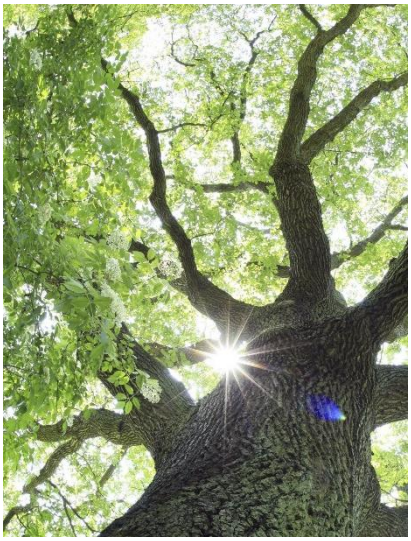
TCFD

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures ("TCFD") is a global, independent, private sector led group established in December 2015. In June 2017, TCFD published a series of recommendations aimed at identifying, assessing, managing and disclosing climate-related financial risks and opportunities.



There is growing pressure for UK pension schemes to adopt the climate risk governance recommendations of the TCFD and to disclose how they have done so. A consultation was launched, with a deadline of 7 October 2020, to address the content of these potential disclosures and the timeline for their introduction.

DWP published its response to this consultation on 27 January 2021, which confirmed the phased introduction of new climate-related governance requirements. Occupational pension schemes with more than £5bn of net assets, along with authorised master trusts and authorised collective money purchase schemes, will be required to comply with the new requirements from 1 October 2021, publishing a report detailing their compliance within 7 months of their next scheme year end date. Occupational pension schemes with more than £1bn of net assets will need to comply from 1 October 2022. Application to smaller schemes will now be reviewed in 2023 and likely consulted on in 2024.

Trustees will be provided with statutory guidance to support them with these new regulatory requirements. In meeting the new regulations (i.e. to incorporate climate related considerations into their governance processes and to evidence their compliance through an annual report) schemes must adhere to the guidance, and are required to report on deviations in some instances. Also released on 27 January was final non-statutory guidance from the Pensions Climate Risk Industry Group ("PCIG") on how to apply TCFD's framework in a pension scheme context, which was consulted on in 2020.Trustees can use the output from PCIG to begin considering the steps that need to be taken prior to the agreement of final statutory guidance.

We will prepare a more detailed report outlining these new requirements in due course. We will also be seeking to respond to the latest consultation on the recently released draft regulations and statutory guidance. The deadline for this consultation is 10 March 2021. This appears to leave very little time between final confirmation of the statutory guidance and the likely commencement date of these requirements (1 October 2021). With time of the essence, trustees of impacted schemes should therefore take immediate steps to first understand and then implement these new requirements.

What are the TCFD's recommendations?

In short, the governance requirements mean that pension scheme trustees of impacted schemes must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must then describe how this oversight is maintained in the annual TCFD report.

The governance and reporting requirements also include:

- **Investment and Funding Strategy:** identification and assessment of the impact of climate related risks/opportunities over the short, medium and long term.

- **Integrated Risk Management:** establish and maintain processes for identifying, assessing and managing relevant climate-related risks.

- **Scenario Analysis:** assessing the impact on assets and liabilities for at least two scenarios (one of which corresponds to a global average temperature rise of between 1.5°C and 2°C above pre-industrial levels).

- Metrics and Targets: select and calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets and set at least one non-binding target to measure performance against at least annually.

- TKU: Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks.

Trustees must carry out scenario analysis, obtain data, calculate and use metrics and measure performance against targets ***'as far as they are able'***. This means taking all such steps as are reasonable and proportionate in the particular circumstances taking into account the costs, or likely costs, which will be incurred by the scheme and the time required to be spent by the trustees or people acting on their behalf.

We will prepare a more detailed report outlining these new requirements in due course.

Deloitte Total Reward and Benefits Limited
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