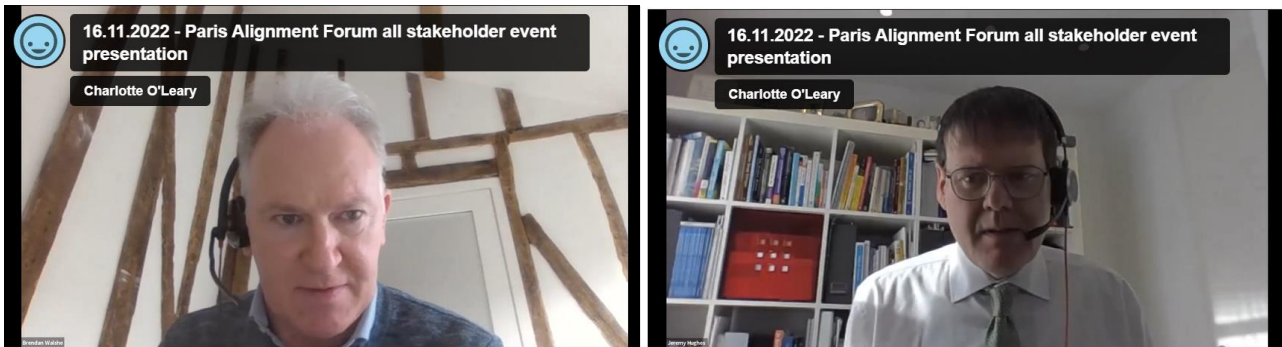


## TCFD reporting one year on

A discussion with The Pensions Regulator and the Local Government Pensions Scheme Advisory Board

November 2022

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At a Paris Alignment Forum discussion in November, Pensions for Purpose heard from Brendan Walshe of The Pensions Regulator (TPR) and Jeremy Hughes of the Local Government Pensions Scheme Advisory Board (SAB) on TCFD reporting, one year on from the first round of regulatory reports being submitted from large corporate pension schemes.

This blog summarises the key insights shared by the speakers and the questions that were raised. It touches on how funds should approach the reporting process and how they should communicate their approach, so as to be transparent and avoid public scrutiny. Brendan Walshe also highlighted the work that TPR has done to help the industry with their reporting process. (For the video please click [here](#).)

It is worth mentioning that the speakers recognised that the role of the pension fund is limited in climate action. Pension funds are, nonetheless, a significant player in pushing for the alignment of all stakeholders on the road to net-zero.

### Insights from the Regulator

Brendan Walshe – TPR

#### Working with industry

TPR have produced information to help industry: setting out how they would review Task Force for Climate-related Financial Disclosures (TCFD) reports, what they expect from these reports, with a step-by-step example and a blog highlighting the industry concern with the challenges of TCFD reporting and outlining their expectations.

The priority is to get reports published. Fines will be reserved for failing to publish, at this stage. However, TPR also want to avoid trustees seeing this as a tick box exercise.

#### Scenario analysis

TPR are also undertaking a thematic review of resilience to climate-related scenarios. This will be challenging because they have identified variations in levels of data and scenarios used. For example, within the first 24 schemes' reports there were 40 different scenarios and more than 10 different providers of data.

Funds need to think about what scenarios mean in practice. TPR is seeing a 4-degree, 'business as usual' scenario which often results only in a small reduction in expected returns of 10-20 bps. This is not realistic simply because a four-degrees-warmer-world would not be 'business as usual'. It would cause mass migration and resource wars which would hugely affect returns, in TPR's opinion.

### **How funds should approach TCFD**

DWP highlights that climate risk is just one risk, so trustees should be proportionate in terms of time, cost and the materiality of the risk but it is obvious that, as a systemic risk, it does need a lot of attention, focus and proper debate.

One theme that TPR has seen is a focus on compliance, but this is not a way out of climate catastrophe. We need to be thinking proactively and using the results from TCFD reporting to incorporate into and inform climate action plans.

## Insights from the LGPS Scheme Advisory Board

Jeremy Hughes – SAB

### **The role of government**

Although the LGPS wants to do its bit, there are limits as to what LGPS funds can achieve. The SAB considers that there is a need for greater alignment of government policy and regulation.

There is also a question as to what fiduciary duty allows schemes to do. There is a lack of clarity: some say returns are the primary goal whereas others say there are broader questions around the state of the world for beneficiaries in 40 years' time. With advice from the government, we can clarify and possibly redefine the contours of our fiduciary duty so that we're all in agreement.

### **Communicating climate strategy**

The consultation document, from the Department for Levelling Up, Housing and Communities, is hostile on divestment. But they are referring to divestment with a big 'D'. They are not referring to divestment as a last resort from failed engagement. Communicating this is essential. An LGPS's fiduciary duty isn't owed simply to members but also to local government electors as they bear the investment risk. Therefore, there needs to be public agreement and consent as to the approach that's taken.

Part of that communications strategy will be around whether funds decide to set net-zero targets. There could be potential challenge from local interest groups. Due to data issues, it will be some time before LGPS funds have measurable progress that they can point to, so for now it will have to be a narrative-heavy approach.

## Post keynote questions from the audience

**Question:** "Obviously the government cannot control pension funds because they are bounded by trust law, but should regulators be leaning on them quite so much, to withhold from fully divesting, when four-fifths of investors don't think big oil will transition. Is there wiggle room there?"

**Response:** "The government doesn't have the power to wave a big stick on this. Also, despite lobbying groups' rallying cries for divestment, the government has set itself in opposition to that. Divestment with a capital 'D' is not a good idea as we need investors to drive company transitions, but there may come a point where divestment is an engagement consequence, as an endpoint."

**Question:** “Is it acceptable to pay for advice on scenario analysis that doesn’t show the true impacts of climate change?”

**Response:** “It’s early days and advisors are trying to skill up. Scenario analysis isn’t regulated but trustees can be the barrier if they don’t think the analysis is accurately reflecting potential real-world scenarios. In time, as more reports are published, the industry will help evolve it.”

**Question:** “Is divestment a moral or a financial issue?”

**Response:** “It is a bit of both. There will be a time when climate transition is a financial factor. But there’s also an ethical dimension. For LGPS, it’s about how we determine whether what they are doing is in the best interest of our beneficiaries.”

**Question:** “Is it likely that TPR will be more prescriptive about the scenarios we have to be using?”

**Response:** “That would be a decision for DWP next year but it’s very scheme specific, and we wouldn’t want to mandate scenarios... although we should aim for less variation.”