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Submitted via email to: pensions.governance@dwp.gov.uk

RE: Taking action on climate risk: improving governance and reporting by occupational pension schemes

BlackRock¹ is pleased to have the opportunity to respond to the consultation “Taking action on climate risk: improving governance and reporting by occupational pension schemes” issued by the Department for Work & Pensions (DWP).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs. We welcome and support the UK’s leading voice in calling companies and large asset owners to integrate, manage and disclose their climate-related financial risks.

We welcome the opportunity to comment on the issues raised by this consultation and will continue to contribute to the thinking of the DWP on any issues that may assist in the outcome.

We welcome further discussion on any of the points that we have raised.

Yours sincerely,

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¹ BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Introduction

In 2017, the UK Government became one of the first governments in the world to formally endorse the Task Force on Climate-related Financial Disclosures (TCFD) and has continued its leadership with the launch of the Green Finance Strategy in 2019, setting out its “expectations for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022”.² We welcome the UK’s leading voice in calling for companies and asset owners to integrate, manage and disclose their climate-related financial risks. The UK Government’s efforts are aligned with our own in making sustainability our standard of investing. Recently, we have responded to the Financial Conduct Authority (FCA) consultation on TCFD reporting by premium-listed commercial issuers, recommending that disclosure be mandatory for all public issuers by 2021, except in exceptional circumstances.³

As we said in our [submission](#) to DWP’s previous consultation “Aligning your pension scheme with the TCFD recommendations”, BlackRock views climate risk as an investment risk which will fundamentally reshape finance.⁴ Our investment conviction is that sustainability- and climate-integrated portfolios can provide better long-term, risk-adjusted returns to investors.

In January, we outlined (and have been continuously implementing) a series of initiatives to accelerate our sustainability efforts and make sustainable investing our standard.⁵ We are helping our clients to understand the importance of sustainability, including climate risks, in their investments. At the same time, we are integrating climate considerations throughout our investment strategies and enhancing the transparency of the climate characteristics of clients’ portfolios. In addition, we will also publish our own TCFD report by the end of this year. In January, our chair and CEO, Larry Fink, set out our expectations that investee companies worldwide report their climate and broader environmental, social and governance (ESG) risks and opportunities against the TCFD and SASB (Sustainability Accounting Standards Board) frameworks and that we would be engaging investee companies on this expectation in our stewardship activities. We are ready to take voting action to hold boards and management accountable if we see that companies have not made sufficient progress – as we are doing in this year’s voting season and will continue in the next.

² HM Government, [“Green Finance Strategy”](#), July 2019

³ Our response to the FCA consultation CP20/03 will be available here: <https://www.blackrock.com/corporate/insights/public-policy/viewpoints-letters-consultations#letters-and-consultations>

⁴ See Larry Fink 2020 CEO letter, [“A Fundamental Reshaping of Finance”](#), January 2020.

⁵ See BlackRock client letter, [“Sustainability as BlackRock’s New Standard for Investing”](#), January 2020 and an [update on commitments](#) dated of May 2020.

Executive summary

DWP has set out an important and ambitious agenda for the UK pension community to address risks arising from climate change. As the asset manager of pension schemes with around 10 million members in the UK, we stand ready to support them. We view our supportive role to be listening to their needs and acting on them. This will include providing education on climate risk considerations, designing products and solutions that support their investment beliefs and responding to their investment needs; engaging with investee companies on material sustainability risks and opportunities and providing transparency on these activities. We, as their asset manager, will support trustees of occupational pension schemes in implementing the requirements laid out in this consultation paper to the best of our ability and based on the data available.

Our main comments on the consultation paper follow:

We welcome the consultation in providing the DWP’s multi-year workplan – long-term policy transparency helps pension schemes and their intermediaries prepare themselves.

- The proposed timetable provides achievable milestones and should also include appropriate phase-in with feedback loops down to smaller occupational pension schemes to support the good execution of the requirements.
- We recommend that the DWP and The Pensions Regulator (TPR) set feedback loops so that the first implementers share the experience and best practices and that they allow ‘policy tweaking’ so that those next implementing can benefit from the experience of the first implementers.

We welcome the staged / phased approach on scope and timing – we advocated a similar approach in our previous submission as we believe this would better help occupational pension schemes embark on this journey.

