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Climate Governance and Environmental Social Governance (ESG) team
Department for Work and Pensions
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Sent by email

7th October 2020

Dear all,

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

I am writing to respond to this consultation on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the view of clients, beneficiaries and pension scheme members.

Question 1

We agree this approach seems proportionate.

Question 2

We agree this approach seems proportionate.

Question 3

We agree this approach seems proportionate. However, we recommend that DWP includes a commitment to undertake the 2024 review in the proposed regulations.

Question 4

We broadly agree with these proposals. However, we would recommend that they reflect the wording of TCFD Supplemental Guidance for the Financial Sector,[1] requiring trustees to disclose the frequency of their assessment. It is important to have transparency on this point as climate-related risks are shifting so quickly that trustees cannot afford a lag in their oversight. While we

[1] TCFD (June 2017). *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, p. 23. Available online at: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf [accessed 7 October 2020].

recognise that the wording includes the word ‘ongoing’, this is open to interpretation, particularly by trustees who are less motivated to focus on climate-related concerns.

We also suggest that the statutory guidance should clarify that trustees should conduct strategic risk management (that covers portfolio management, company engagement and policy engagement, to the extent that this is feasible given the resources of the scheme) rather than simply asset allocation.

Question 5

We broadly agree with these proposals. However, we were not quite clear if trustees would be required to describe the processes they use to determine climate-related risks and opportunities relevant to their scheme and would recommend that this is put in place. As before, this would reflect the wording in TCFD reporting guidance for asset owners.[2] Without a requirement to ‘show their working’ in identifying relevant risks and opportunities, there is a danger that less engaged trustees will fail to carry out informed and methodical assessments of the relevant risks, or may cherry pick those easiest to address or disclose upon.

We also recommend that trustees are required to disclose the approximate time periods against which they are working. Short, medium and long term are likely to be interpreted quite differently by different schemes, and it is important to have clarity about the time periods trustees are considering. We would also suggest that DWP covers this point in the statutory guidance: for example, what ‘long term’ might be expected to mean for different types of scheme. Given the issues of short-termism, particularly misaligned incentives, in the pension investment chain, we are concerned that it may be risky to allow industry to define these terms without guidance. This may also be helpful clarification for schemes that have limited time and resource available for researching and setting out their own time frames.

Question 6

We broadly agree with these proposals. We would query whether two scenarios are sufficient to fully understand the resilience of pension scheme assets, given the uncertainty around the various emissions pathways, and would recommend giving more direction on what scenarios pension schemes should use. This will improve clarity and comparability in the data that is produced, and should be helpful for schemes that have limited time and resource available for researching scenarios. We would suggest DWP requires trustees to use the three scenarios in the Government’s own TCFD guidance, *Aligning your Pension Scheme with the TCFD Recommendations*[3]:

- *Orderly transition, 2ºC or lower scenario – emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government’s legally binding commitment to reduce emissions in the UK to net zero by 2050. Investors and companies face disruption from physical climate-related risks, yet these are much less severe. than under a no transition scenario.*

- *An abrupt transition, 2ºC or lower scenario – little climate action in the short term, followed by a sudden and unanticipated tightening of policy as countries rush to get on track with the Paris Agreement. The falling cost of the solutions may mean companies and investors face a double policy and technology shock.*

- *No transition, pathway to 4+ºC scenario – a continuation of historic emission trends and a failure to transition away from fossil fuels. Physical climate-related risks are severe, and*

[2] Ibid, p. 25.

[3] Pensions Climate Risk Industry Group (March 2020). *Aligning your Pension Scheme with the TCFD Recommendations*, pp. 63-64. Available online at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/877305/aligning-your-pension-scheme-with-the-TCFD-recommendations-consultation-guidance.pdf [accessed 7 October 2020].

increase over time, causing widespread social and economic disruption, although conventional economic approaches are very likely to underestimate the impacts.

