

UKSIF response- DWP Consultation: Trust-based pension schemes: Trustees and governance, building a stronger future

About UKSIF

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system and wider economy that works for the benefit of the environment and society.

UKSIF represents a diverse range of global and UK-based financial services institutions and institutional investors committed to these aims, and our more than 300 members- representing over £19trn of global assets under management (AUM)- include investment managers, pension funds, banks, wealth managers, financial advisers, ESG data and research providers, NGOs, among other groups. UKSIF and our members have played a prominent role over recent years to facilitate a more supportive policy environment in the UK for the growth of sustainable finance and to support the private finance sector's efforts in advancing the transition to a more sustainable future. For more information, please visit www.uksif.org.

Introduction

We welcome the opportunity to respond to the Department for Work and Pensions (DWP) consultation on ‘Trust-based pension schemes: Trustees and governance, building a stronger future.’ Given the ongoing challenging geo-political environment, increasingly complex environmental and social context in which UK pension scheme trustees operate, and expansion in trustees’ responsibilities in recent years, the consultation from DWP is timely and very welcome.

Our response below draws on our ‘*Unlocking UK pension capital for sustainable growth- Recommendations from UKSIF’s pensions review*’ published in April 2025, as well as our previous response to the DWP’s call for evidence. UKSIF’s ‘pensions review’ outlined a series of policy recommendations on behalf of our asset owner network, aimed at putting the UK’s pension assets to work more effectively in the wider economy to drive positive outcomes for pension savers, while also providing benefits for the environment and society.¹

We focus on a subset of the consultation questions most directly relevant to UK trustees’ capabilities and understanding of sustainability-related risks and opportunities, such as climate change and other systemic risks. We express our broad support for the recent direction of travel of policymaking aimed at strengthening trustee governance, including in relation to financially material sustainability issues.

Good-quality and effective trusteeship remains absolutely essential to deliver good, sustainable member outcomes over the long term.

In particular, in an environment that is being increasingly impacted by systemic risks such as climate change, nature loss, demographic change, geopolitical uncertainty, and rapid development of new technologies such as artificial intelligence. Many trustees, and investors at large, are turning their attention more and more towards active consideration of these economy-wide risks, aware that these cannot be sufficiently diversified away from and may undermine the conditions which make long-term market exposure valuable.

As highlighted in our ‘pensions’ review last year, we hope to see many UK trustees’ depth of understanding on these financially material topics continue to improve over the coming years. We do recognise the capacity and time constraints often faced by trustees, particularly lay trustees, and believe that the principal barriers to more effective trusteeship do not arise from a lack of commitment.

We expect that DWP’s work through this consultation and the need to support trustees on considering systemic risks will remain very relevant over the long term, even as consolidation in the UK market progresses over the coming years. Partly, this is because of our expectation that a relatively significant number of smaller occupational pensions schemes will likely remain in the market in future.

Currently, despite some progress in the UK in recent years, some trustee boards’ expertise on sustainability remains relatively uneven with trustees still at different levels of understanding.

¹<https://uksif.org/uksif-report-unlocking-uk-pension-capital-for-sustainable-growth-recommendations-from-uksifs-pensions-review-2>

Trustees can often find it challenging to move beyond an acknowledgement and assessment of some systemic risks and towards practical actions in response to these. This was an important finding from our collaborative report with Scottish Widows last year on ‘*Systemic risks: A framework for portfolio resilience*’.²

There can be gaps across the UK’s pensions sector in terms of treating material sustainability-related risks as relevant financial risks, partly owing to confusion among some groups on how these issues can be treated within the current interpretation of fiduciary duties. Among those trustees that do understand these factors, there can sometimes be a gap in translating this desire into practical short-term actions.

With the right policy and regulatory frameworks in place, alongside an enhancement in the dialogue between trustees and their advisers, further educational efforts, and wider steps, we are confident that many UK trustees will increasingly be able to thoughtfully consider and respond to the impacts posed by systemic risks on beneficiaries’ outcomes.

Our response sets out some of the ways that we believe this could be achieved.

