DEAN WETTON ADVISORY

OUR 5 TIPS FOR GETTING THROUGH YOUR FIRST TCFD REPORT

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New UK legislation based on recommendations from the Taskforce for Climate Related Financial Disclosures (TCFD) requires that some companies, including certain pension schemes, report on the extent to which adequate governance, strategy, risk management, and metrics and targets are in place to address climate-related issues. This may feel like a daunting task, however it does not need to be the case. At Dean Wetton Advisory (DWA) our ESG and TCFD consulting team are experienced in developing TCFD reports and have completed a number of TCFD reports on behalf of our clients in recent months.

As the UK moves towards net zero carbon emissions by 2050, the ripple effect that this will have on pension schemes is likely to be much greater than anticipated. While the administration of pension funds may not directly produce significant greenhouse gas emissions, the way in which pension funds allocate capital and use their stewardship capabilities will have a significant impact.

The then finance minister, Rishi Sunak, announced in October 2021 that asset managers, certain pension schemes and some large companies will be required to disclose their environmental impact; turning a spotlight on the pension industry and current sustainability reporting practices.

With new standards for environmental reporting being agreed to, pension funds are required to promote greater transparency in reporting the climate impact of their investments. This is an important step towards ensuring that investors have visibility of where their money is invested and whether these investments align with the world's transition to a low-carbon economy.

Mandatory reporting coming your way

The UK has made it mandatory for certain entities to report on their climate-related risk in line with the recommendations of the global Task Force on Climate-related Financial Disclosures (TCFD). The TCFD has developed a framework to help organisations more effectively disclose climate-related risks and opportunities. The Occupational Pension Schemes Regulations 2021 introduced updated mandatory requirements for their reporting, which aligns with TCFD recommendations, to both improve the quality of governance, promoting greater active efforts made by trustees in managing and assessing climate risk.

However, this is about more than disclosure or reporting for the sake of it. Considering that the private pensions sector exceeds £6 trillion in assets, and accounts for 42% of the total wealth in the UK, it is crucial that pension schemes emission targets align with those targets set by the UK government. This alignment will help ensure that the UK's target of net zero is more achievable. Therefore reporting accurately on climate-related risk by pension schemes is critical; it will help pension funds improve their own understanding of the long-term climate-related risks and opportunities within their scheme and it will help support the move towards net zero carbon emissions by 2050.

Taking the complexity out of TCFD reporting

We understand how tricky developing a robust TCFD report can become, considering there is no significant mode of measurement, nor is there a silver bullet to the climate change issue. As such, we have developed a process that ensures alignment of members' pension schemes with TCFD regulations, as much as possible.

The benefit in getting this process right is immeasurable. Trustees are afforded a clearer vision of their scheme through this process, the risks impacting their industry, and the steps they can take towards achieving net zero. This report is more than a box-ticking exercise. If done properly, it provides a solid basis for influencing the investment strategy over time.

What we have seen is that when trustees, members and risk assessment managers actively monitor and strategise their investments, it can greatly relieve pressure on future, avoidable risks. Additionally, the more that trustees work towards achieving net zero carbon emissions, the greater they benefit from their investments.

We know that writing TCFD reports can be complex, but it doesn't need to be. Here are the **five things to know before embarking on your first TCFD report:**

1. **Writing a TCFD report is a tremendously big task.** The earlier you start on it, the easier it will be. Some people tend to treat reports with a 'file-at-the-end' approach, however, it pays to start early. We started by drafting a 'mock' TCFD report with our client. This initial report covers a pre-regulatory period of the company's progress. In doing so, we are then able to refine and perfect the second and final report, which is delivered after year-end.

2. **Expect to compromise within this process; this needs to be a collaborative effort.** You may not receive all the metrics you want, but as long as you can demonstrate reasonable efforts being made to meet the disclosure requirements and explain what is missing, the regulator is unlikely to punish trustees for not having all the answers now. We have already had a few meetings with the Pension Regulator, and provided our feedback on what we have learnt. In our experience we have had to compromise on metrics, choosing between those which provide more useful information against those that provide better coverage of the data. Because we started writing the reports early on we were able to work with managers so they better understood what we needed and could improve the quality of data as a result.

3. **Understanding that no one knows exactly what's going to happen, the best approach shows steps towards change.** The report should revolve around your best understanding towards different sets of scenarios. For example, in our approach we draft two key scenarios; one considers the circumstances and effects that follow current policies which risk a temperature rise of 3°C , and the second which looks at a successful transition to a below 2°C rise in temperature. We then assess how these two scenarios will affect investments across asset classes, and how we can relieve pressure off of unforeseen risks and pursue climate-related opportunities. It is important to note that the report isn't written to scaremonger, but its purpose is to rather keep everyone informed, up-to-date and able to make efficient decisions around the potential circumstances.

4. **The report must be digestible and translatable.** Your members may not know, nor even care about the report and the data; however it must highlight why pension savers should care, and how these situations could affect them.

5. **TCFD reporting is progressive.** No one has all the answers yet, but we have to start somewhere. This is not just an exercise to tick off the list, it is designed to mobilise the power that pension Trustees and other stakeholders have to enact change. TCFD reports are becoming mandatory for many organisations, the sooner you start, the easier it will become.

Dean Wetton Advisory UK Limited Dean Wetton Advisory UK Limited is authorised and regulated by the Financial Conduct Authority and believes that the TCFD recommendations are an important step on the journey to carbon net zero. For further information or a discussion on how we can assist you to meet the TCFD's requirements and reporting obligations and move closer to carbon net-zero, please contact trent.mclelland@deanwettonadvisory.com.