees which will allow them to calculate the portfolio alignment of at least a portion of their portfolio, and thus be compliant with the regulations.

110. **Timing** – Schemes in scope of the proposals were given notice of the portfolio alignment metric regulations in April 2020.

111. On the balance of the evidence provided, and after further consideration, we believe the proposals do not cause any notable burdens which have not already been accounted for in the impact assessment.

Protected groups

Question 6 of the consultation asked for:

(a) any comments on the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

(b) any evidence on existing provision made my trustees in response to requests for information in alternative accessible formats?

(c) any other comments about any of our proposals?

Summary of response

112. There were four responses to these questions. Very few respondents offered comments on the impact of proposals on protected groups. Those who responded did not suggest there would be a negative impact on protected groups.

“Protected groups are often the least informed about their pensions and the protections offered by these regulations should encourage the laggard schemes to at least start to think about climate risk.” **Joel Moreland**

[17] Proposed amendments to the Statutory Guidance – governance and reporting of climate change risk: guidance for trustees of occupational schemes - GOV.UK (www.gov.uk)

113. No respondents offered views on the question of accessible formats and very few respondents offered any additional comments. Those who responded raised no further issues.

Government response

114. We agree with the assessment emerging from the consultation responses that the measures proposed are unlikely to have a disproportionate impact on any protected groups.

Chapter 2: Stewardship and the Implementation Statement

1. A number of drafting changes have been made to the guidance, for example to clarify content. The consultation response does not cover every change that has been made to the guidance, but instead focuses on significant policy points.

2.1 Reporting templates

Question 7 of the consultation asked, "should DWP include a vote reporting template in its implementation statement guidance which trustees are expected to use? If so, should such a template be based on the PLSA's vote reporting template? What changes, if any, would be needed to the PLSA template if it were to be adopted? What are your views on the adoption of an engagement reporting template? Should it be separate from any vote reporting template or integrated with it, so that – in relation to equities – both voting and engagement activities are described for the same set of assets?"

Summary of Responses

Vote reporting template

2. There was limited support for DWP to include a vote reporting template in the guidance. Most respondents preferred a template developed by industry to allow for flexibility.

PLSA vote reporting template

3. The existing vote reporting template produced by the PLSA was described by a number of respondents as a useful document.
4. However, several changes were suggested that could help make the PLSA template more useful. These included that there should be provision for significant votes to be set out on a thematic basis (something we cover in the revised guidance on the IS in respect of reporting of most significant votes), and

that the template should allow for trustees, rather than asset managers, to decide which significant votes to report, in line with trustees' stewardship agenda.

Action by fund managers

5. The vote reporting template essentially displays data, and some respondents noted that change is required prior to the point at which the data is reported.

   "We currently still experience challenges with investment managers completing the PLSA voting template. Fund managers' ability to provide such reporting needs to be addressed before pension trustees are asked to use these templates." **XPS**

Engagement reporting template

6. While there was broad agreement that a vote reporting template could be a useful tool, there was less consensus around whether to adopt an engagement reporting template.
7. Several respondents noted that investment consultants, through the Investment Consultants Sustainability Working Group, have produced guidance on reporting on engagement, and this is aligned with the UK Stewardship Code. The respondents said they found this a useful document: but one that's best developed by industry.

   "Incorporating the engagement reporting guidance into DWP's guidance will not allow the ICSWG to review the guide for improvement as best practice evolves." **Investment Association**

Combined template?

8. Views varied on whether voting and engagement reports should be combined in a single template. Some respondents were keen to keep them separate to allow data and requirements to evolve over time, while others took a pragmatic approach to separating the content.

   "Engagement activities are important across a range of different asset classes whereas voting only applies to a sub-set of asset classes, notably public equity." **Association of Consulting Actuaries**

9. The case for integrating templates was made on the basis that they go hand in hand in a stewardship strategy. Whether disclosed separately or apart, data on voting and on engagement will often be interlinked.