- As we said in our previous response, we believe it is critical that pension schemes address their climate risks and opportunities, regardless of their size, and we view the TCFD framework as a helpful exercise for all schemes given their long-term investments horizon. But we are also mindful of the complexities and resources available and so giving smaller pension schemes additional time to prepare seem appropriate.
- We also encourage the Ministry of Housing and Local Governments and DWP to work together to ensure the Local Government Pension Schemes (LGPS) follow a similar trajectory for assessing climate risks and meeting the UK Government’s climate targets.

What would be more challenging is the implementation of several of the proposed requirements by trustees. To overcome this challenge, we recommend:

- Requiring training by trustees on climate risks and opportunities and their relevance to portfolios;
- Further consideration of the relationship between board of trustees and investment consultants, between board of trustees and their asset managers, as well as the duties or expectations on investment consultants and asset managers resulting from the requirements on trustees. In this respect, coordinating with the FCA, for example, on the upcoming consultation on asset managers and contract-based schemes as announced in the FCA’s Christopher Woolard’s letter to the Pensions Minister, will help.⁶

⁶ Letter from Christopher Woolard, Financial Conduct Authority, to the Minister for Pensions and Financial Inclusion on climate-related financial disclosures, dated of 22 September 2020 and published on 2 October 2020, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923327/fca-letter-climate-related-financial-disclosures-sept-2020.pdf

We also welcome the recognition that the data is not yet fully available as this will make certain requirements such as those under Scenario Analysis, Metrics and Targets challenging to implement, and as such we support the ‘as far as trustees are able’ approach taken by DWP for these requirements. This was another point we had raised in our previous submission. At this stage, limited data and technology focused on climate risks make it challenging to quantify and act on climate risk as an investment risk. However, **imposing mandatory reporting on UK public listed issuers by 2021, as we have recommended to the FCA, will go some way in supporting the DWP’s proposed requirements.** The stewardship push on TCFD reporting by investors on investee companies (as BlackRock has been doing, with voting consequences absent what we would consider to be sufficient progress) will also help. In addition, asset managers must also hone their risk modelling and technology capabilities to best support clients in their climate considerations. BlackRock has partnered with Rhodium Group, an independent research group, to tackle this data challenge particularly on the physical impacts of climate change by further developing risk capabilities in our platform Aladdin.⁷

Some proposals could be unintendedly interpreted in a way to encourage pension portfolios to over allocate to low-carbon footprint businesses whilst excluding those who are in transition and most able to reduce emissions from current levels to a net zero world. To avoid such unintended consequences, targets adopted by trustees should be encouraging allocation to businesses reducing overall emissions rather than those staying at current levels even if already very low.

Finally, to reinforce the UK pension schemes’ preparedness to integrate and disclose their climate-related information against TCFD, we call for:

- Greater clarity on the overlay and respective purposes of the implementing regulations following the Pension Schemes Bill, the statutory guidance as laid out in this consultation paper, and the non-statutory guidance produced by the Pensions Climate Risk Industry Group, and
- Greater concerted efforts between the various governmental departments and agencies looking at TCFD by different constituencies – to ensure the smoothest and most consistent adoption of this important framework by UK institutions.

⁷ <https://www.blackrock.com/us/individual/about-us/blackrock-rhodium-partner-on-climate-analytics>

Responses to questions

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 £ 1bn or more in net assets**
- b) authorised master trusts**
- c) authorised schemes offering collective money purchase benefits**

Do you agree with our policy proposals?

See our response to Question 3 below.

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**

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 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 the policy proposals?

See our response to Question 3 below.

- 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 £1bn 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 have provided a joint answer for Questions 1 (in-scope entities), 2 (timing of the requirements) and 3 (longer-term workplan).

We agree with the proposals in respect to the segmentation by scheme size. In our response to the previous consultation, we had recommended a similar phased and gradual approach to TCFD, suggesting beginning with the larger schemes as they are likely to be better equipped. We believe £5bn and £1bn are reasonable thresholds to identify the “large” occupational pension schemes (per the wording of the Green Finance Strategy) as they clearly identify those with the largest asset pools under management. In the case of the pension schemes community at large, a question arises over the status of Local Government Pension Schemes. We understand that it is up to the Ministry of Housing, Communities & Local Government to “make provision” for this particular group of pension schemes and decide whether or not they should align with the TCFD recommendations.⁸ Given their size (England and Wales based LGPS schemes are made of 89 schemes, with 15,700 employers and 5.9m members owning assets of £291bn combined)⁹, representation of the official sector and that many of the LGPS are already pushing for this, we would expect them to be included within the first wave of implementation.

