

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**

**CLIMATE AND INVESTMENT REPORTING: SETTING  
EXPECTATIONS AND EMPOWERING SAVERS –  
CONSULTATION ON POLICY, REGULATIONS AND  
GUIDANCE**

**JANUARY 2022**



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## EXECUTIVE SUMMARY

- ▶ The PLSA welcomes the publication of this consultation on further metrics for TCFD reports, as well new guidance on Statements of Investment Principles and Implementation Statements. We share the Department's view that pension schemes need to fully consider the risks posed by a climate emergency, and recognise the largely proportionate and considered policies to date.
- ▶ We welcome the proposals set out in the Consultation Paper on the addition of a new forward looking Paris-Alignment metric to mandatory TCFD reports. In particular, we welcome the decision to allow trustees to select their own methodology.
- ▶ However, we believe that the proposed timing does not enable trustees to appropriately prepare for an additional metric, given the governance and education requirements that comes with the TCFD framework, and we do not agree that trustees could reasonably have been preparing for this in advance of the proposals being published. We would ask the DWP to consider postponing the metric as a statutory requirement for one year.
- ▶ The PLSA membership has expressed concerns to us about a Vote Reporting Template becoming a formal requirement of Implementation Statements, and the potential inflexibility of it becoming owned by a Government department. The PLSA would prefer that a template was owned by the industry, but with Government/Regulator endorsement.
- ▶ Though we welcome the discussion of an Engagement Template, we note that the document put in place by the Investment Consultations Sustainability Working Group currently has very low awareness within the sector. We believe that there is not enough consensus about the practicality of capturing engagement within a template at this time to make this a statutory requirement, but note that it may be of use to many schemes.
- ▶ We welcome a great deal of the proposed non statutory guidance on SIPs, which may be helpful for trustees in understanding how to improve their statements. In particular, we welcome the additional clarification of where trustees are already providing sufficient information, and do not need to expand further.
- ▶ However, we are concerned that the format of the guidance, with statutory and non statutory guidance set out alongside each other, is potentially misleading. We are especially concerned that some of the sections of the non statutory guidance appears to set out regulatory requirements, whereas some of the statutory guidance seems to be setting out 'good practice'. We are also concerned that some of the new statutory requirements are worded in a way that is likely to leave trustees unclear as to what the expectations are.
- ▶ We welcome the new sections setting out how voluntary Stewardship Code disclosures might also be used.
- ▶ Finally, we note that the new draft guidance on the reporting of Significant Votes is a departure from existing requirements. We hope that the new expectations will be clearly communicated and any practical implications considered.

## **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.

## QUESTIONS

### CHAPTER 1: MEASURING AND REPORTING PARIS ALIGNMENT

*Q1. We propose to amend the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to require trustees of schemes in scope to measure and report their scheme's Paris alignment by adding a requirement for them to select and calculate a portfolio alignment metric and to report on that metric in their TCFD report.*

*Do you agree with this policy proposal?*

1. The PLSA agrees that requiring an additional forward looking portfolio alignment metric in mandatory TCFD reports is a reasonable step. In particular, we welcome the DWP's decision to leave the methodology open so as to enable trustees to select the one that best meets their needs. As you will be aware, there were many initial concerns within the pension sector that the Financial Stability Board's consultation in 2021 would result in new guidance requiring the inclusion of an implied temperate increase metric. The PLSA noted our concerns that this presented a complex matter in an overly simplistic manner, and could potentially incentivise trustees to divest from certain assets, rather than pursue an engagement strategy. As such, we welcome the DWP's conclusions that there is not yet enough agreement over a methodology to make such a recommendation at this time, and so support this decision.
2. The PLSA carried out a short survey of our membership in advance of preparing this response, and found that just over half were in agreement that this was an appropriate metric to add to the existing required metrics for statutory TCFD reports. However, we are aware that many remain concerned about the burden and cost of the growing disclosure requirements for, in particular, smaller schemes. We hope that, when the DWP comes to review the suitability of the TCFD framework in 2023, consideration will be given as to whether the current guidance and requirements may need to be adjusted to ensure they are proportionate to the circumstances of smaller schemes.

*Q2. We propose that:*

*(a) trustees who are subject to the requirements in Part 1 of the Schedule to the Climate Change Governance and Reporting Regulations on or after 1 October 2022 will be required to select, calculate and report on a portfolio-alignment metric and to publish the findings in their TCFD report within 7 months of the relevant scheme year end date in the same way as they are for other metrics.*

*Do you agree with these policy proposals?*

3. While the PLSA agrees with the principle of the additional metric, we are concerned with the proposed timings for implementation of this requirement. As the Consultation Paper

(CP) sets out, these proposals would require that many implement this before they have been through one cycle of the existing rules.

