



# UK Paves the Way for Mandatory Climate Disclosures – Implications for UK Pension Schemes and How J.P. Morgan Can Help

April 2021

J.P.Morgan

## Background

Climate and sustainability reporting requirements, frameworks and guidelines have been around for over a decade. However, as the reporting landscape has continued to be fragmented, it has been challenging for companies, investors and regulators to navigate.

To help identify the information needed to assess and price climate-related risks as well as create an overarching and standardised reporting framework, in 2015 the Financial Stability Board (FSB) established an industry-led global Task Force on Climate-related Financial Disclosures (TCFD). Its mission has been to develop voluntary climate-related financial disclosures that would be useful to investors and others in understanding material risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies in a changing world. Two years later, TCFD published its final recommendations which provide a framework for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes.

Fast forward to today, over 110 regulators and government entities around the world, including the UK, now support [TCFD](#). The UK government has gone a step further by announcing in November 2020 that the UK will become the first country in the world to make TCFD-aligned disclosures fully mandatory across the economy by [2025](#).

In the financial services sector, implementation of the UK's ambition to achieve carbon neutrality across its economy by 2050 and lead the way on TCFD disclosures is notably picking up pace. From January 2021, premium listed companies are required to make better disclosures about how climate change affects their business. It is expected that the Financial Conduct Authority (FCA) will also consult in the first half of 2021 on introducing TCFD obligations for asset managers, life insurers and pension providers. The FCA has said it aims to implement those rules for the largest firms by 2022. Starting October 2021, larger occupational and commercial UK pension schemes will be required to produce climate-related disclosures on a phased-in basis as discussed in this briefing.

## Climate Related Disclosures Timeline

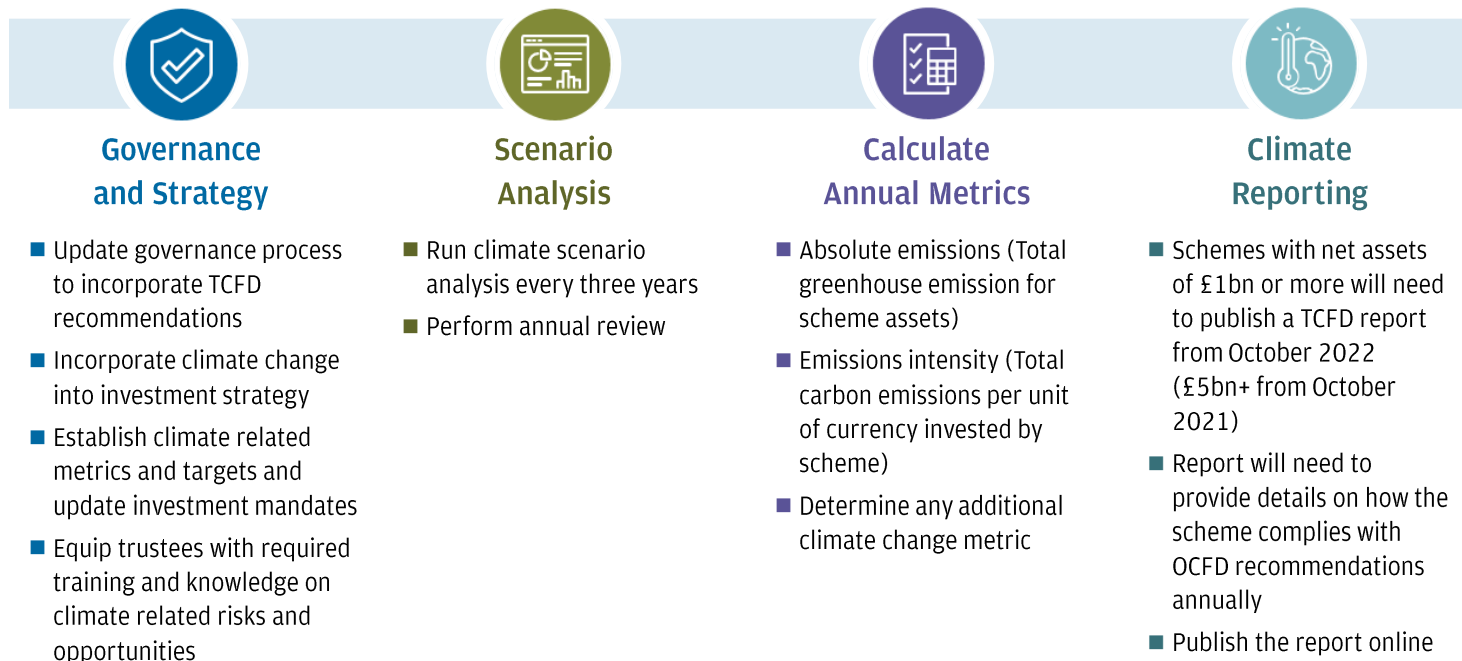


## UK Pension Schemes Climate Related Disclosure Requirements

Much of the work to prepare pension trustees for TCFD-aligned disclosures has been done over the last couple of years through government guidance, Pensions Climate Risk Industry Group's (PCRIG's) best practice and public consultations. Crucially, as a part of the UK Pension Schemes Act 2021 (in force as of February 11, 2021), in-scope pension scheme trustees will be required to consider effects of climate change and engage more fully with the risks and opportunities arising from the response to global climate change emergency. TCFD reporting arrangements must be in place for the largest schemes (with net assets of £5 billion +), authorized master trusts and authorized collective money purchase schemes from October 1, 2021, and for schemes with net assets between £5 billion and £1 billion from October 1, 2022. The TCFD reports must be published within seven months of the scheme's year end and no later than December 31, 2022 for the larger schemes and December 31, 2023 for the next tier.

