

## Response to consultation on changes to climate and investment reporting

Alert | 20 June 2022



### Introduction

On 17 June 2022, the DWP published its response to its October 2021 [consultation](#) which sought views on proposals to require trustees of larger occupational pension schemes, authorised master trusts and authorised collective money purchase schemes (together, “authorised schemes”) to measure and report on the “Paris alignment” of their investment portfolios, as well as on new guidance in relation to SIPs and implementation statements (“ISs”).

### Key points

- With effect from 1 October 2022, trustees of occupational pension schemes with £1bn or more in relevant assets and authorised schemes will be required to calculate and report a metric setting out the extent to which their investments are aligned with the Paris Agreement goal of limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels.
- Where the requirement to select a portfolio metric comes into force part way through a scheme year, it will apply in the part scheme year that runs from 1 October 2022. Schemes will be able to rely on data obtained, calculations performed, and identification and assessment of climate-related risks and opportunities undertaken in that same scheme year, but before 1 October 2022.
- New statutory and non-statutory guidance, “[Reporting on Stewardship and Other Topics through the SIP and the IS](#)” (“the Guidance”) has been issued. Trustees must have regard to the statutory content when complying with the requirements for ISs.

### Background

The Occupational Pension Schemes (Climate Change Governance and Reporting Regulations 2021 (“the Regulations”) came into force on 1 October 2021. They require trustees of schemes in scope to meet climate change governance requirements which underpin the Taskforce on Climate-related Financial Disclosures (“TCFD”) recommendations and to produce and publish a report on how they have done so (see our [Alert](#) for details).

## The Paris Agreement

In December 2015, 195 countries committed in the Paris Agreement to holding the increase in the global average temperature to well below 2°C above pre-industrial levels, and to pursuing efforts to limit this to 1.5°C.

The TCFD's [updated guidance](#) has now, amongst other things, recommended that financial institutions should describe the extent to which their activities are aligned with the goals of the Paris Agreement. The DWP is therefore seeking to broadly align with the TCFD's updated guidance in this area and codify such a requirement for UK occupational pension schemes, as it did when aligning trustee reporting with the TCFD's 2017 recommendations.

## A fourth climate metric

As proposed, the Regulations will be amended so that all schemes subject to them must measure and report on a portfolio alignment metric in addition to the existing requirements. The [statutory guidance](#) on governance and reporting of climate change risk has been updated accordingly.

While the Government acknowledges respondents' concerns with methodological challenges when calculating and reporting portfolio alignment metrics, it does not believe these concerns are strong enough to delay their implementation or to prescribe one metric over others. Instead, the DWP will provide trustees with flexibility to select the type of portfolio alignment metric which best reflects their circumstances. This is intended to "give industry the space to consider the suitability of tools and drive standardisation". The Government is also keen to future proof its proposals and not inhibit the development of tools by prescribing the use of one type of portfolio alignment metric.

### Data availability

The "as far as they are able" principle is intended to help address availability concerns. "The principle gives trustees the flexibility to obtain data within the boundaries of what they regard to be reasonable and proportionate for their holdings".

The DWP considers that an "absence of total data coverage does not prevent trustees from commencing the measurement and reporting of portfolio metrics and the Paris alignment of their pension scheme assets". As the UK Sustainability Disclosure Requirements are implemented, the availability and accuracy of data should increase, and such metrics should improve.

### Timing and scope

The Government accepts that it "is not an entirely optimal outcome for trustees to be required to report against alignment metrics before asset managers in scope of the FCA's TCFD regime are required to report them". However, it does not believe this is a strong enough reason for delay. Depending on the tool they use, they should not be reliant on their asset manager reporting. Therefore, as proposed, the new requirement will apply to all trustees subject to the Regulations on and from 1 October 2022 and trustees will have to report against the new metric within seven months of the end of the scheme year which is underway on that date. Schemes subject to the Regulations and part-way through a scheme year on 1 October 2022 can rely on data obtained, calculations performed, and identification and assessment of climate-related risks and opportunities undertaken in the part-year before the new requirement applies.

# The Guidance

The Guidance “focuses on the areas where existing policies and reporting appear to be weakest – stewardship and, to a lesser extent, consideration of financially material ESG factors and non-financial factors”. While stewardship encompasses a range of activities, the Guidance focuses specifically on voting and engagement.

Following consultation, the DWP has made various clarificatory changes, including that TPR is the primary audience for the SIP and the IS. However, trustees are encouraged to:

- write both documents in plain English, as far as possible, and
- if scheme-specific research indicates that members are more likely to engage with a different style of communication, to consider producing member-facing summary versions (with signposting to the full document).

The Guidance refers to the UK Stewardship Code and indicates areas of potential alignment between the implementation statement requirements and the Stewardship Code principles. It explains that trustees can use information in their Stewardship Code reports in the implementation statement, providing that information meets the legal requirements.

## Status

The Guidance contains statutory and non-statutory guidance. Paragraphs that are statutory are prefaced with “SG”. Trustees must have regard to the statutory guidance when complying with the requirements for ISs. The non-statutory guidance is intended to encourage good practice, but trustees are not obliged to take it into account.

# Next steps

While schemes have been aware that the introduction of this new metric was on the cards, now it has been confirmed they need to ensure the necessary preparations are being made to report accordingly. As ever, time is of the essence.

If you have any questions on any of the above, please speak to your usual Sackers contact.

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