Likewise, we welcome the ‘staircase approach’ in the timing, requiring integration of the TCFD recommendations in year 1 and public disclosure in year 2. This is in line with the recommendations we made in our previous submission.

We believe this phased approach (both on scope and timing) provides pension schemes with solid building blocks to allow the most effective adoption of TCFD in the UK by pension schemes. While the timetable is ambitious, it is broken down into key milestones to make it achievable. Auto-enrolment was successfully introduced by DWP in this way.

Going further, as part of meeting the key milestones, we recommend DWP and the relevant government bodies integrate feedback loops on what works along the way. Engaging with the pension scheme community and taking on board the feedback of the first wave of implementers, will enable effective preparations by the next wave of pension schemes.

We applaud the DWP sharing its multi-year workplan in this consultation. This provides clarity and will help the pension scheme community adapt to the changes. However, we would ask for further clarity on the overlay between the Pension Schemes Bill, the “implementing regulation” on which the public will be consulted in 2021 (mentioned on

⁸ Page 31 of the consultation report.

⁹ Chair’s Statement, 2019 Annual Report for the Local Government Pension Scheme, available at: <https://www.lgpsboard.org/index.php/schemedata/scheme-annual-report#:~:text=The%20LGPS%20is%20one%20of,and%20assets%20of%20%C2%A3291bn>. Also, as this consultation covers England, Wales and Scotland, the Scottish LGPS can be included too.

page 3), the statutory guidance on which stakeholders are currently consulted, and the non-statutory guidance on which was [consulted](#) upon earlier this year. As pension schemes look more closely to the requirements, they will need to better understand the distinction, interconnectedness and the mandatory vs. non-statutory nature of the various requirements.

We agree with the intention to undertake a review in 2024 – this should be used to refine implementation, and integrate the good practices learned coming out of the feedback loops. The lessons learned and shared by the first implementers will help the next prepare, especially with our recommendation of an open dialogue with the first implementers to learn from their experience. As we said in our previous response, we believe it is critical that pension schemes address the questions raised in the TCFD recommendations, regardless of their size, as we view the framework as a helpful exercise for pension schemes given their long-term investments horizon. We are also mindful of the impact on schemes with net assets below £1bn where the estimated £15,000 cost of TCFD reporting (as indicated on page 30 of the consultation report) might be more significant.

To meet the DWP's timeline, and support in-scope pension schemes, we think it is important for DWP and the other relevant agencies such as the TPR and FCA to consider the role, support and services investment consultants and asset managers provide to trustees. The expectations and reliance of trustees on investment consultants and asset managers need to be taken into account. We also note the 22 September 2020 letter from Christopher Woolard, interim CEO of the FCA, to the Minister for Pensions and Financial Inclusion, outlining how the FCA plans to support and complement the DWP proposals when it comes to asset managers and contract-based pension schemes. Building on the letter, coordinating with the FCA, for example on the upcoming consultation as announced in Mr Woolard's letter, will help.

As we explained in our response to the FCA consultation CP20/03, collaboration between the various governmental bodies examining the practice of TCFD by their supervised institutions is essential for a successful adoption of this framework by the various financial market participants in the UK ecosystem.¹⁰ An imbalance in approaches, timing or supervisory mechanisms might lead to inconsistency in the data passed along the investment chain and would not support the end-investors' information needs. In our response to the FCA, we call for mandatory reporting by all UK listed issuers (premium- and standard-listed issuers) by 2021. Building on our stewardship communications in January 2020, regardless of what the FCA decides, we expect all UK issuers that our clients are invested in to report their climate-related information by next year. Imposing a mandatory requirement on these companies will support trustees' TCFD requirements and BlackRock's own efforts for providing climate-related information at the portfolio level.

¹⁰ See footnote 3.

- 4. We propose that regulations require trustees to:**
- a) adopt and maintain oversight of climate risks and opportunities, and**
 - 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; and**
- 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 processes by which trustees satisfy themselves that this is being done.**

Do you agree with these proposals?

