Pension schemes and the Taskforce on Climate-related Financial Disclosures (TCFD) Requirements

Summary of requirements from 1 October 2021

October 2021

Contents

01 | Introduction

02 | Background - the TCFD recommendations

03 | Scope and timing

04 | Governance

05 | Strategy and scenario analysis

06 | Risk management

07 | Metrics and targets

08 | Points to note

09 | Audit impact

10 | What actions do Trustees need to take?

11 | Disclosures and penalties

12 | Conclusion

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Introduction

> **I want pensions to be safer, better and greener**
>
> **Guy Opperman**

All pension schemes are exposed to climate-related financial risk and trustees have a legal duty to consider matters which are financially material to their investment decision-making. Climate change risks are far-reaching and difficult to assess over future time periods. The changes we saw throughout 2019 and 2020 with updates to Statements of Investment Principles and the requirement for most schemes to prepare an implementation statement were just the beginning on a long road to limit the risk to members' retirement income, and as one key asset owner, pension schemes are leading the way in mandated climate-related financial disclosures.

The Pension Schemes Act 2021 requires schemes to adopt and report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. The final Regulations have been issued and the final Statutory Guidance has been published to which trustees are required to have regard.

This publication is designed to support both defined benefit (DB) and defined contribution (DC) scheme trustees by pulling together the requirements laid out in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 and the Statutory Guidance, published and updated in July 2021.

In its 2019 Green Finance Strategy, the Government set an expectation that all UK listed issuers and large asset owners would be making disclosures in accordance with the TCFD recommendations by 2022.

Background to the disclosures and a summary of these recommendations are included on the following pages.

Finally, we look at some action points trustees should consider now, if not already done so, to help plan for the forthcoming changes.

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Background: the TCFD recommendations

The Taskforce on Climate–related Financial Disclosures (TCFD) was established in December 2015 to develop disclosures drawing from existing frameworks where possible, following increased demand for transparency from organisations on risks and risk management processes. The work of the TCFD aligns with the Government's Green Finance Strategy – Transforming Finance for a Greener Future – announced in July 2019. The Green Finance Strategy has two objectives:

— Aligning private sector financial flows with clean, environmentally sustainable and resilient growth; and

— Strengthening the competitiveness of the UK financial services sector.

Three strategic pillars to achieve these objectives are:

— Greening Finance: Ensuring current and future financial risks and opportunities from climate and environmental factors are integrated into mainstream financial decision making, and that markets for green financial products are robust in nature;

— Financing Green: Accelerating finance to support the delivery of the UK's carbon targets and clean growth, resilience and environmental ambitions, as well as international objectives; and

— Capturing the Opportunity: Ensuring UK financial services capture the domestic and international commercial opportunities arising from the "greening of finance", such as climate-related data and analytics, and from "financing green", such as new green financial products and services.

In June 2017, the Final Report of the TCFD established 11 recommendations. (The table overleaf sets these out along with the 7 Principles for Effective Disclosures).

The flexible framework of the recommendations will allow pension schemes to produce meaningful disclosures around the impact of climate change on their investment portfolios.

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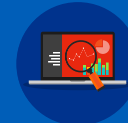
Background: the TCFD recommendations (cont.)

Governance

Strategy

Risk Management



Metrics and targets

Governance	Strategy	Risk Management	Metrics and Targets
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	b) Describe the organisation's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

To underpin the recommendations, the Taskforce developed seven Principles for Effective Disclosures;

1. **Disclosure should represent relevant information;**
2. **Disclosures should be specific and complete;**
3. **Disclosures should be clear, balanced and understandable;**
4. **Disclosures should be consistent over time;**
5. **Disclosures should be comparable among companies within a sector, industry, or portfolio;**
6. **Disclosures should be reliable, verifiable and objective; and**
7. **Disclosures should be provided on a timely basis.**

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Scope and timing

Scheme asset threshold test…
When do the rules apply?

Asset threshold test

Where a scheme has **relevant assets**[(a)] equal to, or exceeding, £5 billion on the first scheme year end date which falls on or after 1 March 2020, it must comply with the climate change governance requirements:

— From 1 October 2021 where the scheme is an **earmarked scheme** [(b)]; or

— Where the scheme is not an earmarked scheme, from 1 October 2021 or, if later, from the date on which the trustees obtain audited accounts in relation to that scheme year end date.