"A vote direction is likely to be a result of an engagement (whether that be positive or negative) and vice-versa." **Aviva**

Outcomes

10. Whichever way voting or engagement are reported or displayed, several respondents emphasised that the outcome of stewardship activities and interaction with governance is what really matters.

    "For both voting and engagement disclosures, trustees should be encouraged to focus on how the information can/should be used, rather than a 'statement of fact' that does not drive action." **Association of Consulting Actuaries**

Government Response

11. We recognise that there is not an appetite for government to include either a vote reporting template or a template to report engagement activities in statutory guidance currently. Where trustees would like to use templates, they might like to consider using the PLSA's vote reporting template, and the guidance on reporting engagement drawn up by the Investment Consultants Sustainability Working Group (ICSWG).
12. Evidence to this consultation suggests that both the PLSA template and the ICSWG guidance could benefit from further development. The ICSWG document has not yet been used by many trustee boards. We will monitor the development of the guidance as it is tested more widely across the industry.
13. We encourage the ICSWG to continue to seek input and views from asset owners so that the guidance can be refined to gather the information most useful to asset owners as they develop their stewardship strategies.
14. We would like to see the ICSWG continue to engage with regulators and a wide range of stakeholders to ensure that the guidance can be as inclusive as possible, and that governance and ownership of the work here is kept as transparent as possible.
15. The PLSA vote reporting template is more established. As illustrated in consultation responses, many schemes have found it to be useful. We note suggestions for amendments and will engage with the PLSA over taking this forward.
16. Some of the changes suggested for developing the PLSA template further are about more than how the data is managed and presented. For example, we note

concerns raised over lack of transparency and the quality of data reporting by some asset managers, in particular inconsistencies where data is presented in different ways depending on the proxy provider used; and inconsistencies where engagement data is provided at the level of the firm and voting information is provided at fund or product level.

17. Schemes may wish to consider how they request data. A consistent approach to disclosure of votes is already taken in the US through the use of form NP-X. Such a template for disclosures could then allow schemes to present the data as best suits their needs, for example, in a way that is consistent with significant votes as determined by trustees.

18. We will liaise with the FCA and the FRC to examine current practice in voting disclosure by asset managers. We will highlight a point made by respondents that the stewardship information that schemes require from fund managers may be outside of the scope of the PLSA's vote reporting template. We support the principle and recommendation laid out by the Taskforce on Pension Scheme Voting Implementation[18] that:

> "Asset managers and their trade bodies should sign up to the principle of answering all reasonable requests on their voting and stewardship activity. They should not work on the basis that reporting via the PLSA template, abiding by the Stewardship Code and compliance with FCA rules will be sufficient. They should be willing to provide answers to all reasonable requests from clients".

2.2 Cross-cutting proposals

Question 8 of the consultation asked, "do you have any comments on our cross-cutting proposals for the draft guidance on Statements of Investment Principles and Implementation Statements, in particular that: (a) they are written for members? (b) these are trustees' statements, not their consultants'? (c) Implementation Statements should set out how the approach taken was in savers' interests? (d) trustees should be able to include material from voluntary disclosures, such as Stewardship Code reporting, as long as they meet the requirements in the Regulations"?

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[18]The Report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to Government, Regulators and Industry (September 2021), page 43, recommendation 21.

Summary of Responses

Audience

19. There were many comments in support of the proposal that the Statement of Investment Principles (SIP) and Implementation Statement (IS) should be written for members. However, most of these were heavily qualified, and questioned whether this was actually feasible.

    “The stated aim, that implementation statements are accessible and written for members, is in tension with the list of technical compulsory disclosures required in implementation statements.” **Church of England**

20. One consultancy agreed that the documents should be drafted in a way that is understandable to members, but tempered this with pragmatism:

    “It also needs to be recognised that the statements themselves are very rarely actually accessed by members.” **Barnett Waddingham**

21. While supporting the proposition, one scheme pointed out an inconsistency:

    “The Annual report and Accounts (ARA), of which the Implementation Statement forms a part is not required to be written for members.” **Nest**

Who is responsible for the SIP and IS?

