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THE OCCUPATIONAL PENSION SCHEMES (CLIMATE CHANGE GOVERNANCE AND REPORTING) REGULATIONS (NORTHERN IRELAND) 2021

THE OCCUPATIONAL PENSION SCHEMES (CLIMATE CHANGE GOVERNANCE AND REPORTING) (MISCELLANEOUS PROVISIONS AND AMENDMENTS) REGULATIONS (NORTHERN IRELAND) 2021

REGULATORY IMPACT ASSESSMENT

INVESTOR IN PEOPLE

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The costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis.

Summary

Problem under consideration and rationale for government intervention

Climate change is expected to have a significant impact on pension schemes' assets, both due to the physical risk associated with a warmer planet and the transition risk that movement towards a low carbon economy brings in the form of lower valuations of many sectors of the economy. As long-term investors, pension scheme trustees should be especially alive to these risks. At present, evidence suggests the market does not fully price-in climate risk meaning many assets pension schemes hold, may be mispriced[1]. As a result, there is a risk that, without intervention, members of pension schemes may be overexposed to the financially-material risks of climate change, which ultimately impacts their expected outcomes in retirement. Whilst trustees of pension schemes are already required to consider all financially-material risks as part of their fiduciary duty, the Government is seeking to strengthen and clarify the focus on climate change by proposing steps to require increased analysis and consideration of climate change embedded in the decision making process of trustees, as well as requiring the disclosure of climate risk information.

Policy objectives and the intended effects

The policy objective is to ensure effective governance of climate change as a financially material-risk and opportunity to pension schemes and their members' savings. Government is proposing to mandate trustees of larger occupational pension schemes to align their climate governance activities and disclosures with the international industry-led recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[2]. This will place trustees' pre-existing fiduciary duty to take into account climate change on a more detailed statutory footing, so trustees embed climate risks and opportunities into their scheme's governance, strategy, risk management, and disclosure.

The intended effect is a UK pensions system that has resilience to both transition and physical climate risk, in the same way that interest rate or inflation risk are embedded in decision making processes. The vast majority of members' savings would then be invested in schemes whose trustees have a specific legal duty to actively consider and mitigate against the risks (and potentially opportunities) a transition to a low carbon economy brings – ultimately improving their expected outcomes in retirement.

[1] Chapter 5, 'Climate Change: Physical Risks and Equity Prices', IMF Global Financial Stability Report, April 2020. https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020#Chapter5

[2] The Task Force on Climate-related Financial Disclosures website

Policy options considered, including any alternatives to regulation

Do Nothing

Trustees of the majority of UK occupational pension schemes do not currently have plans to implement the TCFD recommendations and disclose against it. This would mean that climate change has the potential to put at risk the delivery of members' benefits. This would also mean that were requirements to exist in the future on other financial actors such as listed companies and asset managers above a certain revenue or asset threshold, but be entirely absent from pension schemes, this would result in an unaligned UK regulatory framework on climate change for pension schemes relative to other financial market participants.

Guidance Only

A non-mandatory policy option; issuing guidance to trustees on how to take into account climate change risks and opportunities. Without regulation trustees are not likely to take the necessary action with the necessary urgency and coverage.

Mandatory climate governance by 2022 for large and medium-sized schemes (Preferred)

Trustees of all Occupational Pension Schemes (OPS) with £5bn or more in assets, and The Pensions Regulator (TPR) - authorised master trusts and authorised schemes offering collective money purchase benefits, must comply with climate governance requirements, and subsequently disclose in line with TCFD from October 1 2021, followed by all OPS with £1bn or more in assets a year later. Once in scope, schemes would have seven months from their scheme-year end date to publish a TCFD Report. This phased approach would ensure that schemes with the immediate resources and capability properly account for climate change risk and opportunity, and disclose it, first. The staged approach is preferred to allow small/medium-sized schemes to learn from the largest schemes who set industry standards and are in a better position to meet the new requirements and disclose.

Table of costs - Time period 10 Years

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0.7m	Years 1 & 2 (Phased Rollout)	£3.7m	**£32.0m**
High	£2.2m		£10.1m	**£86.4m**
Best Estimate	£1.5m		£6.2m	**£53.6m**

Description and scale of key monetised costs by 'main affected groups'

Pension Schemes In Scope:
Minor transition costs of all trustees familiarising themselves with the requirements and accompanying statutory guidance, and
Annual ongoing costs to meet requirements to carry out certain activities, including to produce and publish a TCFD report. The main activities driving total costs are the requirements on trustees to undertake Scenario Analysis activities and the production of Metrics & Targets.

Other key non-monetised costs by 'main affected groups'

The Pensions Regulator (TPR):
TPR would be responsible for monitoring and enforcing compliance with these requirements. TPR have provided an assessment of their estimated key unit costs for the respective monitoring and enforcement activities required by the measures.

Description and scale of key monetised benefits by 'main affected groups'

The major potential benefits of the requirements are discussed qualitatively (see below). It would be disproportionate to estimate these potential benefits quantitatively so they have not been monetised.

However, for select benefits indicative monetisation, and proportionate "breakeven" analysis has been conducted to accompany the described benefits. These suggest that for the exercise to be cost-neutral, the increased climate-related information feeding into trustee decision-making would only need to improve industry-wide returns by 0.05 "basis points" (hundredths of a percent). They also indicate how conservatively estimated transparency benefits can generate substantial Social Value.

Other key non-monetised benefits by 'main affected groups'

Members of Pension Schemes in scope - estimated 81% of all UK pension scheme members at full rollout
Improved expected retirement outcomes for members of schemes due to increased consideration and potentially better-informed decision making by trustees. Better informed trustees can better manage members' exposure to financially-material climate change risks, whilst also placing schemes in a better position to take advantage of any investment opportunities that emerge during any transition towards a lower carbon economy.

Improved transparency on a key issue members frequently report caring about[3], and report a specific interest in learning and receiving more information about[4], could also lead to members feeling an increased sense of engagement with and ownership of their pension pot[5]. As a result of increased information and transparency by pension schemes on an issue that research suggests UK pension scheme members care about[6] and report a specific interest in learning more about[7]. Increased member engagement could potentially also benefit UK Occupational Pension Schemes themselves[8].

Wider Society
Reduced negative spillovers if trustees choose to address their exposure to carbon and other transition risks, whether by limiting investment in higher carbon sectors or firms who are less prepared for the low-carbon transition, or by active engagement and voting in relation to firms to mitigate climate-related risks to their investments.

Key assumptions / sensitivities

Engagement with relevant industry contacts has informed an estimated range for sensitivity purposes around the key costs per scheme of completing the requirements for Scenario Analysis and Metrics & Targets.

There is also the potential for the estimated costs to business (pension schemes) to be lower because, in line with research and engagement with the industry, there is a non-negligible number of schemes in scope that are already doing some or all of the recommended TCFD-related activities voluntarily. The estimated costs to business may be lower if these schemes could be readily and robustly identified.

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3 The key to unlocking member engagement: A report for the DC Investment Forum, prepared by Ignition House

4 Investing In A Better World: Understanding the UK public's demand for opportunities to invest in the Sustainable Development Goals. (September 2019)

5 Pensions for the Next Generation: Communicating What Matters. (March 2018)

6 The key to unlocking member engagement: A report for the DC Investment Forum, prepared by Ignition House

7 "New research finds savers want pensions with strong environmental and social credentials". NEST. (October 2018)

8 The Key To Unlocking Member Engagement – DCIF (July 2020)

Evidence Base

The policy issue and rationale for Government intervention

Climate Change Risk

1. Climate change poses an existential threat to our planet and our society, and the UK Government is committed to action to prevent it. In 2019, the Government set the target of achieving net-zero greenhouse gas emissions by 2050[9]. Alongside its commitments as a signatory of the Paris Agreement[10], the UK is a world leader in commitments to transition to a low carbon economy.

2. Occupational pension schemes in the UK hold almost £2tn in assets[11], with the figures set to grow with the success of automatic enrolment. This makes occupational pension schemes the largest single group of institutional investors in the UK, with significant influence over the flow of investments in the economy. Coupled with their long-term investment horizons, this means they are particularly susceptible to the impacts of climate change in the next 5, 10 and 30 years. Conversely, it also means occupational pension schemes are uniquely placed to invest in the financial opportunities that are emerging, and will continue to emerge, to drive us towards a lower carbon economy.

3. Climate change risks manifest themselves in the form of physical and transition risks, as well as related risks such as litigation risks. All pension schemes are exposed to these climate-related risks. As with interest rate risk, inflation risk, insolvency risk etc., trustees of occupational pension schemes are bound by their fiduciary duty to act to protect their beneficiaries against risk and deliver them a return on their savings.

4. The UK is a signatory of the Paris Agreement[12]. In 2019, the Government wrote into law the target of achieving net-zero greenhouse gas emissions by 2050[13].

5. Trustees of pension schemes need to take into account the risks that are associated with this transition and the investment opportunities that are available to them. The emergence of transition risks and opportunities will inevitably impact the viability of current investments but will also require schemes to set out a strategy – to have a plan – to enable them to navigate the transition to ensure they deliver their members a sustainable retirement income, protected effectively against climate change risks.

6. The Government acknowledges that the impact of COVID-19 on society and the economy has meant that many pension schemes have shifted their focus to the short-term operational challenges and threats to their funding/investment strategy. The Government is however clear that the threat of climate change has not gone away. Indeed, the current crisis has brought into sharp focus the importance of financial resilience and strengthened the case for government intervention in this area.

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[9] UK becomes first major economy to pass net zero emissions law

[10] The Paris Agreement

[11] Figure 4.1 Purple Book 2019 . Table 3.1 The Pensions Regulator Scheme Return

[12] The Paris Agreement

[13] UK becomes first major economy to pass net zero emissions law

Building on existing requirements

7. Trustees of pension schemes must act in the best financial interests of the beneficiaries of the 'trust', the scheme members, and deliver an appropriate financial return – this is part of a legal duty known as their 'fiduciary duty'. Accounting for the risks and opportunities associated with climate change falls within fiduciary duty.

8. Guidance[14] for trustees to align their scheme with international industry-led recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[15] summarises the three core aspects of fiduciary duty that relate to climate:

   - Exercising investment powers for their proper purpose.
   - Taking account of material financial factors - their duties are not limited to "traditional" factors such as interest rate, exchange rate, or inflation risk.
   - Acting in accordance with the "prudent person" principle–trustees must consider likely future climate scenarios, how these may impact their investments and what a prudent course of action might be as part of their scheme's risk management framework.

9. In June 2018, the Government consulted on measures to strengthen and clarify the role of fiduciary duty in relation to financially material factors such as climate change and other environmental, social and governance (ESG) factors[16].

10. In September 2018, the Department then introduced regulations[17] to require trust-based pension schemes with at least 100 members (and defined contribution 'DC' schemes with a default arrangement, irrespective of membership, subject to certain exceptions) to have a policy on all ESG factors that it deemed financially material to their investments, including but not limited to climate change. Trustees of DC schemes have been required to publish the policy in the scheme's Statement of Investment Principles (SIP) since 1 October 2019, with similar requirements coming into force for trustees of defined benefit (DB) schemes from 1 October 2020.

11. Also from 1 October 2020, trustees of DC schemes have been required to publish an implementation statement alongside their SIP which sets out how they have followed their ESG and climate change policy. Trustees of DB schemes will need to include information detailing how they have implemented their engagement policy.

