



# DWP is getting tough on pensions

Climate change regulation is coming

# The DWP is getting tough on climate change

Published guidance on a consultation proposes to implement new regulation from 2022.

This regulation will mandate climate governance and risk reporting for pension schemes in line with the international industry-led Task Force on Climate-related Financial Disclosures (TCFD).

These new rules would apply to both DB and DC schemes and make the UK the first major economy to legally require pension schemes to implement the TCFD recommendations. Although initially only for the largest pension schemes, this comes as part of the UK government's commitment for the UK to be a net zero greenhouse gas (GHG) emitter by 2050; so the DWP has made it clear this could apply to all schemes by 2023.



## The four actions you would need to take

This new regulation will radically shake up UK's institutional investment space

### 1. Fresh governance structures

To maintain oversight of climate-related risks and opportunities. This will require integration of climate change considerations into investment policies, and allocation of trustees' time and resources to assessing the risks with named persons responsible.

### 2. Strategy considerations

To identify and assess climate-related risks and opportunities in the short, medium and long term.

### 3. Scenario analysis

To model the resilience of the scheme's assets, liabilities and investment strategy to risks and opportunities in at least two climate-related scenarios.

### 4. Monitoring metrics

To monitor (at least) annually two quantitative GHG emissions based metrics, and one non-emissions based metric, and set rigorous targets and deadlines for both.

**All four actions will be on a "comply or explain" basis.**

# How would you disclose your information?

This will be via a detailed annual TCFD report.

Your report would be made available on a publicly available website, and the web address provided in the scheme accounts and annual benefit statement. Reporting to The Pensions Regulator (TPR) also by providing the website address to the TCFD report in the annual scheme return.

# Deadlines for the new regulations information

By late 2022 this new annual disclosure will be required for:

- DB and DC schemes with assets of £5bn or more
- Authorised master trusts of any size
- Authorised Collective Defined Contribution schemes of any size

By late 2023 this new annual disclosure will also be required for:

- DB and DC schemes with assets between £1bn and £5bn

We expect preparation for a first disclosure to take 12-18 months. The government will review these regulations with the intention of extending them to schemes of all sizes by 2023.

Penalties for failing to disclose the required information will be between £2.5k and £50k

The government expects trustees to be planning for this now – regardless of scheme size.

## The 4 ways Isio can help you

We are ready to help you fulfil the requirements of this consultation. We can do this for you by:

- 1.** Providing you with the content and training to construct your responsible investment (RI) approach to meet climate change regulations; and then evolve it into your environmental, social and governance (ESG) policy.
- 2.** Moving to incorporate emissions monitoring for you into our quarterly monitoring reports for your climate risk metrics.
- 3.** Supporting you carry out climate change modelling using scenarios that are in line with the TCFD recommendations.
- 4.** Providing you with the market knowledge for the best climate change related investment opportunities available to UK institutional investors.



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## Contact

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