Press release

PCRIG launches consultation on new guide to climate-related financial risks for pension schemes

The Pensions Climate Risk Industry Group (PCRIG) today launched a public consultation on new non-statutory guidance for the trustees of occupational pension schemes on assessing, managing and reporting climate-related risks.

PCRIG was set up last summer by the DWP, TPR and other government departments to develop industry-wide guidance for pension scheme trustees on climate-related risks and voluntary alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The draft guide is designed to help trustees meet existing legal obligations to consider financially material factors in their investment decision making and provides suggestions on how to integrate the consideration of climate-related risks within trustee governance and risk management processes. The draft guide is accompanied by a much shorter “quick start” guide.

The guide is aimed at trustees of private sector schemes (covering both defined benefit and defined contribution schemes), but sections of the guide may be of interest to others, including managers of funded public sector schemes.

Government has set the expectation that all listed companies and large asset owners, including occupational pension schemes, will disclose in line with TCFD by 2022. Amendments made to the Pension Schemes Bill will, if passed, provide a regulation making power for the Government to require prescribed pension schemes to publish climate change related risk information and to impose requirements with a view to securing that there is effective governance of those schemes with respect to the effects of climate change.

This consultation seeks views on the guide. Any moves to put TCFD reporting obligations onto a statutory footing will be subject to separate consultation by the DWP.

Speaking at the launch of the consultation at the PLSA’s investment conference in Edinburgh, Guy Opperman, Pensions Minister, said: “I am committed to ensuring all pension scheme trustees do everything they can to act to limit the risk climate change poses to their members’ future retirement income. TCFD is the most widely-adopted way in which organisations are managing and reporting climate risk, and I want to ensure all trustees have the help they need to align their schemes with its recommendations. That is why I welcome this guidance and the subsequent consultation.”

Stuart O’Brien, chair of PCRIG and partner at Sackers, added: “Most trustees will have acknowledged the financial risk of climate-related risk on their pension schemes but so far few have developed concrete plans to quantify and address the risks of climate change or capitalise on the opportunities of the transition to a net zero carbon economy. It is for that reason that we are providing new cross-industry guidance to help pension trustees meet their existing legal responsibilities.

“For many pension schemes this may require new information. However, the process of risk management and setting investment strategies will already be familiar and the guide is designed to help trustees by providing a starting point for the integration of climate issues into existing trustee governance processes.”

Caroline Escott, member of PCRIG and policy lead for investment and stewardship at the PLSA, commented: “Climate change poses a systemic risk to nearly every sector and every business. It is vital that trustees have a clear framework when considering how to manage the potential impact of climate change on scheme member outcomes.

"The PLSA is pleased to have contributed to what we believe will be a useful tool for schemes to use in complying with their new regulatory duties. The guidance recognises the fact that most schemes will need appropriate support from their managers and consultants, offering practical tips and guidance for making schemes' expectations on the consideration of climate risk clear to their investment service providers.

"We strongly encourage all types and size of scheme to respond to this consultation." ".

Further detail on the draft guide

By making use of the recommendations of the TCFD, the guide aims to provide a decision-useful framework and guidance to help trustees of occupational pension schemes evaluate the way in which climate-related risks may affect the strategies and plans of the pension schemes they are responsible for, and then report on this activity to their stakeholders in a consistent and transparent manner.

Whilst smaller schemes may not yet be expected to report publicly in line with the TCFD recommendations, most trustees are subject to statutory requirements to specify and disclose their policies on climate change and to carry out risk assessments. The guide provides a suggested framework that all trust-based occupational pension schemes may find useful in order to develop such policies and integrate them into trustee decision making. The framework may further assist trustees in demonstrating compliance with their fiduciary duties to take account of financially material factors and to act prudently.

It is recognised that for many pension schemes this will be a new exercise which may require new information. Trustees starting out may wish to use the guide to prioritise the adoption of robust governance procedures as a first step, with public disclosure as a second step. Where trustees do disclose, the guide seeks to align trustee governance and decision making processes with the TCFD recommended disclosures.

The guide is structured sequentially, based on the way a pension trustee board might typically approach decision making:

- Part I of the guide introduces climate risk as a financial risk to pension schemes and sets out the legal requirements for pension scheme trustees to consider climate-related risk in their decision making. It also contains more detail on the recommendations made by the TCFD.

