



10<sup>th</sup> March 2021

By email: [pensions.governance@dwg.gov.uk](mailto:pensions.governance@dwg.gov.uk)

## Re: CDSB response to Taking action on climate risk: improving governance and reporting by occupational pension schemes

The Climate Disclosure Standards Board (CDSB) would like to thank the Department for Work & Pensions (DWP) for the opportunity to provide comments on its consultation on the draft regulations pertaining to taking on climate risk: improving governance and reporting by occupational schemes.

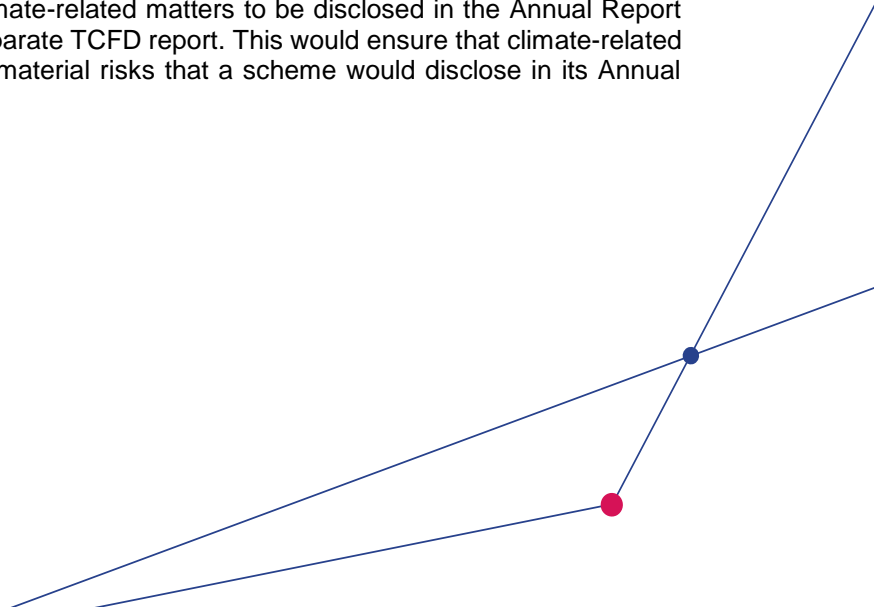
CDSB, an international consortium of business and environmental NGOs, was founded in 2007 in response to the absence of an internationally recognised mainstream reporting standard for climate-related issues, before expanding its scope in 2015 to encompass natural capital. CDSB is committed to advancing and aligning the global mainstream reporting model and equating financial capital with natural capital, understanding that both are essential for understanding corporate performance. It is, after all, the case that our economies, lives and well-being are reliant on nature and its many interconnecting systems. By offering the market a framework for reporting climate and environmental information with the same rigour as financial information, CDSB works to foster resilient capital markets and contribute to ensuring the sustainability of our economic, social, and environmental systems.

The [CDSB Framework](#) is used by large, listed companies globally, referenced in government guidance to reporting regulation in the UK Companies Act, the European Commission Guidelines on Non-Financial Reporting and stock exchange guidance globally. The CDSB Framework was also foundational to the Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). CDSB has been a key supporter of the implementation of the recommendations, through hosting and managing the [TCFD's Knowledge Hub](#), training of approximately 5000 professionals globally every year and offering the market guidance on meeting the recommendations effectively and efficiently.

However, it remains the case that companies are reporting to capital markets on climate-related issues and wider natural capital in varying degrees of quality and from different perspectives. The resulting inconsistencies and incomparability plague understanding and decision making, severely impeding the task at hand – efficiently directing financial capital to where it is needed to address the globally agreed Sustainable Development Goals and Paris accord with the urgency that they demand and thus ensuring financial stability.

We are strongly supportive of mandating TCFD-aligned disclosures as laid out in the Chancellor's announcement of the TCFD Roadmap in November 2020 and we welcome these proposals for the occupational pension sector, beginning with larger pension schemes. The CDSB was part of the Pensions Climate Risk Industry Group and supported the development of its guidance. However, we wish to stress the need for any material climate-related matters to be disclosed in the Annual Report and Accounts and not solely located in a separate TCFD report. This would ensure that climate-related matters are reported in line with any other material risks that a scheme would disclose in its Annual Report and Accounts.

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T: +44 (0) 203 818 3939  
[www.cdsb.net](http://www.cdsb.net)  
.....  
4th Floor, Plantation Place South  
60 Great Tower Street  
London EC3R 5AD



We have responded to those questions relevant to our organisation's mission and these can be found in full below. Please do not hesitate to contact me directly ([mardi.mcbrien@cdsb.net](mailto:mardi.mcbrien@cdsb.net)) or CDSB's Policy Director, Michael Zimonyi ([michael.zimonyi@cdsb.net](mailto:michael.zimonyi@cdsb.net)), if you have any questions.