4. The CP states that schemes “should already be putting the necessary climate risk governance frameworks in place”. In our survey of members – which covered both schemes that fall into the governance requirements already, and those that do not – we found that the vast majority (81%) do not calculate and report on this metric currently. A significant number appear to be in the process of reviewing which metrics they intend to use, and we note that the proposals being consulted on would effectively introduce a requirement for them to review this (CP Paragraph 55), if and when the new rule comes into force.
5. Feedback from members has suggested that, for those who are using the TCFD framework as a governance framework, consideration needs to be given to the impact on the scheme of new requirements. One scheme told us:  
*“We believe changing the requirements for certain climate metrics at this late stage is not ideal. Schemes such as ours have already gone through a large training and governance workload to decide on the existing set of metrics. This is a case of moving the goalposts before the game has started”.*
6. Though, as the CP notes, indication was given in August 2020 that a Paris alignment metric would likely become a requirement at some point, we do not agree that this should be considered sufficient notice for trustees to prepare. Indeed, as is summarised in the CP, the debate about what would be the most appropriate methodology for such a metric would have left trustees unclear as to how the DWP planned to proceed until this CP was published in October 2021. We therefore would not agree that trustees could reasonably have been preparing for this sooner in anticipation of it becoming a statutory requirement.
7. We asked members whether they were concerned about how achievable it was for them to report on this and, though responses were roughly divided, it was clear that most who were concerned about the timeframes felt more confident about meeting the new requirement with more time to prepare – around a third felt another year would make it more achievable.
8. We would therefore suggest that the new metric is postponed by one year. While it is probable that a large number would choose to report on this additional metric when they come into the scope of the regulations on 1 October 2022, for those who felt it presented a challenge, this will give them more time to prepare.

*Q3. We propose to incorporate the requirements to measure and report a portfolio-alignment metric into the existing Climate Change Governance and Reporting Regulations so that the requirements are subject to the same disclosure and enforcement provisions as the other metrics requirements.*

*Do you agree with this policy proposal?*

9. We would agree with this proposal and have previously welcomed the framework that has been put in place around enforcement of the regulations.
10. Though we appreciate this a matter for TPR, rather than the regulations themselves, we would reiterate comments we have made previously about the need for a ‘light touch’ enforcement in the initial years of the regulations being in force. In most cases this represents a substantial new undertaking for trustees, and it remains the case that access to the necessary data remains challenging (with mandatory TCFD disclosure not yet in place for much of the rest of the investment chain). If this new metric is enforced according to the proposed timeframe, there is an even stronger case for pension schemes to be given time to adjust to it, in line with the ‘as far as they are able’ provisions within the regulations.

*Q4. (a) Do you have any comments on the draft amendments to the Regulations?*

*(b) Do you have any comments on the draft amendments to the statutory guidance?*

11. We have nothing further to add in relation to the draft regulations or guidance, other than the points raised above.

*Q5. Do you have any comments on the new regulatory burdens to business and benefits of requiring schemes to measure and report their Paris alignment?*

12. Above we have set out what we would consider to be feedback on the regulatory burden. To reiterate:
  - ▶ Overall, we agree that this metric is a proportionate response and (is on course to being) a reasonable expectation of pension schemes.
  - ▶ However, we believe that the proposed timing will cause an unnecessary burden that, given the delay in the rest of the investment chain falling into scope of climate disclosure requirements, will make no material difference to our understanding of the climate risk posed. We also believe there is a high probability that those schemes that feel able to will begin to report this metric from 1 October 2022.
  - ▶ We would urge a proportionate application of any enforcement of this in the initial years, for the reasons set out above.
  - ▶ Finally, though we appreciate that schemes under £1billion AUM do not fall within the scope of these proposals, we would imagine any future review of that situation would need to consider whether these proposals are proportionate to the circumstances of those schemes. We note feedback from some of our larger scheme members that the financial cost of obtaining this data is not insignificant, and not necessarily within the terms of existing arrangements.

*Q6. Do you have*

*(a) any comments on the impact of our proposals on protected groups and/or how any negative effects may be mitigated?*

*(b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats?*

*(c) any other comments about any of our proposals?*

22. We have nothing further to add.

## **CHAPTER 2: STEWARDSHIP AND THE IMPLEMENTATION STATEMENT**

*Q7. Should DWP include a vote reporting template in its implementation statement guidance which trustees are expected to use? If so, should such a template be based on the PLSA's vote reporting template? What changes, if any, would be needed to the PLSA template if it were to be adopted?*

23. The PLSA launched a Vote Reporting Template, to assist trustees in meeting the requirements of Implementation Statements, in 2020. This was done in conjunction with the DWP and TPR, to ensure that the template and associated guidance met expectations on the application of the rules.