Summary- main points in UKSIF’s response

- **The role of policy in addressing barriers to good trusteeship:** We note a number of barriers in our response in relation to consideration of systemic risks, such as practical understanding and capacity, complexity in the reporting landscape, and uncertainty over fiduciary duty. With expectations on trustees continuing to quickly evolve, we would like to see regulators, including TPR, continue to evolve existing guidance over time to support trustees fulfil their legal duties and consider climate risk as part of this.
- **Future guidance and support for trustees:** Future iterative guidance for trustees- for example through updates to TPR’s existing Trustee Toolkits and other materials- should more directly incorporate a range of systemic risks beyond climate change, such as nature loss, human rights issues, and artificial intelligence. These pillars could be extended over time to include other systemic risks, with the overall objective to promote a good-quality ‘minimum baseline’ of awareness and understanding on these risks among trustee boards.
- **Clarifying fiduciary duty in regard to systemic risks:** We continue to identify issues relating to trustees’ interpretation of fiduciary duty in the context of growing recognition of the financial materiality of climate change and other systemic risks. We hope to see government’s upcoming statutory guidance provide further certainty and confidence for schemes, including those considering a range of sustainable and responsible investment approaches and more broadly investments in private markets in the UK.

²<https://uksif.org/systemic-risks-a-framework-for-portfolio-resilience/>

1. What do you think works well in the current trusteeship and governance system?

Generally speaking, despite the need for further ongoing improvement in standards of trusteeship in the UK, we believe that many trustees are knowledgeable and committed to delivering good outcomes for pension scheme members.

As highlighted in our response to DWP's call for evidence in 2023 on '*Pension trustee skills, capability, and culture*', we believe most UK trustees have good awareness of the legal requirements they are expected to adhere to and have largely met these effectively. For example, as outlined in the expectations set out in The Pensions Regulator's (TPR's) Code of Practice.³

A 'member-first' perspective has been evident in recent years among trustee boards with the UK's trust-based governance model encouraging decision-making that is grounded in trustees' fiduciary duties and focused on promoting members' long-term interests. Other strengths in the UK's trustee model have been a recent rise in professionalisation of trustees that has enhanced schemes' investment governance and risk management, while assisting schemes to respond to increasingly complex, technical areas as the UK's pensions landscape has quickly evolved.

On climate change and wider sustainability topics, there have been positive developments in terms of trustees' interest and consideration of these issues in recent years, in particular on climate-related financial risks.

There has been a gradual, growing understanding of the need to treat these areas as relevant financial factors to investment decisions, and recently we have seen an expanded shift to factors beyond climate change mitigation. For example, including physical climate risks, biodiversity and nature degradation, human rights and other financially material social factors.

In part, this has been a response to the appetite among UK scheme members' for climate change in particular to be actively considered by schemes. Research from one of our members, Standard Life, has shown that 81% of members expect Standard Life to manage climate transition risks and opportunities on their behalf.⁴

Regulatory expectations have also been a driver, with TCFD-aligned disclosure requirements and other sustainability-related reporting initiatives, such as stewardship and vote reporting, supporting a more structured and regular consideration of climate risks within trustees' decision-making and strategies. On stewardship specifically, there has been good progress with stewardship practice and reporting becoming more developed, for example with the UK Stewardship Code helping improve transparency and quality of reporting.

However, with expectations on UK trustees continuing to evolve, both on sustainability and wider issues, the UK's traditional governance model and system of trusteeship now require a period of reform. This is needed to respond effectively to new challenges and systemic risks, both sustainability-related and wider risks, which confront all trustees and wider groups in the financial system and society at large.

³UKSIF response, Department for Work and Pensions, Pension trustee skills, capability and culture: a call for evidence, <https://uksif.org/wp-content/uploads/2023/09/UKSIF-Response-Pension-trustee-skills-capability-and-culture-a-call-for-evidence-5-September-2023.pdf>

⁴https://library.standardlife.co.uk/Responsible_Investing_Viewpoint.pdf

These systemic risks include the rise of artificial intelligence, ongoing geopolitical risks, and the increasingly visible impacts of climate change and other ESG risks impacting long-term financial returns. Wider market-wide trends, such as ongoing consolidation in the UK pensions market, also support the case for an enhanced role for trustees to respond to sustainability risks. We hope this can enhance the capabilities for schemes to address these issues where relevant to the resilience of their investments.