A handwritten signature in grey ink that reads "Mardi McBrien".

**Mardi McBrien**

Managing Director, Climate Disclosure Standards Board (CDSB)

## CDSB response to questions

### 3. a) Do you have any comments on the provisions on governance in the draft regulations? b) Do you have any comments on the draft statutory guidance on governance?

We support the draft regulations which requires trustees to establish and maintain oversight of climate-related risks and opportunities that are relevant to the scheme and that trustees are required to describe this as part of their TCFD reporting.

### 4. a) Do you have any comments on the provisions on strategy in the draft regulations? b) Do you have any comments on the draft statutory guidance on strategy?

We support the Government's proposals that in line with the TCFD recommendations, trustees should disclose what they deem to be short-, medium- and long-term when it comes to effects of climate change on their schemes. Climate-related risks and opportunities will occur and develop differently over time, so appropriate consideration and disclosure over a broad time horizon is needed for users.

### 5. a) Do you have any comments on the provisions on scenario analysis in the draft regulations? b) Do you have any comments on the proposal that relevant contracts of insurance are within scope for scenario analysis? c) Do you have any comments on the draft statutory guidance on scenario analysis?

The Government's proposal that schemes should undertake analysis using in "at least two" scenarios as a *minimum* is sensible, along with encouraging analysis across a range of scenarios including a measured orderly transition, sudden disorderly transition, and a 'business as usual' scenario within the statutory guidance.

CDSB also recognises that reporting in line with the TCFD recommendations is an iterative process, especially in relation to scenario analysis where schemes will face a number of barriers, including lack of analysis and/or differing assumptions, methodologies and scenarios by investee firms, resulting in a challenge to analyse at the portfolio level. Therefore, an "as far as they are able" approach is appropriate, with the expectation that widespread TCFD reporting including scenario analysis will result in better data for investors, including pension schemes, over time and allow more effective analysis. However, such an approach must not be a basis for schemes to avoid undertaking appropriate scenario analysis when it would not be unreasonable to do so.

### 6. a) Do you have any comments on the risk management provisions in the draft regulations? b) Do you have any comments on the draft statutory guidance on risk management?

We are supportive of the draft regulations which requires trustees to establish and maintain processes that enable them to identify and assess climate-related risks which are relevant to their scheme and to describe these processes within their TCFD reporting, including how these processes have been integrated within the trustees' overall risk management of the scheme.

### 7. a) Do you have any comments on the provisions on metrics in the draft regulations? b) Do you have any comments on the draft statutory guidance on metrics?

CDSB is broadly supportive of the provisions on metrics in the draft regulations, including no specific metrics being mandated and the inclusion of the "as far as they are able" provision, as investee companies as still building up their own disclosures, thus appropriate flexibility is required. As before, however, such an approach must not be a basis for schemes to avoid the collection, calculation and use of metrics. Obtaining and calculating emissions-based and additional metrics on an annual basis is also pragmatic and sensible, compared to the previous quarterly proposal.

### 8. a) Do you have any comments on the provisions on targets in the draft regulations? b) Do you have any comments on the draft statutory guidance on targets?

We support the Government's proposal to set a target for the scheme in relation to at least one metric against which performance should be measured and reported against on an annual basis.

**9. a) Do you have any comments on the draft regulations on disclosure? b) Do you have any comments on the draft statutory guidance on disclosure?**

CDSB supports that TCFD reporting by schemes should be made publicly available and accessible free of charge, as the key beneficiary and user of such reporting is expected to be pension scheme beneficiaries. Climate change poses significant financial material risks and opportunities and the purpose of the TCFD recommendations is to support reporting organisations in disclosing how such risks and opportunities are being governed, managed and integrated within the organisation's strategy.

We note that the Government has proposed that such TCFD reporting should be found in a standalone TCFD report, which is to be published on schemes' websites, along with a short summary and link to the report in the Annual Report and Accounts. However, we emphasise the need for any material climate-related matters to be disclosed in the Annual Report and Accounts and not solely located in the separate TCFD report. In other words, such matters should be reported in line with any other material risks that a scheme would disclose in its Annual Report and Accounts. By encouraging climate-related reporting via a standalone TCFD report, we are concerned that climate-related matters will not be given the same weight in terms of importance as other material matters, both from a reporting perspective, but also operationally. This in part is also in line with the concern that has been raised by some stakeholders that climate-related risks are treated proportionately with other risks that pension scheme trustees must oversee.

Therefore, we would suggest that within the sub-titled section proposed by the statutory guidance, trustees should be required, rather than given an option, to provide a summary of the TCFD report within the Annual Report and Accounts. As a minimum, disclosure should be provided on the material climate-related matters that members should be aware of, with regards to the governance, risk management and strategy taken with regards to such climate-related matters alongside any supporting metrics and targets.