Britain’s pension schemes lead on climate risk

The Government’s proposals will ensure trustees are legally required to assess and report on the financial risks of climate change within their portfolios.

Secretary of State for Work and Pensions, Thérèse Coffey, outlined the plans during a visit to Glasgow, where the United Kingdom will host the United Nations climate change conference COP26 in 2021.

Subject to a forthcoming consultation, under the plans the 100 largest occupational pension schemes – those with £5bn or more in assets, and including all authorised master trusts – will be required to publish climate risk disclosures by the end of 2022.

Using these largest schemes to set an industry standard, around 250 more schemes with £1bn in assets would then have to meet the same requirements in 2023.

Secretary of State for Work and Pensions, Thérèse Coffey, said:

> I am delighted to announce our proposals to make reporting on sustainable investments mandatory, one of the most significant steps to date in the UK’s progress on tackling climate change.

> We were the first major economy to commit to reaching net zero by 2050 – to deliver this we must start now, working with investors and others to achieve this ambitious target.

> These measures will ensure pension schemes are in an ideal position to drive change to a sustainable, low carbon economy which will benefit everyone.

Climate change is expected to have a significant impact on pension schemes’ assets and returns for savers, both through the risks of a warmer planet, and the transition to a lower carbon economy.

Therefore, it is only right that long-term investors, such as trustees, are informed and empowered to take action to address these risks and protect the retirement savings of hard-working people.

United Nations Special Envoy for Climate Action and Finance and the Prime Minister’s Finance Adviser for COP26, Mark Carney, said:

> To achieve an orderly transition to net zero, managing climate risk and improving resilience needs to be at the heart of all financial decision-making. Corporates, asset owners, including pension schemes, and asset managers should use the Taskforce on Climate-related Financial Disclosures (TCFD) framework to disclose climate-related risks and opportunities.

> By requiring pension schemes to report against the Taskforce's recommendations, the occupational pensions of over 24 million UK citizens, representing over £1.3 trillion of investments, can be managed to mitigate the risks from climate change and seize the opportunities from an economy-wide transition to net zero.

The proposals outlined in the Department for Work and Pensions' climate risk consultation include:

- Schemes embedding the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD) into their organisation – including on governance, strategy, risk management, metrics and targets
- Scheme scenario modelling to analyse the implications of a range of temperature scenarios for a scheme's assets, to prompt strategic thinking about climate risks and opportunities
- The requirement to report the greenhouse gas emissions of their portfolio
- Compelling schemes to publish their report on a website and to notify pension scheme members via their annual benefit statement that the information has been published and where they can locate it
- Schemes providing The Pensions Regulator with the web address of where they have published their Taskforce report via the annual scheme return form
- Any complete failure to publish any Taskforce report to be subject to a mandatory penalty imposed by The Pensions Regulator.

The consultation will also signal an intent that schemes report on the extent to which their portfolios are aligned with the Paris Agreement, which called for the limiting of global (average) temperature rises to below 2°C (on pre-industrial levels).

The Department for Work and Pensions Pension Schemes Bill – currently before the House of Commons – includes powers to enact the measures outlined in the consultation.

More information

- The consultation period begins today (26 August 2020) and runs until 7 October 2020. The Government's current plan is to consult on regulations in late 2020 or early 2021 (pending confirmation of date).

- The Taskforce on Climate-related Financial Disclosures is a global, private sector led group assembled in December 2015 at the instigation of the international Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system, which was then chaired by Mark Carney. They set out recommendations for organisations – non-financial as well as financial companies, including banks, insurers, asset managers and pension funds – to report on how they are managing climate risk. For pension schemes, it includes the requirement to report the emissions of their portfolio, and how their investments would perform under a range of temperature rises, including a world where temperature rises are limited to 2 degrees or below.

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