Response to Government regulation so far

12. Reaction to Government regulation in this area so far has been broadly positive. The pensions law firm Sackers[18] in August 2019 found that 85% had already updated, or would update their SIP for compliance purposes, but that only 13% had made or intended to make material changes to their investments. The Society of Pensions Professionals (SPP) found[19] that for 38% of members, the approach taken by most clients was tick box only, although they also found that 57% thought their clients had a genuine interest in ESG but had simply not changed their portfolio yet.

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[14] Aligning your pension scheme with the TCFD recommendations

[15] The Task Force on Climate-related Financial Disclosures website

[16] Clarifying and strengthening trustees' investment duties

[17] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations (Northern Ireland) 2018

[18] Sackers ESG survey for pension schemes Summary Report August 2019

[19] Putting ESG into practice: the SPP member research series SPP ESG report paper Final January 2020

13. There is therefore evidence to suggest that whilst those who have complied have made significant progress, some trustees have been slower on the uptake and have not made substantial changes to their governance, risk management and strategy processes.

14. The Pensions Regulator (TPR)'s DC schemes survey[20] found that only 21% of schemes took climate change into account when formulating their investment strategies and approaches. From the research conducted by TPR, it is understood that those schemes who have failed to comply so far – and are perhaps facing challenges in response to what Government has required them to do– tend to be at the smaller end of the defined contribution market. As a result of this, the Government is proposing to phase the TCFD proposals (see Options section).

Improving current level of disclosure

15. In October 2019, the Minister for Pensions and Financial Inclusion wrote to the 40 largest defined benefit (DB) schemes and the 10 largest defined contribution (DC) schemes on the topic of ESG and TCFD. Just 42% of respondents stated that they had produced a TCFD report or had plans to do so in the next year.

16. The rate is likely to be much lower amongst those schemes with fewer than £5bn in assets (for DB) and £1bn in assets (for DC), the approximate threshold for schemes receiving the letters. This suggests that the vast majority of schemes are not yet fully taking into account climate change and disclosing how they have done so to their members and the public.

17. The approach is therefore to ensure that schemes in scope meet a minimum standard in terms of climate change governance and disclosure, by mandating the TCFD recommendations with enforcement powers. This will mean only limited change for the aforementioned 42% of large scheme respondents who already disclose in line with TCFD or are actively planning to do so. For the 58%, and medium-sized schemes who do not already have plans to disclose in line with the TCFD recommendations, these new requirements will help to protect members' benefits and employer liabilities against climate change transition and physical risk and ensure the scheme is well-positioned to take advantage of green investment opportunities.

[20] Defined Contribution trust-based pension schemes research: report of findings on the 2019

Options considered

	Option1 Do Nothing	Option2 Guidance Only	Option 3 Phased Mandatory TCFD (Preferred Option)
Governance	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Strategy	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Risk Management	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Metrics and Targets	No requirement	No requirement	Required
Scenario Analysis	No requirement	No requirement	Required
Guidance issued?	No	Yes	Yes (statutory)

Options considered

Option 1: Do nothing

18. The Government has considered the option of not introducing regulation to require TCFD-compliant disclosures by occupational pension schemes. However, there are several reasons why the 'Do Nothing' option is not preferred.

19. As detailed in Paragraphs 14 to 16, the current take-up of voluntary TCFD disclosures is low and limited amongst the very largest, most engaged pension schemes. If nothing is done to change the coverage, the majority of pension savers will not be in a scheme that has an effective and transparent system of governance of climate-related risks and opportunities.

20. Choosing not to require occupational pension schemes to disclose in accordance with the TCFD recommendations would also place the sector at odds with the other actors in the investment chain. The Financial Conduct Authority is currently consulting on rules to implement the TCFD recommendations for UK listed companies[21], and have indicated their intention to consult on rules for asset managers and for workplace personal pension schemes[22]. Given that most UK pension schemes invest significantly in UK listed equities, such a divergence of governance and disclosure requirements would create a patchwork of misaligned regulation through the investment chain.

21. Without pension schemes taking action to reinforce their investment strategy against climate risks, which is a key aspect of the TCFD recommendations, those investments are at risk financially. One particular likely outcome is known as "stranded assets"[23], as described in the Pensions Climate Risk Industry Group guidance[24] (PCRIG)

[21] CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

[22] Correspondence between Christopher Woolard, Financial Conduct Authority, and Guy Opperman MP, Minister for Pensions and Financial Inclusion

[23] Carbon Tracker: Stranded Assets

[24] Aligning your pension scheme with the TCFD recommendations - Page 17

22. Ultimately, for defined benefit schemes, this could lead to significant deficits on the balance sheets of the sponsoring employer, or in the case of defined contribution schemes, a material negative impact on returns. Both outcomes could leave savers with lower retirement income, potentially leaving other schemes to support members via increased Pension Protection Fund levy contributions or for the Government to support pensioners via state support.

Option 2 – Guidance only

23. The Government has also considered a less comprehensive non-mandatory policy option; issuing further guidance to schemes on how to take into account climate change risks and opportunities.

24. This option would not confer any new responsibilities or duties on occupational pension scheme trustees. Instead the guidance would be published with the objective of increasing the standard of governance of climate change as a financial risk in the industry. The basis for the guidance would be similar to that which the PCRIG which has already been consulted on and subsequently published[25].

25. Whilst industry engagement indicates that the guidance would be well received by pension schemes and their advisers, as was seen at the launch of the PCRIG consultation in March 2020, the lack of statutory weight behind the guidance would not be expected to result in the level of compliance and implementation that the policy objective requires.

26. This option would not require trustees to do anything specific in relation to their management of climate change risks and opportunities, beyond complying with their general fiduciary duty. Without regulation, as cited in evidence from responses to the Minister for Pensions and Financial Inclusion's letters, schemes are not likely to take the necessary action with the necessary urgency and coverage, putting pension schemes and savers at risk of loss due to climate change.

27. Whilst schemes adhering to their fiduciary duty already should have effective systems of governance of all financially-material risks, including climate change, there is no clear fiduciary requirement to carry out scenario analysis and the calculation of metrics and targets which are essential to a scheme's ownership of climate-related risk.

28. Moreover, without mandatory disclosure requirements, the policy objective of ensuring members are aware of their scheme's processes for managing their exposure to climate-related risks and opportunities would be jeopardised. Only a small number of schemes currently disclose information to their members on their climate risk management process, let alone the emissions of their portfolio or the resilience of the portfolio to future warming scenarios.

Preferred Option - Mandatory TCFD by large and medium-sized schemes by 2023

Regulations and Statutory Guidance – TCFD as a Framework

29. The preferred option is to use regulations, supported by statutory guidance, to require pension scheme trustees to deliver the TCFD recommendations.

30. The guidance would set out an approach that schemes should seek to adopt but allow flexibility where they already have adopted their own approach, meaning no scheme would need to adjust an adequate pre-existing climate framework at significant cost.

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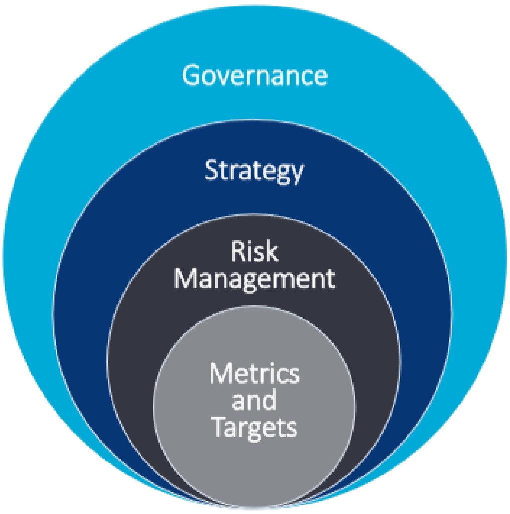
[25] Aligning your pension scheme with the TCFD recommendations

31. The TCFD framework includes 11 recommendations. These are split into 4 core elements; Governance, Strategy, Risk Management and, Metrics and Targets.

Core elements of recommended climate-related financial disclosures



Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Risk Management
The processes used by the organisation to identify, assess and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Governance

32. The preferred option seeks to require all occupational pension schemes in scope to disclose in line with TCFD recommendations on disclosure of climate change risk and opportunities and to carry out the underlying activities which would enable them to do so. Trustees are already required to take into account all financially material risks, including climate change, as part of their fiduciary duty, which therefore necessitates having an effective system for doing so. The assumption in this impact assessment is that all trustees in scope are already complying with pre-existing requirements under their fiduciary duty and have a system for management of financially material climate change risks and opportunities in place.

33. The additional requirements in the area of governance applicable to all schemes in scope would come in recording and disclosing the system of governance of climate change risks and opportunities that the scheme employs.

Strategy & Scenario Analysis

34. The preferred option would require trustees to describe and disclose the climate-related risks and opportunities they have identified over the short, medium and long term and to describe the impact of these risks and opportunities on the scheme's investment strategy and, in the case of DB schemes, the funding strategy.

35. The regulations will state the high level factors (namely, the scheme's liabilities and its obligations to pay benefits) trustees should consider in setting their time horizons and require that trustees disclose their chosen time horizons in their published report.

36. This is something which trustees should already be doing, within the bounds of fiduciary duty – identifying risks and adapting their investment strategy to such risks on an ongoing basis.

37. Regulations would also require trustees to undertake scenario analysis which considers at least two scenarios, one of which must be a scenario within the range of 1.5°C above pre-industrial levels to and including 2°C above pre-industrial levels– and to disclose the results of this assessment.

38. It is required that trustees must, as far as they are able, undertake scenario analysis in the first year in which the regulations apply to them and every three scheme years thereafter. In the intervening years they must review, on an annual basis, whether or not circumstances are such that they should refresh their analysis. If they do decide to undertake fresh scenario analysis, then they will re-start the three scheme year cycle. If they decide not to refresh their scenario analysis, they must explain in their report the reasons for their decision. Further guidance will be set out in statutory guidance.

Risk Management

39. The preferred option would require trustees to have effective processes in relation to identification, assessment and management of financially material climate-related risks, as identified and assessed by the strategy requirements described above, and to describe the processes in their report. As with the required governance activities, all but the disclosure should form part of the scheme's risk management currently, as part of fiduciary duty. Further guidance on how trustees should integrate management of climate-related risks within their schemes' wider risk management process would be set out in statutory guidance.

Metrics & Targets

40. A key part of the TCFD recommendations is for organisations to calculate their carbon footprint and use metrics to track their management of climate change risks and opportunities, including through the setting of targets. To implement this recommendation, it will be required that trustees must first select a minimum of two emissions-based metrics (one of which must be an absolute measure of emissions and one which must be an intensity-based measure of emissions) and one additional climate change metric. Trustees must, as far as they are able, obtain the data required to calculate their chosen metrics on an annual basis and disclose their calculations.

41. It will also be required that they must set at least one target relating to their chosen metrics and, on an annual basis measure performance against the target(s) as far as they are able - and disclose this information.

Disclosure

42. The preferred option is to require that trustees publish a TCFD report on a publically available website accessible free of charge and that the Annual Report and Accounts must include a link to the website address. It is also proposed that trustees would have a duty to tell members via the annual benefit statement – and in the case of DB Scheme members, the annual funding statement also – that their TCFD reports have been published, and where they can locate them. It is proposed to also require trustees to provide TPR with the full website address of the published TCFD report in their annual scheme return.

