Investment Consultants Sustainability Working Group (ICSWG)

Collective response to the consultation on policy response and regulations from the Department for Work and Pensions (DWP), "Taking action on climate risk: improving governance and reporting by occupational pension schemes" published 27 January 2021

One of our objectives is to engage with the DWP and the broader investment industry to act as a force for a better understanding and appreciation of the climate risks and opportunities we face, and to act as a catalyst for positive change which will result in better outcomes. The proposed regulations and statutory guidance are directly relevant to the ICSWG member firms, their respective stakeholders and ultimate beneficiaries.

About the ICSWG

The ICSWG was established by its member investment consulting firms in the UK in order to engage with relevant stakeholders and give added power to asset owners and their ultimate beneficiaries in order to seek better sustainable investment outcomes and practices across the industry. As investment consultants, we each work closely with boards of trustees, asset managers, product providers, platform providers, regulators, non-governmental organisations and others. There are presently seventeen firms represented in the ICSWG. Member firms are likely to be responding in their direct capacities as well as part of this collective Group.

Our views on the Consultation

The industry-wide, inclusive and collaborative process followed by the DWP in processing feedback from the August 2020 consultation is welcomed. The manner in which your engagement process is being carried out enhances the transparency of the discussion and thinking behind the conclusions of the DWP. It is clear that the DWP is striving to get the governance and disclosure discipline right from the start and to allow for the development of robust data and suitable expertise over time. We support this.

We also support the addition of requirements for adequate trustee knowledge and understanding to identify, assess and manage climate change risks and opportunities. It is vital that all participants in the market understand, assess and manage climate change and that is why the ICSWG published a guide for trustees on assessing the climate competency of their investment consultants in January 2021.

Overall, we believe the proposed regulations and statutory guidance provide a pragmatic approach for pension schemes to implement the recommendations of the Task Force on Climate-related

Financial Disclosures (TCFD). In our view these proposals will help guide an orderly transition in line with the UK government's Net Zero pledge. This is in line with a key objective of the ICSWG and therefore we are strongly supportive of the proposals.

The proposed regulations and statutory guidance address the key concerns raised by many of our stakeholders in response to the August 2020 consultation in a practical manner. Notably:

• allowing all schemes 7 months after the first relevant scheme year end to publish their first TCFD report
• moving to a triennial frequency for repeating scenario analysis (subject to annual review)
• the change from quarterly to annual calculation of metrics; and
• provision for annual monitoring and review of targets instead of quarterly.

These proposed changes are welcomed by the ICSWG.

In particular, we are pleased to note the response to specific items we, and possibly others, raised in our previous correspondence:

1) Availability and quality of data

In our response to the August 2020 Consultation we expressed our concern that collection of robust data for metrics will be challenging until underlying issuers are required to report their data on GHG emissions and other climate-related issues and there is consistency in that reporting among issuers. In this regard the DWP's proposal to reduce the mandatory calculation of metrics and monitoring of targets from a quarterly basis to an annual basis is welcomed.

Allowing trustees to implement their climate-related monitoring and disclosures "as far as they are able to" should, with the expectation of seeing progress over time, lead to enhanced compliance and a better standard of output.

We also note the plan by the FCA to consult on TCFD-aligned rules for asset managers in the first half of 2021 with final rules to be published by the end of 2021 to be enforced in 2022. This improved flow of data will enhance the ability of trustees in their pursuit of effective climate risk governance.

The announcement that the UK Government intends making TCFD-aligned disclosures mandatory across the UK economy by 2025, with a significant portion of mandatory requirements in place by 2023, will go a long way to enhancing the quality and usefulness of climate reporting information.

2) Proposed timing for publication of the first reports for some of the larger schemes

The decision to simplify the requirements to allow all schemes, both during the phasing in, and on an ongoing basis, seven calendar months from the scheme year end date in which to prepare and publish their TCFD report is welcomed.

3) Impact assessment – regulatory burden associated with the implementation

We support the easements to the August 2020 Consultation – reducing mandated frequency of scenario analysis and calculation of metrics – and believe the regulatory burden to be reasonable and proportionate given the wider benefits of the regulations. The decision to adopt a proportionate approach and allow for trustees to adopt reasonable steps, “as far as they are able”, taking costs and time likely to be incurred into account, should also lead to better outcomes.

We also welcome the commitment to review in 2023, and consult more widely again in 2024, before deciding whether to extend the regime to schemes with < £1bn in assets, taking account of the quality of climate risk governance and associated disclosures carried out to date, and the current and future costs of compliance.

Availability of suitable investment products

A concern that we would suggest is monitored is the availability and suitability of investment solutions (particularly pooled investment funds). Whilst pension schemes may set targets for decarbonisation and/or allocation to climate solutions, they may not be able to achieve those if the products are not available to fulfil their objectives.

Conclusion

In conclusion, the ICSWG is supportive of the proposed climate regulations and statutory guidance for large pension schemes. The members of the ICSWG are well-positioned to engage with asset managers around their incorporation of the TCFD standards and development of suitable products, whilst also helping pension schemes’ trustees establish the necessary governance and reporting structures, all leading to better investment outcomes.

We reiterate from our earlier response that we strongly support an orderly transition in line with the UK government’s Net Zero pledge and view the proposals in this consultation as part of the overall strategy to make that happen. As such, the ICSWG wishes to state its full support to the DWP in their objectives. The ICSWG views these proposals as an opportunity to help ensure an alignment between key players in the industry, and prompt further positive action to the benefit of ultimate beneficiaries. We look forward to further engagement and collaboration with the DWP in striving for a successful implementation of the TCFD guidelines.

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