22. There was overwhelming support for the proposal that the SIP and IS should be trustees’ statements not their consultants’, although the involvement of consultants to some degree was seen as inevitable.

    “Practically, it is often consultants who hold the pen with Trustees providing direction and sign off.” **Scottish Widows**

Savers’ interests

23. Comments on whether the IS should set out how the approach taken was in savers’ interests were split. A notable number of respondents asked for more guidance on what was meant by this, and what level of detail was expected.

    > “We think this is a useful point to consider, but it should be clear how savers’ interests are defined when trustees are considering their duties.” **LCP**

Streamlining disclosures

24. Of those who responded to this point, all agreed with the proposition that trustees should be able to include material from voluntary disclosures, such as Stewardship Code reporting, if they meet the requirements in the Regulations.

25. An industry body expanded on the overlap between the Stewardship Code and the IS:

    "The Code's focus on stewardship outcomes and effectiveness provides a context for the IS to demonstrate to members how stewardship activities conducted on their behalf have been in their best interests." **Investment Association**

Government Response

Audience

26. We have clarified the audience section of the draft guidance to reflect that The Pensions Regulator is the primary audience for the SIP and the IS.

27. In the guidance we encourage schemes to write the SIP and IS in plain English as far as possible, such that a reasonably engaged and informed member could interpret and understand the disclosures. In relation to the IS, we have amended the guidance to note that, for trustees who wish to incorporate or duplicate sections from their stewardship report to the Financial Reporting Council, this aligns with the expectation of the FRC that content should be understandable to a wide audience and those without a professional background in investment, stewardship or pensions.[19]

28. We have amended the guidance to encourage schemes to consider producing member-facing summary versions of the SIP and IS (with signposting to the full document) if scheme-specific research has found that members are more likely to engage with a different style of communication.

Who is responsible for the SIP and IS?

29. We welcome the support for the proposal that the SIP and IS should be trustees' statements, not their consultants' and so, subject to some minor clarifications, we have not amended the section regarding ownership of the documents.

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[19] FRC Effective Stewardship Reporting Review, November 2021 – Page 10

Savers' interests

30. We acknowledge the range of opinions on the proposal for the IS to set out how the approach taken was in savers' or scheme member's best interests. The proposal is consistent with Principle 1 of the UK Stewardship Code. We have included further detail in the guidance around what is meant by 'best interests', to address requests for clarification of what we would like to see from schemes as they set out their approach.

Streamlining disclosures

31. We recognise that the opportunity to include material in the IS from voluntary disclosures, such as Stewardship Code reports, would be welcomed by schemes.
32. We do not have any issue with this in principle, providing trustees adhere to the relevant legal requirements that are applicable (including regulation 29A of the Disclosure Regulations 2013) and, as relevant, that trustees have regard to the relevant statutory guidance in doing so. We have amended the guidance to reflect this position.
33. In the final version of the guidance, we draw further attention to where the guidance aligns with the UK Stewardship Code. We want to ensure that we are as aligned as possible and will work with the Financial Reporting Council, which sets the UK Stewardship Code, to move this work forward.
34. We have already made a commitment[20] to review requirements on mandatory disclosures made in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. We will review requirements on disclosures on stewardship activities at the same time (in the second half of 2023).

2.3 Stewardship Guidance and most significant votes

[20] Taking action on climate risk: improving governance and reporting by occupational pension schemes - GOV.UK (www.gov.uk)

Question 9 of the consultation asked “(a) Do you have any comments on our proposed Guidance on stewardship policies? (b) Do you have any comments on our proposed Guidance on significant votes?”.

Summary of Responses

35. Responses were generally supportive of the proposed guidance on stewardship policies and significant votes, but the following issues were raised.

Definition of significant votes

36. In the draft guidance, “significant” vote is defined as one that is linked to one of the scheme’s stewardship priorities (e.g., climate change).

