What's new?

- On 26 August 2020, the Department for Work and Pensions (DWP) launched a consultation on proposals to embed climate risk management within large occupational pension schemes and certain other authorised schemes.
- The proposals would also require trustees of pension schemes to disclose their climate-related activities in line with the recommendations set out by the Taskforce for Climate-related Financial Disclosures (TCFD).
- Under the proposals, the largest workplace pension schemes (i.e. those with £5bn or more in assets), authorised master trusts and authorised collective defined contribution (DC) schemes would be required to publish TCFD-aligned climate disclosures by the end of 2022.
- Failure to publish a report could lead to a mandatory penalty imposed by The Pensions Regulator (TPR).

What does this mean?

- The proposed amendment to the Pension Schemes Bill, which is currently going through Parliament, would require trustees to embed the TCFD recommendations across their organisation. This would cover governance, strategy, risk management, metrics and targets.
- The TCFD report must be made publicly available on the scheme’s website, alongside a link to the report in their Annual Report and Accounts. Scheme members will also be notified of the report via their annual benefit statement.
- On governance, trustees will need to establish and maintain oversight of climate-related risks and opportunities. This will include processes by which trustees can satisfy themselves that investment managers and other relevant persons are assessing and managing climate-related risks and opportunities as part of the investment decision-making process.
- Trustees will need to adopt and maintain a robust risk management framework for identifying, assessing and managing climate-related risks.
- At least annually, ‘as far as they are able’, trustees will need to conduct scenario analysis to assess the resilience of the scheme’s assets, liabilities and strategies in at least two climate-related scenarios. This will include at least one scenario that reflects a global average temperature rise of between 1.5 and 2°C on pre-industrial levels.
- On strategy, trustees will be required to identify climate-related risks and opportunities that will have an effect on the scheme investments and, in the case of defined benefit (DB) schemes, the funding strategy of the scheme over the short, medium and long term. Trustees will also need to assess the ongoing impact of these risks and opportunities.
- In relation to metrics, trustees will be required to select at least one greenhouse gas emissions-based metric and at least one non-emissions-based metric to assess scheme assets against climate-related risks and opportunities, and review the selection on an ongoing basis. The metrics should be calculated at least quarterly.
- In addition, at least one target for managing climate-related risks should be set, for either an emissions-based metric or non-emissions-based metric, with a view to measuring performance at least quarterly.
- The consultation proposes that any wholesale failure to publish a TCFD report will be subject to a penalty imposed by TPR, ranging from a minimum of £2,500 to £5,000 for an individual trustee and up to £50,000 for a corporate trustee.
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