Baby it's getting warm outside

With more schemes now in scope of TCFD reporting requirements, *Pensions Age* asks those who have been through the process how they found the experience

Until recently, most scheme regulation of environmental, social and governance (ESG) issues and investment matters was limited to disclosures, with the government at pains to point out that they weren't telling trustees how to invest. However, the Pension Schemes Act 2021, and the climate-related governance and reporting regulations that followed, have ushered in a new era of climate-related 'governance', and disclosures. For the first time regulations prescribe not just what trustees must disclose but also certain actions they must take.

Schemes in scope must carry out specific actions, such as climate scenario analysis and identifying and monitoring certain climate-related metrics, but the wider requirement is that trustees must establish and maintain clear governance frameworks and processes for identifying and managing scheme related climate risks.

For the first wave of schemes and now the second, it has been this requirement to get systems and processes in place that has been a primary focus over the past year or so. Data is a key issue and the requirement to select appropriate metrics and ensure availability of data from managers has also been taking up a lot of trustee time. Although more reports will be published during 2023, at this stage, it is probably still too early to say to what extent trustees have made changes to their overall investment strategies as a result of the regulations.

Sackers partner, Stuart O'Brien

The new climate disclosure regulations represent brand new territory in terms of reporting for pension schemes, resulting in a fairly labour-intensive process, albeit supported with very clear guidance from the Department for Work and Pensions (DWP). Getting access to schemes' data was by no means straightforward, and the data we were able to obtain was often incomplete, resulting in challenges interpreting it and crucially making it meaningful.

With the first year only applying to scope one and two carbon emissions, with scope three and beyond set to come into the standards from 2023 reporting, the complexity of the task here is therefore only going to increase meaning schemes must continue to change the way they record the necessary data. A further challenge for trustee boards going forward is to decide what actions we take from this year's findings as we continue to develop the most appropriate metrics, scenarios and targets to ensure both best practice and best results.

Ross Trustees trustee director, Roger Mattingly

We have found the Task Force on Climate-related Financial Disclosure (TCFD) requirements to be a valuable framework for meeting the need for consistent climate-related disclosures, which can help us measure our climate-related risks and our progress towards our climate-related targets, while also providing accountability.

We recognise there are still hurdles to face, mainly in relation to suitable data quality and coverage, in particular for scope three emissions. Also, the impact of using different methodologies and underlying assumptions continues to make comparability to peers difficult.

Regardless of these challenges, the disclosures still go a long way to standardise climate-related reporting and it helps that, with trustees, advisers, peers and asset managers, we are tackling this together.

Smart Pension investment proposition manager, Fiona Smith

Schemes coming into scope for TCFD in the second wave are benefitting from lessons learned by their larger peers the previous year. Whilst collecting data is important, it is becoming apparent that focussing on data and metrics without first thinking through your scheme's strategy and journey plan can lead to high costs and undertaking work that may need to be redone very soon in the future.

The best approach is to think about where your scheme is now, and where it is going, and to consider how climate change might impact that journey in a holistic way. When schemes can take this high-level strategic view, it becomes easier to amend existing governance processes and provide meaningful reporting, rather than thinking they need to start fresh to tick boxes.

We should find that reviewing how climate change might impact your sponsoring employer should become easier as more UK companies are required to produce their own TCFD reports. Where employers are able to share this analysis, there can be significant savings for schemes.

20-20 Trustees associate director, Alexandra Westley

The new TCFD requirements have presented challenges from start to finish. With many different aspects for schemes to tackle, clearing the ground and figuring out the current position for each scheme has been a key starting point. Assessing the current position has immediately led to schemes designing new, and developing existing, governance processes. This has included discussing and recording investment beliefs around climate change, building key climate concerns into risk reporting, ensuring that written policies are in place where appropriate, and ensuring any delegations of responsibility are clearly defined.

On top of developing each scheme's approach to the climate, reports to date have by necessity been written from scratch with little precedence. Forerunners in disclosure have therefore had to grapple directly with the regulations and sought compliance in the fashion they believed most appropriate. The Pensions Regulator has been indicating that there will be a high level of scrutiny during this phase of the TCFD rollout, which adds further pressure. Even for a scheme with well-defined policies, there can still be problems getting all of the appropriate data from managers, and analysing that data, to correctly understand what progress is being made and what can be done to help a scheme that is off target.

Zedra client director, Dan Richards

The TCFD report itself is long and detailed, but some schemes are opting to produce short member-friendly summaries which are helping with that engagement. One of the more useful things to come from TCFD has simply been the opportunity to be open about what schemes are, and are not, doing on climate with sponsors. Where the sponsor and members have a strong interest in climate, it has been an opportunity to have open conversations about the path to net zero and why excluding whole sectors is unlikely to be appropriate. It's also been an opportunity for two-way dialogue, with sponsors and members able to give feedback and share their expectations with trustees.

In terms of challenges, the process of producing the first report has been quite time intensive and data availability remains a challenge. The majority of managers have not been able to provide all the metrics asked for at the outset. Where data is available it is often limited in some way. This has sparked debate about whether it can be used as a baseline from which to start net-zero initiatives.

Despite these challenges, TCFD has prompted a wider discussion with managers on the climate metrics that are potentially available and which are most meaningful in terms managing the particular risks of that asset class. In turn this will help deliver the actions by managers that drive change in the real world.

Independent Trustee Services director and APPT ESG Committee chair, Tegs Harding

Fidelity International is supportive of the increased focus on climate change reporting across financial services, and specifically the DWP's requirement on larger pension schemes. Furthermore, Fidelity has supported the Fidelity Master Trust in producing its first report, which will be published early in the new year.

As with any new initiative, one of the key challenges at this early stage of evolution for climate reporting is the availability and quality of data. Currently, a complete coverage of carbon emission data across investee companies and asset classes is not available. Obtaining and aggregating data, particularly where more complex fund structures are used, can take time so trustees need to plan accordingly.

Fidelity International head of pension products & policy, James Carter

Written by Jack Gray