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Regulator's Review of Pension Scheme Climate Reports Finds Room for Improvement

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A review by T**he Pensions Regulator (TPR)** of the published annual climate reports of more than 71 UK pension schemes found several areas where improvement is needed as well as emerging "good practices."

The review follows the enactment of the **Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021**, which took effect on October 1, 2021. The Climate and Governance Regulations require trustees of certain pension schemes to identify, assess and manage climate-related risks and opportunities and report on these activities. The reporting requirements under the Climate and Governance Regulations were developed from the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), according to a **March 23 statement** by TPR.

TPR conducted a qualitative and quantitative assessment of the data and disclosures provided in 71 pension scheme reports. The regulator's review found that the reports ranged from 10 to 85 pages, and averaged 34 pages. Just under half of the reports (43%) set a formal net zero target. The report identified disclosure subjects that "need improvement" and emerging "good practices" in a variety of areas, including governance, strategy and scenario analysis, risk management, metrics and targets. For example, in the governance section, the report identified as good practices "clear descriptions of the trustees' high-level approach to climate change;" conducting a "skills audit or gap analysis, to identify the specific areas where trustee training is needed;" "clear descriptions of the roles performed by individual consultancy firms or advisers;" and "robust processes for reviewing the competency of in-house teams or advisors." Governance-related disclosure areas where improvement was necessary included discussing the “ roles of those undertaking scheme governance activities, other than trustees, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities,” and the “processes the trustees have established to satisfy themselves that the person undertaking, advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.”

The report found a variety of “good examples of trustees taking action,” including:

- planning climate and sustainability training for trustees and those involved in the governance of climate-related risks and opportunities;
- developing a trustee policy on climate change investment views;
- working with investment managers to obtain better data;
- allocating more funds to sustainable investments;
- using stewardship to manage climate-related risk; and
- switching to climate-tilted pooled funds.

TPR’s review also highlighted several areas for improvement, finding:

- a lack of sufficient background information on the pension scheme itself, which made the disclosures difficult to interpret;
- disclosures of strategy and scenario analysis that did not always reach the appropriate level **described in statutory guidance** issued by the Department for Work and Pensions (DWP);
- accessibility issues—including long or complicated web addresses and use of PDFs not compatible with those using reader accessibility requirements—that could make it difficult for savers and others to find and access reports online; and
- failure to include disclosures required by DWP’s statutory guidance.

Trustees of pension schemes covered by the regulations who fail to publish their annual report may be subject to a mandatory fine of at least £2,500. Trustees that do not comply with the regulations in preparing their report may be further fined a penalty of up to £5,000 for individual trustees and up to £50,000 for corporate trustees.

Taking the Temperature: TPR’s review of pension scheme reports is the regulator’s latest initiative to tighten the rules around trustees’ disclosure of climate-related data. As we previously reported, TPR recently launched a campaign to assess whether trustees are properly discharging their ESG reporting duties. Among other things, the regulator is assessing whether trustees of covered pension schemes have published a statement of investment principles (SIP) detailing how a scheme invests, including consideration of financially material ESG and climate factors, and whether the SIP has been implemented. The focus on reporting accuracy by pension regulators in the UK is also in line with the position taken last year by three European supervisory authorities (ESAs), including the Occupational Pensions Authority, on sustainability-related disclosures in the financial services sector. As we reported, the ESAs issued a joint statement on March 25, 2022, updating guidance on the application of Regulation (EU)

2019/2088 (the Sustainable Finance Disclosure Regulation) and providing new guidance on the application of Regulation (EU) 2020/852 (the EU Taxonomy Regulation).