# Background

On January 27, 2021, the UK Department for Work and Pensions (DWP) published details on how the new climate change requirements will apply to the UK pension schemes. These requirements are stratified into the four main pillars in line with TCFD recommendations:



While there is broad recognition that integration of climate-related considerations into pension schemes' governance and investment strategy will lead to better adjusted outcomes for pension beneficiaries, these requirements come with challenges. Developing and implementing a data strategy to fulfil TCFD reporting within the required timeline is a significant undertaking given that for many pension schemes this will be a new exercise, which will require new processes and information. DWP's latest guidance and the draft regulations helpfully recognize the scale of this undertaking via a provision that requires trustees to produce scenario analyses, obtain data, calculate metrics and set targets on an "as far as they are able" basis.

*"Regardless of the size of the scheme, trustees should consider whether they are identifying, assessing and managing the risks and opportunities that climate change poses to their scheme. Trustees of schemes which fall within the scope of the new rules face a particular challenge of obtaining adequate access to data so they can measure performance against their selected metrics and targets and conduct scenario analysis on their investment strategy."*

*Eversheds Sutherland*

## Background

While this does provide some reassurance to trustees whereby there is a recognition that time is needed for a fully-fledged reporting solution, there is still a significant challenge for many pension schemes over the next 6 to 18 months. The diversified asset allocation across both geography and asset class in the UK pension schemes means that a chosen data strategy must take into account a wide range of assets including public, sovereign, private and commingled pooled investments. As a result, a key consideration for pension schemes' trustees is securing full data coverage from ESG providers. Key challenges surrounding this task as well as potential solutions are discussed later in this briefing.

For pension schemes that outsource investment management, there is the additional complexity of sourcing data from multiple asset managers, normalizing it and building a set of analytics.

In the context of practical implications for pension schemes, the development and implementation of a comprehensive and efficient data strategy will undoubtedly require designated resources, subject matter expertise and a formal body of work. In this regard, the next section discusses key data strategy considerations for trustees as they work on integrating climate-related reporting into the overall governance and strategy of the scheme as well as integrating risk management and reporting frameworks in line with the TCFD recommendations and DWP guidance.

### TCFD Data Strategy Considerations for Pension Scheme Trustees

The climate-related data provider elected by a pension scheme has to be able to assist with not only meeting the disclosure reporting requirements but also support trustees' decision making to facilitate strategic objectives such as decarbonization, managing related physical and transition risks and identifying carbon opportunities.

Pension scheme trustees may also need to consider the merits of using independent and consistent climate-related data across their investments globally to achieve an efficient and reliable reporting solution. The use of independent data can enhance the oversight of segregated and commingled fund managers and support engagement with underlying issuers. In the context of data collation from multiple investment managers (with varying ESG data methodologies), pension schemes may also want to consider the potential challenges with data coverage and data integration especially if extended beyond equity holdings. In this regard, the schemes' custodians and fund administrators (who maintain the detailed investment records and are already providing integrated analytical and reporting solutions) are well placed to assist pension scheme trustees in supporting these evolving requirements and providing a single comprehensive set of data, analytics and associated reporting.

A typical large pension scheme may have over 30 investment managers, over 10,000 securities holdings and potentially over 100 ESG factors (including climate-related data points) that may need to be integrated and analyzed for the purposes of developing ESG and climate-related reporting. The task of consuming, integrating, storing and reviewing large volumes of data from multiple sources is substantial.

Illustrated below is an operating model that would need to be developed and maintained to generate the required climate-related and ESG reporting and assist trustees in oversight of investment managers, engagement with issuers and publication of the disclosure reporting.

#### UK PENSION SCHEMES' ASSET ALLOCATION TRENDS:

- Domestic equity exposure represents only a third of the total equity holdings (down from 75% in late 1990s)
- 18% of equity holdings are unquoted/private equity assets
- 69% allocation to fixed income assets in DB schemes (up from 28% in 2006)

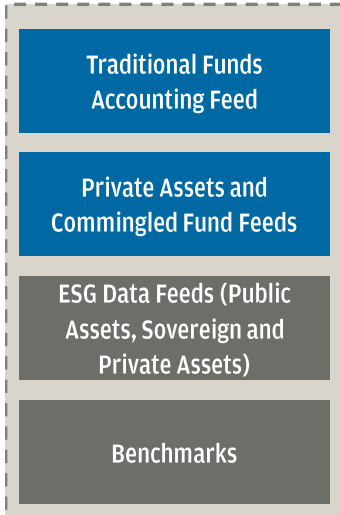
*Source: Global Pension Assets Study 2021, Thinking Ahead Institute, Willis Towers Watson.*