43. It is also proposed to require that trustees provide a link to their SIP and (where applicable) implementation statement and published excerpts of the chair's statement in the annual scheme return form. This avoids duplication of efforts on the scheme's behalf to inform TPR that these documents have been published. It would also release TPR from the supervisory burden of requesting this information separately.

Trustee Knowledge

44. It is proposed that trustees would also be specifically required by regulations to have a sufficient degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks and opportunities in respect of occupational pension schemes, to enable them to properly exercise their functions and implement the proposed underlying activities and disclosure requirements

effectively. As with the proposed governance and risk management activities, this should form part of the scheme's risk management currently, as part of fiduciary duty.

Penalties

45. It is proposed that a mandatory penalty is only appropriate for complete failure to publish any TCFD report. All other penalties, compliance notices and third-party compliance notices would be issued at TPR's discretion.

46. Penalties in relation to climate change governance and publication could be imposed without recourse to the Determinations Panel. It is proposed that requirements to reference the TCFD report from the Annual Report and inform members about the TCFD report's availability would be subject to the existing penalty regime in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (NI) 2014. The proposed requirements to inform TPR of the web address of the published TCFD report and the web address of the published SIP, implementation statement (where applicable) and excerpts of the Chair's statement would be subject to the penalty regime in Article 10 of the Pensions (NI) Order 1995.

47. There are no immediate penalty provisions in relation to trustee knowledge and understanding. Instead TPR are able to issue improvement notices for breaches of the requirements in line with Article 9 of the Pensions (NI) Order 2005. If the trustees fail to comply with an improvement notice, then the breach would again be subject to the penalty regime in Article 10 of the Pensions (NI) Order 1995.

Costs and Benefits to Business

Scope of Proposed Measures

48. In line with the Green Finance Strategy[26] commitment, the Government proposes to initially apply these measures to the largest occupational pension schemes, with assets of £5bn or more, along with all authorised master trusts[27] and authorised schemes offering collective money purchase benefits[28].

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[26] Policy paper: Green finance strategy

[27] List of authorised master trusts

[28] Provision for the establishment, operation, authorisation and supervision of CMP schemes is made in the Pension Schemes Act 2021 (this includes provision for Northern Ireland)

49. A year later, the next tranche of medium-sized schemes would follow, those with assets of £1bn or more but less than £5bn. This phased introduction was detailed in Chapter 2 of the Consultation Document[29]. The timeline proposed is as follows:

<table>
<tr><th>The Condition</th><th>Governance Requirement</th><th colspan="2">Disclosure Requirements</th></tr>
<tr><td>If</td><td>Trustees must meet the climate governance requirements for</td><td>Trustees must publish a TCFD report</td><td>Trustees must include a link to the TCFD report from</td></tr>
<tr><td>Phase 1
On 1st scheme year to end on or after 1 March 2020, the scheme has assets ≥ £5bn (excluding buy-ins)*

Or

On 1 October 2021, the scheme is an authorised master trust

Or

On 1 October 2021 the scheme is an authorised scheme providing collective money purchase benefits</td><td>Current scheme year from 1 October 2021 to end of that scheme year.

And

[unless scheme is no longer authorised, and assets are <£500m] Next full scheme year to begin after 1 October 2021 to end of that scheme year.</td><td>Within 7 months of the end of the scheme year which is underway on 1 October 2021.

And

Within 7 months of the end of the next scheme year.</td><td rowspan="2">The annual report and accounts produced for that scheme Year</td></tr>
<tr><td>Phase 2
On 1st scheme year to end on or after 1 March 2021,
The scheme has assets ≥ £1bn (excluding buy-ins)*</td><td>Current scheme year from 1 October 2022 to end of that scheme year</td><td>Within 7 months of end of that scheme year.</td></tr>
</table>

* assets associated with buy-ins should not contribute to the assets threshold and the draft regulations therefore explicitly carve them out of the asset threshold calculation.

50. This phased introduction is estimated by TPR to currently capture approximately 102 pension schemes, and approximately 42% of all UK pension assets in phase one. The second phase increases the number of schemes in scope of the requirements to a currently estimated 351 schemes, covering approximately 71% of all UK pension assets and 81% of all UK members[30].

51. The Government acknowledges that pension savers have little or no choice over the scheme they are in, and the preferred scope and timing approach will mean that the requirement for effective protection against climate change risks will not apply equally to all pension assets. Therefore, the Government proposes to review the inclusion of smaller schemes in 2023.

Requirements - Costs to Business

Costs to Pension Schemes in Scope

52. During the process of estimating the potential costs to pension schemes, the Government has engaged with the UK pensions industry. This included initial informal roundtable discussions which included a call for estimates of specific elements of compliance costs

[29] Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations (DWP - Jan 2021)

[30] These TPR estimates on the schemes in scope do not include parent, wound-up, non-registerable, gone away schemes, as well as schemes with less than 2 members. Except for DC, where only schemes with 12 or more members were included in the estimates, and also where Micro DC, EPP or DC RSS schemes are also excluded.

from those in industry already publishing TCFD reports and carrying out the associated activities, or planning to do so, on a voluntary basis.

53. The elements of costs are divided into:

- familiarisation costs
- the costs of completing scenario analysis
- the costs of producing TCFD-aligned metrics & targets
- the cost of documenting and disclosing their climate change-related practices[31]

54. As described in the Governance section above, trustees of pension schemes already have a legal duty to act in the best interests of the beneficiaries of the 'trust', the scheme members – known as their 'fiduciary duty' – and this impact assessment assumes that all trustees are doing so. Therefore, costs associated with meeting fiduciary duty are assumed in the baseline, and not double counted in this impact assessment.

Required Activities - Familiarisation

One-off familiarisation cost to schemes

55. There would be one-off costs to all the scheme trustees to familiarise themselves with the new requirements. A pension scheme in scope will experience these one-off costs on the first year in which they are in scope of the requirements.

56. It is assumed that it would take all trustees of in-scope schemes approximately 5 hours to read and understand the TCFD requirements & guidance. It is assumed the length of requirements & statutory guidance to total approximately 50 pages. It is estimated that schemes in scope of the proposed requirements will have approximately 8 trustees per scheme[32], with an estimated average hourly cost (including overheads) of £100.78 per hour[33].

57. These total one-off costs to all schemes in scope are estimated to be £411,000[34] in year one of the requirements, and then £1,004,000[35] in year two when the second tranche of schemes are brought into scope and need to familiarise[36].

58. Compared to the government's initial August 2020 impact assessment[37], this represents an increase in familiarisation costs, reflecting industry feedback to the first consultation. The increase in costs results from the direct increase in allowed time for familiarisation time from 3 hours to 5 hours. The cost increase is also due to an increased estimated number of Trustees per Scheme (with a higher average hourly cost than initially estimated[38]) having to familiarise than was presented in the August 2020 impact assessment.

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31 Trustees would be required to disclose their existing practices about financially material considerations, which are required already in line with their fiduciary responsibilities to account for and managing financially material risks (such as those associated with Climate Change). However, their existing activities accounting for "financially material risks" will benefit from, and be informed by, the additional Scenario Analysis and Metrics & Targets activities completed. This feedback mechanism helps embed the consideration of climate change into the pre-existing processes carried out under their fiduciary duties.

32 The Pensions Regulator - Trustee Landscape Quantitative Research, Figure 3.2.2

33 See 'Key Assumptions & Sensitivity Analysis' for further details. Industry feedback post-consultation has been taken on board to allow for a more representative size, structure and wage profile of a board of trustees the Pension Schemes in Scope.

34 Calculations: (5 Hours to Familiarise) * (102 Schemes in Scope) * (8 Trustees Per Scheme in Scope) * (£100.78 Average Trustee In Scope's Wage) = £411,200 to the nearest £100.

35 Calculations: (5 Hours to Familiarise) * (249 Schemes in Scope) * (8 Trustees Per Scheme in Scope) * (£100.78 Average Trustee In Scope's Wage) = £1,003,800 to the nearest £100.

36 See 'Key Assumptions & Sensitivity Analysis' for further details.

37 Impact Assessment (consultation): Climate change risk – governance and disclosure (TCFD). (August 2020)

38 See 'Key Assumptions & Sensitivity Analysis' for further details. Industry feedback post-consultation has been taken on board to allow for a more representative size, structure and wage profile of a board of trustees for the Pension Schemes in Scope.

Required Activities – Reporting and Disclosure

59. Schemes in scope will be required to document and disclose their climate change-related practices covering the four 'core elements' of recommended climate-related financial disclosures recommendations: Governance, Strategy, Risk Management and Metrics & Targets.

60. On Governance, trustees are already required to take into account all financially material risks, including those posed by climate change, as part of their fiduciary duty[39]. Codifying the requirement explicitly in regulations may help trustees increase the proficiency of their current climate risk governance. However, the assumption in this impact assessment is that trustees who would be in scope are already complying with pre-existing requirements under their fiduciary duty and have a process for management of climate change risks and opportunities already in place.

61. However, there is an additional requirement in documenting and disclosing the system of governance of climate change risks and opportunities that the scheme employs.

62. Similarly with regards to 'strategy' (excluding scenario analysis) and 'risk management', the measures require schemes to have effective strategy and risk management processes in response to financially material climate risks (and, for strategy, opportunities). All but the disclosure of these processes should form part of the scheme's strategy and risk management currently, as part of fiduciary duty and this impact assessment assumes this to be the case.

Ongoing cost to schemes in scope to produce and publish a compliant TCFD-aligned report

63. The Government's first consultation impact assessment estimated the ongoing costs and activities for reporting and disclosing a TCFD-aligned report as a result of three main elements. These elements were assumed amounts of time deemed sufficient for an administrative member of staff or trustee to conduct the following activities[40]:

- 'Collating Information & Drafting Text'
- 'Proof-Reading & Checking'
- 'Trustee Reading, Discussion & Sign-Off'

64. The associated costs of these activities across the four respective 'core elements' of a TCFD report totalled below £1,000 per scheme in the August 2020 impact assessment. As discussed in the Policy Consultation Response[41], this was a cost element that industry respondents felt was underestimated.

65. This impact assessment has taken on board the evidenced Reporting and Disclosure costs feedback from industry. Whilst previous industry engagement yielded estimates of reporting costs ranging from 'a few hundred pounds' to '£20,000', the evidenced feedback in the responses to the Government's first consultation allow the costs of a scheme complying with the requirements to be reflected more accurately, and aligned more closely with the scale of costs associated with a report such as the annual Chair's Statement.

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[39] As detailed in the Consultation document: Trustees have a duty to act in the best interests of pension scheme beneficiaries, as well as acting prudently, conscientiously and with upmost good faith, seeking advice where needed. This duty extends to 'taking account of material financial factors'. Given the nature and likely materiality of the risks posed by climate change, trustees' fiduciary duty requires them to take it into account.

