Scottish Public Pensions Agency
Buidheann Peinnseanan Poblach na h-Alba

Annex A

Climate Risk Reporting & ESG Standards - TCFD requirements

Climate change poses a material financial risk to pension schemes. In order to ensure trustees fully consider this risk and act in the best interests of pension scheme beneficiaries, the UK government subsequently embedded the recommendations of the TCFD into UK law by making The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

These regulations, which came into force on 1 October 2021, impose requirements on trustees of certain occupational pension schemes, including authorised master trust schemes and collective money purchase benefits schemes, to ensure that there is effective governance regarding the effects of climate change.

The Regulations impose associated reporting and publication requirements on those trustees to identify, assess and manage climate-related risks and opportunities. This includes requirements relating to governance, strategy and risk management. Also to select and calculate 'climate-related metrics' and to set and measure performance against targets.

In order to meet the 1.5 degrees global warming goal in the Paris Agreement, global carbon emissions need to reach Net Zero in 2050. This transition will lead to a fundamental transformation of the global economy, affecting all types of pension schemes. Trustees will be expected to measure, understand and manage the risks associated with the transition to a low carbon economy, in order to understand how the companies they are invested in are placed to weather that transition and so ensure that they meet their fiduciary duty to pay member's pensions, when they fall due.

It is clear that many pensions scheme members care about climate change and the impact it will have on their savings, the environment and wider society. The Defined Contribution Investment Forum's 2020 survey on responsible investment found that 73% of members said they felt strongly about environmental issues and 87% think businesses have wider societal responsibilities beyond making a profit.

Irrespective of whether schemes have sought to align their portfolio with Net Zero, 'portfolio alignment metrics' will be needed to assess and communicate a scheme's transition risk. By highlighting companies that are furthest from alignment with climate goals or make the biggest contributions to climate change, trustees will be able to identify and communicate the priorities for engagement, voting or ultimately divestment from companies who will not meet Net Zero targets and therefore will not provide adequate returns for their members.

Scottish Ministers would welcome the Scottish Scheme Advisory Board's recommendations on making TCFD reporting a regulatory requirement for the Local Government Pension Scheme funds in Scotland.