37. One scheme explained that a definition based on stewardship themes / priorities could cause issues as there will be limited instances where vote reporting will translate across to this format. The **Investment Association** shared this view and reported that:

    “Thematic issues do not have dedicated resolutions at company Annual General Meetings and so such a definition is unlikely to capture the votes which have had the most significant impact or contributed to the achievement of stewardship outcomes.”

38. The **Association of Member Nominated Trustees** gave an example of two significant votes linked to a stewardship priority (climate change): “Trustees may wish to require information on two thematic significant votes: how many shareholder resolutions on climate change did they [the fund manager] support, abstain or vote against; and how many times did the fund manager vote against a company on grounds of corporate failures on climate change that was not a shareholder resolution”.

39. One pension scheme agreed that the “most significant votes” will be linked to a scheme’s thematic and stock-specific priorities however:

    “We think that there are other examples of votes that are of importance to our portfolio or which, when reported, give members and other stakeholders a clearer insight into how the Trustee approaches stewardship.” **Railpen**

40. Examples provided by **Railpen** included votes at companies where the vote was escalated to the Chief Investment Officer; votes on issues which have the potential to substantially impact financial or stewardship outcomes; and votes on high-profile shareholder resolutions.

Reporting burdens and proportionality

41. Some respondents raised the issue of reporting burdens and proportionality. One law firm suggested that:

    "The reporting requirements could be reduced to just the name of the company, a summary of the resolution, and report on how the trustees vote." **Pinsent Masons**

42. A couple of respondents raised a point about the extent to which trustees should link to managers' policies in the IS, or summarise those policies in the IS. A pension scheme suggested that:

    "It may be preferable to set the expectation that trustees should both summarise their priorities and provide links to their managers' policies, and that this should be "if applicable". For example, a scheme may have its own policies which it uses in preference to its managers." **Nest**

Engagement

43. Some respondents raised important points about engagement, for example, that the guidance should provide equal or greater emphasis on engagement alongside voting.

    "Engagement is arguably the more flexible, responsible, and value-adding approach to stewardship – particularly by providing additionality." **Impact Investing Institute**

44. Continuing with the theme of engagement, one respondent – **ShareAction** – suggested that the guidance could clarify that there is an expectation to report engagement outcomes, as well as objectives because "this aligns with the direction of travel in the UK Stewardship Code and best practices".

"Ownership" of stewardship policies

45. Some respondents queried the explanation of trustees "owning" and taking responsibility of their manager's policies.

    "We do not believe this gives proper recognition to the practical and commercial barriers trustees face in ensuring that, where they have a policy on stewardship, this is implemented by each asset manager they appoint (or, moving forward, that any expression of wish is followed by a pooled fund manager)." **Society of Pension Professionals**

Member views

46. In relation to this part of the guidance, some respondents raised points about member views. **The Association of Pension Lawyers** suggested that paragraph 33 of the draft guidance could be read as an expectation that trustees take member views into account. The concern is that this would conflict with regulation 2(3)(b)(vii) of the Occupational Pension Schemes (Investment) Regulations 2005, which reflects that trustees have the option to take into account non-financial factors (including member views) but that this is not mandatory.

Expression of Wish

47. An important issue that emerged from several responses, in the context of stewardship policies, was the concept of an "expression of wish". Some respondents noted that the concept is still in its infancy.

    "The right infrastructure needs to be in place to allow asset managers to set pro rata voting or expressions of interests in collective vehicles. Given the current proxy voting chain and constraints on getting voting recommendations on time for consideration, it will be very difficult for asset managers to allow for expressions of wishes from clients before defining the final vote." **Association of British Insurers**

Government Response

48. Some drafting changes have been made to the start of Part 3, to clarify the ways trustees can be responsible stewards.

Definition of significant votes

49. The implementation statement must describe the voting behaviour by, or on behalf of, the trustees, including the most significant votes cast by trustees or on their behalf. A definition of significant votes based on stewardship priorities or themes could reveal useful information in the IS, which reports on how stewardship policies are implemented, and could help with holding asset managers to account.
50. We have updated the guidance to clarify that a significant vote is likely to be one that is linked to one or more of the scheme's stewardship priorities / themes and we encourage schemes to think about the connection between the scheme's wider stewardship priorities and the votes cast on the scheme's behalf.

