

**MINUTES OF THE
COVENANT COMMITTEE
9.00 THURSDAY, 13TH JANUARY 2022
AS A TEAMS MEETING**

Present:	Samantha Pitt (Chair)	Law Debenture Pension Trustees
	Bob Alsop	Crowe U.K. LLP
	Nikki Ayriess	LCP
	Adrian Bourne	Willis Towers Watson
	Paul Brice	Grant Thornton UK LLP
	Matt Brown	Isio
	Ryan Cox	Aon
	Fred Emden	Society of Pension Professionals
	Jane Evans	Ernst & Young LLP
	Daniel Gerring	Travers Smith LLP
	Chris Handley	Barnett Waddingham LLP
	Andrew Horner	Buck
	Peter Hughes	Travers Smith LLP
	Samantha Pitt	Law Debenture Pension Trustees
	Ian Steward	BDO LLP
	Jacqui Woodward	Punter Southall Pension Solutions Limited
In attendance:	Laura Santamarina	Society of Pension Professionals
	Matthew Williams	Travers Smith LLP

1. APOLOGIES AND WELCOME

Apologies were received from Arabella Slinger and Crevan Begley.

Not in attendance: Atul del Tasso Dhupelia

2. MINUTES OF THE COMMITTEE MEETING HELD ON 8TH DECEMBER 2021 (CIRCULAR 2920)

The minutes were agreed.

3. MATTERS ARISING

1) To note SPP's response to TPR's consultation on New enforcement policies

There was nothing to update

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4. ECPA PAPER ON CLIMATE RISK AND COVENANT (DRAFT PAPER AND STRAWMAN FRAMEWORK)

ECPA Paper

- Collaboration with the ECPA was raised in the previous meeting. The ECPA is willing to work with the Committee on this. A draft of the paper has been shared with the Committee in confidence and it is hoped that it will be signed off on 25 January 2022. ECPA are not seeking editing comments, only support/comments of substance.
- Agreed that the Committee will make clear that the focus is on climate change which is only one aspect of the "E" within ESG.
- 9 February 2022 SPP event – It is intended to involve a discussion of the ECPA paper and the Committee will talk about other aspects of ESG and covenant and the launch of the paper will follow later. There is potential for a follow-up event later in the year.
- One member noted that the "S" of ESG has largely been forgotten about recently.
- Summary of ECPA paper – working draft form
 - The paper looks at the two key impacts that Climate Change can have on the covenant of sponsors: their financial capacity and, for some sponsors, longevity. The paper also seeks to make practitioner expressions about how Climate Change can be factored into covenant assessments.
 - The paper is aimed at practitioners and is intended to combine theoretical ideas with pragmatic examples. It considers whether climate change presents risk or opportunity – this will depend on the particular client. Once all factors are taken into account, this helps to inform the risk management strategy for trustees.
 - This paper is to be clearly distinguished from the broader ESG agenda, addressing one specific issue (the Climate change aspect of "E").
 - A member asked what the reasoning was behind focus on environmental risk. It has been noted that sometimes ESG, in a pensions context, is intended to mean environmental ("E") only. The paper intended to avoid confusion and address this specific issue.
- ECPA would like feedback on the paper – It was agreed that members will provide feedback, if they have any, to the relevant Committee member by Monday afternoon and it will be sent to ECPA by the following week.
- Provided the company raises no material issues with the paper, the CEO confirmed he would take the necessary steps to obtain the Council's input/approval. The Committee appreciates ECPA's cooperation on this matter. Many members belong to ECPA and this will be available for our clients. It should be ensured that whatever is said to industry, is suitable for quoting to clients and TPR and is proportionate in order to be workable in all situations.
- One member queried, based on their experience with trustees at board level, whether the intersection between covenant and the investment portfolio had been adequately considered in the paper. This correlation will be double checked.
- One member commented on the topic of integrated risk management, referring to the time periods used in the Climate Risk Opportunity Dashboard from the TPR non-statutory guidance. The member questioned the timeframes used in the dashboard as five years can

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be "long term" from a covenant perspective. It was questioned whether the Committee could contribute to this discussion.