With the role of trustees continuing to be hugely varied and complex- not only in regards to sustainability but their wider duties- ongoing support will be required from this group and there remains a prominent role for policymakers as part of this which we highlighted in our ‘pensions review’ published on behalf of our UK asset owner membership network.⁵

2. What are the barriers to good trusteeship?

In relation specifically to consideration of sustainability-related issues on behalf of UK pension scheme members, the barriers here include the following from our perspective.

Complexity in the UK’s sustainability reporting landscape and wider industry frameworks

As highlighted in UKSIF’s ‘pensions review’, many trustees in the UK continue to experience challenges in navigating the complexity in the domestic sustainability reporting environment and wider industry frameworks on sustainability. This has led to a tendency among some trustees to adopt a predominantly compliance-led ‘tick box’ mindset to disclosures, as opposed to a focus on strategically embedding insights from disclosures into day-to-day decision-making.

Understanding fully, and keeping pace with, the myriad of formal regulatory rules, guidance, and industry frameworks can be difficult for trustees, particularly on smaller schemes, and also practically translating these into priority practical actions that can be taken on behalf of members. We expect this will continue in the coming years with new requirements such as the UK’s Sustainability Reporting Standards (SRS) and transition planning being considered by policymakers. We wish to see these reporting initiatives prioritised by policymakers, with less relevant and less decision-useful frameworks, such as the TCFD, gradually superseded over time,

Broadly speaking, a more holistic approach to sustainability-related reporting, and wider financial reporting, is therefore needed by policymakers and industry. Specifically, which can more explicitly link the role of sustainability-related disclosures to delivery of real-world outcomes and promoting more longer-term investment approaches and thinking among schemes. We touch on this further below in our response to Q3.

Practical understanding of systemic risks

Closely linked to the previous point, some UK trustees’ capabilities and understanding on systemic risks such as climate, nature, human rights, and emerging technologies such as AI can be quite

⁵<https://uksif.org/uksif-report-unlocking-uk-pension-capital-for-sustainable-growth-recommendations-from-uksifs-pensions-review/>

uneven. This may risk, in our view, creating inconsistent outcomes for UK members across different schemes.

Although there is a desire among some trustees to more proactively respond to newly evolving systemic risks, such as physical climate risks and nature loss, there can often be barriers for trustees in terms of identifying the appropriate ‘starting point’ to respond and capacity constraints here. This was identified as a challenge in our collaborative report with Scottish Widows last year, ‘*Systemic risks: A framework for portfolio resilience.*’

Other relevant barriers include: collective action challenges, complexities in measuring systemic risks and translating these into materiality assessments, definitional challenges (e.g. confusion over these risks and how to address them), and a misalignment in incentives to address these risks given the emphasis still often given to short-term performance metrics and incentive structures in investing. This is compounded by the complexity of many systemic risks such as climate change, and the depth of understanding that is often required in order to address these issues effectively.

There are particular challenges now around more nascent areas on sustainability, specifically beyond climate mitigation alone such as biodiversity loss and social inequalities with good-quality data less readily available for example for schemes.

Part of the challenge relates to capacity constraints, as some trustees experience difficulties in responding to a high volume of reporting requests from regulatory authorities and other groups. This is a more unique challenge arguably for trustees compared to other parts of UKSIF’s membership, given their relatively more limited resources and capacity to comply with reporting requirements compared to, for example investment managers and large listed companies.

Broadly speaking, there remains a clear need to better support all trustees in their efforts to respond to the challenges presented by the global transition towards net-zero emissions. Trustees have an important part to play and need to be supported as far as possible to maximise their role.

