

Climate change disclosures extended by new Paris Agreement metric



What you **need to know**

- 1 October 2021 marked the phased introduction of new climate-related governance and reporting requirements for authorised master trusts and occupational pension schemes with assets of £5bn or more. Trustees of in-scope schemes are required to produce an annual report (known as a TCFD report), which includes reporting on three metrics related to climate change. The requirements will be extended to schemes with assets of £1bn or more from 1 October 2022.
- In November 2021, the Department for Work and Pensions (DWP) consulted on introducing a 'portfolio alignment metric', showing the extent to which a scheme's assets align with the Paris Agreement goal.
- The DWP has now finalised regulations on the new metric. These will apply in respect of the scheme year that is underway on 1 October 2022, for all schemes that are in scope of the existing regulations on that date. Trustees will therefore have to report on the new metric within seven months of the end of that scheme year.
- The DWP has also finalised new guidance on how trustees should report on stewardship in their statement of investment principles and implementation statement. The Pensions Regulator (TPR) has also published a blog post commenting on how it will review TCFD reports, and on expected forthcoming Sustainability Disclosure Requirements (SDR). There have also been recent DWP announcements on social investing and a new pensions Green Nudge trial.



Actions you can take

- For schemes in scope, **discuss the new portfolio alignment metric** with your investment consultant and assess what data might be required in order to calculate the new metric and make the necessary disclosures.
- **Ensure you are familiar** with the new guidance on statement of investment principles and implementation statements.

The new **portfolio alignment metric**

Key item	Detail
What is the Paris Agreement?	In 2015, the Paris Agreement saw 195 countries commit to keep the increase in global average temperatures to well below 2.0°C above pre-industrial levels, whilst trying to limit the rise to 1.5°C. To achieve the 1.5°C objective, global carbon emissions will need to reach net zero by 2050, a target the UK Government committed to in 2019.
What are the new portfolio alignment metric requirements?	<p>Under existing climate governance and reporting regulations, trustees of in-scope schemes must choose two emissions-based metrics and one other climate-related metric against which to assess the scheme's investments and on which to report annually in the TCFD report.</p> <p>The new regulations add a fourth metric, the 'portfolio alignment metric', which measures the alignment of the scheme's assets with the 1.5°C Paris Agreement goal. All schemes subject to the existing climate governance and reporting requirements will be required to calculate and report on the new metric, in respect of the scheme year underway on 1 October 2022.</p>

The finer detail: Portfolio alignment metric and other recent developments

New DWP guidance on portfolio alignment metric and implementation statements

In addition to finalising the regulations, the DWP has updated existing statutory guidance for trustees on how to comply with the climate governance and reporting requirements to cover the new portfolio alignment metric. The guidance sets out three types of portfolio alignment metric from which schemes should choose, as well as publicly-available tools that can assist in calculating these.

At the same time, the DWP has also published finalised statutory and non-statutory guidance on how trustees should report on stewardship in their statement of investment principles (SIP) and implementation statement (IS). The statutory elements of the guidance must be taken into account when preparing an IS in respect of scheme years ending on or after 1 October 2022.

TPR blog post on TCFD reports

In June 2022, TPR published a blog post saying that it expects around 100 schemes to publish their first TCFD reports 'over the coming months', noting that some schemes have faced challenges, in particular around data.

TPR states that it does not anticipate it being necessary to issue any penalty notices to trustees that publish their TCFD reports in the 'first wave', unless either the report has not been published (which will result in a mandatory penalty of at least £2,500) or where it is clear that no genuine effort has been made to comply with the requirements (which would lead to a discretionary penalty of up to £50,000).

Sustainability Disclosure Requirement

In October 2021, the Government set out plans for a new SDR to be imposed on certain asset managers and occupational pension schemes that will aim to improve transparency and standardise market information on sustainability.

Details of the new requirements have yet to be published, but TPR's June 2022 blog post says that it is expected that the SDR will build on, and be integrated into, the existing TCFD reporting requirements in relation to governance, strategy, risk management and the use of metrics and targets.

It is expected that the SDR requirements will be phased in, and this could start in two to three years' time for schemes with £5bn or more in assets.

Green Nudge to greater knowledge

In June 2022, the DWP announced the start of a three-week trial in which over 160,000 members of pension schemes would be encouraged to find out more about making greener pension choices. The trial will test the impact of behavioural nudges and messages to encourage members either to invest their pensions more sustainably or to learn more about the sustainability of their pensions. The results of the trial are due to be published later in 2022.

DWP call for evidence on social investing

The DWP has recently responded to its March 2021 call for evidence on the consideration of social risks and opportunities by occupational pension schemes. The DWP is proposing to set up a taskforce on social factors, which will be led by the Pensions Minister and will be a cross-department working group, with financial regulators (presumably including TPR and the FCA) invited to join.

For further information, please get in touch with **Sarah Keighley**, **William Fitchew** or speak to your usual XPS Pensions contact.



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