Responsible investment – a new era of disclosures

Stuart O'Brien outlines what trustees will need to do in the coming years in order to keep on top of their ESG responsibilities

Time plays tricks on you during lockdown but it now seems quite surprising that just over 12 months ago the only thing trustees had to disclose in relation to their responsible investment policies was a brief note in their statement of investment principles (SIP) on the extent (if at all) to which they took account of 'social, environmental or ethical considerations' and their policy (if any) in relation to the exercise of voting rights attaching to their investments. In other words, trustees could remain entirely compliant by stating that they had no policy on ESG or stewardship at all; and there was no need to make the SIP publicly available.

Roll forward to October 2020 and we have had two sets of revisions to the SIP (which must now be made publicly available on a website) and a new requirement to report annually on the implementation of the trustees' policies (also to be made publicly available on a website). Most recently, we have seen a consultation by the DWP on mandatory climate risk governance and reporting by trustees. The pensions world has moved fast when it comes to ESG and particularly when it comes to what trustees are expected to disclose about it.

Trustees will already be familiar with the SIP requirements that they will have had to get to grips with in their trustee meetings over the summer last year (to include details on their ESG and stewardship policies) and again this year (to set out detail on how the trustees ensure alignment between their policies and the strategies employed by their appointed investment managers).

Harder to grapple with will be the new requirement for scheme reports and accounts published after 1 October 2020, to include an annual statement on precisely how the trustees have implemented these policies they set out in their SIP. For pure DB schemes, this can be limited to a commentary on voting and engagement activities but for schemes providing DC benefits the statement must go wider, providing a commentary on implementation of the trustees' policies more generally. And all of this must be made publicly available online. It is probably a safe prediction that the first year will be somewhat challenging as trustees get to grips with the slightly complicated timing requirements and what is likely to be a not insignificant challenge of ensuring that all managers are providing the necessary voting data and engagement commentary in a form which the trustees can use. On this the PLSA must be commended for providing timely guidance[1] and a voting report template[2] for managers and trustees to use. But whether the new implementation statements go beyond tick-box to provide a meaningful way for trustees to engage with scheme members on issues that matter to them remains to be seen.

The SIP and implementation statement requirements, however, pale into insignificance when set against the DWP's latest consultation on climate risk governance and reporting[3]. There isn't space in this article to cover the detail of the 100-page consultation but, assuming the consultation carries through to regulations under the Pension Schemes Bill as anticipated, schemes with £5 billion or more in assets, authorised master trusts and authorised collective money purchase schemes would need to have arrangements in place on climate change governance, strategy, risk management, metrics and targets from October 2021 (including the use of scenario analysis to assess the scheme's resilience to climate-related risks at least annually), and to publish an annual report on these, following the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations, by the end of 2022 at the latest. This requirement would then be rolled out to schemes with £1 billion or more of assets the following year. Application to smaller schemes will be reviewed in 2024.

The DWP also puts down a marker that the government is minded to require that trustees report publicly on their alignment with the Paris Agreement or the "implied temperature rise" of scheme portfolios, signposting a consultation on this "in the near future".

Things have moved on when it comes to pensions and ESG but the new era of public disclosures may yet be the real game changer. No doubt organisations such as Share Action, Client Earth and the newly-launched Make My Money Matter campaign will be watching what trustees do. As too will the Pensions Minister who has already written to the trustees of larger schemes on several occasions to enquire as to how they are going about meeting their ESG responsibilities. As we head towards 2021 and to mangle a quote from Lord Chief Justice Hewart, not only must responsible investment be done; it must also be seen to be done.

Written by Pensions Climate Risk Industry Group chair, Stuart O'Brien

[1] https://www.plsa.co.uk/Policy-and-Research-Document-library-Implementation-Statement-guidance-for-trustees
[2] Anticipated imminently at time of writing.
[3] https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes