ASSOCIATION OF CONSULTING ACTUARIES

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Department for Energy Security and Net Zero
Issued by email to: transitionplans@energysecurity.gov.uk

Dear All

# Transition plan requirements consultation

I am writing on behalf of the **Association of Consulting Actuaries (ACA)**. We welcome the opportunity to respond to this public consultation seeking views on implementation routes for transition plan requirements. We are responding based on our general experience in advising pension scheme trustee clients that are or may be subject to the Climate Governance and Reporting regulations. The ACA welcomes the opportunity to provide input.

Members of the ACA are all qualified actuaries – mainly Fellows of the Institute and Faculty of Actuaries. All actuarial advice given by our members is subject to the Actuaries' Code. Members provide advice to thousands of employers, pension schemes and asset owners, with total assets exceeding £1 trillion – including most of the country's largest pension schemes – and increasingly consulting actuaries are now involved in a wide range of additional areas. We are therefore responding in the capacity of a representative body for professional advisors who provide advice to a range of asset owners, predominantly pension schemes.

From this perspective there are a limited number of consultation questions that have direct relevance to our work, and we have therefore only responded to those questions (1, 10, 11, 13 and 14). Our responses are set out in the appendix.

We would be happy to discuss this matter further. Please contact me at sarah.keighley@xpsgroup.com.

Yours sincerely

**Sarah Keighley**
**Chair of the Sustainability Group**
On behalf of the Association of Consulting Actuaries Limited

## Appendix - Association of Consulting Actuaries response to the transition plan requirements consultation

**1. To what extent do you agree with the assessment of the benefits and use cases of transition planning set out in Section A? Are there any additional benefits or use cases for transition plans? Do you have any further insights and evidence on the purpose, benefits and use cases of increased and improved transition planning —including economy-wide impacts?**

We agree with the overall assessment of the benefits of transition planning set out in the consultation. In particular, how consideration of climate adaptation and resilience can help safeguard capital assets from climate-related depreciation and strengthen economic resilience.

The consultation notes the use of transition plans for pension schemes as investors looking for this type of information from the companies they invest in. This is important as without regulation it can be difficult for pension schemes to get this information and make meaningful assessments of the climate resilience of the assets they are invested in.

The other perspective for pension schemes is whether they should be reporting their own transition plans, and these can have a similar positive purpose.

For pension schemes, transition planning is significantly important due to the longer-term nature of the investment horizon for a large proportion of schemes. This benefit has already been seen in the implementation of the DWP's Climate Change Governance and Reporting regulations for large pension schemes, which has prompted trustees to improve governance and risk management around climate risk, details of which are disclosed in publicly available TCFD reports produced by the schemes. In particular, for large defined contribution pension schemes and Master Trusts, the benefits to members from managing the risks relating to their pension pots is expected to help improve member outcomes.

However, we note the negative impact from TCFD reporting too (and cover further details below), which suggests caution in the reporting requirements that are implemented for transition plans.

Overall, in our view the benefits to pension schemes from transition plans are in the actions that they prompt by pension scheme decision makers to manage climate risks and opportunities, which ultimately benefit pension scheme members. Onerous reporting requirements (that become compliance driven or 'tick box') will detract from these benefits given the limited time budget available to decision makers of pension schemes. This caution should be even more pronounced for smaller pension schemes where TCFD reporting is not already mandatory but for whom monitoring and managing climate-related risks is expected by the Pensions Regulator as part of a scheme's effective system of governance.

**10. Please state whether or not you support Option 1, which would require entities to explain why they have not disclosed a transition plan or transition plan-related information. Please explain the advantages and disadvantages of this option.**

*We have answered this question from the perspective of our pension scheme clients.*

We are in favour of a comply or explain approach to disclosure of transition plan related information. The position of our clients is wide ranging from very well-funded defined benefit pension schemes looking to fully insure their benefits in the near future to pension schemes (both defined benefit and defined contribution schemes) that will be around for decades to come. We believe a proportionate and pragmatic approach should be taken with transition plan requirements for pension schemes which reflects the range of circumstances they are in and hence the relative importance of managing climate-related risks.