- Part II of the guide sets out a suggested approach for the integration and disclosure of climate risk within the typical governance and decision making processes of pension trustee boards. This focuses on how trustees might usefully consider climate-related risks and opportunities when defining investment beliefs andsetting investment strategy and when selecting, reviewing and monitoring asset managers. It also touches on issues pertinent to defined benefit schemes, including how climate-related risks may impact employer covenant and approaches to scheme funding.

- Part III of the guide contains technical details on recommended scenario analysis and metrics that trustees may wish to consider using to record and report their findings. Whilst many trustees will ask their professional advisers to work through the detail and advise on implementation, the section contains freely available tools that trustees may use themselves.

The guide recommends scenario analysis as a helpful technique for trustees to assess their scheme's resilience to different future outcomes. This helps trustees assess how assets (and, for defined benefit schemes, their liabilities) may be affected by different outcomes. The guide recommends three scenarios.

- **Orderly transition, 2ºC or lower scenario** [significant transition risks, lower physical risks] – emission reductions start now and continue in line with the Paris Agreement.

- **Abrupt transition, 2⁰C or lower scenario** [severe transition risks, lower physical risks] – little climate action in short term, followed by sudden unanticipated tightening as countries rush to get on track.

- **No transition, pathway to 4+⁰C scenario** [no transition, severe physical risks] – continuation of historic emission trends and failure to transition away from fossil fuels.

The guide is accompanied by a “quick start” guide which sets out five easy steps that trustees can get started on now.

- Check you’ve got the governance and risk management right. Develop and document your investment beliefs. Formalise and document your governance policies, including job roles, in relation to climate change.

- Integrate into your investment and funding strategies. Document the main climate risks and opportunities which will affect your scheme and their possible or likely impact. Explain how you will both mitigate those risks and take advantage of the opportunities. For defined benefit schemes, include climate change in covenant assessment and monitoring.

- Ask your consultants and asset managers to demonstrate climate competence. Make your expectations, drawn from your beliefs and strategies, clear. Both providers should demonstrate signatory status in relation to the PRI and UK Stewardship Code, a robust track record on climate, and consideration of climate risk as a core service. Trustees should assess new managers on the quality of voting and engagement, and the quality of disclosures and scenario analysis, and monitor existing firms on their performance against any climate-related objectives, benchmarks and targets. Don’t be afraid to dig deeper and keep asking questions. Challenge what you hear.

- Conduct scenario analysis. Analyse your own holdings, for example using the TPI and PACTA tools. Compare your findings with peers. Challenge your asset managers and advisers on the results.

- Monitor metrics. Ask your asset managers to report on the weighted average carbon intensity of your portfolio and compare this with similar products. Challenge your managers on what they are doing to engage with or reduce exposure to the most-polluting firms, getting data where it is unavailable.

<u>Consultation details</u>

The consultation opens at 10am on 12 March 2020 and closes at 11:45pm on 7 May 2020.

PCRIG will aim to publish final guidance in the Autumn of 2020.

The members of the Pensions Climate Risk Industry Group are:

Stuart O’Brien (Chair)	Sacker & Partners LLP
Edward Baker	Principles for Responsible Investment
Andrew Blair	Department for Work and Pensions
Alexander Burr	Legal and General Investment Management
Steven Catchpole	Aviva
Megan Clay	Client Earth (seconded to DWP until February 2020)
Claire Curtin	Pension Protection Fund
Caroline Escott	Pensions and Lifetime Savings Association
Benjamin Fagan-Watson	Department for Business, Energy and Industrial Strategy
David Farrar	Department for Work and Pensions
Adam Gillett	Willis Towers Watson
Paul Hewitt	Vigeo Eiris
Melanie Jarman	The Pensions Regulator
Mark Jeavons	Aon
Claire Jones	LCP
Amanda Latham	The Pensions Regulator (until February 2020)
Adam Matthews	Church of England Pensions Board
Emmet McNamee	Principles for Responsible Investment
Catherine Ogden	Legal and General Investment Management
David Page	BMO Global Asset Management
Russell Picot	Special Adviser to the TCFD
Nadine Robinson	Climate Disclosure Standards Board
David Russell	Universities Superannuation Scheme
Matt Scott	Department for Business, Energy and Industrial Strategy (until December 2019)
Nat Smith	Department for Business, Energy and Industrial Strategy
Peter Uhlenbruch	Share Action (Asset Owners Disclosure Project)
Faith Ward	Brunel Pension Partnership