

Pension Schemes Act imposes new requirements on managing climate risk



What you **need to know**

- The Pension Schemes Act 2021 (the Act) allows the Government to make regulations on climate change governance and reporting for occupational pension schemes. Draft regulations under the Act were published for consultation in January 2021. Draft statutory guidance has also been published for consultation.
- The regulations and guidance are intended to put the recommendations of the Task Force on Climate-related Financial Disclosures into pensions legislation.
- Starting from 1 October 2021, trustees of larger occupational pension schemes will be required to assess, manage and monitor the impact of climate-related risks on their scheme on an ongoing basis, and publish an annual report online. New requirements for trustee knowledge and understanding on climate-related risks and opportunities will also be introduced.
- For schemes with £5bn or more of assets on the first scheme year end date on or after 1 March 2020, as well as authorised master trusts and authorised collective money purchase schemes, the requirements will come into force on 1 October 2021. Schemes with £1bn or more of assets (on the first scheme year end date on or after 1 March 2021) will fall into scope on 1 October 2022.
- The consultation closed on 10 March 2021 and final regulations are expected to be in place before the 26th UN Climate Change Conference of the Parties (COP26) begins on 1 November 21. In addition, The Pensions Regulator (TPR) is expected to publish its own guidance later in 2021.



Actions you can take

- **Identify when your scheme may be in scope** of the new rules, and start to plan for how you will comply.
- **Carry out trustee training** on climate change risks and opportunities, and the actions schemes can take to measure and manage climate risk.
- **Start to build governance frameworks and understand what data is available** from asset managers, sponsors and advisers.

Category of scheme	Governance requirements take effect from	Deadline to publish a report
Has £5bn or more of assets on the first scheme year end date on or after 1 March 2020	1 October 2021	Within 7 months of the end of the scheme year underway on 1 October 2021
Authorised collective money purchase schemes and authorised master trusts	1 October 2021	Within 7 months of the end of the scheme year underway on 1 October 2021
Has £1bn or more of assets on the first scheme year end date on or after 1 March 2021*	1 October 2022	Within 7 months of the end of the scheme year underway on 1 October 2022

* Schemes with assets that increase above £1bn in scheme years after this date must comply from the following scheme year

The finer detail: What are the requirements?

What are trustees required to do?

Governance

Put processes in place to ensure oversight of climate-related risks relevant to the scheme, and of any parties to whom climate risk management is delegated and certain parties that advise or assist the trustees in this area (for example asset managers).

Strategy

Identify the climate risks that are expected to have the most impact on the scheme's strategy, and assess the impact of these risks. At least every three years, assess the impact on the scheme's assets and liabilities, and the resilience of the scheme's strategy to climate risks by conducting scenario analysis based on global temperature rises.

Risk management

Put in place processes for identifying, assessing and managing climate risks, and integrate these into the scheme's overall risk management framework.

Metrics and targets

Select at least two emissions-based metrics and one other climate-related metric to assess the scheme's asset portfolio against, and (as far as possible) collect data on and calculate these metrics on an annual basis. Set a target for one of the chosen metrics and calculate performance against this target on an annual basis.

What are trustees required to report, reflecting the above requirements?

Governance

Details of how the trustees maintain oversight of climate-related risks, and of parties that the trustees delegate climate risk management to.

Strategy

The key climate risks identified and their impact, and the periods used in assessing the impact. The scenarios used and the results of the scenario analysis.

Risk management

The processes used to identify, assess and manage climate-related risks, and how these processes are integrated into the scheme's overall risk management.

Metrics and targets

The metrics selected, and the calculation of those metrics in relation to the scheme's assets. For any assets for which metrics have not been calculated due to data availability, the reasons for this. The target selected for one of the metrics and performance against that target.

Other requirements

Publishing the report

The report must be published on a publicly available website, free of charge. Members should be informed of the web address in summary funding statements and benefit statements. The web address must also be provided in the annual scheme return.

Penalties

TPR may issue a compliance notice for any parties not complying with requirements, and in the event of continued non-compliance may issue a penalty notice of up to £5,000 for an individual or £50,000 for a corporate body.

Knowledge and understanding

Trustees of schemes in scope of the new requirements must also ensure they have the knowledge and understanding of the principles of climate-related risks and opportunities, and the identification, assessment and management of these risks.

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



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