Climate risk reporting for UK pension schemes

What you need to know and how Moody's Analytics can help

What is this all about?

Climate change is widely recognised as a major systemic financial risk to UK pensions. Currently though, there is no standardised way for pensions plans, asset managers and pension plan members to assess and manage this risk.

The Financial Stability Board established the Task Force on Climate-Related Financial Disclosures (TCFD) to address this challenge. This body has made a series of recommendations about how institutions can report on climate-related financial risks.

The UK Government endorsed the TCFD's recommendations in 2017, and is now putting plans in place to implement the recommendations. Pensions schemes are early in the roadmap with the new Pensions Schemes Act 2021 requiring climate risk reporting by pension plans.

What does this mean for me?

For plans above a certain size, various climate-related reporting requirements will be introduced. Most will need to collect additional data, run new analysis and introduce new policies and procedures.

When does this start?

- For schemes **with over £5bn** in assets, reporting is required within 7 months **after the first scheme year end after 1st of October 2021.** However, based on discussions we are having with our clients, most are gearing up for this right now.

- Schemes with assets above **£1bn** will follow a year later.

Overview

Key to the requirements is the ability to assess a plan's risk against different climate scenarios, and also report a range of metrics. This means plans need both the content and the technology solutions to run and make sense of the analysis itself.

This is where the PFaroe™ DB solution comes in.

The PFaroe DB tool is a cross-balance sheet asset, liability, and risk management platform with powerful forecasting and 'what-if' scenario testing. When combined with rich, proven content from Moody's ESG Solutions Group, and data and capabilities from across Moody's Analytics, this provides a simple, robust and easy to use solution, which will support pension plans in their efforts to meet the coming climate reporting challenges.
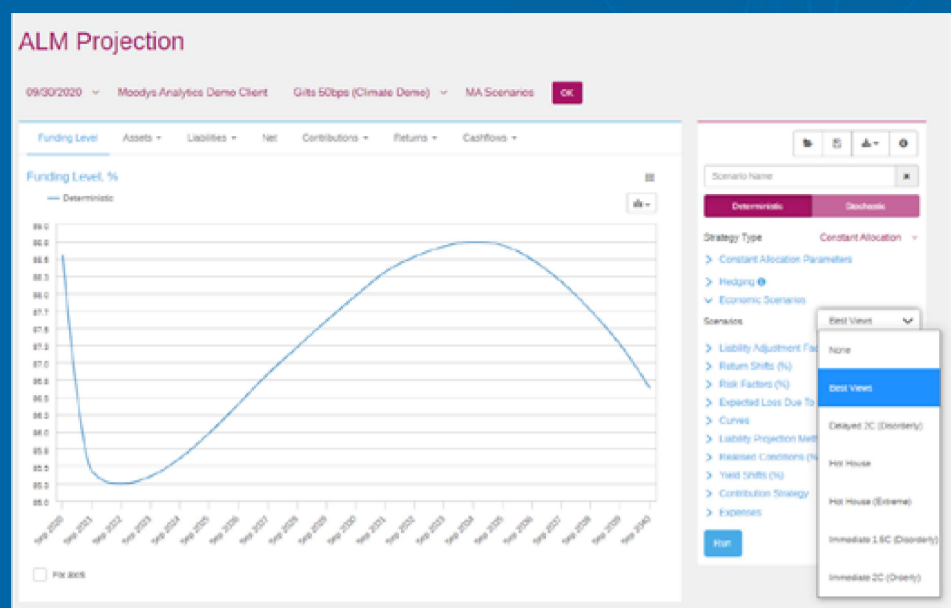
How Moody's Analytics can help

- ✓ **Scenario Analysis:** Analysis of the impact of climate scenarios on plans' assets and liabilities including a range of orderly and disorderly transition scenarios (where there is a global transition to restrict any future temperature increase to <2°C)

- ✓ **Metrics and Targets:** Report a range of emissions and climate-based metrics based on the scope 1, scope 2 and scope 3 greenhouse gas emissions of the scheme's assets

- ✓ **Funding strategy:** Understand the impact of climate risks on the scheme's funding strategy

For more information, contact:

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Moody's Analytics PFaroe DB

The PFaroe DB solution is an asset, liability and risk management platform built specifically with the needs of the defined-benefit (DB) pensions market in mind. It is an intuitive, web-based platform that harnesses the latest technology to deliver a fast, flexible experience that engages all parties involved in the management and oversight of DB plans.

Contact us to find out more at:
pfaroe.moodysanalytics.com/