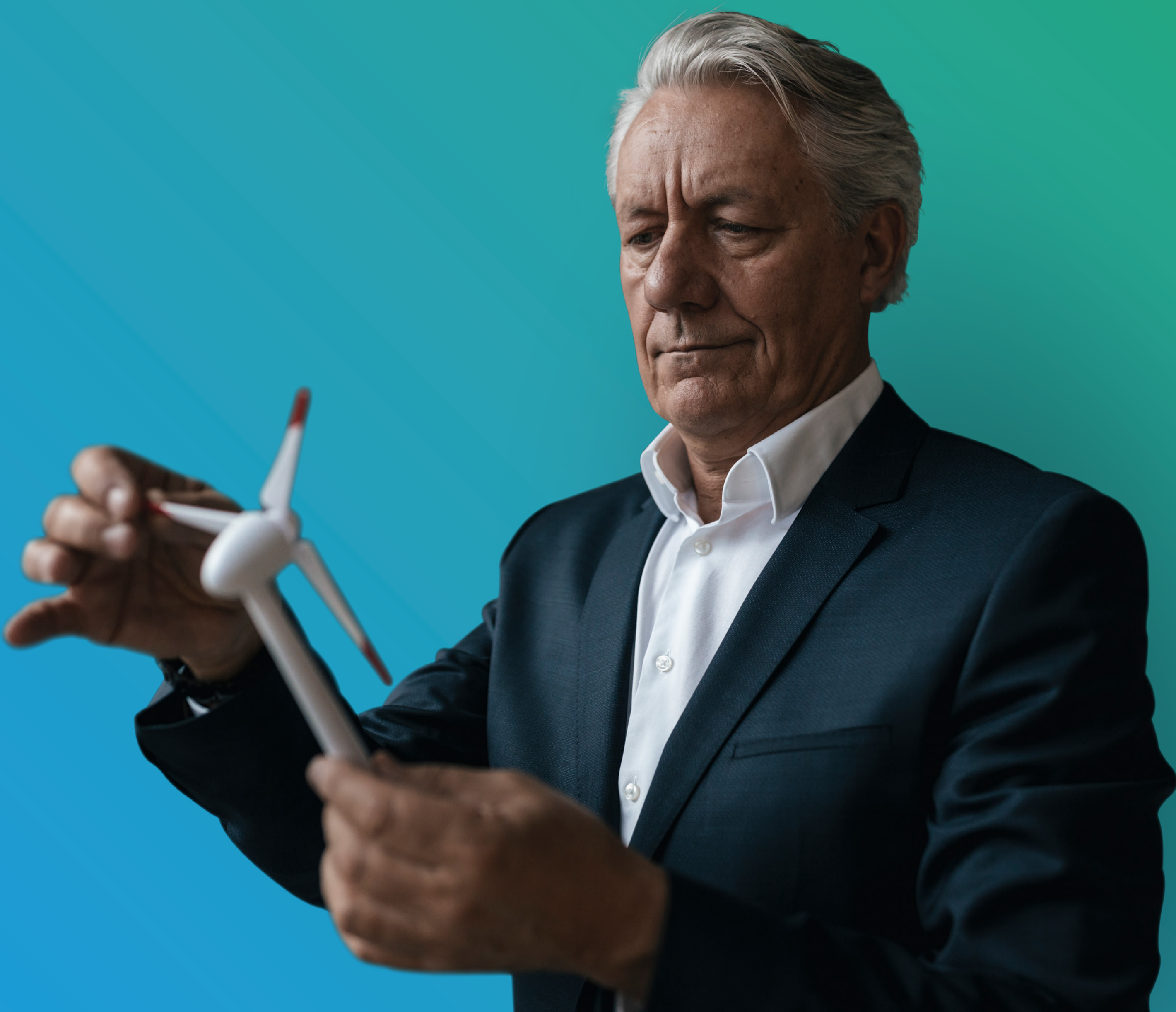
Mercer

welcome to brighter

TCFD:

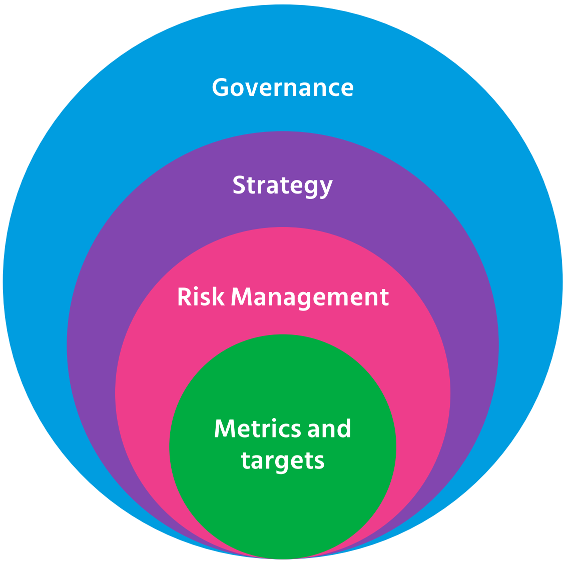
How ready is your pension scheme?



