Pension schemes and climate-related risks

Good morning and welcome. My apologies I cannot be with you here today. But I am recording this in advance because I have the delights of the Work and Pensions Select Committee at exactly the same time as your conference.

And we decided to come outside to record this video because after all, this is a video, and a message, that relates to climate change, and the natural world, in which we all enjoy and want to enjoy for the future.

So, my first duty is to thank the Professional Pensions Conference for inviting me to speak.

We know that climate change is the defining challenge of our time. Our response will determine the future health and prosperity of the world.

Climate change is a major systemic financial risk and threat to the long-term sustainability of private pensions.

With £2 trillion in assets under management, all occupational pension schemes are exposed to climate-related risks.

You will all know that in late 2020, we consulted about: 'Taking action on climate risk: improving governance and reporting by occupational pension schemes'.

Today, I am delighted to announce the publication of the Government's response to that consultation.

Our proposals are world leading. The UK is set to become the first major economy to require climate risks to be specifically considered and then reported on by pension schemes.

The new measures will ensure trustees are legally required to assess and report on the financial risks of climate change within their portfolios.

I am extremely proud of these proposals, and my team, and we are now seeking views on the draft regulations and statutory guidance which will bring our policies into effect.

The government has also been working closely with The Pensions Climate Risk Industry Group to produce non-statutory guidance.

This will be a vital resource for all trustees when considering how to improve climate change governance and make disclosures in line with TCFD recommendations.

I am committed to ensuring that trustees do everything they can to limit this risk to their members' future income.

I thank the industry for the significant engagement with our consultation – this played a key part in helping to shape the policy.

I recognise there are some legitimate and constructive concerns. We have sought to amend our policy according to these particular concerns.

The key issues we are changing are as follows.

Firstly, I have decided to simplify requirements on publication timings, to allow all schemes a full 7 calendar months from the scheme year end date in which to prepare and publish their TCFD report.

It is vitally important that these disclosures are as robust and set a positive benchmark for subsequent schemes that later come into scope.

Secondly, I have kept the scope of these requirements the same – authorised master trusts and schemes with £5bn or more in assets will be in scope from October 2021.

As a consequence of that, “buy-in contracts”, which involve a more or less irreversible surrender of decision making by trustees to an insurer, will not be counted towards that threshold.

We cannot afford delays to address the risk presented by the climate risk, therefore, I am bringing forward the commitment to conduct an interim review to 2023.

This will allow government to identify best practice and – subject to consultation – extend the measures to smaller schemes as soon as 2024.

The publication of the government’s Green Finance Strategy was a clear signal to larger pension schemes that there would be an ambitious timescale for these regulations coming into force.

We have been true to our word and as such, smaller schemes should interpret the bringing forward of this review in the same way.

The consultation acknowledged that conducting scenario analysis is one of the most complex and costly sections of TCFD.

This is why I have reduced the frequency by which trustees are required to carry it out.

Instead of annually, scenario analysis must now be carried out in the first year that trustees are subject to the requirements and every three years thereafter.

This is not an invitation for trustees to do scenario analysis and forget about it. In the intervening years, trustees must do an annual review of their most recent scenario analysis and determine whether or not it is still “fit for purpose” or whether there are circumstances which make it appropriate for them to carry out fresh analysis.

As methodologies and data are evolving rapidly, we see a strong possibility that in practice, at least initially, trustees will need to do scenario analysis more frequently than every 3 years.

I have also sought to reduce the administrative and financial burden on trustees in relation to obtaining the data for calculating emissions-based metrics. This has been changed to an annual requirement.

Likewise, performance against targets is now to be monitored annually rather than quarterly. We have also provided for there to be an annual review of any targets, to determine whether they should be maintained or replaced.

Trustees must recognise that methodologies and data are evolving rapidly, and recognise the value in schemes regularly updating their calculations to ensure consistency and attention to risks and opportunities.

Indeed, government has recognised the evolution in this space in just the short few months since we consulted.

On metrics, we have made changes to our original proposals so that trustees will be required to select at least two emission-based metrics, one of which must be absolute and one which must be intensity-based – emissions per pound invested.

Data concerns and the TCFD Roadmap are absolutely crucial. And metrics leads on to concerns about the availability of data vital to carrying out effective and robust climate governance.

Some of the TCFD recommendations require an evaluation of assets which relies on the quality and flow of data from investee companies – through asset managers and investment consultants – to institutional investors.

However, we cannot let our work to tackle climate change falter, on the basis that the solution is too complex.

The government is resolute in its ambition to tackle this issue wholeheartedly.

It is therefore hugely significant that the government has recognised calls for regulatory alignment by publishing the TCFD Roadmap last November.

We intend to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

It would not be right, in my view, to place a requirement on trustees whilst the rest of the investment chain – on which they rely for data – is not held to the same regulatory standards.

Challenges to our proposals are significant, but the reality is that the government's roadmap will go a significant distance to address some of these challenges we are going to meet these requirements.

Some say that government is directing trustee decisions and increasing

pressure for divestment of pension schemes from high carbon sectors.

