



PENSION SCHEME CLIMATE REPORTING:

# Meeting your governance and reporting requirements

This note explores the TCFD framework, trustee requirements around climate change, and how we can help you to meet your governance and reporting duties.



## Introduction

If we are to live in a world where projected global warming is to be kept well below 2°C, then this requires a significant commitment by governments, along with public and private organisations.

To help with this, the UK Government is putting in place policies and looking to mobilise private investment, including by pension schemes. Requirements look to improve the quality of governance and reporting by trustees as they address climate-related risks and opportunities.

The Task Force on Climate-related Financial Disclosures (TCFD) is a framework to help companies and investors measure, manage, and report their climate-related risk exposures and opportunities in a consistent way.

TCFD reporting was written into pension regulation in October 2021. Trustees of the largest pension schemes (over £1bn in assets) have had to report on how they have measured and managed their pension scheme's climate change risks and opportunities since then. As an industry we have learned many lessons along the way.

In addition the Pensions Regulator has now published the general code, which has a heavy emphasis on climate risk management by trustees.



At Barnett Waddingham, we view climate change risk as one of the many risks that pension schemes face and, like all risks that we help our clients manage, setting a robust governance strategy is a great place to start. This is particularly important when it comes to climate change because the regulatory environment surrounding this risk is changing (and will continue to change) so rapidly.

You need a governance structure that allows the flexibility to incorporate new ideas or investments when they become available and adapt as the landscape around pension schemes evolves.

With an area as detailed and nuanced as climate change and sustainability generally, it is essential to have a team who understand the opportunities but also the potential pitfalls. Additionally, the trend towards public disclosure of pension scheme policy has raised the spectre of a scheme's trustees and sponsor being out of line in their thinking. Therefore, trustees and sponsors need to consider the reasons behind these differences and whether differences in policies are deliberate or accidental.

⋮ Our Sustainable Investment team, comprised of consultants and full-time researchers, conduct research to provide our investment consultants with the tools and knowledge they need to ensure you receive our very best thinking when it comes to sustainability.

# Sustainable futures





## Trustee requirements around climate change

The requirements around climate (and other ESG risks) have increased for trustees. Additional policies in schemes' Statement of Investment Principles - and implementation statements setting out how those policies have been implemented - started this trend.

The regulations that came into force in October 2021 build on these developments. They require that, on an annual basis, trustees of the largest schemes must produce a climate change report that is signed by the chair of trustees and referenced in the scheme return, annual report and benefit statement. Importantly, this report also needs to be posted on a publicly available website, leaving it open to public scrutiny from regulators, members, climate-activist organisations and others. The climate change report mirrors the TCFD recommendations, which are based on four areas: **governance, strategy, risk management, and metrics and targets.**

More recently the Pensions Regulator has published its new General Code, with ESG and climate change risks as a key part of it. Therefore, schemes that are not caught by TCFD reporting still need to consider their climate change governance.

### Governance

- How the trustees maintain oversight of climate-related risks and opportunities.
- Roles of anyone who undertakes or assists in governance activities in assessing and managing climate-related risks.

### Strategy

- Climate-related risks and opportunities identified.
- Time periods - short, medium and long-term that you have considered for your scheme.
- Impact of climate-related risks and opportunities on investment (and funding) strategy.
- Most recent scenario analysis (one of those scenarios must be in the range of +1.5-2°C).

### Risk management

- Process for identifying and managing climate-related risks.
- How this process is integrated into the overall risk management of the scheme.

### Metrics and targets

- Climate change metrics:
  - Absolute emissions metric AND emissions intensity metric
  - Additional climate change metric
- Target(s) that have been set and performance of the scheme against this target.

## How we can help you

We are here to help with all aspects of your climate change governance, strategy, and reporting. Before you start preparing your climate change report, we think it's important to consider the objectives and desired outputs of your climate change governance strategy. Below is an overview of some of the activities we've been working on with clients, and some of the areas to watch out for that we've encountered along the way:

### **Aims, beliefs and constraints (ABCs)**

Our first step is helping you to establish your investment aims, beliefs and constraints when it comes to climate change. As an example, do you have a view on engagement versus divestment? How does that view vary by asset class? Some trustee boards have a good idea of their ABCs already and others may want to start from the beginning. Either way, it's important to know your starting point to help frame the rest of the discussions and decisions.

### **Setting an appropriate climate change governance framework**

We help you to translate your ABCs into a governance framework that allows you to assess the climate risk inherent in your scheme today, whilst scanning the horizon for the risks and opportunities (and regulatory requirements) of the future. This gives you the confidence to say, "We don't have all of the answers now, but as they become clear, we will be able to spot them and capitalise on them".

\* Some common climate metrics are carbon footprint, greenhouse gas emissions (scope 1, 2 and 3 emissions), fossil fuel reserves, green revenues, avoided emissions, implied temperature alignment, climate value at risk and data quality.

### **Deciding on key, decision-useful climate metrics**

Not all climate metrics are created equal. Whilst some of the most commonly used metrics\* are useful for companies or investment managers, they're not as helpful when it comes to pension scheme investing. There are also well-documented issues with many climate metrics to do with data gaps and inconsistent reporting, which is to be expected in a rapidly evolving field. We help our clients focus on the metrics that are useful for them, with an eye on developments in the market that may bring other metrics into the fold.



### Setting targets, without unintended consequences

Getting your pension scheme to net zero today would be great but it's not possible, taking into account all of the other considerations that trustees have to make. Therefore, trying to rush to get to net zero may lead you to introduce other, unintended risks to the pension scheme. However, making sure your scheme is set up to move to net zero along with the rest of the world is vital. Setting stretching but realistic targets for yourselves, your investment managers and your investment consultant is a great way to make sure you continue on the right path.

### Forward-looking analysis

Climate risk is clearly a long-term risk, which aligns with pension schemes' timescales (even those looking to buyout, as the insurers will be thinking about climate risk too). Therefore, forward-looking analysis, such as examining how you might expect the scheme's assets to perform under different climate scenarios, is important in identifying risks.





### Remember your members

Sustainability means different things to different people, so getting your messaging clear is vital (and helpful for trustees, too). Ultimately, pension schemes are there to provide the pensions of members today whilst protecting the pensions of members tomorrow.

- ∴ We have found that member engagement with sustainability issues not only varies by pension scheme type (DB or DC) but also by the sector the sponsor is based in.

### Avoid greenwashing

Barnett Waddingham is an independent consultancy with no master trust, fiduciary management arm or other products to sell to you. Although we feel there is a potential risk of fearmongering around climate change risk, we pride ourselves on doing the right thing for our clients. This means assessing the market and bringing you ideas that align with your goals, whilst giving you our honest and expert opinion about products that you might not need.



Please contact your BW consultant if you would like to discuss any of the above topics in more detail. Alternatively, get in touch via the following:

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