

# Government moves to smooth climate reporting requirements

**A move to require even more disclosure from schemes follows the government's 'Ten Point Plan' for a green revolution**

**It is not known how the new disclosure obligations will sit alongside the existing TCFD rules**

**T**HIS SUMMER SAW THE government unveil plans for the UK to become a world leader in green finance. Among them are further requirements for pensions schemes to disclose sustainability information, adding on to the Taskforce on Climate-related Financial Disclosure (TCFD) rules, which come into play from next month.

But how clear is the path for trustees needing to understand how even more sustainability disclosure requirements will weave into existing work?

Chancellor Rishi Sunak outlined the 'Sustainability Disclosure Requirements' (SDRs) in his Mansion House Speech for 2021, and it is yet to be made clear how the requirements will interact with existing TCFD rules that were introduced to parliament in June.

Schemes were told the SDRs would "streamline existing climate reporting requirements, and go further to ensure consumers and investors have the information they need to

make informed investment decisions and drive positive environmental impact."

Under the proposal, companies, financial services firms and their investment products will report alongside pension schemes on the impact they are having on the climate and the environment.

And while various businesses, financial services firms and their investment products will be subject to the SDRs, as yet no detail has been provided on what type and/or size of companies will initially fall within its scope.

## POLICY OBSCURITY

While not much is yet known about what the new disclosure requirements will look like, Travers Smith senior associate Niamh Hamlyn says EU regulation could provide some clues as to what UK-based trustees are likely to be facing.

The ESG Action Plan released by the European Commission in 2018 intended to bring ESG to the forefront of EU financial services regulation. Hamlyn says the EU's Sustainable Finance Disclosure Regulation (SFDR) – published in December 2019 – is one part of that package.

"Post-Brexit, the UK has not implemented the SFDR, but the speech by the chancellor hints that the UK's own version of the SFDR could be in the pipeline," she continues. "If that's the case, one point to watch is that the SFDR covers a broad variety of sustainability factors, whereas the recent statement made by the chancellor focused on climate and environmental impact, so the precise scope of



Chancellor Rishi Sunak has outlined sustainability disclosure requirements, which aim to 'streamline existing climate reporting requirements, and go further to ensure consumers and investors have the information they need to make informed investment decisions and drive positive environmental impact'.

the UK requirements remains to be seen."

With the UK hosting the COP26 summit this November, Hamlyn says the timing of the chancellor's announcement of further reporting requirements is unsurprising.

"Public awareness of how pension schemes invest their assets is also at an all-time high thanks to high-profile campaigns by organisations including Make My Money Matter," she adds. "And with around £2.6trn invested, there can be little doubt that UK schemes have a pivotal role to play in helping to build a greener UK economy."

Pension monies have been earmarked by the government for post-pandemic economic

experimentation as recently as mid-August, with the proposed investment 'big bang' designed to boost the green build back promised.

However, Hamlyn notes that trustees are "already hard at work getting to grips with both investment implementation and climate-related governance and disclosure requirements".

"In the early years, this won't be straightforward – which is why the regulations contain some flexibility and easements," she says. "But it also means the prospect of even more, potentially overlapping, disclosures may be unwelcome news for some."

When *Professional Pensions* surveyed readers in July on their readiness ahead of the

forthcoming TCFD deadlines, less than a quarter (23%) said their scheme(s) were adequately prepared.

Although different rules will apply to different sectors, Herbert Smith Freehills partner Silke Goldberg says the approach to the TCFD framework currently adopted by the Financial Conduct Authority is likely to serve as a template for the SDR disclosures.

"This includes annual reports with entity-level disclosures relating to governance, strategy (including regarding scenario analysis), risk management and targets and metrics, and annual product and portfolio-level disclosures covering emissions and weighted average carbon intensity," she says.

But to add to things, one area in which the proposed SDR regime is likely to go further than the existing TCFD framework is by expanding the scope of disclosures to include

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*Niamh Hamlyn, Travers Smith*

impacts on nature and the environment.

While the UN-backed Taskforce on Nature-related Financial Disclosures were already announced in June – designed as an extension of TCFD to include the environment more specifically – they are not expected until 2023. Conversations about whether

TNFD will become mandatory for pensions schemes and other corporations and financial institutions is therefore not expected in the immediate term.

## REGIME CONSOLIDATION

Consolidating the various existing sustainability regimes – as suggested at the announcement of the SDRs – is a clear option to simplify trustees' objectives.

Hamlyn says diverse obligations and data points could then "become more genuinely joined up and consistent throughout the investment chain – from investees to managers to asset owners such as trustees".

The government's November 2020 roadmap on climate-related disclosures arguably provides an example of early steps toward this.

"But the principle could be applied even more widely," Hamlyn explains. "While the

devil will be in the detail, it seems to us that the chancellor's proposals for further sustainability reform could provide a real opportunity to create a more streamlined and coherent reporting regime that achieves the aim of driving meaningful sustainability disclosures by UK pension schemes, rather than simply creating another box to tick."

Goldberg adds that the SDR regime – the latest in the series of disclosure requirements announced by the government – is unlikely to be the last.

"The government intends the financial system to play a key role in contributing to the UK's goal of achieving a net zero economy by 2050 and, in the run up to COP26, the UK is particularly keen to demonstrate its leadership in green finance," she says. "Adopting and setting new disclosure standards will be key to achieving this".

