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My Lords

PENSION SCHEMES BILL 2020

I am writing to provide you with some background to the Government amendments tabled on Tuesday 11 February.

The amendments cover three areas:

Charge cap on CDC schemes (amendment to Schedule 3)

A charge cap for defined contribution schemes has been in force since April 2015 to protect individual scheme members from high charges. This cap, which has received cross-party support, has been a success. The Government intended to ensure that members of CDC schemes also benefited from such protection, and our response to the consultation on delivering CDC schemes, confirmed our intention to implement an annual CDC charge cap set at 0.75 per cent of the value of the whole CDC fund, or an equivalent combination charge.

On further consideration of the regulation-making powers, these amendments amend the Pensions Act 2014 to ensure we can make appropriate provision for pooled funds.

Extending the transfer rights provision (amendment to Clause 124)

Individuals have a statutory right to transfer their pension savings to another registered pension scheme. To limit the number of destinations, clause 124 of the Bill inserts a power into the Pension Schemes Act 1993 enabling the Secretary of State to make regulations prescribing the conditions that must be met in order for a member to exercise the right to transfer their pension benefits to another scheme. It is intended to protect members falling victims to pension scams.

However, the original clause omitted to include transfers from unfunded schemes. This amendment addresses this omission and will ensure that transfers from unfunded public sector schemes are also subject to the regulatory power being taken by the clause.

Climate governance and disclosure (new clauses)

These amendments take powers to mandate effective oversight and disclosures by occupational pension schemes in relation to climate risk – with an immediate focus on disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). This allows Government to build on the expectation set out in last year's Green Finance Strategy, that large asset owners would carry out TCFD-aligned disclosures by 2022, by moving towards mandating such disclosures at the appropriate time.

The amendments would permit the Secretary of State to make regulations requiring pension schemes of prescribed descriptions to publish information concerning climate risks and opportunities, and to do so in line with guidance issued by the Secretary of State.

Although pension schemes already have some legislative requirements around climate change, several of those requirements can be met through standard disclosures, and outputs of some requirements do not need to be made publicly available.

Whilst the Government has powers to make schemes give some information to pension scheme members, it does not have powers to require schemes to review exposure, assess risks or publish the information. A duty on pension schemes to report publicly and to their members in line with the TCFD framework will allow trustees to share and learn from best practice and allow members and others to question poor policies or disclosures.

This will drive a step-change in thinking by pension schemes and it will also provide more granular detail on the range of ways in which pension schemes are responding to the risk of climate change.

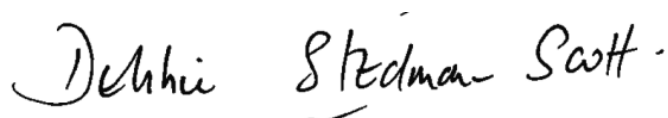
We have not set any timescales in primary legislation in which TCFD disclosures will be made mandatory. We recognise the challenges faced by pension schemes in complying with some of the requirements, and the

need to consider the position of occupational pension schemes in the wider financial ecosystem.

Following the completion of the Bill's passage through Parliament, the Government therefore intends to publicly and widely consult on the detail of implementing TCFD for large occupational pension schemes, and it will seek views on – and have especial regard to – the timing of any duties.

I hope this letter is helpful and will place a copy in the House Library. If you would like any further information on these amendments or on the Pension Schemes Bill more broadly, please contact the Bill team, by email in the first instance at CAXTONHOUSE.PENSIONSBILL2019@DWP.GSI.GOV.UK or by phoning Mike Jewell, on 020 7449 5264.

With best wishes

A handwritten signature in black ink that reads "Debbie Steadman Scott". The signature is written in a cursive, flowing style.

**BARONESS STEDMAN-SCOTT
MINISTER FOR WORK AND PENSIONS (LORDS)**