We agree trustees should be responsible for establishing and overseeing the governance recommendations of the TCFD framework; they are best placed to make these arrangements in the context of the overall management of the scheme. When describing the role trustees play “in ensuring oversight of climate-related risks and opportunities”, they will need to comply with any relevant guidance issued by TPR, including the upcoming Code of Governance.

As highlighted in our executive summary, these requirements might prove challenging for trustees to meet given their varying understanding of climate-related financial issues. While we agree with the intended objectives of placing climate considerations at the core of pension schemes’ thinking, given how material these matters could be on their investments, trustees need first to have a better grasp of these issues. As a first step, requiring training will help to ensure trustees have the adequate competences to meet the requirements. The “5 easy steps to get started” laid out in [DWP’s previous consultation](#) can also be a good starting point, as we had suggested in our previous response. Finally, the managers of pension schemes will play an important role in helping trustees meet the Governance requirements. We recommend that the DWP and FCA work together to delineate the role and duties that asset managers would play to support these requirements.

- 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.**

Do you agree with these proposals?

We would welcome greater guidance on ‘short’, ‘medium’ and ‘long term’. Most financial risk models do not project more than 30-40 years out. The paucity of the backwards-looking data with respect to climate change risks and opportunities presents a challenge with forward-looking modelling. Having a common definition of ‘short’, ‘medium’ and ‘long-term’ horizons would help support trustees and the schemes’ asset managers’ work in fulfilling these requirements, especially as trustees’ experience in these topics can be limited.

Box 4 about the statutory guidance on Strategy in the consultation describes how trustees should have regard to “examples of climate-related risks and opportunities that could have a material financial impact on scheme assets” and include “examples of the factors trustees might consider to determine which risks and opportunities could have a material financial impact on their investment strategy and funding strategy”. To assess financial materiality, investors typically compare new factors with historical returns. However, this approach is of limited value for climate risk given the lack of historical data and / or consideration as part of asset valuations. If materiality cannot be quantified empirically, materiality weights should be provided to enable trustees to identify the climate risks and

opportunities which are financially material to the scheme's assets. Such materiality weights can be found in certain metrics, such as those in the SASB framework.

- 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 welcome the DWP recognising the challenges with the data, and as a result specifying that in certain instances trustees will have to undertake a certain activity or disclose "as far as they are able". This acknowledgement provides reassurance that the DWP and hopefully TPR will approach the execution of the requirements by trustees while bearing in mind the challenge of obtaining the necessary data.

We believe these proposals can be improved by not limiting the suggested stress tests to temperature scenarios. Asking trustees to focus on a 2°C or lower temperature scenario implies that temperature is the only investment risk related to climate. A 2°C scenario does not capture the myriad of potential climate-related risks (such as water risk, loss of biodiversity or carbon beta, the stress test based on a carbon price shock or carbon tax) that may be material in pension schemes' portfolios.

Assessing the resilience of assets, liabilities, investment strategy or funding strategy against a 2°C or a 1.5°C scenario will require modelling. However, at this stage, the carbon price projections of existing standards appear unrealistic. Until stronger modelling standards develop it is likely that trustees and their investment managers will face issues in meeting the above proposed requirements. Therefore, we reiterate that we welcome the acknowledgments of the limitations of the data (and ask regulators keep this in mind when going through TCFD reports by pension schemes) and we recommend the DWP considers widening stress testing considerations to other climate-related investment risks that can be material to pension schemes' portfolios.

- 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.**
 - c) We also propose the regulations require trustees to disclose:
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?**

As with the Governance requirements laid out in Question 4, Risk Management is another area where asset managers play an important part. We reiterate the importance of concerted efforts between DWP and FCA to provide clarity the duties and activities expected of asset managers while keeping trustees responsible for their overall risk management decisions.

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;**
- 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-based metric) used to quantify the effects of climate change on the scheme and assess climate-related risks and opportunities.**

We also propose in regulations that trustees be required 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 mandated 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?