51. We note the concerns raised by some respondents that there may be limited instances where vote reporting will translate across to stewardship priorities / themes. Therefore, we will raise thematic reporting when we liaise with the PLSA on updates to the vote reporting template.
52. We agree there may be cases when a vote is significant but not necessarily captured by a stewardship priority. We have clarified in the guidance that a vote could also be significant for other reasons, for example, due to the size of holding. We have added examples of these types of significant votes in the table at page 21 of the guidance.

Reporting burdens and proportionality

53. We disagree that the reporting requirements could be reduced to the name of the company, a summary of the resolution, and a report on how the trustees vote. We have made some changes to the items trustees should include in the IS in relation to most significant votes, including why the trustees consider the vote to be most significant and the rationale for the voting decision. The revised guidance will help towards a more outcome-focused narrative, including, where relevant, the stewardship priority to which the vote was linked, and the rationale for the voting decision.
54. We agree that voting policies will differ and be more appropriate depending on the type of scheme and asset classes involved. We acknowledge this in the amended guidance, in the section that sets out a case study of an effective voting policy.
55. There is a balance to be struck between setting out asset manager stewardship policies in the SIP or IS and simply including links to those policies. We have made some minor drafting changes to clarify that where trustees use the voting policy of the asset manager, they are encouraged to briefly summarise in the IS how the manager's voting policy relates to the scheme's stewardship priorities.
56. We clarify that where trustees use the voting policy of the asset manager, they are encouraged to briefly summarise in the IS whether the asset manager's voting behaviour is aligned with the scheme's stewardship priorities. The guidance also clarifies that where the trustee has an expression of wish in relation to any particular investment held, they should indicate in the IS whether this has been taken into account by their asset manager. The guidance clarifies that trustees can provide links to their managers' voting policies if applicable. Finally, the guidance expects trustees to explain in the IS whether, and how, they made clear to their managers what they considered to be the most significant votes in advance of those votes being taken.

57. It is important that trustees remain alive to any differences between scheme policies and those of their managers and that there are opportunities for trustees to engage with their asset managers about this, which are set out in the table in the guidance at paragraph 56. Following the consultation, we made some changes to the table, including references to alignment to the UK Stewardship Code, along with further clarity around how each activity may relate to the SIP and minor drafting changes to make the content clearer.

Engagement

58. We agree with those who highlighted that engagement is a fundamental aspect of stewardship and could be drawn out more. We have included more content about engagement in the guidance, including at paragraphs 68 and 69.

59. We have updated the guidance to clarify that trustees could consider reporting the outcome *of the engagement* in the IS, as well as engagement objectives, because this is a more meaningful approach and aligns with the FRC's Stewardship Code.

"Ownership" of stewardship policies

60. Several respondents were concerned that the proposed guidance went too far by saying that where voting and engagement rights are exercisable by a third party rather than by trustees, trustees must 'acknowledge responsibility for the voting policies that asset managers implement on their behalf'.

61. We have clarified in the guidance that we do not mean ownership of their manager's policies, but ownership of the scheme's stewardship and we encourage trustees to be proactive stewards.

62. We included in the draft guidance a link to the Taskforce on Pension Scheme Voting Implementation, which concluded in December 2021 that whilst there are reported problems with splitting the vote in pooled funds, including legal barriers in terms of ownership, IT and operational problems, a weakening of the asset manager's voice and regulatory barriers,[21] none of these problems appear material or insuperable[22]. DWP agrees with the TPSVI's conclusion that there are

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[21] The report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to Government, Regulators and Industry, September 2021. Page 17, paragraph 44

[22] Page 24, paragraph 62.

issues with splitting votes in pooled funds, but none appears material or insuperable.

