West Midlands Pension Fund

By email: pensions.governance@dwp.gov.uk

Dear Sir / Madam

DWP Climate Change Consultation: West Midlands Pension Fund Response

The West Midlands Pension Fund is part of the Local Government Pension Scheme (LGPS) and is one of the largest schemes in the country and as such takes it responsibilities in respect of climate change very seriously. Indeed, the Fund was recognised as one of those 'more engaged' when the Environmental Audit Committee reviewed the policies of the 25 largest pension schemes in the UK in 2018.

Whilst we do not believe that the current provisions of this consultation are aimed at LGPS and are excluded from the scope of mandatory climate governance and TCFD reporting, operating as it does under the LGPS regulations, we believe it appropriate to respond on policy matters relating to climate change. The Fund has always looked to adopt best practice in respect of its Responsible Investment practices and have taken an evidence-based approach to climate change for a number of years issuing its Climate Risk Management Framework and Strategy 2019-2023 last year. The Fund has undertaken TCFD reporting for the last four years and is strongly supportive of transparency in all reporting in Pension Funds.

We also recognise that the consultation on the mandatory climate governance and TCFD reporting are likely to be captured at a future date within the LGPS regulations and therefore believe it appropriate to comment at an early stage on such critical policy developments. Please see our comments below in response to the questions raised in the consultation.

Scope and Timing		
1	We propose that the following schemes should be in scope of the mandatory climate governance and TCFD reporting requirements set out in this consultation: (a) trust schemes with £1 billion or more in net assets (b) authorised master trusts (c) authorised schemes offering collective money purchase benefits Do you agree with our policy proposals?	We support the policy proposals. We recognise the evidenced based risks associated with climate change posing as they do material financial risks to the long-term financial sustainability of pension provision. Mandatory reporting will ensure greater levels of understanding of the financial risks and opportunities posed by Pension Scheme and provide for greater accountability of asset managers and owners

2	We propose that: (a) trustees of schemes with £5 billion or more in net assets on their first scheme year end date to fall on or after 1 June 2020 are subject to the climate governance requirements from 1 October 2021 and the trustees must publish a TCFD report within 7 months of the current scheme year end date or by 31 December 2022 if earlier (b) trustees of schemes with £1 billion or more in net assets on the first scheme year end date to fall on or after 1 June 2021 are subject to the climate governance requirements from 1 October 2022, and the trustees must publish a TCFD report within 7 months of the current scheme year end date, or by 31 December 2023 if earlier (c) trustees of master trust or collective money purchase schemes which are authorised on 1 October 2021 are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report in line within 7 months of the current scheme year end date, or by 31 December 2022 if earlier After 1 October 2021: (d) trustees of master trust or collective money purchase schemes which become authorised are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report within 7 months of the current scheme year end date (e) where schemes cease to require authorisation, the climate governance and TCFD-aligned reporting requirements fall away with immediate effect, unless they remain in scope via the asset threshold on the previous scheme year end date From 1 June 2022 onward: (f) trustees of schemes not already in scope of the requirements and with £1 billion or more in net assets on any subsequent scheme year end date: are subject to the climate governance requirements starting from one year after the scheme year end date on which the £1 billion asset threshold was met must publish a TCFD report within 7 months of the end of the scheme year from which the climate governance requirements apply (g) trustees of schemes in scope of the requirements whose net assets fall below £500m on any subsequent scheme year end date cease to be subject to the climate governance requirements with immediate effect (unless they are an authorised scheme) but	We support the policy proposals that there should be a phased approach to bringing in reporting starting with the largest schemes first. Whilst we fully support enhanced governance and reporting on climate change, we do recognise the additional work and resource requirements that this can take. Therefore, giving time to allow smaller schemes the opportunity to build knowledge and benefit from economies of scale as reporting and measurement become commoditised is beneficial.

	must still publish their TCFD report for the scheme year which has just ended within 7 months of the scheme year end date Do you agree with these policy proposals?	
3	Subject to government deciding to adopt any of the governance or reporting requirements proposed in this consultation, we propose to conduct a review in 2024 on whether to extend the measures to schemes with below £1 billion in net assets which are not authorised master trusts or an authorised scheme offering collective money purchase benefits, and if so how and on what timescale. This review would be informed by consideration of TCFD disclosures by occupational pension schemes to-date, their impact, and the availability and quality of both free and paid-for tools and services. We would propose also to review any regulations and statutory guidance which had been put in place to identify whether any of this needs to be strengthened or updated. Do you agree with these proposals?	We support the policy proposals to conduct a review in 2024. We agree that the regulations and statutory guidance should not be set in stone and adapted depending upon the response by investors during the next couple of years. We further recognise that reporting developments and availability of information from companies and asset managers is changing and it may be that the ability to make further enhancements or apply the guidance more widely could be enhanced over the next few years.
Climate Governance and TCFD		
4	We propose that regulations require trustees to: a) establish and maintain oversight of climate risks and opportunities b) establish and maintain processes by which trustees, on an ongoing basis, satisfy themselves that persons managing the scheme, are assessing and managing climate-related risks and opportunities We also propose that regulations require trustees to describe: c) the role of trustees in ensuring oversight of climate-related risks and opportunities d) the role of those managing the scheme in assessing and managing climate-related risks and opportunities, only insofar as this relates to the scheme itself and the process by which trustees satisfy themselves that this is being done We propose that statutory guidance will cover the matters in the box above.	We support the policy proposals. Trustees have responsibilities for all aspects of scheme governance, and this includes the financial risks and opportunities arising as a result of climate change.