Where a scheme has **relevant assets** [(a)] equal to, or exceeding, £1 billion on the first scheme year end date which falls on or after 1 March 2021, it must comply with climate change governance requirements:

— From 1 October 2022 where the scheme is an **earmarked scheme** [(b)]; or

— Where the scheme is not an earmarked scheme, from 1 October 2022 or, if later, from the date on which the trustees obtain audited accounts in relation to that scheme year end date

Trustees must publish a TCFD report within 7 months of the end of the scheme year which is underway on 1 October the year the rules apply. Trustees must also include a link to the report in the annual report and accounts produced for that scheme year.

"relevant assets" means—

a) in the case of a scheme in respect of which the trustees are required to obtain audited accounts, the total of the amount of the net assets of the scheme recorded in the audited accounts for the scheme year less the value of the assets of the scheme represented by any **relevant contract of insurance** recorded in those accounts; or

b) in the case of a scheme which is an ear-marked scheme, the value of the assets of the scheme represented by any policies of insurance or annuity contracts that are specifically allocated to the provision of benefits for individual members or any other person who has a right to benefits under the scheme, less the value of the assets of the scheme represented by any relevant contract of insurance;

"relevant contract of insurance" means a contract of insurance entered into by the trustees of the scheme with an insurance company regulated in the United Kingdom by the Prudential Regulation Authority where:

(a) the contract is an annuity contract which has secured the provision of a pension in payment to or in respect of a scheme member and, at all times before coming into payment, that pension was a benefit falling within section 181B(2) of the Pension Schemes Act 1993(d); or

(b) the contract provides for payments to be made by the insurance company which are intended, irrespective of future financial market conditions or scheme member longevity, to meet the cost of benefits specified in the contract:

- which are not money purchase benefits under section 181(1) of the Pension Schemes Act 1993; and
- which are or will become payable to or in respect of a scheme member

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Scope and timing

Scheme asset threshold test… When do the rules apply?

Schemes no longer in scope:

On a scheme year end date falling after 1 October 2021, the scheme has relevant assets of less than £500m, and is not an authorised scheme:

— The governance requirements end with immediate effect; but

— The TCFD report must still be produced within 7 months of the scheme year end (unless relevant assets are zero at the year end), after which the requirement falls away.

Bulk and individual annuity contracts

The Government has now refined the definition of a relevant contract of insurance, since the original consultation, so that in the case of bulk-annuity contracts it does not require:

- an exact matching of the cost of benefits;
- the intention to meet costs in all circumstances – only irrespective of future financial market conditions or scheme member longevity; or
- the insurer having unfettered discretion in relation to the investment policy of the assets used to meet its liabilities under the contract.

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Scope and timing (cont.)

Authorised schemes…
When do the rules apply?

Authorised schemes

Trustees of authorised master trust schemes and trustees of authorised collective money purchase schemes (once established) must comply with the governance requirements from 1 October 2021, or, if later, from the date on which the scheme is authorised.

Trustees must then produce a TCFD report within 7 months of the end of the scheme year which is underway and include a link to the TCFD report from the annual report and accounts.

Authorised schemes no longer in scope:

After 1 October 2021, the scheme ceases to be authorised and has assets of less than £500m at the end of the previous scheme year, then both the governance requirements and the TCFD reporting requirements fall away immediately.

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Governance

What processes do we need in place……..

Note: (a) An asset manager would only fall into scope where they do not only manage the assets, but also provide advice or assistance with respect to the scheme's governance activities.
(b) Scheme administrators are also not considered in scope of undertaking governance activities.

Regulations

— Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme.

— Trustees must establish and maintain processes for the purpose of satisfying themselves that:

a. Any person[(a)] who undertakes scheme governance activities otherwise than as a trustee, takes adequate steps to identify, assess and manage climate-related risks and opportunities which are relevant to the governance activities they are undertaking; and

b. Any person[(a)] who is not a legal adviser of the trustees and who advises or assists the trustees with respect to scheme governance activities, takes adequate steps to identify and assess climate-related risks and opportunities which are relevant to the matters in respect of which they are advising or assisting.

Guidance

When determining who those persons are who undertake governance activities, trustees should consider those external advisers who are engaged by the trustees or the sponsoring employer to advise or assist with scheme-wide decisions or occasionally make scheme-wide decisions for the trustees. For those people who are involved in governing the scheme, trustees should have clearly set out roles and responsibilities. Trustees may want to review their service level agreements. However, trustees have ultimate responsibility for how climate-related risks and opportunities are managed.