24. At the beginning of 2021 we reviewed the template, having received feedback from both trustees and asset managers, made some minor alterations to the template itself, and added some additional guidance, to address frequently asked questions we were receiving. Again, this was done after discussion with DWP and TPR.

25. To summarise some of the areas of initial concern:

- ▶ Firstly, it was clear that many managers were taken by surprise by the number of requests from schemes during the first reporting cycle, which caused some initial disruption.
- ▶ The most frequent enquiry we received was in relation to the definition of 'significant votes' and, in particular, who was to determine which votes this applied to. The regulations – as they currently are – does not make this clear. Following discussion with DWP and TPR, the PLSA offered guidance that asset managers could determine this, but that trustees should monitor it.
- ▶ There were questions around which assets the template applied to. Guidance was subsequently issued to set this out.
- ▶ There were also a number of questions about the time frames that the VRT would apply over.
- ▶ In general, we also received a number of questions about what should happen in specific examples where voting patterns did not neatly fit into the template. For example, where abstentions had happened in order to achieve a specific outcome.



26. In terms of learning from this, we firstly note that the new statutory guidance on Implementation Statements seeks to address many of these questions. However, in relation to significant votes, the new guidance would effectively represent a rule change from the instructions previously given. We have expanded on that further below (Paragraphs 44 - 46).
27. The PLSA has sought to encourage managers to use the template flexibly, as it became clear that a template – though a necessary step in order for trustees to meet the requirements on them – needs to provide flexibility in order to reflect the wide range of scenarios faced in the execution of voting rights. In response to this the PLSA has added more fields to enable explanations of instances that don't fit the template, both to reflect the reality of engagement, but also because we believe this is in keeping with the view that trustees should have the opportunity to engage with their investments beyond receiving voting information.
28. We've set out some of these challenges both as we hope it will be helpful learning in determining next steps, but also to highlight the challenges of an inflexible template. This is particularly the case if, as is suggested in the CP, the template itself becomes a statutory requirement.
29. When we asked members what their preferred outcome would be, most told us that they would rather the template was voluntary, but had DWP endorsement (67%), with almost half concerned that it could become a regulatory requirement to use this template (48%). The main reasons for this were the lack of flexibility, the challenges in altering it to meet evolving understanding of engagement, and also the potential administrative burden on schemes.
30. In addition, we would also highlight that the template and associated guidance would need to be altered to reflect the proposed changes as set out in the CP – mostly notably in relation to the altered definition of significant votes, and also to reflect additional reporting proposed. Though each of those should rightly be considered based individual merit, we would perhaps encourage consideration as what the transition might be, how the new requirements will become embedded. After a year in operation, we have found that the number of questions relating to the VRT have reduced, and indeed it is now one of the most downloaded items from our website. It's clear that any new requirements could not simply be considered in relation to pension schemes alone, but would also need to take into consideration the wider investment chain in which they operate. At the moment the CP does not really reflect the extent to which the new guidance would effectively represent a rule change in many areas, rather than simply being 'additional' guidance.

31. Finally, we would just note the lack of clarity with regards to the phrase ‘expected to use’ in the CP, which leaves us unclear as to the extent to which the CP is suggesting this would become a statutory obligation. As partners in this project, the PLSA remains committed to hosting and maintaining a template to enable trustees to meet their regulatory requirement, and would welcome further discussions about this with the DWP.

*What are your views on the adoption of an engagement reporting template? Should it be separate from any vote reporting template or integrated with it, so that – in relation to equities – both voting and engagement activities are described for the same set of assets?*

32. The UK Investment Consultants Sustainability Working Group has been proactive in engaging us on the Engagement Template produced, and we welcome their efforts to assist trustees in the meeting their requirements, and also their willingness to accommodate feedback.
33. The template was only recently launched publicly, and our communication with our membership suggests generally low awareness or use of it currently (the majority of those who replied to our survey were unaware of it). We’ve also heard concerns that engagement may not be best captured in a template.
34. Given this, and given the large number of disclosure requirement trustees are now subject to, we would be reluctant to support any new measures that would make this a requirement of Implementation Statements at this time. However, like the VRT, we would welcome the opportunity to continue this discussion.

*Q8. Do you have any comments on our cross-cutting proposals for the draft Guidance on Statements of Investment Principles and Implementation Statements, in particular that:*

*(a) they are written for members?*

*(b) these are trustees’ statements, not their consultants’?*

*(c) Implementation Statements should set out how the approach taken was in savers’ interests?*

*(d) trustees should be able to include material from voluntary disclosures, such as Stewardship Code reporting, as long as they meet the requirements in the Regulations?*

35. Firstly, we welcome a lot of the additional guidance that is provided here, particularly in relation to SIPs, which we believe will be helpful to trustees in meeting the requirements. In particular, we welcome the efforts to make clear where trustees do not need to elaborate, which will be helpful in ensuring trustees can prioritise which areas they need to give more focus to.

