Evidence to improve Clause 124 (Climate Change Risk) of the Pension Bill

Dear Public Bill Committee on the Pension Bill,

We write to you as a group of financial experts and environmental campaigners to provide evidence to help inform the committee's deliberations of Clause 124 of the Pension Bill. We hope this submission will further improve this important bill in the following 4 areas with respect to climate change risk: **i)** rapid alignment with the Paris Agreement that centres on phasing out fossil fuel investments, **ii)** mandatory training for the regulator and trustees on climate risk, **iii)** ensuring there are decision ready climate scenarios to reliably inform climate risk management, and **iv)** full disclosure of pension investments in high-emissions producing companies.

Rapid alignment with the Paris Agreement

In order for clause 124 to be effective in aligning pensions to the Paris Agreement goal of limiting global temperature rise to 1.5ºC, it is imperative that it reflects the urgency required for transformative change well before 2030 as stipulated by the Inter-Governmental Panel on Climate Change (IPCC).

Clause 124 should be amended to mandate trustees and asset managers of larger schemes to produce robust timeframes and targets for rapidly aligning pension investments with a zero-carbon trajectory within one year of the publication of this bill (two years for smaller schemes). Progress against these targets should be reported every 5-years and detail how pension investments are consistent with international efforts to contain global heating to 1.5ºC - in line with article 4.9 of the Paris Agreement [1]. These suggested amendments reflect commitments made by the United Nations-convened Net Zero Asset Owner Alliance and necessitates bold and early action by investors well before 2025 [2].

An indicator of successful adherence to clause 124 will be that all zero-carbon commitments include the elimination of investments in companies dedicated to fossil fuel projects.

Mandatory training for regulators, trustees and asset managers in climate risk

We believe rapid alignment with the Paris Agreement will require mandatory training - for employees of the Pension Regulator, asset managers and trustees - covering the risks and opportunities entailed by the energy transition and climate change. The requirement for this training should be integrated into clause 124, with large schemes undertaking this training within one year of the publication of this bill (and smaller schemes undertaking this training within two years).

This training should ultimately be overseen by the Pensions Regulator and ensure that trustees and asset managers understand the grave financial risks to the global economy, and therefore to their scheme members, of exceeding global heating beyond 1.5ºC. To support this understanding the regulator should mandate training on the implementation and critical evaluation of appropriate ‘value at risk’ modelling and financial ‘stress tests’ against 1.5ºC and <2ºC scenarios.

Ensure availability of climate-science informed scenarios

These scenarios must relate to ‘low’ or ‘no’ overshoot of the 1.5°C target. This includes minimal reliance on carbon dioxide removal technologies, which is considered the ‘best available’ modelling approach by the IPCC [3].

If privately provided scenarios are not grounded in viable emissions reduction technologies and/or are insufficiently granular for trustees and asset managers to use for decision making then the Government must ensure the availability of climate-science informed 1.5ºC and <2ºC scenarios that UK pension funds can use - within one year of the publication of the Bill.

Pension funds must declare their full list of holdings

We welcome the proposals in the Pension Schemes Bill to introduce the Task Force on Climate-related Financial Disclosures’ (TCFD) requirements for trustees of large occupational schemes to disclose climate-related risks and opportunities.

We urge the Department to use this opportunity to strengthen the requirements for mandatory disclosure; we suggest amending the scope and timing of the proposed disclosure requirements in the following ways:

a) All pension schemes disclose on a central searchable public website their full list of holdings (including indirectly held) every year (within six months of their year-end). The Pensions Regulator must maintain the website so stakeholders can search by pension fund or holding name.

b) Removing the value level of assets at which TCFD reporting is required so that Trustees of the largest 50% of occupational pension schemes would be required to publish a TCFD report in line with the TCFD recommendations within the first 7 months of their first scheme year to end after 1 October 2021 (at the latest), with the remaining 50% required to publish a TCFD report by 31 December 2022, in line with the expectations of the UK Government’s Green Finance Strategy [4].

c) Requiring the largest pension schemes to measure and report the implied global temperature rise of their portfolios in line with the Paris Agreement every year (followed by the smallest schemes), with this information published on a searchable website maintained by the Pension Regulator.

Thank you for taking the time to consider our evidence. We are very grateful for the cross-party efforts to further improve this exciting and important bill. We'd be very happy to engage further with this process and meet with the appropriate ministers and civil servants helping to navigate this Bill through Parliament.

Best wishes,

Carys Boughton, Gareth Ludkin, John Hardy & (on behalf of Divest Parliament)
Joel Moreland (Principal Consultant, Social and Environmental Finance)
Mark Campanale (Founder & Executive Director, Carbon Tracker Initiative)
Robert Noyes (Divest / Invest Campaigner & Researcher, Platform)

Supporting references

[1] The Paris Agreement, United Nations (2015) - full text available below:
https://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

[2] A Call for Comment on carbon neutrality / "implied temperature rise" methodology convergence, UNEP Finance Initiative (2020) - full text available below:
https://www.unepfi.org/wordpress/wp-content/uploads/2020/04/AO-Alliance_Request-For-Comment-on-Methodological-Principles_FINAL.pdf

[3] Rogeli, J. et al (2018) Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development - part of chapter 2 the IPCC 2018 report, full text available below:
https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter2_Low_Res.pdf

[4] https://www.gov.uk/government/publications/green-finance-strategy