[40] These activities and their respective time and wage components are detailed in full in the first consultation impact assessment

[41] Taking action on climate risk: improving governance and reporting by occupational pension schemes – response and consultation on regulations. Department for Work and Pensions. (Jan 2021)

66. The cost of producing a Chair Statement was estimated to increase with the size of the scheme by membership. With the unit cost of producing a Chair Statement estimated at £3,250 for schemes of "1000+ members" in 2013/14 prices[42]. The schemes in scope of the regulations are predominantly the largest occupational pension schemes by membership in the UK, with many schemes having over 10,000 members. Accounting for the scale of schemes in scope, and accounting for inflation since the original estimates, this impact assessment estimates an ongoing reporting costs for producing a TCFD report to be approximately £5,000 per scheme per year. It is also assumed that the cost will be higher in the first year by an assumed 20% in the first year for which a scheme is in scope[43]. This cost estimate aligns well with particularly well-evidenced industry feedback estimating similar ongoing costs per annum "to write, review and format the report" once an original report has been produced[44].

67. The total ongoing costs to pension schemes of this annual requirement is estimated to be approximately £612,000[45] in the first year of requirements; £2,004,000[46] in the second year; and £1,755,000[47] annually from the third year onwards.

Required Activities - Scenario Analysis

68. The regulations will require trustees[48] of schemes in scope to, as far as they are able, undertake scenario analysis covering at least two scenarios, one of which must be a scenario within the range of 1.5°C above pre-industrial levels to and including 2°C above pre-industrial levels. The information and data generated by undertaking these activities would also, importantly, feed back into and help inform other elements of the trustee's pre-existing decision-making and management processes around the financially-material risks of climate change.

69. The August 2020 consultation on mandating the TCFD recommendations, did make clear that trustees can, if they deem fit and suitable for the scheme, conduct qualitative scenario analysis, which is less complex and more exploratory than quantitative scenario analysis. This impact assessment assumes that trustees of schemes in scope would conduct quantitative scenario analysis as this has already become associated with the TCFD recommendations[49], is arguably more robust and stakeholders with whom there have been informal discussions on impacts have said that they plan to carry it out[50].

70. Schemes will be mandated to repeat scenario analysis every three years, so this would be the minimum they could do. However, schemes will be required to assess annually whether or not they should re-do their scenario analysis. Statutory guidance will set out the types of circumstances that might give rise to a new analysis. These include:

- An increase in availability of data.

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42 Minimum Governance Standards for DC trust-based schemes (2014)

43 This assumed figure reflects a range of qualitative and quantitative industry feedback. Industry feedback on potential for cost efficiencies after the first year ranged from negligible efficiencies identified to some industry estimates anticipating reporting cost efficiencies after the first year of 50% and over.

44 These unit costs have since been consulted on in the January 2021 Consultation to widespread stakeholder agreement

45 Calculations: (102 Schemes in Scope) * (£6,000 Unit Cost per TCFD Report) = £612,000 to the nearest £100.

46 Calculations: [(102 Schemes in Scope) * (£5,000 Unit Cost per TCFD Report)] + [(249 Schemes in Scope) * (£6,000 Unit Cost per TCFD Report = £2,004,000 to the nearest £100.

47 Calculations: (351 Schemes in Scope) * (£5,000 Unit Cost per TCFD Report) = £1,755,000 to the nearest £100.

48 As documented and explained in detail in the accompanying Consultation document, the policy of mandatory TCFD is the "as far as trustees are able" approach for Scenario Analysis and Metrics & Targets.

49 The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities

50 See 'Key Assumptions and Sensitivity Analysis' for further details.

- A significant/material change to the investment and/or funding strategy (where relevant) or to strategic asset allocation.
- The availability of new scenarios.
- A change in best practice on scenario analysis.
- Some other material change in the scheme's position.

71. Given the rapidly developing best practice and data-availability in this area, it is expected that most schemes would need to re-do analysis on an almost annual basis, at least initially[51].

Ongoing cost to schemes in scope to produce and disclose Scenario Analysis

72. A cost per scheme is estimated of £12,000 in a scheme's first year, and £10,800 per scheme per year in following years[52] to produce and disclose a quantitative scenario analysis, based on engagement with industry stakeholders. Information from stakeholders included estimates of their planned/past cost of carrying out a range of scenario analysis exercises. These estimates contained a range of costs and covered scenario analysis exercises of differing complexity; some included advanced bespoke analysis (e.g. enhanced stress testing) above and beyond the requirements, whereas others estimated the specific costs to comply with the requirements (which were sent to stakeholders along with the request for information). This feedback has informed the estimated costs for a scheme in scope to align with and meet the scenario analysis requirements.

73. The information received from industry ranged from some anticipated scenario analysis exercises budgeted to cost below £5,000, with others at the upper limit of some schemes' estimated ranges (complex, upper-end bespoke modelling and stress testing) being more expensive scenario analysis exercises costing £40,000 and £50,000 respectively. The majority of the estimates, and those where the described activities most aligned with the activities required, were between £10,000 and £17,000.

74. Proportionate sensitivity analysis of these unit costs[53] have been considered in the 'Key Assumptions & Sensitivity Analysis' section, and, like the central estimates, have been informed by the feedback received from industry engagement. The key elements of these costs are expected to relate to the sourcing and acquisition of the required information from relevant parties, along with the relevant staff time of the relevant analyst/expertise in carrying out and explaining the analysis.

75. Whilst these costs account for a suitable quantitative scenario analysis compliant with our requirements, the Department acknowledges that there could be higher costs for schemes that may voluntarily go over and above the requirements.

76. The above estimates were published in the Government's August 2020 impact assessment[54]. As discussed in the Policy Consultation Response, only a small number of trustees commented specifically on the scenario analysis unit costs included. As a result of the broad agreements on the costs per exercise, the central estimate costs for conducting a compliant scenario analysis exercise have remained unchanged. However, the impact assessment does now include adjustments to reflect policy proposals that certain types of scheme in scope will need to conduct more work than simply completing one 'scenario

[51] In this impact assessment, this is modelled as schemes completing Scenario Analysis every year that they are in scope up to and including 2023/24. After which schemes will complete scenario analysis at least every three years thereafter.

[52] See 'Key Assumptions and Sensitivity Analysis' for further details.

[53] Scenario Analysis Unit Costs Estimate Sensitivity Analysis: The Upper Limit Estimate of a compliant scenario analysis was £17,500 in the first year, and £15,750 in ongoing years. The Lower Limit Estimate of a compliant scenario analysis exercise £8,000 in the first year and £7,200 in ongoing years.

[54] Taking action on climate risk: improving governance and reporting by occupational pension schemes. (DWP August 2020)

analysis exercise'. Hybrid schemes will be expected in line with statutory guidance to produce two distinct scenario analyses for their respective DB and DC assets, and as a result the annual costs for these schemes has been doubled. There is also additional coordinating work across portfolios for schemes offering multiple default funds. The Government followed up evidenced feedback from the consultation with a number of these providers in scope as well as relevant consultants. Reflecting the experienced reported scenario analysis costs of £20,000 for one such relevant provider in a past year, the higher unit costs faced by these particular schemes are now reflected, with the assumed 10% efficiency after the initial year applied as with other scheme types.

Unit Costs to Conduct Compliant Scenario Analysis in Relevant Years	**Schemes in Scope**	**Unless:**	
		Hybrid Schemes	**Schemes With Multiple Default Funds**
First Year In Scope	*£12,000*	*£24,000*	*£20,000*
Ongoing Relevant Years	*£10,800*	*£21,600*	*£18,000*
Source	Unchanged from August 2020 IA and has been consulted on – discussed above.	Post-Consultation Feedback – has since been consulted on in January 2021.	Industry Engagement Post-Consultation – has since been consulted on in January 2021.

77. The impact assessment has also been updated post-consultation to reflect a change to the frequency of scenario analysis. It will now be required that trustees must undertake scenario analysis in the first year in which the Regulations apply to them and – subject to the checks outlined above – a minimum of every three years thereafter.

78. Given anticipated industry-wide changes around data availability, for example due to companies and asset managers reporting in line with proposed FCA requirements[55], it is assumed in this impact assessment that these imminent year-on-year industry-wide changes will result in schemes completing scenario analysis each year until and including 2023/24[56], after which point it is expected they will perform a fresh scenario analysis exercise once every three years thereafter. In line with these requirements, after Year Three (2023/24), it is assumed that in any given year 1 in 3 of the schemes in scope will be refreshing their scenario analysis in line with the minimum frequency required.

[55] Letter from Christopher Woolard, Financial Conduct Authority, to the Minister for Pensions and Financial Inclusion: climate-related financial disclosures. (October 2020)

[56] This is in line with the conditions listed in Paragraph 70

79. In line with these unit costs; the gradual rollout of schemes in scope and the anticipated years in which schemes are anticipated to conduct scenario analysis, the total cost to all schemes in scope is estimated as below:

Year One *(2021/22)*	£1,820,000[57]	Phase 1 schemes in scope for first time.
Year Two *(2022/23)*	£5,850,000[58]	Phase Two schemes in scope for the first year; Phase One schemes conducting a refreshed scenario analysis due to anticipated industry-wide factors detailed in Paragraphs 70 and 78.
Year Three *(2023/24)*	£5,429,000[59]	Phase One and Phase Two schemes conducting a refreshed scenario analysis due to anticipated industry-wide factors detailed in Paragraphs 70 and 78.
Year Four onwards *(2024/25 to 2030/31)*	£1,810,000[60]	From Year 4 onwards, all schemes in scope will need to refresh their scenario analysis at least once every 3 years. It is assumed that 1 in 3 schemes in scope refresh their Scenario Analysis each year from 2024/25,

Ongoing cost to schemes to assess if they refresh Scenario Analysis in Intermediate Years[61]

80. In the intervening years trustees must review, on an annual basis, whether or not circumstances are such that they should refresh their analysis. If they decide not to refresh their scenario analysis, they must explain in their report the reasons for their decision[62].

81. It is assumed that it would take a professional staff member[63] of the respective schemes in scope to spend one working day reviewing the conditions to be detailed in statutory guidance and noted in Paragraph 70. It is also assumed the board of trustees of in-scope schemes spend 1 hour reviewing and deciding whether or not they are required to conduct a scenario analysis exercise[64].

82. These total ongoing costs to all schemes in scope are estimated to be £240,000[65] annually from Year Four onwards. Each scheme will carry out this assessment in the “intermediate years” in which they are not refreshing their scenario analysis. In any given year, 1 in 3 schemes are assumed to be updating their scenario analysis, therefore the other 2 in 3 schemes in scope are assumed to be carrying out this lighter touch assessment.

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57 Calculations: (46 ‘Regular’ Schemes in Scope) * (£12,000 Estimated Unit Cost) + (37 Hybrid Schemes in Scope) * (£24,000 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£20,000 Estimated Unit Cost) = £1,820,000 to the nearest £100.

58 Calculations: (46 ‘Regular’ Schemes in Scope) * (£10,800 Estimated Unit Cost) + (37 Hybrid Schemes in Scope) * (£21,600 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£18,000 Estimated Unit Cost) + (147 ‘Regular’ Schemes in Scope) * (£12,000 Estimated Unit Cost) + (102 Hybrid Schemes in Scope) * (£24,000 Estimated Unit Cost) = £5,850,000 to the nearest £100.

59 Calculations: (193 ‘Regular’ Schemes in Scope) * (£10,800 Estimated Unit Cost) + (139 Hybrid Schemes in Scope) * (£21,600 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£18,000 Estimated Unit Cost) = £5,428,800 to the nearest £100.