Adequate climate-related risk knowledge and expertise is crucial and trustees may find it useful to carry out a skills audit, for example covering:

- The trustees' expertise on climate change;
- The expertise of others undertaking governance activities; and
- The expertise of those advising or assisting in respect of governance activities.

Comment

Most trustees will have delegated tasks and so will need a clear oversight of the governance activities being carried out. Trustees should focus on identifying who has the responsibility for notifying them of climate change issues.

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Governance (cont.)

Does the Trustee Board need any specific training….

TKU Regulatory requirements

The Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 require trustees to have an appropriate level of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities, including risks arising from steps taken because of climate change (whether by governments or otherwise) to enable them to properly exercise their duties.

Guidance

The section in the Guidance on trustees' knowledge and understanding is not Statutory Guidance, but is intended as best practice. Trustees are not required to be experts, but have sufficient expertise so that they properly exercise governance over climate change risks and opportunities.

Now is the time to review knowledge levels of the trustee board and seek advice or training from scheme advisers if necessary. Even where, in most cases, many of the activities will be undertaken by investment consultants and/or asset managers for example, trustees will still require the necessary knowledge and understanding to interpret results, challenge information and take action where it is required.

Industry collaboration is encouraged.

Comment

If not already, climate change should be firmly set within the trustee meeting agenda, with adequate time and resource allocated. If skills gaps have been identified, then trustees should be looking to arrange adequate training as soon as it is practical to do so.

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Governance (cont.)

What to include in the report……

TCFD report – Regulations

Trustees must describe:

- How the trustees maintain oversight of climate-related risks and opportunities which are relevant to the scheme;
- The role of any person who undertakes governance activities in relation to the scheme, in identifying, assessing and managing climate-related risks and opportunities relevant to the scheme and the process by which the trustees satisfy themselves that the person is taking adequate steps to identify, assess and manage climate-related risks and opportunities; and
- The role of any person who, otherwise than as a legal adviser of the trustees, advises or assists the trustees with respect to governance activities relating to the scheme and the process by which the trustees satisfy themselves that the person is taking adequate steps to identify and assess climate-related risks and opportunities which are relevant to the matters in respect of which they are advising or assisting.

Guidance

The Statutory Guidance gives further guidelines to assist trustees to prepare these disclosures:

- Describe how the board and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place;
- Any challenge by the trustees to the information provided to them by others;
- The rationale for the time and resources they spent on governance of climate-related risks and opportunities;
- The kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme and the frequency with which this information is provided; and
- Describe the training opportunities provided for existing employees. Where trustees identified skills gaps, they should also describe whether they encouraged external advisers to undertake training opportunities.

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Strategy and scenario analysis

"As far as they are able" = taking all such steps as are reasonable and proportionate in the particular circumstances taking into accounts 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

Regulations

— Trustees must, on an ongoing basis, identify climate-related risks and opportunities which they consider will have an effect over the short, medium and long term on the scheme's investment strategy and where the scheme has a funding strategy, the funding strategy.

— The time periods which comprise the short, medium and long term are such time periods as the trustees determine are appropriate taking into account the scheme's liabilities and its obligations to pay benefits. (Trustees are not required to disclose why they have chosen particular time horizons.)

— Trustees must, on an ongoing basis, assess the impact of the climate-related risks and opportunities which they have identified on the scheme's investment strategy and where the scheme has a funding strategy, the funding strategy.

— Trustees must, **as far as they are able** undertake scenario analysis in at least two scenarios where there is an increase in the global average temperature and in one of those scenarios the global average temperature increase selected by the trustees must be within the range of 1.5 degrees Celsius above pre-industrial levels, to and including 2 degrees Celsius above pre-industrial levels

— Trustees must consider:

a. The potential impact on the scheme's assets and liabilities of the effects of the global average increase in temperature and of any steps which might be taken (by governments or otherwise) because of the increase in temperature in such scenarios;

b. The resilience of the scheme's investment strategy in such scenarios; and

c. Where the scheme has a funding strategy, the resilience of the funding strategy in such scenarios.

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Strategy and scenario analysis (cont.)

Regulations (cont.)

