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

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Response from the Pensions Management Institute to DWP consultation: 'Taking action on climate risk: improving governance and reporting by occupational pension schemes'

Introduction

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 6,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.

The PMI welcomes this consultation and Government efforts to tackle climate change. The climate challenges facing our planet pose an existential threat and it is only right that institutional investors, including pension funds, are at the forefront of building a more climate-friendly and sustainable future.

Given the nature of a trustee's fiduciary duty we think that it is right that the Government does not try to require trustees to manage assets in a particular way and we welcome the focus on transparency and reporting, as this is crucial to achieving good returns for members over the short, medium and longer terms. Strong governance, including a focus on investment performance over time should lead trustees to making the right decisions regarding their investment portfolio that also have strong S and E credentials. In our view, the days where trustees and pension funds can choose not to engage on ESG issues is no longer tenable as investing sustainably and in the members' interests have never been more aligned.

While we welcome the overarching aim, and support the Government's objectives, we do have some concerns on implementation.

Firstly, with reference to the Scope and Timing set out in Chapter 2, while we understand the imperative to 'get on' with tackling the challenges posed by climate change, we believe that schemes will struggle to deliver the extensive reporting that they want in line with the DWP's proposed timelines. This is exacerbated by the fact that the FCA is due to consult on similar climate reporting requirements for asset managers and insurers, information on which trustees will be reliant to deliver strong and robust reporting. Furthermore, any new requirement needs time to bed down and an overly ambitious timetable may be counter-productive in delivering the step change in transparency and behaviour that we are looking to achieve. This is implicitly recognised in the draft regulations where trustees are required to deliver the required reporting and transparency 'as far as they are able'.

Given the importance of these measures, the PMI does not propose that the Government should unduly delay implementation of the new requirements, and we are not advocating that. However, given the infancy of reporting in this space, the need for the FCA to consult and make rules covering insurers and asset managers, and the short time frame for delivery we firmly believe that **the DWP should make allowance for the first set of reporting to be on a trial basis**, so learnings can be identified and improvements made. This will ensure schemes are developing their reporting requirements but also recognises that it will take time to get the reporting to the standard that trustees and pension managers want, without fear that they will be subject to regulatory action or fines. We would want to avoid situations where trustees are inadvertently failing to comply with the new requirements owing to the absence of sufficiently detailed regulations, guidance and data. By implementing a trial period, which we suggest lasts for a year, it is much more likely all schemes with assets in excess of £1bn will be able to report satisfactorily in line with regulators' and members' expectations from then on. This would also have the benefit of allowing trustees time to acquire and build on the requisite knowledge and understanding of climate change risks and opportunities as envisaged in Chapter 3.

Secondly, it is critically important that any regulations issued by the FCA are appropriately consistent with legislation in order to ensure that an effective disclosure regime is created. While we welcome a flexible approach, it would be desirable if there were a more concise and consistent list of options when it comes to the types of disclosures of climate change metrics. This would allow industry participants, like providers and asset managers, to work on the same set of expectations regarding disclosing data to clients. Otherwise, a situation could arise where each individual scheme has different requirements. The industry can only service this on an automated basis with minimal bespoking. We would ask that the DWP, in conjunction with the FCA, provides a clear framework of acceptable metrics for trustees and providers to work to.