60 Calculations: (64 ‘Regular’ Schemes in Scope) * (£10,800 Estimated Unit Cost) + (46 Hybrid Schemes in Scope) * (£21,600 Estimated Unit Cost) + (6 Schemes in Scope with Multiple Default Funds) * (£18,000 Estimated Unit Cost) = £1,809,600 to the nearest £100.

61 Intermediate Years is used here to indicate the anticipated years in the appraisal period where schemes are not anticipated to be required to conduct renewed scenario analysis.

62 The costs of documenting the reasons for not refreshing scenario analysis are covered by the “Reporting & Disclosure” cost element.

63 A term we define and explain in the ‘Key Assumptions & Sensitivity Analysis’.

64 See ‘Key Assumptions & Sensitivity Analysis’ for further details. Industry feedback post-consultation has been taken on board to allow for a more representative size, structure and wage profile of a board of trustees the Pension Schemes in Scope.

65 Calculations: (234 Schemes in Scope) * [(7.5 Hours to Review) * (£29.11 Estimated Wage) + (1 Hour for Board to Discuss & Decide) * (8 Trustees per Board) * (£100.78 Weighted Average of Board Member Wage)] = £239,700 to the nearest £100.

Required Activities - Metrics & Targets

83. The proposal would require schemes to calculate a minimum of two emissions-based metrics, and one additional climate metric, to track their management of climate change risks and opportunities. Separately, it is proposed that trustees must set a target for at least one of their metrics and disclose it. It is also proposed that they must measure performance against the target(s) as far as they are able and disclose that information.

84. In order to make these calculations, trustees would be required to obtain data, importantly, as far as they are able, on the greenhouse gas emissions of the scheme's assets and another climate change characteristic.

85. To support the effectiveness of the "as far as trustees are able" approach[66], the Government proposes that where the trustees have not been able to obtain data to calculate their chosen metrics for all of the assets of the scheme, regulations will require them to explain in their report why this was the case.

Ongoing cost relating to the metrics and targets used to assess and manage risks and opportunities

86. Engagement with industry stakeholders resulted in an estimated costs per scheme of £2,500 in the first year, and £2,250 per scheme per year in subsequent years[67] in the August 2020 impact assessment. Proportionate sensitivity analysis of these unit costs was considered in the 'Key Assumptions & Sensitivity Analysis' section, and like the central estimates have been informed by the feedback received from industry engagement. The key elements of these costs are expected to relate to the sourcing and acquisition of the required information from relevant parties, along with the relevant staff time of collating and analysing the relevant information.

87. As discussed in the Policy Consultation Response, only a small number of trustees commented specifically on the Metrics & Targets unit costs included in the first consultation. However, given policy development, it is now proposed to require schemes in scope to calculate 3 metrics instead of the 2 costed in the August 2020 Impact Assessment[68]. Therefore unit costs have been increased from the consulted-on, August 2020 Impact Assessment by 50% to account for the extra requirement being proposed. The central unit costs have been increased by 50% to £3,750 in a scheme's first year in scope, and the same 10% decrease (to £3,375) in ongoing years as seen in the August 2020 Impact Assessment.

88. Post-consultation, the impact assessment has also been updated to reflect that certain types/structures of scheme in scope may experience higher unit costs as a result of their exercise needing to cover DB & DC sides of their portfolios (in the case of Hybrid schemes) or covering multiple default funds. Hybrid schemes will be required to undertake two distinct exercises for their respective DB and DC assets, and as a result the annual costs for these schemes has been doubled. In acknowledgement of consultation feedback, similarly the unit costs for schemes with multiple default funds[69] have also been doubled to reflect any additional activity required in cross-fund coordination such exercises for these schemes to comply.

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[66] As detailed and explained in the Consultation document, some requirements about metrics and targets subject to an "as far as trustees are able" approach. This acknowledges the potential hurdles to calculation and disclosure of metrics that represent fully the entire portfolio.

[67] See 'Key Assumptions and Sensitivity Analysis' for further details.

[68] New proposals are for one absolute emissions metric, one intensity emissions metric and one non-emissions based metric.

[69] Which specific default funds will be in scope is expanded upon in draft statutory guidance. To ensure proportionality, and following industry discussions, a threshold based on the default fund's size by members is proposed to determine if a default is in scope.

Unit Costs for Metrics & Targets Activities	Schemes in Scope	Unless: Hybrid Schemes And/Or Schemes With Multiple Relevant Default Funds
First Year In Scope	*£3,750*	*£7,500*
Ongoing Years	*£3,375*	*£6,750*
Source	Increasing the initial, consulted on IA unit cost by 50% to reflect policy development after the August consultation. This has since been consulted on in January 2021.	Post-Consultation Feedback – has since been consulted on in January 2021.

89. Engagement with stakeholders has informed that trustees are sometimes able to obtain the data for free – this is typically due to pre-existing contractual arrangements with third parties who would produce these metrics for them. Where necessary, some small payment may be reasonable. However, the exact proportion of schemes which have such arrangements in place is unclear (it appears to be a minority) and would be difficult to robustly estimate. To appropriately account for the total costs to all businesses (whether costs are borne by a pension scheme or passed on to another firm in the supply chain) the Department has not included instances where obtaining relevant data does not cost a scheme due to existing arrangements when estimating an appropriate range of unit costs for Metrics & Targets. This approach is taken so as not to risk underestimating total costs to business.

90. In line with these unit costs, and the gradual rollout of schemes in scope, the total cost to all schemes in scope would be approximately £593,000[70] in year one, £1,850,000[71] in year two and then an annual £1,718,000[72] ongoing cost from year three onwards.

Indirect Costs to Pension Schemes

91. Increased transparency-enabled scrutiny as well as comparability between pension schemes in scope may result from standardised, widespread TCFD-reporting. Therefore, in practice some pension schemes may choose to go above-and-beyond their pre-existing fiduciary requirements. This would be a choice made by trustees of individual schemes, not a regulatory requirement and is thus not costed in this impact assessment.

92. Similarly, on the Metrics & Targets activities, some schemes may want to be ambitious and disclose metrics that are not constrained by the proposed "as far as they are able" approach but that fully cover the portfolio, possibly relying on estimation where data gaps exist. This kind of innovation is welcomed, but would not form a requirement on schemes. In theory, a pension scheme could seek to fill remaining data gaps[73] to fully cover their portfolio by trying to source information directly from the remaining investee companies themselves (instead

[70] Calculation: (Calculations: (46 'Regular' Schemes in Scope) * (£3,750 Estimated Unit Cost) + (37 Hybrid Schemes in Scope) * (£7,500 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£7,500 Estimated Unit Cost) = £592,500 to the nearest £100.

[71] Calculations: (46 'Regular' Schemes in Scope) * (£3,375 Estimated Unit Cost) + (37 Hybrid Schemes in Scope) * (£6,750 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£6,750 Estimated Unit Cost) + (147 'Regular' Schemes in Scope) * (£3,750 Estimated Unit Cost) + (102 Hybrid Schemes in Scope) * (£7,500 Estimated Unit Cost) = £1,849,600 to the nearest £100.

[72] Calculations: (193 'Regular' Schemes in Scope) * (£3,375 Estimated Unit Cost) + (139 Hybrid Schemes in Scope) * (£6,750 Estimated Unit Cost) + (19 Schemes in Scope with Multiple Default Funds) * (£6,750 Estimated Unit Cost) = £1,717,900 to the nearest £100.

[73] Although, as detailed, incoming FCA requirements alongside existing data availability from listed companies are already sufficient for trustees to meet the requirements.

of conducting their own estimations). However, the likelihood of a subset of schemes[74] passing on indirect costs down the investment chain to investee firms is not assessed to be likely or material[75].

Costs and Benefits to Other Affected Parties

93. The potential benefits of the requirements are mainly discussed qualitatively. It would be disproportionate to estimate all of the potential benefits quantitatively so the majority have not been monetised. The indicative, illustrative monetisation demonstrated in this section have not been included in either the equivalent annual net direct cost to business (EANDCB) or Total Net Present Social Value calculations respectively.

Benefits to Scheme Members

Increased climate change-related information informing the trustees managing their pensions

94. Requiring the schemes in scope to undertake additional TCFD-recommended activities (notably around scenario analysis and the generation of metrics and targets) would generate crucial information and data that can feed back into the trustees' existing management of the financially-material risks of climate change. The increased availability and quality of climate-related information is likely to lead to better, evidence-based climate-related decision-making by trustees. This ultimately reduces the exposure/likelihood of scheme members experiencing climate change-related losses of pension value (stranded assets etc.) and this subsequently improves their expected outcomes in retirement.

95. Schemes with better information, insights and data (generated by scenario analysis and metrics & targets activities) feeding into their governance and management practices around climate change may also be better positioned to take advantage of emerging investment opportunities linked to the transition to a lower carbon economy. For example, a scheme that now understands that they are extremely exposed to assets which are likely to become stranded in the future due to reduced economic dependency on fossil fuels, may seek to invest instead in companies that depend more on the emergence of alternative energies such as electric vehicle manufacturers. Without an effective strategy on climate change and decision-useful scenario analysis, this kind of decision would be made without the necessary scheme-relevant information. Therefore, these requirements could reduce the risk of members being in schemes that miss out on any such opportunities for a sustainable income stream in future, and subsequently reduce the risk of any such opportunity cost from foregone returns.

96. It would not be proportionate, or sensible, to attempt to determine a potential industry-wide percentage point improvement caused and attributable directly to these requirements. However, for the total TPR-estimated asset coverage of £1.3tn, for the exercise to be cost-neutral[76] for the industry as a whole, the increased climate-related information feeding into trustee decision-making would only need to improve industry-wide returns[77] by 0.0005 percentage points, or 0.05 "basis points" (hundredths of a percent).

[74] Voluntarily taking on more costs to themselves to go above-and-beyond, and specifically doing so by one particular approach of data-requests rather than estimations.

[75] No pension schemes have expressed any intention of taking such an approach or interpreting the statutory guidance in this manner.

[76] For the "Average Ongoing Business Costs" across industry to be exactly offset by improved returns.

[77] Improved returns could result from enhanced return due to identified opportunities; through loss avoided; or a downward management of risk

Schemes potentially improving practices: transparency-enabled scrutiny & industry peer learning

97. Over time schemes may choose voluntarily to improve their own climate change-related governance practices. This could be due to reasons of 'transparency-enabled scrutiny' as well as 'industry peer learning' due to the staggered introduction of the requirements.

98. The transparency-enabled scrutiny ensured by the disclosure requirements of the regulations would enable the climate change-related governance, strategy and risk management practices of in scope pension schemes to be compared and contrasted with one another. This comparability may result in schemes in the longer term seeking to learn from – or indeed compete with – one another and become industry leaders in their practices relating to accounting for and managing the risks of climate change. Schemes making such choices would ultimately benefit their members whose expected retirement outcomes could improve as a result of being members of a scheme with more robust measures in place to protect their pension pots from the risks of climate change.

99. The staggered approach of introducing the TCFD requirements could also lead to the emergence of industry-wide governance standards regarding climate change being improved voluntarily, which would be to the ultimate benefit of smaller schemes and their members who come within the scope of these requirements later. The reason for this is because the staggered approach would see the pension schemes most likely to go above the minimum requirements disclosing their TCFD reports first. These schemes may 'set the bar', meaning that subsequent schemes preparing to come into scope later may learn from and try to follow 'above-and-beyond' exemplary measures taken by Phase 1 schemes around climate change governance. If industry peer-learning and example-setting of the first tranche of schemes ends up influencing smaller schemes to adopt more rigorous climate change-related governance practices, this can ultimately benefit the members of these schemes through improved expected retirement outcomes due to potentially reduced exposure to financially-material climate risk.

