



Department
for Work &
Pensions

Climate and investment reporting: setting expectations and empowering savers

Tom Rhodes, Mel Jarman

Climate Change & Responsible Investment Team



Chapter 1: Measuring and reporting Paris alignment



Summary of our proposals

A 4th climate metric

- Amend the **Climate Change Governance and Reporting Regulations 2021** to require trustees to measure, as far as they are able, and then report a portfolio alignment metric
- The metric would give the alignment of the scheme's assets with the climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.

Extending the range of additional metrics

- Update the existing Statutory Guidance - ***Governance and reporting of climate change risk: guidance for trustees of occupational schemes*** - to add the 'Additional Climate Change Metrics' and remove portfolio alignment
- These additional metrics are taken from the TCFD's updated 'Metrics, Targets, and Transition Planning' document.

Scope and Timing

- Applies to all trustees who are subject to the Climate Change Governance and Reporting Regulations 2021.
- Occupational schemes with £1bn+ assets and Authorised Master Trusts – governance duties from Oct 2022
- No phased roll-out
- Falling out of scope the same as with existing metric requirements

Disclosure and Penalties

- The metric would be reported as part of the scheme's TCFD report - published on a freely accessible public website.
- Paris alignment measuring and reporting would be subject to the compliance regime set out in the Climate Change Governance and Reporting Regulations and not to any separate enforcement provisions.



Policy rationale: Why now?

- Signalled intention in 2020
- See this as final part of our TCFD package
- Net zero targets need to be assessed



Policy rationale: 1.5° C instead of “well below 2° C”

“We propose requiring schemes to calculate and report a metric setting out the extent to which their investments are with a goal of pursuing efforts to limit the global average temperature increase to 1.5° C above pre-industrial levels.”

- Recognises, global shift in focus to net zero emissions by 2050
- Scientific consensus around the impact of climate change, as set out in the IPCC’s report.

Policy Rationale: methodological flexibility

- Binary, Benchmark Divergence, Implied Temperature Rise (ITR)
- Aligning with TCFD - 'Guidance on Metrics, Targets and Transition plans (2021)'
- Approach will be under review.



Do we have the data?

- Full data coverage not a reality, but not a reason to delay.
- Tools available, many open source
- FCA's proposal to update their rules for fund managers
- 'As far as they are able'
- Statutory Guidance – setting clear expectations



Benefits to pension schemes and their savers

Schemes:

- measuring progress against net zero commitments
- assessing transition risk - 'what gets measured gets managed'
- inform stewardship and voting activities

Savers:

- helping to delivering long term value
- potential to be impactful communication tool
- creating a new system of accountability



Chapter 2: Stewardship and the implementation report

Background to draft stewardship guidance

Stewardship-related duties

- Trustees must understand and consider **ESG factors and stewardship approaches**
- Trustees of schemes have to state policies via the **Statement of Investment Principles**
- Trustees have to report via an annual published **Implementation Statement**

Why produce the draft guidance?

- Give **clarity**
- Support **effective stewardship**

Guidance objectives

1

Improve the quality of SIP policies

2

Develop best practice for IS reporting

3

Allow schemes to use disclosures from other frameworks

4

Improve consistency across schemes' reporting and practice

Other stewardship initiatives

- **Secretariat to the scheme-led Occupational Pension Schemes Council**
 - recommended by 2020 Asset Management Taskforce and launched in July 2021
 - drives stronger overall voice of trustees within the market, especially with service providers
 - forum for sharing experience, best practice, and research on effective stewardship
- **Taskforce on Pension Scheme Voting Implementation**
 - convened by MfPFI in 2020
 - published report and recommendations for Government, regulators, and industry
 - DWP has nine recommendations: the consultation and guidance take forward six of these

Responding to the consultation

- <https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers>
- **The consultation runs until 6 January 2022**
- **Email:
pensions.governance@dwp.gov.uk**

Climate and investment reporting: setting expectations and empowering savers

Consultation on policy, regulations and guidance

October 2021