Member views

63. In response to the concerns raised by respondents, including the Association of Pension Lawyers, we have updated the guidance to clarify that once trustees have selected the scheme's stewardship priorities or themes, it is recommended that *where practical to do so*, trustees identify whether there are any particular aspects beneath that priority or theme which are important to the scheme and members and beneficiaries. The Guidance also states that trustees are not expected to take non-financial factors (i.e. member views) into account but may wish to do so.

Expression of Wish

64. We have clarified in the guidance that an expression of wish, in the context of voting, is a request from an asset owner to their managers to vote on certain issues in a particular way.
65. We have also clarified in the guidance that an expression of wish is distinct from client-directed voting. An expression of wish is not binding upon asset managers.
66. It is DWP's view that an expression of wish is an important development which will allow asset owners to provide their managers with a greater level of insight on their views.
67. The guidance has been amended to clarify that trustees can use the selection and appointment processes to probe whether a prospective asset manager is willing to accept requests to vote on certain matters in a particular way. Moreover, the guidance also clarifies that trustees can use the ongoing monitoring process to check that their asset managers hold true to any promises they make around taking expressions of wish into account.
68. The guidance now explains that where trustees do set an expression of wish, they may explain what it entails in the SIP.
69. We acknowledge the view that the right infrastructure needs to be in place to allow asset managers to consider expressions of wish. However, we note that since the publication of the Taskforce on Pension Scheme Voting Implementation's report, some managers are already offering expressions of wish, or similar services, to clients. One example of this, which is now referred to

in the guidance, is the service offered by AMX and DWS[23] and we hope to see more asset managers offer this flexibility to their clients.

2.4 Information included in the Implementation Statement (Disclosure Regulations)

Question 10 of the consultation asked "do you have any comments on our proposed Statutory Guidance on the information to be included in the Implementation Statement with regard to the requirements under the Disclosure Regulations, Schedule 3, paragraph 30(1)(f)(i)-(iv)?".

Summary of Responses

70. Respondents highlighted that the question contained a drafting error and should have referred to paragraph 30(1)(f)(ii)-(iv).

71. Most respondents did not have additional comments to make and welcomed clarification.

Government Response

72. We are pleased that most responses were supportive of this aspect and note the drafting error. Minor changes have been made to this part of the guidance, including content to show alignment between the information to be included in the IS and the UK Stewardship Code.

[23] Perspective: Pooled investors gain a vote | Features | IPE

2.5 Choosing Investments

Question 11 of the consultation asked, “Do you have any comments on our proposed Statutory Guidance on meeting the Implementation Statement requirements in the Disclosure Regulations relating to choosing investments?”

Summary of Responses

73. Most responses were supportive here, and several stated that this part was a welcome clarification and would encourage a small but valuable improvement to how the IS is written.

Government Response

74. We are pleased that most responses were highly supportive of this aspect of the guidance. Some minor drafting changes have been made to the guidance, to create closer alignment with the wording in the Disclosure Regulations.

2.6 Investment Strategy

Question 12 of the consultation asked, “Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to investment strategy?”.

Summary of Responses

75. Some responses suggested that the heading of this part of the guidance should be changed from “investment” to “investment strategy”.
76. Most respondents were either supportive of this part of the guidance or had no comments to make.
77. **Nest** suggested that the expectation in paragraph 80 of the draft guidance duplicates existing regulatory requirements in paragraph 30(1)(b) of Schedule 3 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. This requirement is referred to in the previous section on choosing investments (paragraph 75 of the draft guidance). Nest suggested that

the expectation at paragraph 80 could be met by publicly reporting the information required under paragraph 30(1)(b) of Schedule 3 to the 2013 Regulations.