> **The UK is set to be the first major economy to require climate risk to be specifically considered and then reported on by pension schemes**
>
> *Guy Opperman, Minister for Pensions and Financial Inclusion 2021*

The measures announced by the Minister will require schemes to assess and report on the financial risks of climate change within their portfolios. This commitment from the UK government is sending a clear message to UK pension trustees that this is an area that needs to be taken seriously.

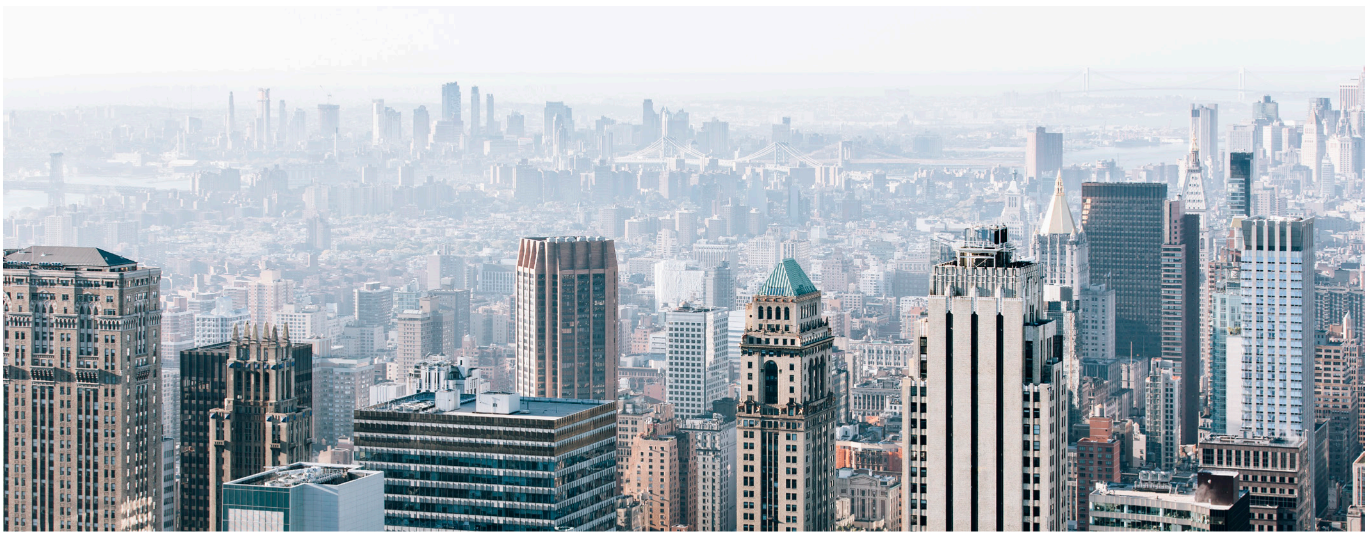
These requirements will be in line with the **Taskforce on Climate-related Financial Disclosures (TCFD)** recommendations - a framework for disclosing how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners. The framework aims to:



- Improve climate-related data quality
- Increase focus on climate change
- Enable more informed decisions
- Provide a consistent framework for comparison

Source: TCFD

Mercer is fully supportive of adoption of the framework and believe that now is the time for trustees to start planning for TCFD reporting. We have therefore prepared the following checklist against each of the TCFD requirements to help support you.



TCFD reporting checklist:

Governance	Check
Our Statement of Investment Principles incorporates beliefs and approach to climate change	
Our Committee meet regularly to consider climate change-related issues	
Our scheme has sufficient climate change monitoring arrangements in place	
We have assigned climate change-related responsibility to sub-committees and external advisors	
We have considered and agreed upon the level of knowledge and frequency of training required	
Strategy	
The trustees have formed a view on short, medium, and long term climate change-related issues that could have a material financial impact on our scheme taking into account funding, investment and the sponsor covenant	
The trustees have distinguished whether the climate-related risks are transition or physical risks	
We have identified whether climate change related risks and opportunities have impacted our investment strategy. For example, where the trustees have made commitments to sustainable investments	
The trustees have undertaken climate change scenario analysis (2^{0}C, 3^{0}C and 4^{0}C scenarios etc.) to understand climate change impacts at the total scheme and asset class level	
Risk Management	
The trustees have processes for identifying and managing climate change-related risks For example: • Climate change scenario analysis • Carbon footprint analysis • Engagement activity with investment managers • Scheme's risk register considers climate risk	
Climate change is integrated into the trustees' integrated risk management framework For example: • Impact on asset-liability funding discussions • Include climate change and ESG risks alongside other material risks in the Statement of Investment Principles	
Metrics and Targets	
The trustees employ metrics used to assess climate-related risks and opportunities for each asset class. For example, an absolute emissions based metric, an emissions intensity metric and another climate change metric. The trustees have set targets. For example, emissions reduction targets, sustainable allocation targets, etc.	

This checklist is designed to give you a high level understanding of what you will need to do to meet TCFD reporting requirements. It highlights keys areas to focus on in what is likely to be a long and complex journey.

We are already working with a number of trustees to map their route to assessing and reporting on the financial risks of climate change within their schemes. If you would like to find out more about the work we are doing, or have any questions on the journey you will be taking, please contact us.

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