Written evidence from XPS Pensions Group (PSC0006)

About XPS

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, covenant, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of more than 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 920,000 members and provide advisory services to schemes of all sizes including 29 with over £1bn of assets. We employ over 1,200 staff across 15 UK locations.

Appendix – Responses to questions posed in the inquiry

Q1 How should pension schemes contribute to setting COP26 targets and helping to achieve the targets once agreed?

We do not feel that it is the role of pension schemes to directly contribute towards the setting of the COP26 targets. We feel that these are political in nature, and therefore it is the role of policy makers and regulators to set the targets for economies and companies in order to internalise the costs associated with climate change into company decision making.

Pension schemes may however be able to provide input in terms of feasibility of various targets, drawing on experience from observing the ability of companies / investment managers to adhere to carbon reduction targets.

We believe pension schemes have a fundamental role to invest in a way that recognises the short and long term risks associated with these matters. In the most part this will be carried out on their behalf via appropriately qualified investment managers who will hold company management teams to account via stewardship and engagement.

Pension scheme reporting and disclosures play important roles in demonstrating where schemes are being effective in this regard. We note that setting targets for their own carbon reduction will facilitate pension schemes more proactively engaging with their investments to drive that wider market reduction.

Q2 What role should international standards have in supporting pension schemes to assess climate change risks when considering scheme investments?

International standards are critical in order to provide consistent means of measuring and reporting on climate risk exposure of pension schemes.

These standards should apply at a company level – and consistent measurement methodology across geographies will help address reporting difficulties for multi-nationals.

Q3 Are there suitable financial products to enable pension funds to make climate-conscious investments? How should such investment be facilitated and supported?

The market for climate-focussed investment products is growing in response to the growing demand from retail and institutional investors.

The market for these products expected to continue to grow, such that pension schemes will have ample choice if they wish to make climate-focussed investments.

It’s critical that providers are clear in their reporting around carbon footprint metrics so that a fair comparison can be made.

Q4 How should the UK seek to share and learn from international best practice?

Standardising the labels applied to funds and the disclosures required of them, for example an approach similar to the European SFDR, would be helpful in this regard. This would help to avoid greenwashing, and ensure pension schemes can make informed decisions about where to invest.

Q5 What regulatory changes or other government action has been most effective in delivering change in the UK; and what changes on the part of Governments elsewhere should the UK learn from?

Effective UK regulation

- Requirement to include policy in Statement of Investment Principles has been a catalyst for Trustees to begin discussions around including ESG in decision making.
- Similarly, the incoming introduction of requirements for some schemes to publish climate risk disclosures in line with TCFD has prompted discussion around current climate risks.

Changes elsewhere where the UK can learn

- SFDR in Europe – providing clarity over the extent of ESG / climate change integration into investment funds.
- We observe that some trustees believe taking action on ESG matters may be contrary to their fiduciary duty. For as long as there is ambiguity as to whether preventing climate change is at odds with fiduciary duty around financial returns, there will be a sub optimal response from pension schemes in relation to climate change.

Q6 Do pension schemes have suitable information to assess climate risk, or do there need to be international reforms to financial reporting?

Currently most pension schemes do not have suitable information to fully assess climate risk, although we have observed an improvement in the level of reporting from UK investment managers and expect this to continue.

Therefore, international reforms are required to improve reporting, given reporting is fundamental to assessing progress, thereby supporting decision making and driving change.

In our experience certain asset classes (developed, listed equities and bonds) are making better progress than others (real assets, private markets, emerging markets).

We also note that certain elements of climate risk have better reporting coverage (e.g. scope 1 and scope 2 are far more widely reported on than scope 3).

Scope 3 emissions can be the greatest contributor to a given companies’ footprint, and therefore support and clarification is needed for companies / funds to help them report on these emissions.

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