

## Consultation on draft guidance on governance and reporting of climate-related risks and opportunities

### 1. Response

- 1.1 This is the **Pensions Policy Institute's (PPI)** submission to the Pensions Regulator's (TPR) consultation on *Draft guidance on governance and reporting of climate-related risks and opportunities*.
- 1.2 The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.
- 1.3 This submission does not address all of the specific questions in the consultation, neither does it seek to make policy recommendations. Rather, the response points to the research that the PPI has conducted on ESG investment, and climate change particularly, over the last year, where relevant to the questions of the consultation.
- 1.4 This submission is drawn from PPI's **Engaging with ESG** research series, which can be found on the PPI's website:

#### **Engaging with ESG: The story so far**

<https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-12-02-briefing-note-number-124-engaging-with-esg-the-story-so-far/>

#### **Engaging with ESG: Climate Change**

<https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-02-18-engaging-with-esg-climate-change/>

#### **Engaging with ESG: Environmental, Social and Governance Factors**

<https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-04-22-engaging-with-esg-environmental-social-and-governance-factors/>

## 2. Summary

2.1 The draft guidance sets out clearly who will be expected to comply with the new regulations and to what extent. The draft guidance and the examples included provide a practical starting point for schemes that may be unsure where to start when integrating climate-related risks into their investment strategy. Two key challenges raised by the consultation that were covered in detail in PPI's Engaging with ESG series are those associated with engaging with external managers and levels of trustee knowledge and understanding.

## 3. Engaging with external managers

3.1 Many pension schemes will have their research, assessments and engagement carried out on their behalf by external asset managers, although larger schemes are more likely to have in-house research capabilities. This means that trustees are often at least partly dependent on the quality of their asset manager's report when constructing their own. Some trustees report that the quality of asset manager reporting is variable and that some trustees may not be furnished with sufficient evidence of an asset manager's ESG process to comply with regulation.<sup>1</sup>

3.2 The guidance's detailed explanation of what is meant by 'as far as you are able', in relation to schemes' duties, is particularly useful given some trustees' concerns about how to carry out their duties in light of challenges in obtaining appropriate reporting from their external service providers and from the underlying companies in which they invest. Respondents to PPI's 2020 Engaging with ESG survey raised concerns that trustees would have to comply with TCFD requirements before Government and some corporate issuers are required to do so, which will make trustees' task more difficult to carry out to a reasonable standard. However, the guidance is clear in its recognition of these challenges.

3.3 The guidance emphasises the need to consider climate-related risks when appointing and reviewing external managers. More than a quarter (28%) of

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<sup>1</sup> PLSA (2020) *A changing climate: How pension funds can invest for the future*

schemes that responded to the Engaging with ESG survey said that the need for a platform, asset manager or other third party in implementing their strategy proved to be a barrier to constructing it exactly as they would have liked. Schemes may need to engage with and challenge their external managers more directly in order to drive forward innovation to ensure that offerings meet their needs.

#### **4. Trustee knowledge and understanding**

- 4.1 Changes in regulation, as well as the increasingly imminent risk presented by some ESG factors, especially climate change, have encouraged many trustees to improve their knowledge and understanding of these issues. However, climate change is a rapidly evolving area, and one which many trustee boards and their advisers don't necessarily have sufficient knowledge and experience to address without additional guidance and training. The draft guidance recognises this and outlines clear, practical steps that can be taken by trustee boards in order to improve their knowledge and understanding, such as the example on establishing oversight.
- 4.2 In order to establish a minimum level of knowledge and understanding among decision-makers, there may be a need for specific training offered by industry-bodies or even asset managers who are particularly engaged on climate change. Once established, these training offerings could be geared towards qualifications that require all trustees to have a minimum level of knowledge on these issues. While all trustees must ensure that they have appropriate knowledge and understanding to fulfil their duties, it is also important to recognise the time and resource constraints that may make it more challenging for some trustees to substantially improve their knowledge, especially in the short-term.

**For further information or if you have any additional questions please contact:**

**Lauren Wilkinson**  
**Senior Policy Researcher**  
**Pensions Policy Institute**  
[lauren@pensionspolicyinstitute.org.uk](mailto:lauren@pensionspolicyinstitute.org.uk)  
[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

## About the Pensions Policy Institute.

**We have been at the forefront of shaping evidence-based pensions policy for 20 years.**

The PPI, established in 2001, is a not-for-profit educational research organisation, with no shareholders to satisfy – so our efforts are focussed on quality output rather than profit margins. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. The PPI gives you the power to influence the cutting-edge of policy making. Each research report combines experience with independence to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our Independence sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

### **Our Vision:**

**Better informed policies and decisions that improve later life outcomes**

We believe that better information and understanding will help lead to a better policy framework and a better provision of retirement income for all.

### **Our Mission:**

**To promote informed, evidence-based policies and decisions for financial provision in later life through independent research and analysis**

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.