We expect DWP to propose metrics using scope 1 and scope 2 GHG emissions data. The TCFD supplemental guidance suggests weighted average carbon intensity (WACI) as an appropriate metric for asset owners (of which pension schemes are a category).¹¹ We foresee a number of challenges in letting trustees to choose metrics – not least because of their current lack of technical expertise on climate issues. WACI is the most readily available metric, and while the underlying methodology may still vary (as pointed out in the consultation), having one set of metrics will help with consistency and comparability, which are one of the main objectives of the TCFD framework. Also, as data on more than one security will be reported, a methodology for aggregation should be specified.

An underlying issue similar to the lack of data is the lack of commonly agreed standards and definitions.¹² One of the suggested starting points to identify the metrics trustees will use is to identify the percentage of 'green' investment in the portfolio.¹³ However, this identification is not standardised, especially for equity. These issues can create hurdles for trustees to make substantive progress and fully execute the requirements.

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 those targets(s).**
- b) calculate performance against those targets 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 believe these proposals, in conjunction with paragraph 73 on page 69, could be interpreted in a way that could in practice lead to unintended consequences.

The unintended risk which we identify is that of encouraging pension portfolios to over allocate to low-carbon footprint businesses whilst excluding those who are in transition

¹¹ TCFD "[Supplemental guidance for the financial sector](#)": Page 16, supplemental guidance for asset owners, recommended disclosure b)

¹² See our recommendations for a commonly-agreed terminology in our *ViewPoint* "Towards a Common Language for Sustainable Investing", January 2020, available: <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-towards-a-common-language-for-sustainable-investing-january-2020.pdf>

¹³ Page 69 of the consultation paper.

and most able to reduce emissions from current levels to a net zero world. To avoid such outcomes, the targets adopted by trustees should be encouraging allocation to businesses reducing overall emissions rather than those staying at current levels even if already very low.

The Paris Aligned Investment Initiative of IIGCC (the Institutional Investors Group on Climate Change) built the Net Zero Framework, a blueprint for asset owners and asset managers to maximise the contribution they make in tackling climate change and achieving net zero emissions globally by 2050.¹⁴ We note that given the lack of standardised metrics at this stage, it will be difficult to compare performance between pension schemes (assessing the progress of an individual scheme over time would be clear) unless an initiative such as the Net Zero Framework is widely adopted.

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 full 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 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 published TCFD report to the Regulator by including the corresponding website address in their scheme return.**
- 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?

We agree with the above proposals laid out in Question 10.

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?

While penalties provide, in principle, strong incentives for compliance, we do not think boards of trustees, especially those of schemes at the larger end of the industry, need this ‘stick’ to comply with regulation. The pressure of reporting to The Pensions Regulator and the public nature of the report should be enough to ensure compliance. Indeed, the absence of a TCFD report by a pension scheme would be easily noticeable by its beneficiaries, and the wider pension scheme community. Member and peer pressure,

¹⁴ <https://www.iigcc.org/resource/net-zero-investment-framework-presentation/>

together with the likely public coverage surrounding the lack of such a report, should provide enough incentives for trustees to disclose. However, penalties could be re-considered if there is significant non-compliance once the rules are implemented. TPR can also determine, following implementation, that additional penalties are required or whether it can enforce compliance using its existing powers.

That TPR will have power to issue a penalty for non or inadequate compliance may imply that this regulator can eventually become the authority supervising the TCFD reports of pension schemes. If that will indeed be the case, we would urge TPR to deepen both its knowledge and its first-hand experience of the TCFD framework. Assessing the adequacy of a report requires a good understanding of climate risk and the qualitative and quantitative challenges associated with it.

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?

As explained by our CEO and Chairman Larry Fink in January, we share the conviction that climate change poses significant investment risk to our clients.¹⁵ In the UK we manage the assets of around ten million people saving for their retirement. We believe they will benefit from having greater knowledge of the climate risks associated with their investments, and that in turn this will encourage market participants throughout the investment chain, and ultimately issuers themselves, to do more to manage those risks and opportunities. In so doing, we believe that both the financial wellbeing of our clients and interest of the wider community will be better served.

13. Do you have

- a) any comments on the impact of our proposals on protected groups and how any negative effects may be mitigated?**
- 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?**

While the estimated costs are estimated in monetary terms, it might be worth setting out costs in terms of headcount and time cost involved to bring home the resources, implications and how the requirements can be addressed in a more efficient way.

¹⁵ See footnote 4.