However, I have repeatedly stated in Parliament, and I make the point again today, that ultimately decision-making on climate risk and opportunities are matters for trustees alone. I'm wholeheartedly opposed to divestment.

We are not mandating that schemes commit to specified emissions reductions, and we continue to believe that divestment would be the wrong approach.

We believe encouraging company engagement will reduce the climate risk to which that scheme is exposed.

That is why I've set up a working group, chaired by Simon Howard, the former Chief Executive of the UK Sustainable Investment and Finance Association, to look at how we can strengthen the trustee voice in engagement, and voting in particular.

If stewardship and voting are to be effective, we need to see improvement – the current system is not fit-for-purpose.

Trustees and asset managers need to work together to ensure scheme members' best interests are protected.

I intend to take steps to build trustee demand for better stewardship, which will drive failing firms to improve.

And as part of that, where trustees want to ask managers to follow their voting policy, I think they should be able to.

Investors should be clear that the transition to a low carbon economy is underway.

Our regulations will require trustees to act within their fiduciary duty by assessing their portfolio's susceptibility to this kind of transition risk.

It is then down to the trustees how they choose to act on that exposure to risk – I would encourage them to act quickly.

This transition also presents pension schemes with opportunities to invest in the real economy including the environmental infrastructure and businesses of the future that are emerging and are so needed.

These types of investments have the potential to offer pension schemes increased returns whilst driving the transition that we all want to 'net zero'.

That is why separate from our proposals on managing climate risk, the government is reviewing consultation responses on proposed changes to encourage greater allocation to these types of investments and other less liquid assets.

The most significant barrier that is holding the UK in that issue is the sheer number of members trapped in inadequate, poorly-performing schemes.

That is why I have been looking at a requirement for all occupational pension schemes with less than £100m in assets must either prove that they are offering that value or consolidate.

And consolidation will happen. It is not good enough that members are held back from accessing these types of investments because of historic choices made by their employers. Wholesale consolidation, I believe, is on its way, and is the right thing.

And on fees, last year, I also consulted on costs and changes to ensure that the fees that investors often pay for potential access to market-beating returns do not risk breaching the charge cap.

And we're smoothing the incurrence of performance fees over the course of five years which will provide many investors who are unsure about investing in such funds the confidence to make that leap.

I commend schemes that have already shown leadership by investing in infrastructure, property and private markets but we fall behind our global partners in our commitment to these asset classes and the economy as a whole suffers for it.

We have all been through an incredible journey this year, but there is an opportunity to contribute to a better financial future for ourselves and a future for our planet.

This challenge demands all of us to take action.

That is why I want every market participant to engage constructively with these proposals and these measures, to help us shape a policy that delivers the protection for members.

Together, we can build a better, safer and greener pensions system.

UKEF protects marketing company's profits with insurance cover

About the transaction: TravelBeat	
Region	London
Sector	Marketing
Export location	Multiple
UKEF support	Export Insurance Policy

TravelBeat is a multi-award winning London-based marketing company with customers in a range of sectors including the arts, culture, sports and travel. Though a small team, TravelBeat is an experienced exporter with

approximately half of its revenue coming from overseas business.

The outbreak of COVID-19 led to global travel restrictions, which affected many of TravelBeat's customers. The uncertainty surrounding the travel industry meant private sector underwriters wouldn't cover against customer default. The uncertainty meant that TravelBeat were faced with doing business without any guarantee that they'd get paid – putting a significant amount of profits at risk.

After hearing about UK Export Finance, the government's export credit agency, they approached their local UKEF adviser for guidance. A recent change in UKEF's Export Insurance Policy allowed us to insure exports to the EU & USA, meaning we could protect many of TravelBeat's exports.

As a result, UKEF covered six of TravelBeat's export contracts in Europe and USA, which in turn meant the company could continue expanding internationally with confidence. The company has since secured a new client in Italy after trading with this added protection.

Lisa Maddison-Brown, Export Finance Manager for Kent, East Sussex and West Sussex, said:

> UKEF is here to help companies in a range of sectors and industries, including marketing and travel. I would urge anyone interested in exporting but concerned about barriers to finance to contact their local UKEF adviser to find out how we can help.

Symeon Vasileiadis, Managing Director, Travelbeat, said:

> UKEF's support has been vital for us. Without their cover, we would have been unable to continue our international growth. I look forward to working with UKEF in the future as we look to expand the work of the company internationally.

Putting the right finance and insurance in place can give you the exporting edge, helping you to win contracts, fulfil orders and get paid.

Tell us about your business

UKEF powers Peopleforce in wake of

Coronavirus

About the transaction: Peopleforce

Region	Brighton
Sector	Recruitment
Export location	Multiple
UKEF support	Export Insurance Policy

Brighton-based Peopleforce Recruitment focusses on providing specialist contract workers to organisations in the aviation and healthcare sectors both in the UK and Europe. Peopleforce is an experienced exporter, placing close to 90% of its candidates with overseas companies looking for skilled recruits.

When placing candidates in contracts with companies, there is always a delay before Peopleforce get paid. Peopleforce therefore rely on advanced payment schemes to ensure its candidates get paid on time, which are protected by trade credit insurance in case its client cannot pay them.