The scenario analysis must be undertaken:

a. In the first scheme year in respect of which the requirements apply even if the first year of application is a part year. Trustees may rely on scenario analysis undertaken on any day(s) earlier in that first scheme year provided in complies with the Regulations; and

b. Every three years thereafter.

c. Trustees must in each scheme year, except the first scheme year in respect of which the requirements apply, review the most recent scenario analysis they have undertaken and determine whether it is appropriate to undertake new scenario analysis.

d. Whenever trustees undertake a fresh scenario analysis, the three year cycle is automatically reset to three years.

The analysis should cover all scheme assets, including relevant contracts of insurance. In terms of scheme liabilities, an understanding of the overall impact of climate change is expected.

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Strategy and scenario analysis (cont.)

What if the scheme has more than one section…..

Guidance

The Statutory Guidance provides further information for trustees, with considerations around a measured orderly, a disorderly and a limited/no transition to a low carbon economy.

As data availability is not seen as an issue for strategy, the Government has not added the element of proportionality or reference to "as far as they are able".

The Statutory Guidance sets out the levels at which trustees should make the assessments:

- **DB schemes with single section:** trustees should look at the level of the whole scheme;
- **DB schemes with more than one DB section:** trustees should look at each section. However, sections with similar characteristics may be grouped (assets, liabilities, funding);
- **DC schemes:** trustees should look at each popular arrangement (where £100m or more of scheme assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding AVCs); and
- **DB and DC sections:** trustees should consider the two sections separately.

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Strategy and scenario analysis (cont.)

What to include in the report……

TCFD report – Regulations

Trustees must describe:

- The climate-related risks and opportunities which the trustees have identified and the time periods which the trustees have determined should comprise the short, medium and long term;
- The impact of the climate-related risks and opportunities on the scheme's investment strategy and funding strategy (the latter where relevant);
- The most recent scenarios which the trustees have analysed;
- The potential impacts on the scheme's assets and liabilities which the trustees have identified in the most recent scenarios they have analysed. If trustees have not been able to obtain data to identify potential impacts, they must set out why this is the case;
- The resilience of the scheme's investment strategy and funding strategy (the latter where relevant) in the most recent scenarios the trustees have analysed; and
- Where the trustees have determined not to undertake new scenario analysis outside of the mandatory cycle, the reasons for this decision must be set out in the report.

Per the **Statutory Guidance**, trustees should also describe:

- Their reasons for the choice of scenarios used; and
- The key assumptions for the scenarios used and the key limitations of the modelling.

Employer Covenant

The Statutory Guidance sets out how trustees of DB schemes are to consider the impact of climate-related risks and opportunities on the sponsoring employer's covenant. Trustees may want to engage with the employer, review any disclosures made by the employer (e.g. its own TCFD report) and consider if any action is required.

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Risk management

Physical risks[a]: These can be event driven (acute) for example increased severity of weather events, or longer-term shifts in climate patterns (chronic) for example sustained higher temperatures that may cause a rise in sea level

Transition risks[a]: Transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaption requirements related to climate change

Litigation risks: Litigation may occur where businesses/investors fail to account for physical or transition risks of climate change

Regulations

- Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and manage effectively climate-related risks which are relevant to the scheme.
- Trustees must ensure that management of climate-related risks is integrated into their overall risk management of the scheme.

Guidance

Trustees should be aware of the material risks that the scheme is exposed to and be able to integrate climate risk into the wider risk management process already in place. To integrate climate–related risks into the scheme's risk management framework, the Guidance sets out four principles trustees should consider:

- Interconnections
- Temporal orientation
- Proportionality
- Consistency

The Guidance also points out that TPR recommends trustees consider high-level risk monitoring at least once a year as a minimum. This may need to be done more frequently, and the risk-appetite of the trustees reconsidered accordingly.

Note: (a) Per TCFD recommendations

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Risk management (cont.)

What to include in the report……

TCFD report – Regulations

Trustees must describe:

- The processes which they have established for identifying, assessing and managing climate-related relevant risks to the scheme; and
- How those processes are integrated within the trustees' overall risk management of the scheme.

Guidance

Per the Statutory Guidance, trustees should also include:

- Risk tools used, and the outputs of those tools;
- How the trustees have identified, assessed and managed physical and transitional risks; and
- How the assessment has impacted the scheme's prioritisation and management of risks which pose the most significant potential loss and most likely to occur.

