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Dear David,

Thank you for sharing with us DWP's consultation response to the August 2020 consultation '[Taking action on climate risk: improving governance and reporting by occupational pension schemes](#)'. We have put together some feedback on the consultation response and the draft statutory guidance, which we hope is of use.

DWP consultation response

In IIGCC's October 2020 letter to DWP on the initial consultation, we emphasised our support for UK government initiatives to encourage TCFD-aligned disclosures across the investment chain, including by UK pension funds. We were pleased to share your consultation response with our members, and broadly support the changes introduced in response to industry feedback, particularly in relation to the frequency with which trustees will be required to calculate metrics and measure targets. We also support the decision to undertake an interim review of the effectiveness of the regulations in H2 2023 rather than 2024, which will help to ensure that any barriers to compliance are addressed sooner than previously anticipated, and inform any decisions on whether to extend the scope of the requirements to a wider range of schemes.

Draft statutory guidance

We note that the draft statutory guidance allows pension funds to report 'as far as they are able' in many areas. IIGCC welcomes this flexibility, which acknowledges the persistence of data-related challenges, and clarifies that for instances where the cost of obtaining data is disproportionately high, trustees may make the decision to treat this data as unobtainable. However, as the availability of data across the investment chain increases over time, the cost of obtaining it will decrease. We note that the draft guidance suggests that a material increase in the availability of data may prompt trustees to undertake new scenario analysis in a year where it is not mandatory. DWP may wish to consider introducing a similar provision in relation to the availability of data more broadly, with the view that as costs become more proportionate, there will be less flexibility to treat data as unobtainable.

We remain cautious about encouraging the use of implied temperature rise (ITR) metrics as a tool for measuring portfolio alignment. We acknowledge that a portfolio alignment metric has been included as

a voluntary, rather than a recommended metric in the draft statutory guidance, and that such an approach is not limited to the use of an ITR metric. Nevertheless, we are concerned that trustees may opt to select an ITR metric rather than alternative metrics that may more faithfully represent the forward-looking alignment of a portfolio with the mitigation goals of the Paris Agreement. The link between ITR metrics and portfolio alignment metrics more broadly is further reinforced in Part IV of the Pensions Climate Risk Industry Group Guidance, where it is used as an explicit example of a portfolio alignment metric and included as an example of good and/or best practice when selecting metrics which are in scope of the proposed rules. As noted in our October 2020 correspondence with DWP, the work IIGCC has undertaken through the [Paris Aligned Investment Initiative](#) (and more specifically our [Net Zero Investment Framework](#)) highlighted the challenges in expressing the nuance of alignment credibility in a single temperature metric, and given the limitations of underlying data and existing methodologies, such an approach risks misleading the users of disclosures until these challenges are resolved. Instead, IIGCC would encourage the development of voluntary guidance for trustees to report on how they are aligning portfolios towards the goal of net zero emissions by 2050. Our preference to focus on alignment against net zero emissions rather than a temperature scenario is because net zero emissions by 2050 is a clearer and more specific goal.

IIGCC remains committed to supporting the future development of forward-looking alignment metrics for portfolios, and stands ready to engage with you on this issue, including through a response to any further consultation made by DWP on this area during 2021. We are publishing our updated Net Zero Investment Framework today, which sets out a number of criteria which can help trustees to define and implement a strategy for aligning their portfolios to the Paris Agreement, and more specifically for alignment with net zero emissions. We have welcomed DWP's support of our work under the Paris Aligned Investment Initiative and we would be pleased to have a follow up discussion about how the metrics and targets recommended could be incorporated into expectations for pension fund reporting.

We welcome the focus on scenario analysis within the draft statutory guidance, as well as the inclusion of potential approaches to identifying and assessing transition risks and physical risks. However, we would suggest that greater emphasis should be placed in the statutory guidance on how trustees can assess the physical impacts of climate change on their assets. This could take the form of voluntary, rather than mandatory guidance which trustees can choose to follow, and are encouraged to do so where possible. While approaches for assessing transition risk have matured in recent years, the assessment of physical climate risk has presented a challenge for investors, not least as a result of a lack of available tools and a lack of decision-useful data provided by investee companies. A number of publications and resources have made considerable headway in addressing this issue, including the recommended disclosures and metrics set out in the European Bank for Reconstruction and Development's [report on advancing TCFD guidance on physical climate risks and opportunities](#) (see pages 10-11 and pages 27-28). In addition, IIGCC has produced its own [guidance](#) to support asset owners understand how to understand and measure physical climate risk, as well as provide practical support for integrating these risks into the investment decision-making process. We believe that the inclusion of additional information and metrics on this area, to be considered on a voluntary basis, would help to reinforce the emphasis placed by the TCFD recommendations on reporting on the physical impacts of climate change, and complement the metrics that are already included in the statutory guidance, which primarily focus on emissions reductions.

Yours sincerely,

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