XPS Pensions Group

XPS Insights
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TPR issues further guidance for trustees on climate change requirements

What you **need to know**

- Last year saw the introduction of new climate-related governance and reporting requirements for certain schemes, including larger occupational pension schemes.
- The Department for Work and Pensions (DWP) published statutory guidance which trustees must have regard to when complying with the new requirements. The Pensions Regulator (TPR) has published complementary guidance which sets out what trustees need to do and report on in their annual climate change report (known as a TCFD report).
- In February 2022, TPR published an illustrative example showing how trustees of a fictitious scheme might approach meeting the new requirements. Although the case study is detailed, TPR emphasises that it is not intended to be used as a checklist by trustees.
- The guidance shows how much trustees (of schemes in scope) will have to do in order to comply with the new duties. It also indicates how climate-related risks and opportunities need to be central to the thinking of these trustees in many areas going forward, including investment, governance and risk management.

Actions you can take

- **Trustees of schemes in scope:** Review the case study and plan out the work involved in complying with the new requirements.
- **Trustees of schemes not in scope:** Consider carrying out training on climate-related risks and opportunities, and determine to what extent voluntary compliance with the new governance requirements would be beneficial.

The **new** climate-related requirements

When do the new duties come into force?	The new requirements are being phased-in. The largest schemes (over £5bn) have had to comply with the requirements from 1 October 2021. Occupational pension schemes with £1bn or more of assets[1] come into scope for the first time from 1 October 2022. It remains to be seen whether schemes with less than £1bn of assets will come into scope at some point in the future.
What do the new duties require of schemes in scope?	Schemes 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 performance against three climate change metrics. The DWP has also consulted on adding a new metric[2] to the new requirements and is expected to consult later this year on mandatory new sustainability-related disclosures.
What are TPR's expectations of trustees?	TPR expects trustees to take appropriate advice and ensure that the approach they take for meeting the requirements is appropriate for their scheme. TPR also plans to contact the trustees of schemes that have moved into scope since their last valuation, to make sure that they are aware of their duties.

[1] *On the first scheme year end date after 1 March 2021, excluding the value of buy-in policies*
[2] *Assessing the extent to which the scheme's investments are aligned to the Paris Agreement's goal of limiting climate change to 1.5C*

The finer detail: overview of steps taken by trustees in TPR's illustrative case study

1. Preparatory work

Trustee training

Develop a comprehensive training programme, including an introductory workshop.

Develop the base case

Map out the expected long-term evolution of the funding and investment strategy, and reliance on the employer covenant, under a 'business as usual' scenario.

Assess the availability of climate data

on the scheme's investments and any key limitations, and discuss how this may impact the analysis that can be carried out.

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2. Meeting the requirements

Governance

Set out responsibilities for climate risks and opportunities. Update investment documentation to integrate climate beliefs and oversight. Review existing service providers' climate capabilities and establish processes for regular assessment and review.

Strategy and scenario analysis

Set time horizons over which to assess climate related risks and opportunities. Obtain input on climate risks from investment, covenant and actuarial advisers. Select appropriate scenarios and carry out modelling. Discuss modelling outputs and the impact on strategy with advisers.

Risk management

Review actions taken under governance and strategy, and assess whether these meet the risk management requirements. Make any additional changes to processes as required, and establish a regular review of risk management processes.

Metrics

Review possible metrics, in light of data availability, and analyse options. Select and calculate metrics, documenting the process taken and any data limitations. Review metrics calculated and any key risks, opportunities and actions identified. Establish a regular review and engage with providers to improve data.

Targets

Select which metrics will be used to set targets, and agree appropriate targets, including the time horizon over which they will be achieved and any interim targets. Measure progress against targets on an annual basis, and review whether the targets remain appropriate. Embed targets into governance, strategy, and risk management processes and contracts with investment service providers.

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3. Document and publish

Document the approach taken

Including how it met the 'as far as able' requirements and was reasonable and proportionate.

Prepare and publish the report

Regard to the regulations and statutory guidance is required. Published report is also shared with members.

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