Improved Transparency & Potential Engagement with their Pensions

100. Another benefit for members of schemes in scope stems from the disclosure and transparency element of the requirements. Research suggests that people care about the impact that their money has on society and the environment[78], and the Pension Policy Institute's report in 2018[79] found evidence that member engagement in ESG factors is increasing significantly. Therefore, pension scheme members may benefit from the additional transparency due to increased awareness of (and ability to scrutinise) how their scheme is investing and managing risks with respects to an issue - in climate change – that many of them care about.

101. For the specific benefit to scheme members of increased availability of information they report an interest in, the wider social value of this can be estimated for inclusion in the Total Net Present Social Value calculation.

102. TPR estimates approximately 20.8 million UK Pension Scheme members to be covered by the requirements in the first year, and 24.6 million from the second year onwards. However, many of these members will not be engaged with their pension, and may not ever be aware of the additional information published in a TCFD report on a topic they are likely to care about.

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[78] Navigating ESG: a practical guide

[79] Pensions Policy Institute - ESG: past, present and future

103. The benefits or utility derived from the additional information of interest will only be felt by those members that are aware of the report's existence in the first place. The proportion of engaged members is approximated using evidence from the 2017 Financial Lives Survey – specifically the finding that only 52% of adults with a DC pension report that they have 'received and read' their annual statement[80].

104. Industry research of member attitudes frequently finds a significant proportion of pension scheme members to be engaged and feel strongly on a range of ESG issues including the environment specifically. For example a Defined Contribution Investment Forum report finding 73% of DC pension scheme members aged 22-65 reporting to "feel strongly about environmental issues"[81]. Regarding ESG considerations by pension providers, NEST research into its members and the wider auto-enrolment eligible population similarly found "63 per cent of savers want to hear more about it from their pension scheme", further indicating a reported demand from pension members for more of the information a TCFD report would include[82].

105. Although there is a clear, reported interest by UK pension scheme members in the sort of information that a TCFD report would include, a cautious approach to monetisation when estimating these benefits needs to be taken. This is to account for the significant social desirability bias in which surveyed individuals or pension members are likely to overstate their strength of feeling towards issues such as climate change.

106. For illustrative purposes, it is assumed that for the subset of members in scope that are engaged enough to be aware of the report[83], and that have specifically reported that they "feel strongly about environmental issues" would still derive in monetary terms only a tokenistic, small amount of value (utility) on average. This value would be derived from the additional information on a subject they report to care about: their pension scheme's resilience to different climate scenarios, its carbon footprint and accompanying climate-related governance, strategy and risk management practices. To give an indication of scale and range, some illustrative estimates of the annual transparency benefits monetised are demonstrated below for a range of values representing member utility from £0.05 per year to £2.50 per year.

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80 Understanding the financial lives of UK adults (Survey 2017)

81 The key to unlocking member engagement. DCIF (July 2020)

82 "New research finds savers want pensions with strong environmental and social credentials". NEST. (October 2018).

83 Using the Financial Lives Survey finding as a proxy of this "engagement".

Illustrative Range of Transparency-related Social Value by Members per Year.

Illustrative, Assumed Value from TCFD Information per Relevant Member[84]	Year One[85]	Year Two & [86] Onwards
£0.05	£394,000	£467,000
£0.25	£1,969,000	£2,334,000
£0.50	£3,939,000	£4,669,000
£1.00	£7,877,000	£9,338,000
£2.50	£19,694,000	£23,344,000

All Figures Rounded to the Nearest £1,000.

107. There is a range of evidence that suggests consumers generally report and demonstrate a Willingness To Pay[87] for more environmentally sustainable final products[88,89], and specifically value increased visibility and supply chain transparency[90,91]. However, it would not be proportionate to robustly determine where, within the above range or otherwise, the average UK occupational pension scheme member's 'utility derived' value may be. As such, this is not included in the Total Net Present Social Value calculation in this impact assessment.

108. The above table however illustrates that even conservatively estimated transparency benefits can alone (irrespective of the other substantial benefits discussed) generate substantial Social Value. It is also worth noting the potential that the above indicative values may underestimate the benefits to members over the appraisal period. This calculation assumes that producing a TCFD report does not increase the proportion of 'engaged' membership over time despite a reasonable case for the potential of this by the likes of ShareAction[92] and the Defined Contributions Investment Forum (DCIF)[93]. Similarly, this calculation does not include extrapolations as to the proportion of members, and the strength of their views/feelings, towards the issue of climate change, even though it is likely that these metrics can be expected to increase in the next decade.

Costs to Regulator

109. TPR would be responsible for monitoring and enforcing compliance with the requirements. There has been engagement with TPR and the intention to work with them to robustly estimate the cost and impact on them ahead of introduction of any secondary legislation.

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[84] As detailed in paragraph 106, this is specifically limited to the estimated subset of members likely to be engaged enough to notice the TCFD report, and who report to "feel strongly about environmental issues".

[85] Calculations: (20,752,000 Members In Scope) * (52% 'Engaged' members aware of the TCFD Report) * (73% Reporting to Care Strongly About Environmental Issues) * (£ Relevant Token "Value Derived" Assumption)

[86] Calculations: (24,598,700 Members In Scope) * (52% 'Engaged' members aware of the TCFD Report) * (73% Reporting to Care Strongly About Environmental Issues) * (£ Relevant Token "Value Derived" Assumption).

[87] One methodological approach to estimating the "value" or "utility" an individual derives from something.

[88] Accenture Chemicals Global Consumer Sustainability Survey 2019

[89] Biswas, Aindrila. (2016). A Study of Consumers' Willingness to Pay for Green Products. Journal of Advanced Management Science

[90] .Kraft, Tim and Valdés, León and Zheng, Yanchong, Consumer Trust in Social Responsibility Communications: The Role of Supply Chain Visibility

[91] "Study Shows Consumers Willing to Pay Premium for Supply Chain Transparency" – Environmental Leader Article. (December 2018)

[92] Pensions for the Next Generation: Communicating What Matters. Share Action. (March 2018)

[93] The key to unlocking member engagement - DC Investment Forum report

110. It is proposed that schemes in scope of these TCFD requirements would be required to report to TPR the web address of where they have published their TCFD report via the annual scheme return form, along with locations of the published Statement of Investment Principles, the Implementation Statement and published excerpts of the Chair's Statement. It is also proposed that complete failure to publish any TCFD report is appropriate for a mandatory penalty. Other penalties would be subject to TPR discretion.

111. TPR have estimated a one-off cost in the first year of the requirements of approximately £16,000 to update the scheme return to include new questions related to the TCFD report, Statement of Investment Principles, Implementation Statement and published excerpts of the Chair's Statement.

112. For ongoing monitoring and enforcement costs, TPR have estimated a unit cost of £192 to conduct a review of a TCFD report. In relation to the mandatory penalty, in the event of non-compliance TPR have estimated the cost of a follow-up enquiry and the potential imposing of a penalty to be £542 per enquiry. The total impacts to TPR will depend on the proportion of reports reviewed as well as the rates of non-compliance. The Department will work closely with TPR to monitor and review this post-implementation.

Wider Economic and Societal Impacts

113. The key potential societal benefits stem from the fact that UK occupational pension schemes are investors of significance to the UK economy, although the Government has made it clear during debates in the House of the Lords that the climate change risk provisions within the Pension Schemes Bill cannot be used to direct pension scheme investment – investment decisions are solely the responsibility of trustees.

114. However recent research by the International Monetary Fund has specifically identified that global equity prices do not reflect future climate risk[94], and it is likely that the risks and opportunities associated with climate change are unlikely to have been fully priced-in by the market[95,96]. It is possible that as a result of these requirements, the increased salience of climate change as a risk to current valuations and the outcomes from climate-related scenario analysis (feeding into the decision making process of trustees) may result in some trustees wishing to limit their exposure on financial materiality grounds to higher carbon firms or sectors where they believe that stewardship has been or will be unsuccessful. They may also do so on non-financial grounds within the narrow range of circumstances identified by the Law Commission in their two-stage test[97].

115. The disclosure requirements for TCFD also increase transparency and comparability between pension schemes and their climate-related practices, and some schemes in this new environment of transparent reporting on climate change risk may seek to establish themselves as an industry leader in considering climate change in its investment decisions and wider practices.

116. The requirements can lead to increased transparency-enabled scrutiny and better embedded considerations around the financially material risks of climate change in trustee decision making and investment strategies. As a result, it may be that after more robustly accounting for these physical and transition risks of climate change, trustees are in a better position to invest and benefit from the potential emergence of low carbon opportunities. This

[94] International Monetary Fund. Global Financial Stability Report on Climate Change: Physical Risk and Equity Prices

[95] Climate Action Tracker - Temperatures

[96] All Swans are Black in the Dark: how the short-term term focus of financial analysis does not shed light on long term risks

[97] "Is it always about the money?" Pension trustees' duties when setting an investment strategy: Guidance from the Law Commission

potential switching away from higher carbon firms and sectors and towards greener alternatives may have wider societal impacts over time by averting potential negative spill over effects/externalities of such higher-carbon firms' and sectors' contribution to atmospheric greenhouse-gas levels and any associated climate change related costs to wider society.

Tangible Impacts – Avoiding Box Ticking

117. However one potential risk to the wider social benefits is that the measures do not result in improved trustee decision making but simply result in trustees viewing the reporting and disclosure requirements as a simple "box ticking" exercise[98].

118. There has been Government engagement with industry stakeholders over two consultations in order to design requirements to minimise this risk. The characteristics of these requirements include:

    - regulations are focused on trustee action, rather than just disclosure;

    - the measures require trustees to undertake the activities outlined in paragraphs 31 to 44 in order to be able to produce and disclose a TCFD Report. Also the information disclosed, particularly in relation to scenario analysis, metrics and targets, are designed to produce quantitative outputs that serve a wider governance purpose. For example, quantitative metrics on total carbon emissions or carbon footprint are intended to be valuable outputs that can be used by trustees and managers to assess exposure to risk and inform governance frameworks, strategies and targets;

    - taking a phased approach to mandating TCFD requirements. Starting with the largest schemes (who have greater governance capacity, resources and capability) will set an industry benchmark and generate a market for both pro bono and competitively-provided data, resources, analysis and advice, as well as a solid knowledge base which will help smaller schemes, when they come into scope.

119. TPR who will be enforcing these requirements, published their climate strategy in April 2021[99], placing oversight of climate disclosures at the centre of their approach. Monitoring compliance will be made easier by having a smaller tranche of schemes to focus on in comparison to the previous ESG disclosures[100], and requiring those schemes to notify TPR of the web address at which they have published their report.

120. The design of these requirements, and the approach to their introduction is aimed to guard against this becoming a box-ticking exercise. TCFD Regulations will also be reviewed in 2023 to address any emerging issues (including but not limited to potential "box-ticking").

Fiduciary Duty Considerations and Returns

121. Both consultations have stressed that these measures are not intended to direct trustees to divest from certain assets. The measures are designed to ensure trustees are adequately managing risk.