Question 7

We generally support these proposals. However, we would suggest that they reflect the wording of TCFD guidance for asset owners, requiring trustees to disclose the positioning of their portfolios in relation to the low-carbon transition.[4] That said, we acknowledge that DWP may have chosen not to include this wording on the basis that it will be addressed in its forthcoming consultation on Paris alignment reporting. If so, we are content with this decision.

Question 8

We broadly agree with these proposals. However, trustees should be required to explain the reason why they have selected a particular non-emissions based metric as being the most appropriate metric for the assets of their scheme. If they are not required to do so, they may cherry pick the metric which puts their scheme in the best possible light.

Question 9

We generally agree with this wording. However, we are a little concerned about the inclusion of an 'as far as they are able' proviso. We would encourage DWP to echo its comments in the consultation and state in the statutory guidance wording to the effect that pension schemes should put pressure on their asset managers to disclose the data that is required. We would also encourage DWP to liaise with BEIS, HM Treasury and the FCA to bring in mandatory TCFD reporting for companies and asset managers without delay.

Question 10

We agree this approach seems proportionate.

Question 11

We agree with this wording: in particular, that TPR should have a mandatory duty to fine schemes where they fail to publish a TCFD report. However, we are concerned about the potential for schemes to publish a report which does not address the requirements. We feel it is appropriate for TPR to have the discretion to issue fines in this scenario, so it can use its enforcement powers judiciously. However, we believe it is important for TPR to monitor the quality of reports, and would like to see DWP set out its expectations for the regulator in this regard. We recommend that DWP requires TPR to report intermittently on schemes' progress on TCFD reporting ahead of the review in 2024, in a similar vein to the pensions landscape reviews previously conducted by TPR. This kind of requirement seems consistent with the February 2020 correspondence from Pete Searle to Charles Counsell.[5]

Question 12

We agree with the Government's assessment that the benefits of this regulation (in terms of risk management) far outweigh the costs.

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[4] TCFD (June 2017). *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, p. 36. Available online at: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf [accessed 7 October 2020].

[5] Correspondence from Pete Searle, Director of Private Pensions and Arm's Length Bodies Partnership, to Charles Counsell, Chief Executive, The Pensions Regulator (February 2020). Available online at: https://www.gov.uk/government/publications/climate-change-risks-and-opportunities/letter-to-charles-counsell-chief-executive-of-the-pensions-regulator-february-2020 [accessed 7 October 2020].

Question 13

The consultation states:

“Indeed, holding such assets places trustees in an influential position to steward firms towards lower-carbon business practise, which is why Government advocated collaboration with business, as opposed to divestment, as the most effective means of holding companies to account on climate change. Government believes that selling assets to less engaged shareholders is likely to be counterproductive from a climate-risk mitigation perspective.”

We feel these comments are somewhat out of step with the market and the development of Paris-aligned portfolios. Whilst ShareAction are advocates of engagement and have a number of campaigns which champion it, we feel that both divestment and engagement are needed in tandem in order to both protect from climate risks and to help bring about the low-carbon transition. Furthermore, the IIGCC sets out “Selective divestment: Based on climate-related financial risk; engagement escalation; non-permissible activity thresholds” as one form of implementation of net zero, acknowledging it as a considered approach.[6]

In general, we are very supportive of these consultation proposals. DWP has shown real leadership as the first UK Government department to require entities within its remit to report publicly on how they are managing the financial risks associated with climate change. We expect other Government departments to follow DWP’s example within the shortest realistic time frame and introduce legislation that will require all other market participants to report against TCFD.

We are also reassured to see that DWP soon plans to consult on requiring pension funds to report on how they are aligning their portfolios with the Paris Agreement. As mentioned in question 7, the positioning of pension funds in relation to the needed transition to a low-carbon economy is a critical point for the Government to address.

Yours sincerely,

Rachel Haworth,
UK Policy Manager, ShareAction

[6] IIGCC (August 2020). *Net Zero Investment Framework for Consultation*, p. 9. Available online at: https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmdl=3602&masterkey=5f270ef146677 [accessed 7 October 2020].