Strawman framework for an SPP on ESG

- The Committee can collectively tease out and assess its alignment on the approach to wide ESG risk. Volunteers and Travers Smith will look at specific areas. The framework is in skeleton form at this point. It was agreed that it is important to ensure there is breadth of input for our client base.
- There are some parallels with the ECPA approach. The Committee agreed to check whether members were comfortable with using similar language to the ECPA paper so that readers can follow the two papers more easily.
- One member discussed the key elements of the skeleton:
 - The premise is that trustees should consider the extent to which they need to consider ESG risk in relation to covenant. This can impact on cash available and sponsor longevity. They should look at risks in the context of the scheme's covenant reliance and time period, which affects how much attention should be paid to these topics. A sponsor-specific approach informs which ESG elements to focus on.
 - Conceptually, ESG risk can be considered in terms of how severe the impacts could be and how the impacts could present themselves. A chronic vs acute distinction is drawn in the skeleton. These types of risks need to be evaluated differently and management will be different. The leverage of the company also affects financial resilience and these will be more vulnerable to acute risks.
 - ESG risks can be hard to categorise so it is important to focus on what is relevant to the sponsor rather than categorisation.
 - One member noted that it might be useful to include some examples beyond "Governance". It was agreed that where you sit on ESG is not as crucial as how it is likely to impact the specific client.
 - Travers Smith to assist on the legal obligations in relation to ESG risk. Agreed that covenant practitioner input will also be useful in this area.
 - A member from Travers Smith commented that whilst it is important for legal advisers to help set parameters in this area, this is very much a covenant adviser-led issue and is tied to the view of the covenant adviser as to the relevance of ESG to that particular covenant (in particular in relation to extrinsic issues such as climate change). The member noted that much is being written about how ESG factors should be factored into investment choices which will be directly relevant to covenant. There is currently less on ESG and covenant but much of legal and governance type analysis undertaken in relation to ESG and investment would likely also be relevant to covenant. Members were directed to look at the TS pensions ESG web page, which provides an overview of the laws and regulations in this area.
- Another member queried whether the Regulator could provide input. It was reported that TPR is considering issuing guidance on this issue. It is possible they will not provide much feedback to the committee on this. Committee members to speak to TPR informally before it is published. Members agreed to look into whether TPR will share their draft guidance on this area with the Committee.

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- One member noted that there are different approaches for identifying which ESG risks are most material to a particular sponsor. This could be particularly difficult for smaller companies. It was noted that credit ratings agencies are looking at adding ESG to their ratings considerations. The member also noted the variation between ratings agencies and the investment managers' view. There is no standard methodology in this area yet.
 - A member agreed to look into the fact that there is no universal methodology on ESG considerations in credit ratings. It was noted that they are aimed at the shareholder's viewpoint and this doesn't always align with trustees' interests. Examples will also be provided.
 - It was noted by a member that communications between company and trustee also falls under "Governance" and this has a bearing on how well the scheme performs. It was agreed that openness and transparency are very important in practical terms and should be emphasised in the paper.
- The Committee agreed that the timing for the drafting of the Strawman paper would be discussed by volunteers after the meeting. The Committee agreed to provide initial directional comments within the course of the next week. The Committee aims to produce a "60% version" by the next meeting on 9 February 2022. The Strawman paper will provide a framework for messages to be discussed at the event.

5. ESG RISK IN COVENANT, 2022 EVENT

- There will be an SPP event on 9 February 2022 at 4pm. The SPP would like to send invitations to this on Monday and to promote the event. The Committee were asked to send invites internally within their firms to maximise its audience. A small group of members agreed to discuss the title and marketing of the meeting after this Committee meeting.
- One member noted that the event should make clear that its focus is "ESG" and covenant specifically, not just the "E" generally. This should be reflected in the title of the event. One member posited "the breadth of ESG risk in covenant" as a potential event name. Another member suggested that the event be named "You will hear about S,G and non-climate E". The Committee indicated its broad agreement to this approach to the naming of the event and this would be discussed further by the small group of volunteers.
- The Committee agreed that once the name was agreed, an invite could be sent. The Committee also agreed to check that ECPA are happy to be involved in the session.
- The Committee noted that Jane Evans would be the lead speaker and other speakers for the SPP will be considered via email.

6. IMPACT OF COVID / BREXIT

There was nothing to update.

7. EVENTS UPDATE AND POLLING SUGGESTIONS

- Mitchells and Butlers case study – to take place on 18 January
- Using long terms asset funds in DC – to take place on 27 January at 9am
- ESG risk in covenant event (title to be confirmed) – to take place on 9 February at 4pm
- Impact on pensions of rising inflation - March 2022 (tbc) – speakers are to be confirmed

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- What does the "S" in ESG mean to different pillars of the industry? Date tbc. It was also noted that the dashboard is more advanced in some EU countries and an event may be scheduled to explore those experiences.
- Funding and investment regulations –no date as yet – hoped to be a joint event by APPT
- The Committee is considering a post-Clara, options for DB consolidation event
- The Committee is also considering an angle on decumulation

8. ANY OTHER BUSINESS

None

9. DATE OF NEXT MEETING

The Committee noted that its next meeting was due on 9th February 2021 at 9.00 anticipated to be as a Microsoft Teams meeting.

10. MINUTE TAKER FOR NEXT MEETING

Adrian Bourne.

File: 4.39
14th January 2022

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