122. There has been nothing in the written responses to the Government consultation, or in industry engagement, to suggest that there is a risk of the measures being misinterpreted by industry and undermining trustees' fiduciary duty. Trustees of the largest schemes complying with these measures first will reinforce the message to industry that this is about

[98] As discussed in Paragraph 12 describing responses to previous regulations in the ESG space.
[99] The Pensions Regulator Climate change strategy April 2021
[100] Detailed in Paragraphs 9 to 11.

risk management and help prevent misinterpretation by trustees of smaller schemes, who have more limited governance resources, ahead of coming into scope.

123. A measure which would effectively force schemes to divest from significant sectors, to the detriment of their member outcomes, would be to mandate them to set specific emission reduction targets. That is why this has not been required - instead trustees are free to set whatever targets they deem suitable. However, many large schemes are voluntarily setting ambitious Net Zero emissions targets already, and where they have done so blanket divestment from certain assets classes is not part of their strategy for meeting the target.

124. Furthermore, there is growing research that suggest a strong correlation between market performance and ESG consideration. In their research Fidelity found that companies with better environmental, social and governance ratings had better returns in almost every month of 2020[101]. Research by Aon focusing on equity similarly found a positive link between 'ESG performance' and 'annualised equity returns' over longer time periods[102]. This research, along with other evidence, highlights that ESG factors should not be perceived as a constraint to member returns but instead as an essential consideration to ensure member returns are sustained.

A Membership Perspective

125. One final wider economic and societal impact of these requirements is that if pension funds are viewed by their members to be more actively sustainable institutions on climate change, an issue on which there is evidence of member interest, then this may lead to increased engagement by members. Increased member engagement could mean a reduced likelihood of opting out over time, or more active consideration around optimal rates of contribution. Over time, this increased engagement by some members with their pensions and savings may result in more effective consumption smoothing and associated welfare effects. Any increased consumption in retirement could also result in knock-on impacts to healthcare if this cohort of retirees are in better health due to higher, better smoothed consumption/a higher material standard of living.

Key Assumptions and Sensitivity Analysis

General Assumptions

- The number of schemes in scope, is assumed to remain broadly similar over the appraisal period.
    - Master trusts are already in scope of the requirements, so any master trusts forecast to pass the £1billion assets under management (AUM) threshold over the appraisal period are already accounted for and thus would not impact the number of schemes in scope.
    - The sensitivity of the schemes in scope, and this assumption more generally, has also been checked against TPR estimates assessing the number of schemes marginally either side of the £1bn AUM threshold at present.

- It is assumed that trustees of the schemes in scope conduct quantitative scenario analysis.
    - The Government's requirements mirror the recommendations of the TCFD in allowing instances where schemes may conduct qualitative scenario analysis

101 Fidelity White Paper: Putting sustainability to the test: ESG outperformance amid volatility - November 2020

102 Aon's Guide to ESG Investing. Figure 3. (2020)

if they are unable to source sufficient expertise, data etc. to quantitatively model the impact of future warming scenarios on their portfolio and/or investment strategy. However, this is not assumed to be of relevance given the nature of schemes in scope of these requirements at this time (large occupational pension schemes and authorised master trusts). It may be more likely to be a consideration in 2023 when it is proposed to consider the potential extension to smaller pension schemes.

- It is assumed there will be a 10% decrease in the cost of conducting scenario analysis, and also of producing Metrics & Targets, after each scheme's first year of completing these activities. This is based on engagement with industry and accounts for the required infrastructure and arrangements being in place from the previous (first) year of completion, as well as a result of other experience-related efficiencies. However, it is assumed, in line with engagement with industry, that the unit cost of an appropriate scenario analysis & metrics and targets from the second year onwards remains the same (i.e. no assumed further, year-on-year efficiencies).
    - This assumption has since been included in the previous consultation impact assessment. No respondents raised concerns with this assumption.
- It is assumed that an average cost of an hour of time for a typical 'professional staff member' of a Scheme in Scope is £29.11 per hour, this is based on 2019 Annual Survey of hours and Earnings (ASHE) data for Corporate Managers & Directors[103].
    - The median hourly gross pay for corporate managers and directors is £22.92 in Table 2.5 of the above ASHE survey. This is uplifted by 27% for overheads from the previous version of the Green Book[104], no updated estimate is available.
- It is assumed that there are 8 trustees per relevant scheme, this is based on industry feedback received after the first consultation. This is an increase from initial estimates of 3 Trustees per Scheme based on calculations using TPR data on 'Number of Trustees – by scheme size[105].
- The Wage Profile of the Board of Trustees of a Scheme in scope has also been updated to reflect the specific schemes in scope of the requirements. This is based on industry feedback to the first consultation, as well as follow up engagement.

[103] 2019 Annual Survey of hours and Earnings (ASHE)

[104] Guidance: The Green Book (2020)

[105] The Pensions Regulator - Trustee Landscape Quantitative Research, Figure 3.2.2

	Professional Trustee	Corporate Trustees	Member-Nominated Trustee
Number of Members	1	4	3
Hourly Cost To Schemes in Scope	£250[106]	£117.23[107]	£29.11[108]
Source	Consultation Response	Industry Engagement Post-Consultation	ASHE

- The trustee board of a scheme in scope, in response to consultation feedback, has been updated to allow for the presence of a Professional Trustee, these are not permanent staff members of the Pension Schemes and they charge schemes by the hour. The hourly costs to business of £250 is based on Consultation Responses received from Industry.

- The trustee board also reflects the presence of Corporate Trustees, and their respective wages earned at the Schemes in scope of the requirements are based on post-consultation follow up conversations with industry. Using industry feedback, the Corporate Trustee wage calculation uses the midpoints of a Corporate Trustees typical annual workload (60 to 70 days) and the midpoints of the quoted typical remuneration range (£30,000 to £60,000 annually). A 7.5-hour day is assumed, along with an uplift by 27% for overheads as per the previous version of the Green Book.

- The wage (including overheads) of a Member-Nominated Trustee is assumed to be the same as that of a 'professional staff member'.

- As schemes are required to conduct scenario analysis at least once every three years (and in line with conditions detailed in Paragraph 70), it is assumed that from Year Four and onwards, as discussed in Paragraph 78, there will be 1 in 3 schemes in scope refreshing their scenario analysis in any given year.

Sensitivity Analysis

One-off familiarisation cost to schemes for trustees to read guidance and understand requirements

126. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £205,600 in Year One and £501,900 in Year Two, or increases to £616,800 in Year One and £1,505,700 in Year Two.

Ongoing cost to schemes in scope to produce and publish a compliant TCFD report.

127. When allowing for sensitivity around the required ongoing cost of 50 per cent, the total costs decrease to £318,800 in Year One, £1,033,100 in Year Two and £877,500 for Year Three onwards. Conversely, a 50% increase in the required ongoing cost would see the total costs

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106 Relevant Industry Responses are included and discussed in greater detail in the published Consultation Response document

107 £117.23 = (1.27 Green Book Overhead Adjustment) * [[(£45,000 Midpoint Trustee Annual Remuneration)/(65 Annual Day Worked)]/(7.5 hours per working day)].

108 2019 Annual Survey of hours and Earnings (ASHE)

to schemes increase to £956,300 in Year One, £3,099,375 in Year Two and £2,632,500 for Year Two onwards.

Ongoing cost to schemes in scope to produce and disclose Scenario Analysis

128. Based on discussions and feedback from the pensions industry, including those already completing TCFD-compliant reports voluntarily, a central estimate and accompanying upper & lower estimates for the task of conducting a TCFD-compliant scenario analysis exercise has been produced.

129. Sensitivity is allowed around the scenario analysis unit cost estimates for the respective types of scheme in scope. These central estimates are based on pensions industry feedback on costs related to existing TCFD reports or planned TCFD reports. The upper limit cost per scheme of completing appropriate scenario analysis is estimated at £17,500 in the first year and £15,750 from the second year onwards, with these upper limit costs per scheme once again being doubled for Hybrids schemes and 2/3 greater for schemes with multiple default funds[109]. In this instance, the subsequent ongoing total cost to all schemes in scope in the respective years are approximately (to the nearest £1000):

- £2,654,000 in Year One;
- £8,531,000 in Year Two;
- £7,917,000 in Year Three; and
- £2,639,000 in Year Four & Onwards.

130. The lower limit cost per scheme of completing appropriate scenario analysis is estimated at £8,000 in the first year and £7,200 from the second year onwards, with these costs per scheme once again being double for Hybrids schemes and 2/3 greater for schemes with multiple default funds[110]. In this instance, the subsequent ongoing total cost to all schemes in scope in the respective years are approximately (to the nearest £1000):

- £1,213,000 in Year One;
- £3,900,000 in Year Two;
- £3,619,000 in Year Three; and
- £1,206,000 in Year Four & Onwards.

Ongoing cost to schemes to assess if they refresh Scenario Analysis in Intermediate Years

131. Sensitivity is allowed for around the required time assumptions of 50 per cent the ongoing costs for the "intermediate years" for the relevant two thirds of schemes in scope in each year after 2023/24 (as detailed in paragraph 78). Allowing for this range, the total annual costs of these activities increase or decrease as described below (to the nearest £1000):

- An upper estimate of £360,000 and a lower estimate of £120,000 in the "intermediate years" between schemes completing scenario analysis exercises.

[109] Upper Limit Unit Costs: £35,000 in first year for Hybrids. £29,200 in first year for Schemes with Multiple Default Funds. 10% efficiency for ongoing years still applies. Figures to the nearest £100.

[110] Lower Limit Unit Costs: £16,000 in first year for Hybrids. £13,300 in first year for Schemes with Multiple Default Funds. 10% efficiency for ongoing years still applies. Figures to the nearest £100.

Metrics & Targets

Ongoing cost relating to the metrics and targets used to assess and manage risks and opportunities

132. Based on discussions and feedback from the pensions industry, including those already completing TCFD-compliant reports voluntarily, both a central estimate and accompanying upper & lower estimates have been produced for the task of calculating or obtaining appropriate TCFD-relevant Metrics & Targets for their respective portfolios.

133. As with the scenario analysis cost estimates, it is assumed that there will be a 10% decrease in the cost per scheme after the first year, to account for the required infrastructure being in place from the year before, as well as other experience-related efficiencies. However, it is assumed there will be no further efficiency gains from the second year onwards.

134. Sensitivity is allowed for around the updated metrics and targets unit cost estimate. These estimates are based on pensions industry feedback on costs related to existing TCFD reports or planned TCFD reports. The upper limit cost per scheme of the updated metrics and targets requirements is estimated at £7,500 in the first year and £6,750 from the second year onwards, with these upper limit costs per scheme being doubled for Hybrids schemes and schemes with multiple default funds[111]. In this instance, the subsequent total cost to all schemes in scope is approximately £1,185,000 in Year One, £3,699,000 in Year Two and then an annual £3,435,800 ongoing cost from Year Three onwards.

135. The corresponding lower limit cost per scheme is estimated at £2,250 in the first year and £2,025 from the second year onwards, with these upper limit costs per scheme being doubled for Hybrids schemes and schemes with multiple default funds[112]. In this instance, the subsequent total cost to all schemes in scope is approximately £355,500 in Year One, £1,109,700 in Year Two and then an annual £1,030,700 ongoing cost from Year Three onwards.

Accounting for schemes already completing elements of the requirements on a voluntary basis

136. Through engagement with industry, there is evidence to suggest that there are pension schemes that are already completing aspects of the new requirements and producing TCFD reports already on a voluntary basis.