	Do you agree with these proposals?	
5	We propose that regulations require trustees to identify and disclose the climate change risks and opportunities relevant to their scheme over the short, medium and long term, and to assess and describe their impact on their investment and funding strategy. We propose statutory guidance will cover the matters outlined in the box above. Do you agree with these proposals?	We support the policy proposals for greater disclosure and transparency in climate reporting, although recognise the limitations of current reporting. We welcome the support proposed in terms of definitions and examples to be included in the statutory guidance.
6	We propose that regulations require trustees to assess the resilience of their assets, liabilities and investment strategy and in the case of DB, funding strategy, as far as they are able, in at least two climate-related scenarios, one of which must be a 2°C or lower scenario and to disclose the results of this assessment We propose statutory guidance will cover the matters outlined in the box above. Do you agree with these proposals?	We support the policy proposals. We note that there are likely to be data gaps on the information available and indeed in assessing our own climate risk reporting, we have noted that there have been significant limitations on being able to report in a meaningful way on assets outside of listed equities.
7	We propose that regulations require trustees to: a) adopt and maintain processes for identification, assessment and management of climate-related risks b) Integrate the processes described in a) within the scheme's overall risk management We also propose the regulations require trustees to disclose: c) the processes outlined in part a) above We propose statutory guidance will cover the matters outlined in the box above. Do you agree with these proposals?	We support the policy proposals, however, would avoid being overly prescriptive. Data capture and identification remains very much in the development phase and this is likely to lead to some limitations in reporting.
8	We propose that regulations require trustees to: a) select at least one GHG emissions-based metric and at least one non-emissions-based metric to assess the scheme's assets against climate-related risks and opportunities and review the selection on an ongoing basis	We broadly support the policy proposals, however as noted above there remain considerable difficulties in data capture for all asset classes and appreciate the recognition that trustees will only be

	b) obtain the Scope 1, 2 and 3 GHG emissions of the portfolio, and other non-emissions-based data, as far as they are able c) calculate and disclose metrics (including at least one emissions-based metric and at least one non-emissions-related metric) used to quantify the effects of climate change on the scheme and assess climate-based risks and opportunities We also propose that regulations require trustees to disclose: d) why the emissions data that is estimated does not cover all asset classes, if this is the case We propose that trustees will not be required to use a specific measure to assess the effects of climate change on the scheme's portfolio. We propose statutory guidance will cover the matters outlined in the box above. Do you agree with these proposals?	required to calculate and disclose metrics 'as far as they are able'. Ability to capture scope 1 and 2 emissions should be reasonably within scope, the ability to capture scope 3 remains difficult at this stage. As above flexibility needs to be build-in and avoidance of an over prescriptive approach given the limitations of current measurement techniques and the scope of coverage.
9	We propose that regulations require trustees to: a) set at least one target to manage climate-related risks for one of the metrics trustees have chosen to calculate, and to disclose the target(s). b) calculate performance against the target(s) as far as trustees are able and disclose that performance We propose statutory guidance will cover the matters outlined in the box above. Do you agree with these proposals?	We support the policy of setting targets to achieve climate related goals and measuring progress against such goals on an annual basis. We believe that the proposal to measure quarterly is overly prescriptive at this stage given both the ability to capture data accurately but also the potential additional resourcing burdens that this places on schemes until such time as the ability to undertake measurement is more readily available.
Disclosing TCFD		
10	We propose that, for all schemes in scope: a) the trustees should be required to publish their TCFD report in full on a publicly available website where the report is accessible free of charge b) the trustees should be required to include in the Annual Report and Accounts a website link to the location where the most recent TCFD report may be accessed in full c) the trustees must notify all members to whom they must send the annual benefit statement of the	We agree with the outline proposals to make climate change reporting transparent and accessible. We would support inclusion of a minimum high level TCFD report in a Scheme's annual report and accounts with links to wider report as available.

	website address where they can locate the full TCFD report – this must be set out in the annual benefit statement d) the trustees should be required to report the location of their most recent published TCFD report to the Regulator by including the corresponding website address in their scheme return e) e) the trustees should also be required to report the location of their published Statement of Investment Principles ("SIP"), Implementation Statement and excerpts of the Chair's Statement by including the corresponding website address or addresses in their scheme return Do you agree with these proposals? Is there a better way to notify members of where to find this information? For example, for DB schemes, might the summary funding statement required by regulation 15 of the Disclosure Regulations be a more appropriate way to signpost members to this information?	Including a link in member annual benefit statements would also offer a solution to making the TCFD reporting to the scheme membership base. This would not prevent other mechanisms for reporting to members which can include more regular newsletters.
Chapter 5: Penalties and Impacts		
11	We propose that a) TPR will have the power to administer discretionary penalties for TCFD reports they deem to be inadequate in meeting the requirements in the regulations b) there will be no duty on TPR to issue a mandatory penalty, except in instances of total non-compliance where no TCFD report is published c) in all other respects, we propose to model the compliance measures on the existing penalty regime set out in regulations 26 to 33 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 d) failure to notify members via the Annual Benefit Statement or to include a link to the TCFD report from the Annual Report will be subject to the existing penalty regime set out in regulation 5 of the Disclosure Regulations Do you agree with this approach?	Whilst we agree that there should be penalties for non-disclosure, we believe that there needs to be a reasonable timeframe to enable schemes to adapt to the new reporting requirements.
12	Do you have any comments on the new regulatory burdens to business and benefits, and wider non-monetised impacts we have estimated and discussed in the draft impact assessment?	We have no further comments on this section.
13	Do you have: a) any comments on the impact of our proposals on protected groups and/or how any negative effects may be mitigated?	We have no further comments on this section.

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	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?	