

# Pensions and climate change

➤ **Matthew Swynnerton looks at the DWP's consultation on regulations introducing new requirements in relation to occupational pension schemes and climate change**

**T**he Pension Schemes Act 2021 provides a legislative framework for requiring trustees of occupational pension schemes to make disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. It contains powers for regulations to be made imposing requirements on trustees in relation to governance and disclosure. Following an August 2020 consultation on policy proposals, on 27 January the DWP published a consultation on draft regulations and draft statutory guidance.

## Schemes in scope

Under the draft regulations, schemes that, on the first scheme year end date which falls on or after 1 March 2020, have relevant assets of £5 billion or more (with individual and bulk annuity contracts excluded from the value of assets for this purpose) have to comply with the governance requirements. Compliance is required from 1 October 2021 or, if later, the date that they obtain audited accounts for the relevant scheme year. Trustees of authorised master trusts and authorised collective money purchase schemes (irrespective of size) will also have to comply with the governance requirements from 1 October 2021 or, if later, the date on which the scheme is authorised. The draft regulations provide for the requirements to apply one year later for schemes that have relevant assets of £1 billion or more on the first scheme year end date which falls on or after 1 March 2021.

## The requirements

The new governance requirements

include that trustees must:

- establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme;
- identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short, medium and long term on the scheme's investment strategy and (where it has one) funding strategy;
- as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy for at least two scenarios;
- establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks relevant to the scheme;
- select an absolute emissions metric, an emissions intensity metric and an additional climate change metric to calculate in relation to the scheme's assets; and
- set a target for the scheme in relation to at least one of the metrics.

Trustees in scope of the regulations will also be subject to new trustee knowledge and understanding requirements in relation to climate change risks and opportunities.

Trustees will have to publish annual TCFD reports containing specified information within seven months of the end of the scheme year. The TCFD report will have to be published on a publicly available website, accessible free of charge and the website address will have to be provided in the annual report

and accounts, annual benefit statements, summary funding statement (for DB schemes) and the scheme return.

## Smaller schemes

The consultation states that the DWP will begin an interim review in the second half of 2023 which will enable it to assess how effective the regulations have been, allow identification of best practice, and will determine whether to extend the requirements to smaller schemes from late 2024 or early 2025, following consultation.

In January, the Pensions Climate Risk Industry Group published non-statutory guidance for trustees on assessing, managing and reporting climate-related risks in line with the TCFD recommendations. This guidance is designed to complement the new statutory requirements for schemes in scope and to provide a starting point for the integration of climate issues into existing trustee governance processes for schemes of all sizes. The Ministerial Foreword to the guidance states that it will be of use to all trustees, refers to the 2023 review in relation to smaller schemes and states that, with that in mind, trustees of those schemes should start looking at this guidance now and begin building their knowledge and understanding.

## Conclusions

Trustees should include considering the regulations, statutory guidance and non-statutory guidance and actions that they should take as a result of them in their plans for the months ahead.



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