



James Alexander

Disclosures without the drama

➤ **As policymakers grapple with the future of pension sustainability reporting, UK Sustainable Investment and Finance Association (UKSIF) chief executive, James Alexander, sits down with Sophie Smith to call for smarter, more coherent disclosure rules that drive real-world outcomes, rather than red tape barriers**

The past few months have seen a flurry of developments in climate and sustainability reporting, with the Financial Conduct Authority (FCA) exploring how to streamline disclosures and a raft of government consultations, including plans to review pension sustainability reporting. In light of this, how can policymakers ensure greater coherence between the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Disclosure Requirements (SDR), and emerging transition plan frameworks, without overburdening trustees?

With the UK's sustainable finance regulatory landscape continuing to evolve for pension schemes and investors at large, we would like to see a more holistic view adopted by policymakers that more clearly links the role of disclosure to the delivery of real-world, sustainability outcomes.

There is a need to promote

proportionality in sustainability disclosures for smaller pension schemes in particular, given their more limited resources and capacity to comply when

compared to other actors, such as large listed companies and asset managers, for example. Promoting coherence across sustainability reporting could free up valuable resources and capacity for schemes to report on those topics of most direct interest to beneficiaries.

One way of enhancing coherence across existing rules would be for policymakers to confirm the UK's approach to the adoption of the Sustainability Reporting Standards (SRS) S1 and S2 that was recently consulted on. Over time, we hope this can help alleviate the sustainability reporting burden for various groups, including pension schemes, through a rationalised, common language for sustainability-related financial disclosures. As part of this, the move from TCFD-aligned rules to the SRS should be carefully managed and we would hope to see the SRS effectively subsume TCFD requirements, reducing duplication while promoting a high standard of reporting.

Reporting frequency is another area that could be considered further to encourage a longer-term, more strategic mindset in schemes' approaches to disclosure, while addressing coherence. The revised UK Stewardship Code is a model to consider in light of its shift to less frequent reporting on stewardship policies compared with outcomes. Triennial reporting, rather than annual cycles, for schemes in regards to policies and other more static areas could be considered.

➤ **As part of its work on climate reporting, the government has asked The Pensions Regulator (TPR) to explore the practicalities of transition plan requirements for schemes and to develop and test a voluntary net-zero transition plan template that is fit for occupational pension schemes. What do you see as the most important issues for TPR to address in this work?**

Among its priorities, we hope that TPR helps to identify new ways to support the integration of transition plan requirements with existing TCFD requirements for schemes and other climate-related reporting. Its work could

draw closely on the TPT's Asset Owners Sector Guidance in the development of the template and focus on standards for larger UK schemes.

We look forward to supporting TPR's work on the template for pension schemes in the coming months and we would welcome clarity on envisaged next steps and timelines. This includes the role of the Department of Work and Pensions (DWP) in endorsing the template and potentially embedding this within future requirements for schemes, alongside clarification on the scope of UK schemes impacted by rules. On scope, policymakers may wish to consider a tailored approach towards different types of schemes to help promote an efficient roll-out of transition plans across the pensions industry.

➤ Many schemes still face data and resource challenges in developing credible transition plans. From UKSIF's perspective, what are the most urgent steps pension scheme trustees and their advisers should take now to build capability and prepare for future regulatory expectations?

Pension scheme trustees and their advisers should consider building further capacity now, for example, by developing familiarity with transition planning using a range of materials. This includes the Transition Plan Taskforce's (TPT) Asset Owners Sector Guidance and TPR's forthcoming voluntary template.

Schemes should work with their advisers and asset managers to help integrate climate transition considerations into risk management processes, stewardship policies, and their investment strategies.

➤ And how should policymakers take these limitations into account when developing reporting requirements?

Policymakers should be aware of the resource constraints that some pension schemes, particularly smaller schemes, may face and apply proportionality in future reporting requirements on transition plans. There should be effective coordination between government departments and regulators to ensure any requirements are both high quality and proportional for trustees.

➤ How can pension schemes ensure their transition plans go beyond box-ticking and genuinely influence investment decisions, supporting real-economy decarbonisation? What safeguards or policy reforms would UKSIF like to see to make sure new reporting rules drive meaningful progress rather than just increasing administrative burden?

There is a role for policymakers to ensure that new reporting requirements, such as transition plans, can support meaningful progress and real-world outcomes versus administrative burden alone. Policymakers should initially focus on high-quality disclosure of

transition plans rather than mandating implementation of plans at this stage, which could help avoid risks of 'transition plan hushing'.

The effective integration of transition plans within existing climate reporting for UK pension schemes could help unlock the value of transition planning for schemes in the long run. The process behind creating a robust transition plan will be especially important for many schemes in light of their inherently longer-term investment horizons, by encouraging schemes to engage in longer-term, strategic thinking. This includes in terms of managing the risks and opportunities of the transition and how these could impact their fiduciary duty and their beneficiaries' interests.

➤ There's been renewed political focus on pension investments recently. Are you concerned about the growing political influence over pension investment decisions – particularly in light of the new reserve powers in the Pension Schemes Bill and recent comments from the Reform Party?

We do have ongoing concerns about the risks of growing politicisation of UK pension schemes' investment decision-making. We share the views of industry and others, such as the Bank of England Governor, that the government's proposed mandation power carries various risks, and we think it is not aligned with schemes' fiduciary duties. Despite the government's claim that they do not intend to use the power, once such a power exists, political actors could potentially seek to use it to redirect investment in the future.

We believe that wider economic reforms, such as speeding up planning processes for clean energy projects and other nationally significant projects, should be the priority for attracting domestic investment from UK pension funds.

➤ Written by Sophie Smith

