ITEM No …7………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 21 JUNE 2021**

REPORT ON: **TASK FORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD)**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **199-2021**

1. PURPOSE OF REPORT

This report sets out the compliance requirements of the Task Force for Climate Related Financial Disclosures.

2. RECOMMENDATION

The Sub-Committee is asked to:

- note the contents of the report
- approve the additional resource requirements

3. FINANCIAL IMPLICATIONS

There will be additional cost in resourcing to meet requirements of assessment and reporting.

Penalties for non-compliance are expected to be at the discretion of The Pensions Regulator.

4. BACKGROUND

In November 2020 the UK government published proposals for reporting against the framework set out by the Taskforce for Climate related Financial Disclosures (TCFD). Earlier this year the Pensions Schemes Bill 2021 was passed through parliament (now awaiting Royal Assent) requiring trustees of larger corporate pension funds to publish TCFD reports by 2022. All LGPS funds are likely to be asked to follow suit by 2023. Further, the proposals will require that pension schemes put in place appropriate governance arrangements to ensure that climate risks and opportunities are being considered by pension schemes.

TCFD is a framework for managing and reporting climate-related risks and opportunities. The TCFD reporting and compliance with climate governance requirements is mandatory for pension schemes with assets of £1bn or more.

Governance requirements would commence on 1 October 2021 for schemes with at least £5bn of assets. Schemes will be required to submit their first TCFD report within seven months of their scheme year ending after 1 October 2021 (2022 for £1-5bn schemes) but no later than 31 December 2022 (2023).

It is likely that pension schemes will be required to undertake scenario analyses, using metrics and targets in order to calculate the weighted average carbon intensity of their portfolios, and these reports will be required to be published online.

5. TCFD REQUIREMENTS

5.1. Governance

Pension schemes will be required to follow the broad recommendations of the TCFD in framing and implementing an approach to managing climate risk, as set out below. The Government expects to issue statutory guidance on the approach to be adopted although schemes will be able to follow their own approach and explain deviations in practice in their reporting.

TCFD AREA	REQUIREMENTS
Governance	• Establish and maintain oversight of climate related risks and opportunities • Establish and maintain processes that allow the trustees to satisfy themselves that those managing the scheme are assessing and managing climate related risks and opportunities
Strategy	• Identify climate related risks and opportunities that will impact the investment and, for Defined Benefit (DB) schemes, funding strategy of the scheme over different time horizons • Assess the impact of identified risks and opportunities on the scheme's investment and, for DB schemes, funding strategy
Scenario analysis	• At least annually, assess the resilience of the scheme's assets, liabilities and investment and, for DB schemes, funding strategy to climate related risks in at least two scenarios (including one scenario that reflects an annual temperature rise of 1.5 to 2 degrees).
Risk management	• Adopt and maintain processes for identifying, assessing and managing climate-related risks • Ensure the integration of climate-related risks into overall risk management
Metrics	• Select at least one greenhouse gas (GHG) emissions and one non-emissions metric against which to assess scheme assets against climate related risks and opportunities • At least quarterly, obtain the Scope 1/2/3 emissions of the portfolio and calculate the selected emissions metric • At least quarterly, obtain the necessary data and calculate the non-emissions metrics
Targets	• At least annually, set one target to manage climate relate risk with respect to the chosen metrics and measure performance against this target at least quarterly.

Metrics have not been specified, allowing schemes to select measurements which are appropriate to their own investment arrangements and governance process. Statutory guidance is expected to specify the types of metric that may be employed, and it is expected that the use of Weighted Average Carbon Intensity1 (WACI) will be included in guidance as the preferred emissions-based metric.

5.2. **Proposed Disclosure Requirements**

Schemes will be expected to report on the application of their governance processes on an annual basis. It is noted that data availability may in some circumstances be limited as it is recognised that the market will need to develop, and modelling approaches will evolve. Schemes are however expected to comply with scenario analysis and reporting on metrics as far as they are able to. Scenarios will be prescribed and must include a "global average temperature rise of 2 degrees or lower", and it is expected that trustees will drive up standards of reporting by investment managers.

Schemes will be expected to publish their TCFD report on their website, but there is no expectation that the TCFD report will be required to be included in full within schemes' Annual Report and Accounts. Links to the TCFD report are to be provided to the Pensions Regulator and to members via annual benefit statements.

5.3. **Relevant Timescales**

Schemes with assets in excess of £5bn at the scheme year ending on or after 1 June 2020 will be required to meet the governance requirements from 1 October 2021. For schemes with assets between £1bn and £5bn, the requirements will come into effect on 1 October 2022 and apply for the proportion of the scheme year from that date onwards. As at 31 March 2021 (scheme year-end), Tayside Pension Fund assets were just below £4.85bn.

Schemes will be required to complete and publish a TCFD report within 7 months of the first scheme year ending after 1 October 2021, but no later than 31 December 2022. For schemes with assets between £1bn and £5bn, the report must be made within 7 months of the end of the first scheme year beginning after 1 October 2021, but no later than 31 December 2023.

5.4. **Penalties**

The Pensions Regulator is expected to be given discretionary powers to fine trustees for inadequate reporting against the requirements. Mandatory penalties will apply in respect of total non-compliance.

6. CONCLUSION

The formalised requirements will require additional specialist guidance as well as operational resource. The Committee is asked to approve delegation of authority to progress to ensure appropriate governance and reporting requirements are met.

7. POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

8. CONSULTATIONS

The Chief Executive and the Head of Democratic and Legal Services have been consulted in the preparation of this report.

9. BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **14 June 2021**