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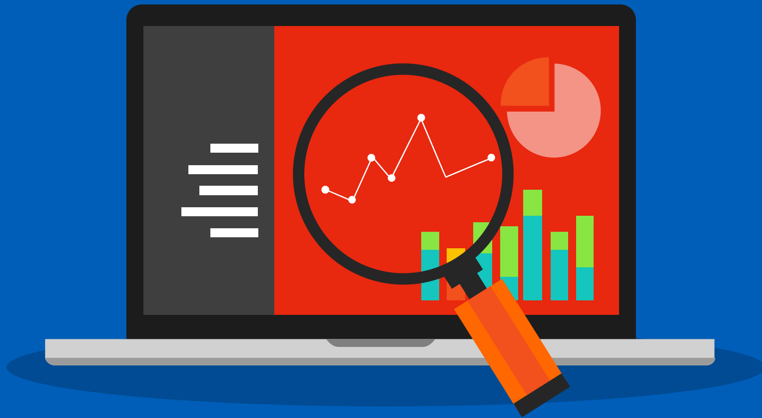
Metrics and targets

Metrics are a continuously evolving area, but challenges still exist. Apart from the actual metric selection, the policy proposals are subject to the "as far as they are able" (a) provision.



Note: (a) As far as they are able"= taking all such steps as are reasonable and proportionate in the particular circumstances taking into accounts 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.

Requirements

Trustees must select a minimum of:

a. One metric which gives the total greenhouse gas emissions of the scheme's assets ("absolute emissions metric");

b. One metric which gives the total carbon dioxide emissions per unit of currency invested by the scheme ("emissions intensity metric"); and

c. One other additional climate change metric, for example a portfolio alignment metric, climate value at risk or data quality metric

to calculate in relation to the scheme's assets and must review their selection from time to time as appropriate to the scheme.

Trustees must on an **annual basis** and as far as they are able:

a. Obtain the scope 1, scope 2 and scope 3* greenhouse gas emissions of the scheme's assets;

b. Use the data obtained to calculate their selected absolute emissions metric and selected emissions intensity metric; and

c. Use the metrics they have calculated to identify and assess the climate-related risks and opportunities which are relevant to the scheme.

* In the first scheme year the regulations apply, trustees are not required to obtain the scope 3 greenhouse gas emissions attributable to the scheme's assets.

Trustees must on an **annual basis** and as far as they are able:

a. Obtain the data required to calculate their selected additional climate change metric;

b. Use the data obtained to calculate that metric in relation to the scheme's assets; and

c. Use the metric they have calculated to identify and assess the climate-related risks and opportunities which are relevant to the scheme.

Trustees may, in the first scheme year in respect of which the requirements apply, rely on data obtained, calculations performed, and identification and assessment of climate-related risks and opportunities undertaken on any day(s) in that first scheme year, including any day before the requirements apply.

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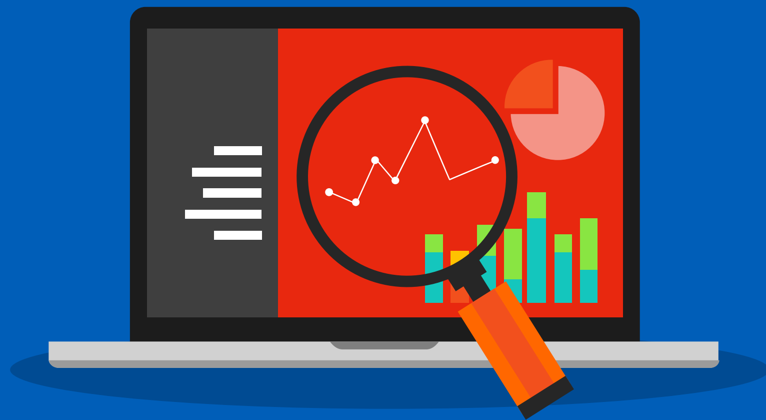
Metrics and targets (cont.)



Regulations (cont.)

Trustees must set a target for the scheme in relation to at least one of the metrics which they have selected to calculate:

— Trustees must on an **annual basis:**

  a. Measure, as far as they are able, the performance of the scheme against any target they have set; and

  b. Taking into account the scheme's performance, determine whether the target should be retained or replaced.

Guidance

For the emissions intensity metric, carbon footprint should be used, but trustees can also report the Weighted Average Carbon Intensity (WACI) metric should they wish to do so. The Statutory Guidance states that in calculating emissions, the chosen methodology should be consistent and in line with the GHG Protocol methodology, using the most recent available greenhouse gas emissions for the portfolio. Metrics should be calculated for each DB section and each popular DC arrangement. Further details on metric calculation can be found in the Guidance. .

