

TCFD and the LGPS: Are you ready?





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 pension 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 British 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

It is widely believed that in the near future similar regulatory requirements will be implemented within the Local Government Pension Scheme (LGPS).

Mercer is fully supportive of early adoption of the framework and believe that now is the time for LGPS Funds 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 Investment Strategy Statement includes our beliefs and approach to climate change.	
Our Committee meets regularly to consider climate-related issues.	
Our Fund has sufficient climate-related monitoring arrangements in place.	
We have assigned climate-related responsibility to Officers and Committees.	
We have considered and agreed upon the level of knowledge and frequency of training required.	
Strategy	
Our Fund has formed a view on short-, medium- and long-term climate-related issues that could have a material financial impact on our Fund.	
Our Fund has distinguished whether the climate-related risks are transition or physical risks.	
We have identified gauged climate-related risks and opportunities have impacted our investment strategy, such as where the Fund has made commitments to sustainable investments.	
Our Fund has undertaken climate-related analysis (2°C, 3°C and 4°C scenarios etc.) in order to understand climate change impacts at the total Fund and asset class level.	
Risk management	
<p>Our Fund has processes for identifying and managing climate change-related risks.</p> <p>For example:</p> <ul style="list-style-type: none"> • Climate-change scenario analysis • Carbon footprint analysis • Engagement activity with fund managers • Fund's risk register considers climate risk 	
<p>Climate change is integrated into our organisation's overall risk management framework.</p> <p>For example:</p> <ul style="list-style-type: none"> • Impact on asset-liability funding discussions • Inclusion of climate change and ESG risks alongside other material risks in the ISS 	
Metrics and targets	
Our Fund employs metrics used to assess climate-related risks and opportunities in each fund or investment strategy, such as carbon footprint metrics.	
Our Fund has set targets, including 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 LGPS clients to map their route to assessing and reporting on the financial risks of climate change within their Funds. 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.**



Kieran Harkin
Head of LGPS Investments
kieran.harkin@mercer.com
+44 (0)7557 323 103



Nick Buckland
Senior Consultant and LGPS Adviser
nick.buckland@mercer.com
+44 (0)7766 602 537



Hill Gaston
Senior Responsible Investment
Specialist
hill.gaston@mercer.com
+ 44 (0)7557 031 646

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