



Investment Consultants Sustainability Working Group

Response to the open consultation by the Department for Work and Pensions on “Taking action on climate risk: improving governance and reporting by occupational pension schemes”

In response to the Department for Work and Pensions (“DWP”) seeking views on the proposals contained in their consultation “Taking action on climate risk: improving governance and reporting by occupational pension schemes”, the Investment Consultants Sustainability Working Group (hereinafter referred to as “ICSWG”), made up of firms representing a broad spectrum of the UK investment consulting industry, is strongly supportive of the governance and reporting proposals of the DWP and the Task Force on Climate-related Financial Disclosures (“TCFD”).

One of our objectives is to engage with the DWP and the broader investment industry to act as a force for a better understanding and appreciation of the climate risks and opportunities we face, and to act as a catalyst for positive change which will result in better outcomes. The proposed requirements are directly relevant to the ICSWG member firms, their respective stakeholders and ultimate beneficiaries.

About the ICSWG

The ICSWG was established by its member investment consulting firms in the UK in order to engage with relevant stakeholders and give added power to asset owners and their ultimate beneficiaries in order to seek better sustainable investment outcomes and practices across the industry. As investment consultants, we each work closely with boards of trustees, asset managers, product providers, platform providers, regulators, non-governmental organisations and others. There are presently sixteen firms represented in the ICSWG.

The investment industry as a force for positive change

The impact from climate related costs is growing exponentially with severe health, economic and societal implications. We recognise that climate change is a major systemic issue, that it poses material financial risks to investors (as well as presenting investment opportunities), and that the health and resilience of the financial system is vital for pension schemes to deliver good member outcomes.



We strongly support an orderly transition in line with the UK government's Net Zero pledge and view the proposals in this consultation as part of the overall strategy to make that happen. As such, the ICSWG wishes to state its full support to the DWP in their objectives. The ICSWG views these proposals as an opportunity to help ensure an alignment between key players in the industry, and prompt further positive action for the benefit of ultimate beneficiaries. We recognise the investment industry has an important part to play in the orderly transition to Net Zero.

One of the main objectives of the ICSWG is to seek to ensure that the investment industry, including trustees of pension schemes, is better equipped and informed about the climate-related risks and opportunities for companies and other assets in their portfolios. The governance process and TCFD aligned reporting proposed by the DWP – provided they are properly engaged with and not just treated as a tick-box compliance exercise – will help significantly in achieving this objective.

Further, we believe the members of the ICSWG are well-positioned to help ensure effective monitoring and engagement with asset managers around their incorporation of the TCFD standards. This, together with a deeper understanding by pension scheme trustees, should lead to better investment outcomes.

The ICSWG is keen to work closely with the DWP in developing the statutory guidance to help pre-empt and address practical issues the industry is likely to face in implementing the proposed disclosures. Through this constructive engagement with the DWP, it is hoped that a higher implementation success rate by pension schemes, and minimising of unintended consequences, could be achieved.

For now, we can see the following issues and look forward to engaging with the DWP further as we support the implementation of this vital step to tackle climate-related risks:

- Availability and quality of **data** that will be required. Collection of robust data for metrics will be difficult until underlying issuers are required to report the data on GHG emissions and other climate-related issues and there is consistency among issuers. Trustees will need to apply consistent pressure on asset managers to improve data provision, who in turn will need to pressure the issuers to provide accurate information.
- The proposed **timing** for publication of the first reports for some of the larger schemes, especially those with 30 September year-end, will be demanding and may prove to be a challenge. The ICSWG can help in the discussion on the feasibility of meeting the proposed timelines.
- **Costs** associated with the implementation of the proposals seem to be significantly understated in the impact assessment.
- Whilst pension schemes may set targets for decarbonisation and/or allocation to climate solutions, the availability and suitability of **investment solutions** (particularly pooled investment funds) that will be aligned with those targets is a possible concern.



Looking ahead

We see these proposals from the DWP as an opportunity to drive change for the better in the investment industry, resulting in improved outcomes for the ultimate beneficiaries. Our objective as representatives of a broad spectrum of the investment consulting industry in the UK is to engage with the DWP to develop the details in the draft statutory guidance in a manner that leads to the successful implementation of the proposals.

The Investment Consultants Sustainability Working Group members:

- Aon
- Barnett Waddingham
- bfinance
- Buck
- Cambridge Associates
- Cardano
- Hymans Robertson
- ISIO
- LCP
- Mercer
- MJ Hudson Allenbridge
- Momentum Investment Solutions & Consulting
- Redington
- River & Mercantile
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