XPS Pensions Group

XPS Insights
November 2021

Further climate change disclosures in the offing as world leaders meet at COP26

What you **need to know**

- World leaders are currently meeting in Glasgow for the 26th United Nations Climate Change Conference, COP26. This week, Thérèse Coffey, UK Secretary of State for Work and Pensions, said at the conference that '...pensions can be a superpower that delivers prosperity for people and the planet in our race to net zero...'.
- Shortly before COP26, the Department for Work and Pensions (DWP) launched a consultation on proposals to require occupational schemes that already fall within scope of climate disclosure regulations to calculate and disclose a 'Paris alignment' metric, intended to show the extent to which their investment portfolio is aligned with the Paris Agreement.
- In addition, the Government has recently published 'Greening Finance: A Roadmap to Sustainable Investing'. This includes a proposed new economy-wide Sustainability Disclosure Requirement (SDR), which would apply to occupational pension schemes. A DWP consultation on this is expected during 2022.
- The Government has indicated that the new SDR would be an expansion of existing climate change governance and reporting disclosure requirements, which came into force for the largest pension schemes from 1 October 2021.
- Finally, The Pensions Regulator (TPR) has recently published a climate adaptation report into the climate risks most relevant to occupational pension schemes, which states that too few schemes are giving enough consideration to climate-related risks and opportunities.

Actions you can take

- If your scheme is already in scope of climate disclosure regulations, **assess** the proposed new 'Paris alignment' metric and discuss with your investment advisers whether they need additional information to undertake any required calculations.
- If your scheme is not currently in scope, **plan ahead** and continue to monitor developments, as this is a rapidly changing area.

Climate change and sustainability disclosure requirements timetable

Date	Development coming into force
1 October 2021	New governance and reporting requirements in force for trustees of occupational pension schemes with relevant assets of £5bn or more on the first scheme year end date falling on or after 1 March 2020, authorised master trusts and collective money purchase (CMP) schemes.
1 October 2022	New governance and reporting requirements come into force for trustees of occupational pension schemes with relevant assets of £1bn or more on the first scheme year end date falling on or after 1 March 2021.
2022	Consultation expected on potential new mandatory SDR for occupational pension schemes.
2023	Government expected to review whether existing climate change governance and reporting requirements are to be rolled out to occupational pension schemes with relevant assets below £1bn.
To be confirmed: 2023/24?	New SDRs could start to apply to occupational pension schemes, starting with schemes with assets of £5bn or more.

The finer detail: Climate change and sustainability disclosures

Paris Agreement	In 2015, 195 countries committed in the Paris Agreement to keep the increase in global average temperatures to well below 2.0°C above pre-industrial levels, whilst also pursuing efforts 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.
Climate change governance and reporting requirements	The Pension Schemes Act 2021 introduced the framework for new climate change governance and reporting requirements. These are being phased in from 1 October 2021 for larger occupational pension schemes, authorised master trusts and CMP schemes. Schemes in scope must put in place effective climate change governance and report on this. This includes carrying out scenario analysis, as well as calculating and reporting annually on the scheme's performance against three climate change metrics.
DWP consultation on new 'Paris alignment' metric	The DWP is consulting on proposals to require occupational schemes to calculate a metric that shows the extent to which their investment portfolio is aligned with the 1.5°C Paris Agreement goal. All schemes that are subject to the existing climate change governance and reporting requirements will be required to calculate and report on the new metric. It is also consulting on draft guidance on how trustees should report on voting and stewardship in their statement of investment principles and implementation statement.
'Greening Finance' roadmap and Sustainability Disclosure Requirements (SDR)	The Government has announced that, as part of its Green Finance Strategy, there will be a new economy-wide SDR. The SDR aims to give information to investors and consumers to allow them to make financial decisions aligned with their values. It also aims to tackle 'greenwashing' (where investors are misled as to how sustainable a product is) via the implementation of a Green Taxonomy, which will set out clear criteria for economic activities to meet in order to be considered sustainable. Under the SDR, asset managers and owners, including occupational pension schemes, could be required to disclose how they take sustainability into account. During 2022, the DWP is due to consult on potential mandatory new sustainability-related disclosures for occupational pension schemes. These could then be phased in over 2023/24, starting with schemes with £5bn or more of assets, before moving to schemes with £1bn or more of assets. The roadmap also sets out the Government's expectations for the pensions sector on stewardship. Actions include becoming a signatory to the UK Stewardship Code 2020; actively monitoring and challenging companies; increased transparency on engagement and voting; and providing leadership by committing to a net zero target.
TPR climate change adaptation report	TPR has recently published a report which forms part of the National Adaptation Programme, intended to assess the UK's resilience to climate change. The report covers the risks most relevant to occupational pension schemes and the approaches taken to address them. It states that too few schemes are giving enough consideration to climate-related risks and opportunities. Its survey results show that only 43% of DC schemes took account of climate change when devising their investment strategy, and 51% of DB schemes had not spent any time or resources assessing financial risks and opportunities associated with climate change.

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

t 0113 887 0931

e sarah.keighley@xpsgroup.com

t 01483 330 140

e william.fitchew@xpsgroup.com

@xpsgroup

xpspensionsgroup

XPS Pensions Group

© XPS Pensions Group 2021. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.