137. This is supported by evidence from October 2019 when the Minister for Pensions and Financial Inclusion wrote to the 40 largest defined benefit schemes (each with more than £5bn in assets) and the 10 largest defined contribution schemes (each with £1bn or more in assets). Responses showed that 42% of respondents had already reported in line with TCFD or planned to in the next year.

138. Similarly, evidence from reporting by UK asset owners to the Principles for Responsible Investment[113] showed that more than 50 of its signatories – many of them large pension schemes – were reporting on TCFD-based indicators.

139. It would not be proportionate to look into the individual voluntarily-published TCFD reports from pension schemes envisaged to be in scope to assess their described activities against each of the Government's requirements just in order to reduce different cost elements in any EANDCB calculations. Especially as it is not thought that the majority of voluntary TCFD

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[111] Upper Limit Unit Costs: £15,000 in first year for Hybrids and Schemes with Multiple Default Funds. 10% efficiency for ongoing years still applies. Figures to the nearest £100.

[112] Lower Limit Unit Costs: £4,500 in first year for Hybrids and Schemes with Multiple Default Funds. 10% efficiency for ongoing years still applies. Figures to the nearest £100.

[113] UNPRI

disclosures will include a scenario analysis conducted in line with these requirements (a key driver of total costs), and that any costs ‘already being done by schemes voluntarily’ that could be ‘chalked off’ would be related to the smaller Reporting and Disclosure cost elements of the other requirements.

140. Furthermore, the evidence around existing activities being undertaken on a ‘voluntary’ basis may also be the result of anticipation effects, given both Government announcements such as in the expectation in the Green Finance Strategy[114] as well as more general engagement between government and the pensions industry. Elements of the requirements being completed prior to regulation due to anticipation effects would not be appropriate to subsequently ‘chalk off’ when estimating the costs to business.

141. However, for sensitivity purposes investigation is made of the EANDCB’s downwards sensitivity when factoring in that some of the schemes in scope are completing different elements of the TCFD report and activities. Estimates of the specific nature of these activities, such as whether a TCFD report includes a scenario analysis (and if it specifically includes a scenario with a temperature increase of between 1.5°C to and including 2°C above pre-industrial levels) are based on PRI estimates[115] about their signatories (including pension schemes as well as other organisations).

142. It is assumed that PRI-signatory pension schemes in scope are undertaking similar TCFD and climate-related activities as other PRI-signatory organisations (e.g. PRI-signatory investment managers). Twenty-one UK pension schemes (19 of which would be expected in the first tranche of schemes coming into scope) are identified as PRI-signatories and therefore expected to already be undertaking elements of the costs associated with the new government requirements. Once factoring these activities into the costs to business estimates (and ignoring potential anticipation effects), this would see the Net Direct Cost to Business Per Year decrease to £5.8m per annum.

143. As well as PRI-signatory schemes, and based on aforementioned industry engagement, for the purposes of sensitivity analysis, it can be assumed that potentially as many as 35 of the largest UK pension schemes (within the estimated first tranche of 103 schemes) may be producing TCFD reports and undertaking elements of these new requirements already. Of the estimated 264 ‘second tranche’ of schemes to come into scope, it might also be assumed for the purposes of this sensitivity analysis that an additional 20 of these schemes may also be similarly undertaking these activities on a voluntary basis. It is assumed that these schemes are split proportionately across the respective scheme types in scope. If the activities of these schemes (e.g. the proportions undertaking scenario analysis within their TCFD activities) are assumed to be similar to those of the subset of PRI-signatory schemes, then once factoring in these activities into the costs to business estimates (and ignoring potential anticipation effects) the Net Direct Cost to Business Per Year decreases to £5.2m per annum.

144. The consideration of these sensitivities around voluntary activities being completed already is because it is particularly important to consider costs to business in the current economic conditions. Therefore, some of these requirements may not represent a ‘new’ cost to some schemes already completing such activities by choice.

[114] The Green Finance Strategy (July 2019)

[115] PRI climate snapshot 2020 (July 2020)

Small and Micro Business Assessment

145. As detailed in “Scope of Measures”, the introduction of TCFD requirements are planned to take place in a phased two-stage approach beginning with the occupational pension schemes that can be expected to have the resources in place to allow them to implement and report in line with the TCFD requirements most readily.

146. The approach to include all master trusts at the earlier stage (including those with below £1bn total asset value), without a gradual approach by value of assets under management, is driven by a desire to ensure a level playing field amongst master trusts. The authorisation procedure requires master trusts to have a given level of governance capability – by having met such tests, all master trusts should be able to embed the TCFD framework and make the necessary disclosures more easily than some other schemes. There is a strong argument for ensuring a level playing field across all master trusts and ensuring that schemes implementing enhanced climate governance and reporting on TCFD are not undercut by, say, smaller exempt schemes taking an approach which does not take full account of climate considerations and exposes members to unnecessary risk.

147. The Government acknowledges that pension savers have little or no choice over the scheme they are in, and the preferred scope and timing approach will mean that the requirement for effective protection against climate change risks will not apply equally to all pension assets. Therefore, the Government proposes to review the inclusion of smaller schemes in 2023.

148. The Government proposes that it will take stock in 2023 and consult more widely again before extending to schemes with < £1bn in assets, taking account both of the quality of climate risk governance and associated disclosures carried out to date, and the current and future costs of compliance.

Monitoring and Evaluation

149. TPR would be responsible for monitoring and enforcing compliance with these proposed requirements. The schemes in scope would be required to report to TPR.

150. With regards to evaluating the impacts of the measures, the Government proposes a review in 2023. This would provide an early opportunity to examine the emerging effects of the measures and any unintended consequences. This review would also allow the Department to assess the quality of the TCFD disclosures, try to identify best practice standards which industry can coalesce around, and offer a further opportunity to ensure these requirements do not manifest as a “box ticking” exercise (as discussed in paragraph 120).

151. It is proposed that this review would include an assessment of whether the key “as far as trustees are able” requirements can be replaced with stronger requirements on data collection, in light of any development of capabilities by others in the sector and the economy more widely.

152. Should the proposed measures be adopted, the Government also proposes to consult more widely again in 2023 before extending them to schemes with < £1bn in assets, taking account both of the quality of climate risk governance and associated disclosures carried out to date, and the current and future costs of compliance.

Summary of Total Costs

Table 1.1: One-off costs for schemes in scope to understand and familiarise themselves with the guidance, and the ongoing costs to complete TCFD-aligned disclosure and reporting requirements, scenario analysis activities in the relevant years and annual activities around the production of metrics and targets.

All figures in 2019/20 prices, rounded to the nearest £1000. Total figures may not sum exactly due to rounding.

Type Of Cost	Year One	Year Two	Year Three	Year Four & Onwards	Frequency	Assumptions and Rationale
One-Off Costs - Familiarisation	£411,000	£1,004,000	N/A	N/A	Once per scheme (year one or two depending on rollout)	Assumed all trustees of a scheme in scope are required to familiarise and understand the requirements.
Ongoing - Reporting & Disclosure Costs	£612,000	£2,004,000	£1,755,000		Yearly Once in Scope	See Paragraph 65. Costs assumed to be aligned with scale of costs associated with a report such as the annual Chair's Statement.
Ongoing – Completion and Disclosure of Scenario Analysis	£1,820,000	£5,850,000	£5,429,000	£1,810,000	Every 3 Years Once in Scope – Subject to Conditions in Paragraph 70	See Paragraph 78. Assumed Annual Completion until 2023/24 and then 1 in 3 Schemes Completing Scenario Analysis Each Year Thereafter. As detailed in "Key Assumptions and Sensitivity Analysis" section. An assumed one-off 10% decrease in cost for a scheme completing a Scenario Analysis for the second time and onwards.
Ongoing – Assessing Whether to Refresh their Scenario Analysis in Intermediate Years	£0	£0	£0	£240,000	Intermediate Years – Years Where A Scheme In Scope Does Not Complete a Full Scenario Analysis	See Paragraph 80. After 2023/24 this will relate to the 2 in 3 Schemes Not Completing Scenario Analysis in a Given Year.
Ongoing – Production of Metrics & Targets	£593,000	£1,850,000	£1,718,000		Yearly Once in Scope	As detailed in "Key Assumptions and Sensitivity Analysis" section. An assumed one-off 10% decrease in cost for a scheme producing relevant Metrics and Targets for the second time and onwards.
Total Cost	£3,436,000 in Year One; £10,707,000 in Year Two; £8,902,000 in Year Three and £5,522,000 in Year Four & Onwards.					

Summary of Total Costs – Sensitivity Analysis (Upper and Lower Estimates)

Table 1.2: Summary of the upper and lower cost estimates of each cost element, detailed in Table 1.1, as detailed in the 'Sensitivity Analysis' section.

All figures in 2019/20 prices, rounded to the nearest £1000. Total figures may not sum exactly due to rounding.

Type Of Cost	Year One	Year Two	Year Three	Year Four & Onwards	Frequency	Assumptions and Rationale
One-Off Costs - Familiarisation	U:£617,000 L:£206,000	U:£1,506,000 L:£502,000	N/A	N/A	Once per scheme (year one or two depending on rollout)	Allowing for sensitivity around the required time assumptions of 50 per cent.
Ongoing - Reporting & Disclosure Costs	U:£956,000 L:£319,000	U:£3,099,000 L:£1,033,000	U:£2,633,000 L:£878,000		Yearly Once in Scope	Allowing for sensitivity around the required time assumptions of 50 per cent.
Ongoing – Completion and Disclosure of Scenario Analysis	U:£2,654,000 L:£1,213,000	U:£8,531,000 L:£3,900,000	U:£7,917,000 L:£3,619,000	U:£2,639,000 L:£1,206,000	Every 3 Years Once in Scope – Subject to Conditions in Paragraph 70	Accompanying lower & upper unit cost estimates based on stakeholder engagement and the information they returned.
Ongoing – Assessing Whether to Refresh their Scenario Analysis in Intermediate Years	U:£0 L:£0	U:£0 L:£0	£0	U:£360,000 L:£120,000	Intermediate Years – Years Where A Scheme In Scope Does Not Complete a Full Scenario Analysis	Allowing for sensitivity around the required time assumptions of 50 per cent.
Ongoing – Production of Metrics & Targets	U:£1,185,000 L:£356,000	U:£3,699,000 L:£1,110,000	U: £3,436,000 L:£1,031,000		Yearly Once in Scope	Accompanying lower & upper unit cost estimates based on stakeholder engagement and the information they returned.
Total Cost - Sensitivity Analysis	**Upper:** £5,412,000 in Year One; £16,835,000 in Year Two; £13,985,000 in Year Three and £9,067,000 in Year Four & Onwards. **Lower:** £2,093,000in Year One; £6,545,000 in Year Two; £5,527,000 in Year Three and £3,234,000 in Year Four & Onwards.					

Other Impacts

Equality

153. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on these legislative proposals and has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

Environmental

154. There are no implications.

Rural proofing

155. There are no implications.

Health

156. There are no implications.

Human rights

157. The Department considers that the regulations are compliant with the Human Rights Act 1998.

Competition

158. There are no implications.

Approved by:	Anne McCleary Director of Social Security Policy, Legislation and Decision Making Services	**Date:**	26 Aug 2021

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