Continued uncertainty over trustees’ fiduciary duty

The fiduciary duty of a trustee and its interpretation in the context of growing recognition of the financial materiality of climate change, and other systemic risks, remains an area of enormous complexity and continued confusion for many trustees in the UK. Perceived legal ambiguity among some trustees, and others, has meant that a cautious approach has been taken by some trustees, for example in considering systemic risks and members’ standard of living in retirement. We therefore very much welcomed government’s commitment to consult on statutory guidance for UK trustees and have recently contributed our views towards this work to the DWP.

In recent years, UKSIF has highlighted the need for further clarification despite previous efforts to enhance clarity for trustees from the independent Law Commission and more recently the Financial Markets Law Committee (FMLC). In regards to the FMLC specifically, while this was largely well-received by some trustee boards in the UK, it has yet to be socialised with a wider group of trustees and their advisers and meaningfully influence many trustees’ decision-making in practice.

We hope that government's work aimed at clarifying these duties through consulting on new statutory guidance will progress quickly in the first half of this year in line with government's commitment. Further clarifying the relationship between trustees' fiduciary duty and financially material systemic risks will be important to enhance trustees' confidence and minimise litigation concerns.

The role of trustee advisers and consultants

The role played by a range of advisers to UK trustees on sustainability issues- from investment consultants to lawyers, actuaries, and asset managers- has grown more and more over recent years, as expectations on trustees to respond to a range of issues on behalf of members have increased further. This is particularly relevant for smaller UK schemes with more limited budgets and facing disadvantages in terms of accessing good-quality data and research for example.

Many trustees have increasingly sought to delegate certain decision-making on sustainability to their advisers, particularly where they may lack specialist knowledge on ESG issues. Naturally, the role of advisers needs to continue to evolve in order for trustees to respond as effectively as possible to material sustainability issues.

Our 'pensions review' report highlighted several recommendations for policymakers to consider relating to the role of investment consultants, including a recommendation that the activities of this group that at present fall outside of regulation are brought into the FCA's formal regulatory perimeter. We believe this would be a positive initial step for policymakers to consider.

Separately, our review noted the following issues would need to be considered as part of a high-quality regulatory framework for consultants: the extent to which rules build off existing expectations such as FCA's Senior Managers and Certification Regime (SMCR) applying to some investment consultants; the extent to which a framework prioritises rules at the entity level versus individual level; and minimising overlaps with current industry codes such as the Institute and Faculty of Actuaries' (IFoA's) guidelines for professionals providing investment consultancy services.

Cultural barriers and other issues

Some questions arguably remain among some trustee boards on their responsibilities and ability to actively manage sustainability risks, though this is starting to change more and more.

More broadly, there is a need to champion the vital role of the trustee and for this to be more directly highlighted in a positive light, challenging a prevailing negative perception in some quarters on trustees. There has often been some misunderstanding of their role and we touch on steps policymakers could take alongside the pensions industry to potentially remedy this.

From our view, other barriers to good trusteeship include: collective action challenges, a lack of clear policy signals from government, a need to improve engagement with scheme members and further understand members' expectations and views; fragmentation in the UK's pensions system; misalignment of incentives in the investment chain- for example with an emphasis often on short-

term returns among investment managers and other advisers; and a culture of risk-aversion and conservatism among some trustees.

3. Looking ahead to 2030 and beyond, what further support will trustees need to ensure effective scheme governance?

In our response to this question, we again primarily focus on climate and sustainability considerations specifically. In our view, the following support will be needed for UK trustees over the coming years.

Further evolution in the UK's sustainability reporting landscape and wider frameworks

There is now a need for sustainability-related reporting in the UK to evolve further for pension scheme trustees, and indeed investors and companies at large, with the objective of promoting longer-term, strategic thinking and investment approaches among trustees. The UK reporting landscape is now at an important juncture and clarity is required over future reporting requirements for UK trustees.

From our perspective, we believe that certain existing requirements could be gradually phased out over time, or at least for the reporting frequency for some requirements to be reviewed. More decision-useful and forward-looking standards, such as the UK's SRS S1 and S2 alongside transition planning should be prioritised and would incentivise a direct shift in investment behaviour and culture among schemes, supporting sustainable investment approaches and real-world outcomes.