Targets will be related to the metrics chosen by the trustees. Targets can be percentage-based or absolute. They can be a fixed point, or a point relative to a benchmark.Target setting should be used to track progress in reducing climate-change risk and trustees should set a reference year to assess progress, the timeframe to meet the target and the methodology for calculating performance against the target set. Trustees are free to select a target in relation to the whole portfolio or only part of the portfolio – for example, in relation to a particular section, fund, sector or asset class. Any emissions target set by the trustees need not cover all 3 scopes of GHG emissions. The target is for the management of material climate-related risks and opportunities only and trustees are not expected to align their own targets with other schemes' or Government's targets. The targets are not legally binding.

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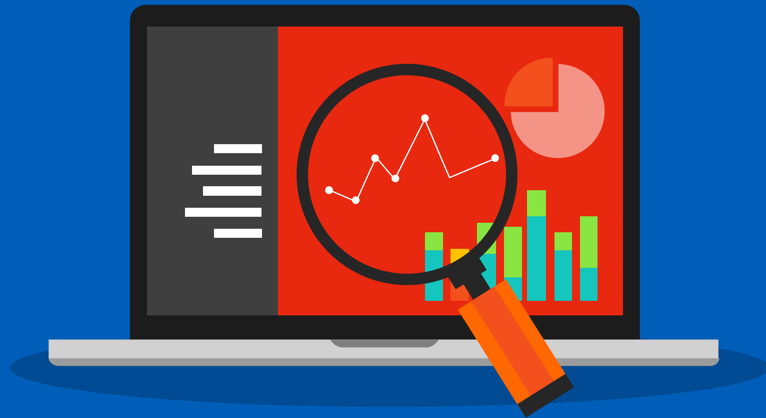
Metrics and targets (cont.)

What to include in the report……



TCFD report – Regulations

Trustees must describe:

- The metrics which the trustees have calculated, explaining the methodologies and rationale and, if the trustees have not been able to obtain data to calculate the metrics for all of the assets of the scheme, why this is the case (for any data estimated, this should also be explained); and
- The target, or targets which the trustees have set and the performance of the scheme against such target, or targets, which the trustees have measured.

Guidance

Trustees should provide a concise description of the methodology used to measure performance against the target(s), including any estimations relied upon in measuring progress.

Where trustees have replaced a target, they should briefly explain why. Similarly, where a target has been missed, trustees should offer a brief explanation.

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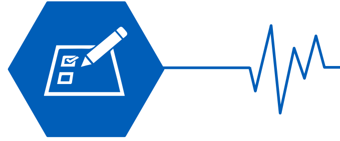
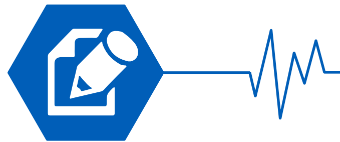
Points to note



Sectionalised schemes: the asset threshold test to apply at scheme level, rather than at section level, with duties imposed on trustees of the scheme rather than on any governance committee appointed to manage a particular section.

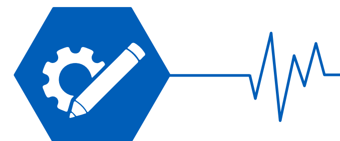
Buy-in policies: even though excluded from scope test, trustees must still consider them for scenario analysis "as far as they are able".



Longevity swaps/on balance-sheet capital backed solutions/alternative insurance solutions (where the cost of specified benefits is not fully met in all circumstances) are not exempt for the asset threshold test as there remains a risk for trustees to manage.

Schemes in wind up/schemes in PPF assessment: the Government does not intend to lift the governance and reporting requirements for schemes in wind-up or in PPF assessment.

Common investment funds: the proposals do not take account of the vehicles in which trustees invest. Even where schemes which each have individual assets below the threshold invest in a common investment fund with assets in excess of £1bn, the duties do not bite on any of the investing schemes or the common investment fund itself.



Earmarked schemes: relevant assets for earmarked schemes are the value of the assets of the scheme represented by any policies of insurance or annuity contracts that are specifically allocated to the provision of benefits for individual members or any other person who has a right to benefits under the scheme, less the value of the assets of the scheme represented by any relevant contract of insurance.

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Audit impact

Does the TCFD report need to be audited……….

01

Our responsibilities towards the TCFD report are similar to our approach to other content of the annual report. It is read and checked for consistency with the financial statements and our knowledge gained throughout the audit process. Auditors should ensure that they are familiar with the specific circumstances of their scheme and the legislative requirements that apply.