For example, for schemes where they are due to, or have, passed their assets to an insurance company, and therefore have a relatively low risk investment strategy, there is limited real-world impact that a transition plan can have, so these plans would be kept simple and focussed on a small range of actions available.

For larger ongoing pension schemes, for example Master Trusts, transition plans will hold significantly more importance and can therefore be a strong driver for these schemes to focus on robust management of the risks and opportunities of climate change, ultimately benefiting the members of those schemes.

At present, pension schemes with assets above a defined specific threshold are reporting for TCFD purposes under the Climate Change Governance and Reporting Regulations, even if they have largely de-risked their investment strategy including in some cases holding insurer contracts in respect of their benefits ("buy-in contracts"). We believe it would be challenging for regulations to cover every circumstance to ensure requirements are appropriate and proportionate for all pension schemes, and therefore in our view a comply or explain approach may help to ensure that pension schemes can tailor their approach to their specific circumstances.

11. **Please state whether or not you support Option 2, which would require entities to develop a transition plan and disclose this. Please further specify whether and how frequently you think a standalone transition plan should be disclosed, in addition to transition planrelated disclosure as part of annual reporting? When responding, please explain the advantages and disadvantages of this option.**

As noted in our response to question 10, in our view a comply or explain approach may be more appropriate given the wide range of circumstances that pension schemes are now in. In particular, there are a significant and growing proportion of schemes that are now (or will be in the near future) highly de-risked with limited scope to have real world impact on climate change. Reporting requirements for these schemes is not likely to be of any significant benefit.

13. **How do you think any new transition plan requirements should integrate with the existing requirements in UK law for some larger schemes to produce TCFD reports and to calculate the portfolio alignment metric?**

The ACA believes the Climate Governance and Reporting regulations have been positive overall in prompting trustees to take action, driving up levels of knowledge and understanding, governance and risk management, and have also driven progress with asset managers.

However, we believe that the length and detail of reporting required places an onerous burden on trustees and asset owners, which in some cases leads to a focus on 'tick box' compliance at the expense of meaningful real-world action.
Therefore, we believe that any changes to the regulations or any implementation of transition plans should be streamlined with the current TCFD requirements and should focus on reducing the burden of climate reporting requirements, while focusing reporting on the real-world actions taken.

In particular, the Climate Governance and Reporting regulations already provide a framework for governance, risk management, strategy, monitoring metrics and targets. This provides a framework where it is easy to incorporate transition plans (and some pension schemes have already taken the opportunity to do this).

We suggest that any new requirements ensure the reporting efforts needed are proportionate and impactful for schemes, and focus on reporting on areas where meaningful change or action is possible and is being taken.

Any guidance around what should be included in a transition plan should be proportionate and practical for pension schemes and the level of required reporting and detail should be proportionate to the level of long-term risk inherent in different types of scheme (for example, defined contribution and Master Trusts, open defined benefit, closed defined benefit, 'low risk' closed defined benefit).

As noted above, in our view this approach lends itself to a "comply or explain" approach proposed rather than mandating, so asset owners can set out their transition plans in an appropriate way consistent with their current risk position and their own climate-related targets.

14. **To what extent does your pension scheme already produce transition plans? What are their intended purposes, what information do they draw on, and what challenges have you encountered in developing them.**

Some pension schemes and asset owners have taken the opportunity of TCFD reporting (either due to the Climate Change Governance and Reporting Regulations or on a voluntary basis) to include details that would constitute information on their transition plan. Whilst this is not commonplace, those that have included this information are generally looking to demonstrate the actions that they have taken and are going to be taking in the future to meet their climate-related targets, which may include net zero targets. This is the type of information we would expect to see if transition plans are required going forwards, and enable asset owners to illustrate good practice, progress against targets and areas of focus for the future, with a focus on real world impact rather than solely reporting metrics and targets.

The biggest challenge with these areas has been the amount of time that can be dedicated to them given the wider reporting burden of TCFD reporting. If this burden is reduced, the likely impact of implementing transition plans could be very positive in helping asset owners focus on the actions they can take to progress towards Net Zero.

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