Our 'pensions review' set out an envisaged long-term roadmap for the evolution of sustainability reporting for UK schemes, including the creation of an industry-led taskforce to independently consider recommendations on the future sustainable finance reporting architecture for schemes.

On transition planning, this is naturally well aligned to the long-term, best interests of beneficiaries, due to the forward-looking, material information provided by transition plans and the strategic thinking that can be actively encouraged by consideration of these plans. Our recent research report- '*Unlocking Growth Through Enhanced Sustainability Data*'- reiterated the view of many investors, including pension funds, on the need for much better quality forward-looking climate risk data.⁶

Ongoing training and 'knowledge sharing' on sustainability topics

We continue to identify a need for ongoing, industry-wide training for all trustees, both on sustainability topics and their existing legal duties. We are already increasingly seeing more and more training on systemic risks in the UK's pension industry, which is welcome.

We would be supportive of consideration of a new role from TPR here specifically. For example, comprehensive training opportunities for all trustees (regardless of the size of trustee boards),

⁶<https://uksif.org/wp-content/uploads/2025/12/UKSIF-Unlocking-Growth-Through-Enhanced-Sustainability-Data.pdf>

encompassing sustainability-related training modules to further assist in evaluating sustainability topics in decision-making and strategies.

TPR could consider more direct collaboration with pensions industry bodies, professional accreditation groups, and civil society organisations on ‘knowledge sharing’ opportunities, and seek to enhance the quality of existing trustee training and accessibility of training on systemic risks. Continued signposting to trustees to decision-useful industry-wide initiatives and resources, particularly on emerging areas like nature loss and physical climate risks, will also be important, we expect, to promote a continual cycle of peer learning.

We would continue to encourage TPR, DWP and other policymakers to continue to highlight those resources that may be most relevant according to the scheme’s size and other factors, which will be important to take into account. Outlining clear expectations on trustees’ engagement with relevant sustainability frameworks would be valuable, which we would note that TPR has recently confirmed in relation to the UK’s Transition Plan Taskforce (TPT), TNFD framework, and Taskforce for Social Factors (TSF).

New guidance from regulators on sustainability

Linked to this previous point, regulators should continue to evolve their existing guidance over time, on an ongoing basis, to support schemes in fulfilling their current legal duties and also considering systemic risks.

Future iterative guidance for trustee boards should build on existing regulatory expectations from TPR, which to date has provided some valuable best practice guidance for trustees in various areas, including in relation to climate-related disclosure.

Updated guidance- for example through updates to TPR’s Trustee Toolkit- should more directly incorporate a range of systemic risks beyond climate change, such as nature loss, social inequalities, human rights issues, and artificial intelligence.

These new pillars could be extended over time to include other areas, with the aim to promote a ‘minimum baseline’ of awareness and understanding on sustainability among all UK trustee boards. We believe this would be a more effective approach than mandating a single trustee with direct responsibility for sustainability, which could risk siloing these responsibilities on a trustee board. Separately, regulators could encourage all trustee boards to consider a ‘board skills matrix’ to help assess where skills gaps may lie, including on ESG topics.

This practical expertise gap analysis and exercise could serve as a proportionate tool to assess trustee capability, identify gaps and inform training plans. It could help identify greater responsibility for sustainability oversight on a trustee board and help to integrate ESG issues into schemes’ decision-making. This approach is already used by some UK schemes.

This initial approach from schemes could inform later down the line more formal requirements in future on sustainability knowledge and capabilities. This would be our recommendation versus strict, mandatory requirements from regulators from the onset.

Promoting a step change in the relationship between trustees and their advisers

As well as advisers considering their efforts, trustees could take greater steps to articulate their expectations on financially material sustainability issues to their advisers.

For example, by setting more specific objectives for their advisers, such as their investment consultants relating to environmental, nature, and social factors which the trustees consider to be financially material, tailored to their schemes and investments. In regards to their investment managers, trustees should consider where appropriate integrating specific language on systemic risks into investment management agreements (IMAs) and when doing so then hold their managers accountable for addressing these risks, while balancing these with investment objectives.