36. In general, however, we are concerned that the guidance includes both statutory and non statutory guidance interwoven within the same document. Ideally we would like the two to be separated more clearly, so trustees are more easily able to track what is and is not a statutory requirement.
37. We are also concerned about some of the wording of the guidance in relation to what is a statutory requirement.
38. For example, in Paragraphs 98-100 (*Arrangements with asset managers – content in the SIP*) – a section marked as non statutory guidance - it sets out requirements that trustees “must” include in their SIP. Indeed, throughout the document, sections that are marked as non statutory refer to requirements set out in existing legislation, or in language that suggests it is a requirement. Though we appreciate it is likely that this is to remind trustees of existing requirements, we would question the usefulness of setting out ‘non statutory’ guidance that does not attempt to differentiate between regulatory requirements and ‘good practice’.
39. Similarly, we are concerned that the language used in many sections that are statutory is equally unclear. For example, in Paragraph 47 (*Engagement*), it states that “*trustees should consider including...*”. Given that this effectively would introduce a new statutory requirement, we do not agree that such wording is sufficient to be clear as to what trustees have to do in order to remain compliant.
40. The following Paragraph (48), advises that trustees “*can include other information in the IS about engagement, particularly information that is useful for members*”. Again, this sounds like it is recommending good practice, but is in a section marked as statutory guidance.
41. Overall, we hope that the DWP will consider whether this structure is sufficient to advise trustees of existing legislation, new statutory guidance, and new non statutory guidance. At the moment the CP is not very clear on what is effectively a new reporting requirement, and we do not feel that is the best means of engagement on these issues.
42. In terms of the language used in relation to the statutory guidance, we are concerned that some of the requirements are not sufficiently clear. For example, Paragraph 28, which states that “*DWP expects trustees to either set their own voting policy or if they have not set their own policy, acknowledge responsibility for the voting policies that asset managers implement on their behalf*”, is listed as statutory and is not an existing requirement. We are concerned at the lack of detail of what this actually means, and would urge the DWP to issue more information on what this means in practice as part of this consultation process

43. Finally, we very much welcome the addition of guidance on how the Stewardship Code requirements can be used to fulfil SIP and Implementation Statement requirements.

*Q9. (a) Do you have any comments on our proposed Guidance on stewardship policies?*

*(b) Do you have any comments on our proposed Guidance on significant votes?*

44. At the moment the legislation is not clear on who is expected to determine significant votes. In the initial months after the PLSA launched a Vote Reporting Template, this was an area we received a large number of enquiries about, and which we engaged on the DWP on. We subsequently issued guidance that confirmed that trustees can accept asset manager decisions on significant votes, as long as they are offered a clear and constituent justification for their inclusion.

45. The draft guidance is clearly an advance on that position, in that it asks trustees to justify why they have selected significant votes. While we recognise the need for trustees to be setting out clear expectations – and indeed have actively participated in a number of projects to better enable their ability to do so - we also hope that there will be consideration of the impact of this operationally. As set out above, we found that the new requirements that came in in October 2020 took some time to embed, and so would emphasise the need to communicate the changed expectations clearly, and ensure that all parties fully aware of the expectations on them. We note that this has not been clearly set out in the CP.

46. In addition, there are of course challenges associated with being primarily invested in pooled vehicles in relation to voting. There is clearly a great deal of activity happening to find solutions to this at the moment, and the PLSA welcomes solutions that will enable trustees to have more influence on voting being undertaken on their behalf. However, we would like the specific guidance on significant votes to reflect the challenges.

*Q10. Do you have any comments on our proposed Statutory Guidance on the information to be included in the Implementation Statement with regard the requirements under the Disclosure Regulations, Schedule 3, paragraph 30(f)(i)-(iv)?*

47. We have no further comments on this section.

*Q11. Do you have any comments on our proposed Statutory Guidance on meeting the Implementation Statement requirements in the Disclosure Regulations relating to choosing investments?*

48. We have nothing further to add on this section.

*Q12. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to investment strategy?*

49. We have no further comments on this section.

*Q13. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to financially material considerations (including ESG and climate change)?*

50. We have nothing further to add.

*Q14. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to non-financial matters?*

51. We have no further comments on this section.

*Q15. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to arrangements with asset managers?*

52. This section includes statements which, as set out above, could potentially leave trustees unclear as to what is and is not a statutory requirement. We note, in particular, the CP states that trustees “may” also cover any performance fees paid, within a section marked as statutory guidance. A separate DWP consultation underway at the moment - *Consultation on enabling investment in productive finance* – is seeking to remove performance fees from the DC charge cap, and is asking for views on whether the disclosure of performance fees should therefore become a requirement. We hope that there will be co-ordination across the various policies to ensure a consistent position on the disclosure of performance fees.

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