Government Response

78. We are pleased that most respondents were supportive of this part of the guidance. We have made some minor drafting changes for added clarity regarding those to whom the relevant requirements apply.
79. We agree that the heading of this part of the guidance should be called “investment strategy” and have updated the guidance to reflect this.
80. We acknowledge that the expectation in the draft guidance which Nest referred to duplicates existing regulatory requirements in relation to the Annual Report. Trustees are not required to publish their Annual Reports, so the only guarantee that this information is in the public domain is to include it in the Implementation Statement. This will help TPR and members understand the scheme’s investment strategy.
81. We have added the same wording in paragraph 101 to paragraph 108 to clarify how trustees can explain information relating to the investment strategy in the IS.
82. We have added content to show alignment between this section of the guidance, in respect of the Implementation Statement, and the UK Stewardship Code.

2.7 Financially material considerations and non-financial matters

Question 13 asked, “Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to financially material considerations (including ESG and climate change)?

Question 14 asked, “do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to non-financial matters?”

Summary of Responses

Financial and non-financial divide

83. Some responses to questions 13 and 14 indicated that the distinction between financial and non-financial factors is unhelpful. One respondent reported that:

    "The two-step process of non-financial factors creates barriers, leading fiduciaries to believe they do not need to consider some ESG risks." **NOW: Pensions**

Members' best interests

84. In response to question 13, a minority challenged the requirement under paragraph 88 of the draft guidance that "trustees should explain in the IS how the implementation of SIP policies in relation to financially material factors (including ESG and climate change) was in members' interests". **The Association of Consulting Actuaries** would expect trustees to include an explanation if the policies were not followed and this action was taken in the best interests of members.

Member views

85. Some respondents queried why trustees are encouraged to have a mechanism by which members may express views about the consideration of non-financial matters in the selection, retention, and realisation of investments, including about stewardship. **Eversheds Sutherland** suggested that whilst trustees should clearly consider any views directly expressed by members, where they have a fiduciary responsibility for fund selection it is not clear why trustees should take member views on non-financial factors into account.

86. **The Association of Pension Lawyers** expressed concerns that paragraph 92 of the draft guidance:

    "Can be read as suggesting that although trustees are not required to take account of non-financial factors they are nevertheless encouraged to do so. This is in our view, a dangerous misstatement of the legal position."

87. Other respondents were supportive of this section and provided methods trustees can use to take member views into account:

    "We have heard of more innovative methods such as member forums, focus groups, webinars, Q&As with members, use of fin-tech like Tumelo (for voting), a "pensions bus" that visits workplaces." **ShareAction**

88. **Scottish Widows** reported that in Q4 of 2021 it launched the "Find your Impact" feature in its Scottish Widows app. The feature contains Have Your Say functionality which allows members to express views around both financial and non-financial matters surrounding the companies they invest in.

Government Response

Financial and non-financial divide

89. We acknowledge that the financial and non-financial divide may be unhelpful.

90. The line between financial and non-financial factors is not always clear cut and financial risks can arise from weaknesses in companies' approach to environmental, social and governance factors.

91. The guidance clarifies that we encourage trustees, if it is practical to do so, to keep under review non-financial factors that may not immediately present as financially material but have the potential to become so, particularly for schemes with a long-term horizon (see paragraph 30 of the guidance).

Members' best interests

92. We agree with the challenge by ACA that trustees should not have to explain in the IS how the implementation of SIP policies in relation to financially material factors were in members' interests and we have removed the previous paragraph 88. We are working from the assumption that trustees are acting in the best interests of members in line with their fiduciary duties.

Member views

93. We note the concerns raised by Eversheds and APL – that the guidance encourages trustees to take non-financial factors into account – but the guidance is clear that trustees are not required to take account of non-financial matters. Trustees or managers of certain schemes are required to make arrangements to encourage members of the scheme, or their representatives, to make their views on matters relating to the scheme known to the trustees or managers. We clarify in the updated guidance that this *could* include views about the scheme's investments and stewardship. The guidance has been amended to more accurately reflect the legal requirement under Regulation 29 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

94. We note that trustees can face constraints when taking account of member views and there is uncertainty amongst legal advisers about the extent to which members' views can in practice be taken into account. We acknowledge that member views will inevitably be diverse and where they are taken into account, they will need to be balanced against other factors in trustee decision-making.

