PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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Dear David,

PLSA RESPONSE: Taking action on climate risk: improving governance and reporting by occupational pension schemes

We are grateful for the opportunity to respond to this consultation.

The PLSA welcomes the Government's intention to respond to the climate emergency through the widespread adoption of the TCFD reporting standard, and we welcome the clarity that the draft regulations and statutory guidance bring. In particular, we are pleased that the DWP has listened to our concerns raised about the frequency of reporting, and responded accordingly, and we are particularly pleased to see many of the provisions will apply to trustees only as far as they are able to meet them, which we believe is a reasonable position at this point

Although there has certainly been progress since the previous consultation on TCFD, we would note our continued concern about the lack of existing infrastructure to support pension schemes reporting requirements, and so would urge the DWP to ensure that regulation of the requirements reflects this. We have also set highlighted some discrepancies in the draft regulations.

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

As you know from previous communications, the PLSA has always acknowledged the need for pension schemes to respond to the climate emergency we face, and we believe that the widespread adoption of the Task Force for Climate Related Financial Disclosures is an appropriate standard for schemes and companies to report to.

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. Indeed, we found this to reflect the opinion throughout the investment chain, including among asset owners, asset managers, and consultants. However, our research highlighted a number of systemic challenges that our members feel are halting progress, including a lack of data, a lack of consistent definitions, and a lack of expertise on how to assess climate risk. Though progress has certainly been made since we published the report, and since the last TCFD consultation in 2020, we remain of the view that these issues will continue to impact schemes' abilities to fully report in line with these regulations, unless a proportionate position is taken by the regulator.

The consultation

Firstly, we support the timetable as is put forward for implementation ***(Q1),*** notwithstanding comments made above and below regarding how fully the regulations will be enforced on the relevant dates. We also welcome the Government's clarification of the treatment of bulk and individual annuity contracts in determining asset size (though again have noted some additional concerns below).

We very much welcome the changes to the required frequency of scenario analysis testing ***(Q5),*** bringing it in line with the preference set out in our previous response on the matter. We would, however, note the cross-over with the recent Pension Schemes Act obligations on trustees to consider climate risk, and that we remain of the view that trustees should be able to exercise fiduciary duties, and act based on their confidence in obtainable metrics rather than third-party measures. Furthermore, we agree that the requirements should be expected to be applied only "in as far as they are able", as the text sets out.

Finally, ***(Q7),*** we agree that trustees should be required to obtain metrics annually, rather than quarterly, and for the extension of the 'as far as able' provision to the calculation and use of data. We also support the revised expectations of annual target monitoring ***(Q8).***

However, we hope that you will also consider the following points.

We note the consultation response indicates the Government's intention to remove the value of bulk annuity contracts from asset calculations ***(Q1).*** However, we understand that the definition of 'relevant insurance contract', as it stands, would not cover bulk annuities. Bulk annuity policies provide for circumstances where 'specified insurance benefits' won't be fully met, so potentially do not fall within this definition. This risks some schemes coming within the scope of the regulations in advance of the Government's intended timetable.

On the timeframes, some members have expressed concerns that, as currently out, the proposals could result in some funds, in the first year, being required to produce reporte on a relatively short period (three months for those with a 31 December year end). Given the disproportionate impact on resource, it may be appropriate to consider allowing discretion to be applied for such schemes, or for the regulations to apply only after the first full year (so the first report would cover 15 months, rather than 3).

With regards to ***Q2,*** we note additional requirements for trustees to have appropriate knowledge and understanding of climate risk. The PLSA has previously highlighted the fast moving nature of society's understanding of climate risk. We therefore hope that TPR will take steps to quickly establish what is expected of trustees through the TKU, and with relevant guidanc and clarity on enforcement – having contributed to the PCRIG guidance, we'd be happy to work with TPR on this. We believe that guidance on scenario analysis would be particularly welcome, and should meet the needs of a range of trustees. Given both the regulatory and practical need for schemes to engage advisors, we would also like to see the DWP take steps to work with the FCA to ensure that relevant levels of skills and climate knowledge are part of the authorisation regime for investment consultants and managers.

Finally, with regards to both ***Q1*** and ***Q10***, though we support the timescales as set out, we would like to highlight our concerns that, at the moment, the infrastructure does not exist to support pension funds fully complying with these regulations. At the time of writing, though the Government has published a Roadmap to TCFD, it remains the case that only premium listed companies and pension funds are either required to publish, or are subject to a timetable that will require it. Consultations that will extend the requirements to asset managers and other listed companies have not yet been published, and are unlikely to be in force by the time the first group of pension schemes need to do so from October 2021.

It is also the case that the concerns we flagged in our October 2020 response – around a lack of standardised definitions and metrics –remain relevant. In producing our A Changing Climate report, our members highlighted that the lack of clear, consistent and comparable data was a barrier to them investing in a climate aware way – 63% of those they surveyed stated that did not have the information required to translate climate risks into their scheme's investments. We recognise that there is a lot of activity in this area in recent months, but we would like to see the Government bring forward plans to establish a taxonomy as soon as possible.

With the provision set out in the regulations – which note that reporting should only happen in 'so far as they are able', and that obtaining and reporting on data should be proportionate to resource - we do not believe this precludes pension schemes meeting the requirements, but we would urge that TPR recognises that it is likely that schemes will need some time to adjust and to be in a position to offer comprehensive reports. It's clear from our work with pension funds that there is a strong desire to 'do the right thing' on climate, and we have always supported the widespread adoption of TCFD to support this outcome. However, we need to recognise this is a journey and it's unlikely that the investment chain will be prepared for it come 1 October 2021. Again, the PLSA is of course happy to work with TPR to develop industry guidance, as we have done so on a number of occasions previously, or facilitate discussions with the sector

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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