PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

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Dear Sir/Madam,

PLSA RESPONSE: Mandatory climate related financial disclosures by publicly quoted companies, large private companies and LLPs

The PLSA welcomes the Government's intention to extend Taskforce for Climate Related Financial Disclosures to the categories of companies listed in the consultation. The pension sector has identified that the lack of consistent company reporting is preventing pension funds making climate aware investment decisions, and also that the phasing of the Roadmap might result in challenges in the flow of information between different parts of the investment chain. We therefore believe this is a step in the right direction, and is in keeping with the recommendations made by the PLSA. However, we would hope that the Government will take steps to bring equivalence of reporting requirements across the investment chain, including introducing statutory requirements on metrics and targets for companies, to ensure that institutional investors can assess their approach to tackling the climate crisis, and fulfil their own regulatory obligations fully.

About us

We're the Pensions and Lifetime Savings Association; we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

Background

In October 2020 we published a report, *A Changing Climate*, that demonstrated that – overwhelmingly - pension schemes take climate change seriously and want to invest in a climate aware way. However, our research highlighted a number of systemic challenges that our members feel are halting progress, including a lack of consistent climate reporting throughout the investment chain – 63% of those we surveyed told us that they did not have access to sufficient information to be able to translate climate change risks into their scheme's investments[1]

As a result, we recommended that *"the government and regulators to move towards more widespread adoption of the TCFD recommendations, applying them not just to premium-listed companies but to all issuers of debt and equity, and to all major banks, asset managers and insurers"*.

We note the considerable progress that has since been made on this since, not least with the publication of Roadmap to TCFD. Recent regulations mean that the largest pension schemes – those with more than £5 billion assets under management and authorised Master Trusts – will be required to start reporting from October 2021, with those with more than £1 billion net assets following suit in 2022. The sector is supportive of the need to report on climate risks – indeed many have already started this work – but there is certainly a concern that the information needed to do so will not be available by the time it becomes mandatory. As set out below, we largely welcome the Government's plans, but note our continued frustrations at the lack of co-ordination across the various reporting regulations, with these proposed requirements not due to come into law until after pension funds start to report.

The consultation

We welcome these proposals, which would require the largest companies to produce TCFD reports, including the mechanism, and location. For the reasons set out above, we believe that these regulations should be enforced as soon as the Parliamentary calendar allows. The timings proposed in this document mean that many of the companies it applies to will not be required to report under after the 2022 timeframe as set out in the 'Roadmap to Mandatory TCFD Disclosures'.

With regards to scope, as well as the companies listed, we would like to see these requirements extended to the categories of companies listed, as well as all premium and standard listed companies. Not only are many pension funds invested in these companies (so are therefore somewhat dependent on this to meet their own disclosure requirements), but we believe that climate change is a material factor.

[1] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/A-changing-climate.pdf

With regards to ***Q7*** and ***Q8,*** we are disappointed that Government is proposing that scenario analysis testing is 'encouraged but not required' due to a skills and expertise gap.

As you will be aware, the recently published draft regulations setting out the TCFD requirements for pension schemes will require that they carry out scenario analysis testing on a three year cycle. Though we appreciate that this is to be reported on only so far as pension schemes are able to, it is disappointing that similar provisions are not included in mandatory requirements for companies – which notably relate to just the four overarching pillars of the TCFD framework. We share concerns there is a lack of data and expertise on these matters across the board, but would like to see consistency in the specific metrics and requirements across all organisations that are, or will be, subject to mandatory TCFD disclosures. Most of those within the scope of this consultation would be well resourced to acquire this data.

Finally, we believe that the guidance published for companies that fall within the scope of this should have a statutory unpinning. We would be concerned that a non statutory Q&A would not give investors sufficient confidence that companies are acting appropriately and will not necessarily mean they will be reporting on the same types of metrics and targets. We believe this risks a disconnect with the wider implementation of TCFD throughout the investment chain.

Again, we recognise the challenges in accessing this level of information, and believe that regulations should be proportionate. However, we are concerned that the aspirations the Government has for pension scheme reporting, including on active stewardship, may ultimately fail as long as companies are not subject to similar expectations.

We hope that the above is helpful. If you would like any further clarification or information, please do not hesitate to get in touch.

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