02

ISA (UK) 720 deals with the auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report thereon and therefore applies to our approach in auditing the TCFD report . The auditor should read the other information to identify material inconsistencies, if any, with the audited financial statements.

03

The auditor is not expected to verify any of the other information. The audit engagement partner (and, where appropriate, other senior members of the engagement team), reads the other information with a view to identifying significant misstatements therein or matters which are inconsistent with the financial statements.

04

Currently there is no regulatory requirement for the TCFD to be audited. In the absence of a separate requirement, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated.

05

However, the auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information.

06

The auditor may also identify misstatements of fact in other information (which is unrelated to matters appearing in the financial statements), such as incorrect statements or presentation.

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What actions do Trustees need to take?

1. Determine the level of relevant assets – trustees should now be aware if exceed £5bn/£1bn and can therefore plan a timetable for introducing new requirements.

2. Define roles and responsibilities of those involved in scheme governance. Set reporting deadlines and frequency of updates to be provided to the trustees. Establish clear lines of communication.

3. Review governance frameworks and processes currently in place - identify any gaps. Ensure sufficient time allocated for the consideration of climate change risks and opportunities. Consider updating risk register.

4. Plan for data requirements.

5. Early engagement with advisers/investment managers and investment consultants.

6. Review investment manager agreements/contractual terms to ensure consideration of climate risk is included.

7. Allocate responsibility for the TCFD report and plan how it will be presented so that it is clear enough for a “reasonably engaged and informed member” to understand. Decide if a short summary up front would be useful for some readers.

8. Engage with sponsoring employer (DB schemes) and consider the impact of climate change on the employer covenant. Will access be granted to employer information? Are NDAs required?

9. Trustees should have a good understanding of the climate–related risks and opportunities that are relevant to their scheme. If training needs are identified, talk to scheme advisers.

10. Remember, TCFD will be publicly available therefore open to scrutiny. Consider whether there is a need to review member communications.

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Disclosures and penalties

Where will the TCFD need to be published…

Disclosures

The TCFD report must be published on a publicly available website, accessible free of charge. Members must also be informed via the annual benefit statement (for DC schemes) or the annual funding statement (DB schemes) that the report has been published on a website and the location where it can be found.

The report must be signed on behalf of the trustees by:

— The chair; or

— Where no chair has been appointed, or the chair has ceased to hold office as chair for any reason and a replacement has not yet been appointed, a person appointed by the trustees to act as chair in the interim period for the purpose of signing the report.

(Note: trustees are not required to publish the manuscript signature of the person who has signed the report).

A link must be included in the Annual Report and Accounts within a clear sub-titled section, alongside a short summary explaining the availability of the statement via the link. Trustees may also choose to include in the sub-titled section a short explanation of what the TCFD report is, why it is important, a high-level summary of the TCFD report findings and where members can find more information on the scheme's other ESG activities.

Trustees must provide TPR with the website address where they have published the most recent TCFD report via the scheme return..

Penalties

TPR will be able to issue discretionary penalties for inadequate reporting; a mandatory penalty will only be issued for the non-production of a report. Failure to notify members via their annual benefit statements or to include a link to the TCFD report from the Annual Report would be subject to the existing penalty regime set out in the Disclosure Regulations i.e. up to £5,000 for an individual trustee and £50,000 for a corporate trustee.

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Conclusion

> **A scheme that does not consider climate change is ignoring a major risk to pension savings and missing out on potential investment opportunities.**
>
> **David Fairs, TPR Executive Director of Regulatory Policy, Analysis and Advice**

Although data sources and best practice will evolve over time, trustees must educate themselves now on the TCFD recommendations and what it means for their scheme. There is much information and guidance already available, including the Pensions Climate Risk Industry Group's non-statutory guidance .

The Statutory Guidance, states that the principal purpose of disclosure is to ensure trustees are "thorough and rigorous in taking actions required by the Climate Change Governance and Reporting Regulations". This is in line with the Government's intention to make TCFD – aligned disclosures mandatory across the economy by 2025.

Good member outcomes require effective governance and decision-making processes and trustees will need a clear strategy to navigate climate change and ESG risks and opportunities. The creation of a common framework will allow for both consistency and comparability across the industry. Remember it is not all about risks, but also opportunities for schemes as we transition to a low carbon economy.

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