95. In addition to the changes outlined above, we have added content in the guidance, to show potential alignment between the section of the guidance

concerning the implementation statement requirements relating to the trustees' policy on financially material considerations and the UK Stewardship Code.

96. Finally, some minor changes have been made to this section for added clarity, including regarding to whom the requirements apply. Additional wording has been included to refer to the requirements of the default SIP and, earlier in the guidance, to clarify how the guidance relates to those requirements.

2.8 Arrangements with asset managers

Question 15 of the consultation asked, "do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to arrangements with asset managers?"

Summary of Responses

97. There was a mixed response as to whether content in this section added anything beyond the regulations although several respondents found the guidance to be useful confirmation.

98. As was the case for some other sections of the guidance, concerns were raised over the mix of statutory and non-statutory guidance.

Government Response

99. We have amended the text to provide further clarification, including on the distinction between statutory and non-statutory content. A new section is included in Part 1 of the guidance to explain what is meant by the terms 'should', 'could / may', and 'must', to help trustees understand what is expected of them, and further clarification is provided in Part 1 regarding the status of the guidance as statutory or non-statutory. The guidance also includes references to default SIP requirements and clarifies that the guidance is applicable to the default SIP.

Addendum - Net Zero and Stewardship: The link between Chapters 1 and 2 of the consultation

Summary of Responses

100. Finally, it is worth noting that several respondents made an important link between chapters 1 and 2 of the consultation.

"If pension schemes report and publish their Paris alignment metric without a very strong linkage to their engagement activity then it might possibility lead to them ceasing engagement with and divesting from laggard companies in order to improve their 'score'. With concerned investors disinvesting, this could lead to these companies' shareholders being dominated by investors who care as little as the company board about addressing climate change." **Association of Member Nominated Trustees**

Government Response

101. We strongly agree with the responses which highlighted that stewardship is key to unlocking net zero. Engagement with companies can be key to achieving a scheme's climate-related goals and to reducing the climate risk to which a scheme is exposed.

102. There are several tools or resources that trustees may find useful for engaging with companies on net zero, including the IIGCC's Net Zero Stewardship Toolkit, which provides investors with a process to enhance their stewardship practices and deliver the rapid acceleration in decarbonisation required to halve emissions by 2030 and achieve net zero by 2050[24].

[24] IIGCC | Net Zero Stewardship Toolkit https://www.iigcc.org/download/iigcc-net-zero-stewardship-toolkit/?wpdmdl=5708&refresh=626272809f3d61650619008

Annex 1: List of respondents

2 Degree Investing Initiative

Airways Pension Scheme

Aon

Association of British Insurers

Association of Consulting Actuaries

Association of Member Nominated Trustees

Association of Pension Lawyers

Association of Professional Pension Trustees

Association of Real Estate Funds

Aviva

Aviva Staff Pension

AXA Investment Managers

Barnett Waddingham

BlackRock

Border to Coast

BT Pension Scheme

Brunel Pension Partnership

Cardano

Church of England Pension Scheme

Client Earth

Connected

Eversheds Sutherland

FCLTGlobal

HSBC Bank Pension Trust

Hymans Robertson

Impact Investing Institute

Insight Investment

Institutional Investors Group on Climate Change

Institute and Faculty of Actuaries

Investment Association

Investment Consultants Sustainability Working Group

Investment Property Forum

Isio

Joel Moreland

Law Society of Scotland

Lane Clark & Peacock

LGPS Central

Lombard Odier

Make My Money Matter

Mercer

Minerva

MSCI

Nest

New Airways Pension Scheme

Nottinghamshire Pension Fund

NOW: Pensions

Pensions Protection Fund

Pinsent Masons

Pensions and Lifetime Savings Association

Principles for Responsible Investment

Railways Pension Scheme

Redington

Scottish Widows

Share Action

Smart Pension

Society of Pension Professionals

Tesco PLC Pension Scheme

UK Sustainable Investment and Finance Association

Universities Superannuation Scheme

XPS Pension Group