This does not require necessarily every trustee to be a subject matter expert on systemic risks, though we think it does require trustee boards to be able to ask informed questions, challenge their advisers, and effectively interpret sustainability-related disclosures. Industry guidance in recent years has sought to support trustees in their interactions with their advisers, such as the DWP-sponsored Taskforce on Social Factors (TSF) guidance.

Other related steps that trustees could consider, depending on the scale of their institution and influence, include: consider further a manager's approach to systemic risks at the selection stage, involvement with policy advocacy opportunities (whether directly or through membership groups), and considering collaborative research on the prioritisation of systemic risks and cross-stakeholder collaboration in responding to these.

Clarification to UK trustees' fiduciary duty

We strongly support government's plans to consult on new statutory guidance in the first half of this year to help clarify these duties for trustees in regards to systemic risks such as climate change.

We would like to see the following issues considered as part of the development of the guidance: explicit clarification that climate change is a relevant 'financial factor' for consideration, building on the FMLC's 2024 report and more recent regulatory expectations (e.g. from TPR); clarification that trustees are able to consider sustainability factors (and other issues) across pension scheme members' lifetimes (not just the lifetime of the scheme); and guidance on how trustees can fairly take into account different members' standard of living and their different views.

We look forward to seeing swift progress from government in consulting on the statutory guidance with industry stakeholders and we stand ready to continue to support these efforts.

11. What role can government and regulators play in helping schemes to attract a diverse and talented pool of individuals to trusteeship?

In our response to the DWP's 2023 consultation, we reiterated our support for an ongoing, permanent programme of activities to further support the role of trustees in the UK and importantly to directly highlight their valuable role to a wide range of stakeholders, which has often been relatively undervalued over recent years.

This programme could be co-ordinated by government and regulators, with close involvement from the pensions industry, or alternatively an 'industry-owned' model. Part of its focus could be to ensure that all UK trustees are meeting a high level of standards and playing their part, as far as possible, in contributing to the UK's short and long-term climate objectives and other sustainability goals.

This programme could be based on previous thinking from UK policymakers along the lines of a 'Year of the Trustee' programme considered by DWP, which could be considered as a specific output of this consultation. Another objective of the programme could be to encourage a far wider and more diverse pool of individuals to apply as trustees, with expertise beyond finance, including from civil society, the NGO community, academia, the environment, and sciences.

This is necessary as various studies have continued to show that trustees are overwhelmingly older, white men. Improved diversity among trustee boards could help tackle knowledge gaps among boards on certain sustainability topics, such as market-wide risks that may have potential to harm schemes' ability to achieve their financial obligations. Much greater diversity on trustee boards would also enhance a board's wider knowledge of investment opportunities in the wider economy

16. What skills will trustees of trust-based pension schemes need in order to be an effective and efficient trustee board? For example, areas such as leadership experience, negotiation skills, investment management, (including sustainability-related investment management), communications, financial planning? What other areas should trustees have proficiency in?

As highlighted above, systemic risks, both sustainability-related and more widely, require greater prioritisation from all UK trustees, their advisers, and investment managers.

We believe trustee boards will need to have sufficient knowledge and expertise on these issues in order to oversee and respond to long-term financial risks to beneficiaries.

19. What support/continuing professional development (CPD) would you like to see put in place for lay trustees? Should all trustees be accredited? Would it lead to a trustee shortage? Who would pay for it including time as well as any L&D costs?

On sustainability topics specifically, as highlighted previously in our response we would support enhanced trustee education and professional development, though we would recognise concerns about overly prescriptive certification requirements on sustainability being adopted.

In part, this is to avoid mandatory certification requirements encouraging a 'tick-box' mentality among trustees and instead ongoing, practical learning and further support from regulators-tailored to schemes' size and structure- would be preferable in our view.

20. How can we ensure trustee boards take into account the perspectives of members in their decision making?

As highlighted previously in our response, promoting much greater diversity in the broader pool of trustees should help over time to ensure that members' perspectives are taken into account more meaningfully in schemes' decision making.