Peopleforce contacted us for assistance after its credit insurer withdrew cover for a £2 million contract with an aircraft maintenance company in Estonia after the outbreak of COVID-19 and global travel restrictions had a significant impact on the aviation industry.

The company needed to ensure they had financial protection in place to cover advance payments to 50 contractors in Turkey and 100 contractors in Estonia worth hundreds of thousands of pounds. A bespoke Export Insurance Policy (EXIP) from UKEF helped bridge the financing gap, ensuring Peopleforce could continue to support their client and safeguard a significant revenue stream for the company.

Joe Brown, Peopleforce Director, said:

> UKEF’s support has been invaluable at a time of great uncertainty and upheaval. Many of our clients have been significantly affected by the restrictions imposed due to the outbreak of coronavirus. UKEF’s cover allows us to maintain a much needed proportion of our exports and will help protect the future of the business.

Lisa Maddison Brown, UKEF Export Finance Manager for Kent, East Sussex and West Sussex, added:

> Trade and exports will be vital as companies across the UK look to recover from the impact of the Coronavirus. I am delighted that UKEF’s export insurance was able to help Peopleforce retain this important contract.

Putting the right finance and insurance in place can give you the exporting edge, helping you to win contracts, fulfil orders and get paid.

[Tell us about your business]

[£230 million contract to bolster Royal Navy torpedoes]

News story

Cutting-edge Spearfish and Sting Ray torpedoes carried by the Royal Navy are receiving a £230 million maintenance uplift.

The Spearfish and Stingray torpedoes are cutting-edge capabilities, carried on a number of Royal Navy submarines. Crown copyright.

Spearfish torpedoes – which use sonar to home in on targets – are carried by the Royal Navy's Astute class and Trafalgar class hunter-killer submarines and the nuclear deterrent Vanguard class to neutralise underwater and surface threats.

While Sting Ray torpedoes are deployed on Anti-Submarine Warfare mission, including frigates, Merlin and Wildcat helicopters. They provide a close attack capability which also automatically targets in on enemy threats.

Supporting over 100 skilled jobs at the BAE Systems Broad Oak facility in Portsmouth, the Torpedoes Repair and Maintenance (TRAM) contract will run for six years. TRAM supersedes the Torpedo Capability Contract (TCC) with BAE Systems which ran for 10 years.

Defence Minister Jeremy Quin said:

> Our Royal Navy submarines require sophisticated defensive and

> offensive underwater weapons to deter a wide range of surface and subsurface threats.
>
> This £230 million investment is crucial in safeguarding the availability and effectiveness of these highly capable weapon systems whilst supporting skilled British jobs.

The contract will help guarantee the Royal Navy's inventory of Spearfish Heavyweight and Sting Ray Lightweight torpedoes. A full suite of maintenance activity is also included. This support ranges from technical repair, provision of spares, stock management, logistics and trials support.

Ensuring the torpedoes are safely stored is vital, so the contract also offers safety, environment and engineering advice to support the continued secure use of the weapons.

Dr Brooke Hoskins, Director of Products and Training Services for BAE Systems Maritime Services said:

> BAE Systems' teams have developed, manufactured, and supported the UK's torpedoes since the 1970s. Torpedoes have a vital role in layered anti-submarine warfare. We are incredibly proud to continue delivering these critical support services to the Royal Navy through a combination of our agile and innovative forward thinking and our heritage and expertise.

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Sustainability agreements: CMA issues information for businesses

One of the ways in which businesses are striving to meet climate change

targets or other environmental objectives is through ‘sustainability agreements’. These are arrangements between businesses to work together to do things such as reduce their carbon footprint or improve the environmental standards of their products.

It is important that competition law does not become an unnecessary obstacle to sustainable development, and that businesses are not deterred from taking part in lawful environmental initiatives for fear they may breach competition law. It is also important to make sure that markets remain competitive and open to innovation.

With this in mind, the CMA has issued an information document to help firms navigate competition law as it currently stands.

The document outlines the current framework for the self-assessment of competition law risk and sets out the key points that businesses and trade associations should consider when making sustainability agreements.

Stuart Hudson, CMA Senior Director for Strategy, said:

> Supporting the transition to a low carbon economy is one of the CMA’s strategic objectives and we want to help businesses to achieve their sustainability goals without breaching competition rules.
>
> That’s why we’ve published concise information and advice for firms and trade associations on how to stay on the right side of the law when producing sustainability agreements.

The CMA has also issued a short blog, outlining the current competition law debate on sustainability issues.

The CMA will also progress work in relation to its other climate change priorities, including its market study into electric vehicle charging and its investigation to tackle false or misleading environmental claims about products and services that affect consumers.

Notes to editors

1. The information issued by the CMA should not be viewed as a substitute for legal advice or relied upon as a complete statement of the law. References to formal guidance on the application of competition law can be found on the CMA’s website.
2. The CMA is engaged in the global discussion about competition rules and sustainability policy. For more details see our blog post.
3. Read more about how the CMA is supporting the transition to a low carbon economy in its 2020/21 Annual Plan.

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