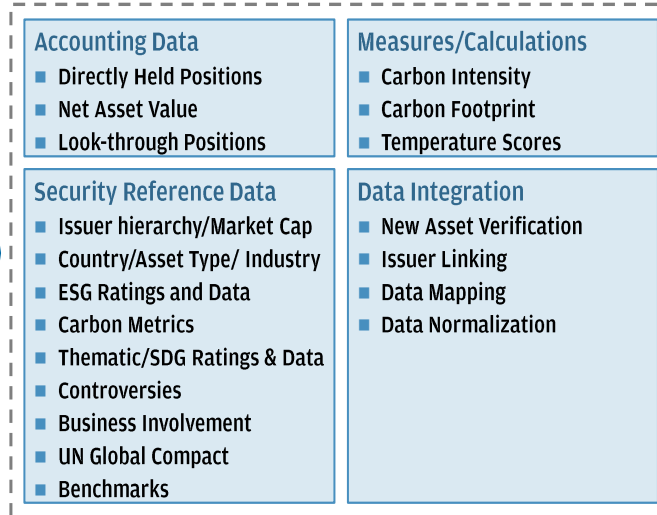
# Background



## Data Feeds



## ESG Analytical Platform



## Reporting



# J.P. Morgan Service and Operating Model

## J.P. Morgan Investment Analytics Tool

J.P. Morgan has developed an ESG Analytics tool to assist clients with integration of ESG considerations into their investment decision making process and implementation of regulatory obligations affecting them, including ESG and climate-related disclosures. The tool has been developed in collaboration with pension scheme clients and is designed to support pension scheme trustees in meeting their regulatory obligations such as TCFD reporting.

### Overview

J.P. Morgan is one of the leading providers of securities services to a wide range of asset owner and asset manager clients across the globe. Within the extensive suite of products, J.P. Morgan offers an integrated investment analytics platform that includes performance and risk analytics, investment compliance, public and private asset exposure reporting and ESG analytics.

In response to the increased global interest in responsible and sustainable investment and the acceleration of sustainable finance regulatory developments, J.P. Morgan has built comprehensive end-to-end ESG solutions to help clients to identify, measure and evaluate the impact of investment decisions and manage risk with respect to ESG factors across the investment lifecycle.

As a part of this firm-wide effort, J.P. Morgan has developed ESG Analytics, to assist clients with their ESG data analytics and reporting needs including:

- ❖ ESG ratings for clients' assets including environmental, social and corporate governance scores with drill through to the sustainable development goals
- ❖ climate-related metrics and measures (including carbon intensity, carbon footprint and temperature scores)
- ❖ exposures by business involvement activities (such as alcohol, fossil fuels, renewables and landmines) and ESG related controversies
- ❖ compliance with the United Nations Global Compact

*"As a custodian and fund accountant for pension funds, J.P. Morgan holds their data in one place for both segregated and pooled portfolios across all asset classes. To help clients meet evolving ESG and TCFD disclosure requirements, J.P. Morgan has extended its data solution with a focus on extensive multi-asset and multi-vendor ESG data coverage, interactive data analytics and agile reporting."*

*Natalie Leaver  
Head of Pension and Endowments Funds, Platform Sales - Securities Services*

Our solution provides pension scheme, portfolio and issuer level ESG and climate-related insights and analytics across all asset classes (including public and private assets), enabling a drill down to the security level via an interactive, integrated dashboard that also incorporates performance, risk, investment compliance and exposure analytics. We have partnered with several ESG data vendors as well as leveraged J.P. Morgan in-house research to provide a comprehensive multi-vendor and multi-asset class solution to our clients.

## J.P. Morgan Service and Operating Model

While our investment compliance reporting service enables socially responsible investment screening based on user-defined policies to help investors implement ethical strategies, the ESG Analytics tool provides a comprehensive view of the data by utilizing issuer level ESG scores, data and metrics that incorporate both top-down research on a company specific basis as well as company involvement in real time ESG controversies.

Key features and functionality of the tool include:

- ❖ Integration of ESG ratings, metrics and information from multiple data providers with the ability to look-through into commingled funds and private assets
- ❖ Ability to drill down to issuer level ESG scores and metrics and relevant exposure factors that roll up to the portfolio and scheme level weighted average results
- ❖ Comparison of climate-related and ESG results to traditional and ESG aligned benchmarks
- ❖ Data analysis across multiple dimensions including scheme, portfolio, industry, country, asset type, global parent, parent, issuer and sustainable development goals
- ❖ Interactive dashboard in addition to automated board reporting including the ability to see trending of ESG scores, metrics and measures over time
- ❖ Availability of reporting customization whereby clients can create and save filtered report settings and create ESG specific watch lists such as top 10 issuer engagement opportunities
- ❖ Detailed glossary of terms, methodologies and calculations available directly on the platform

### Climate Related Data and Analytics

Our ESG Analytics platform can source climate-related data from a number of data providers including information on total CO2 emissions, energy consumption, environmental ratings and near term (2030) and long term (2050) temperature scores.

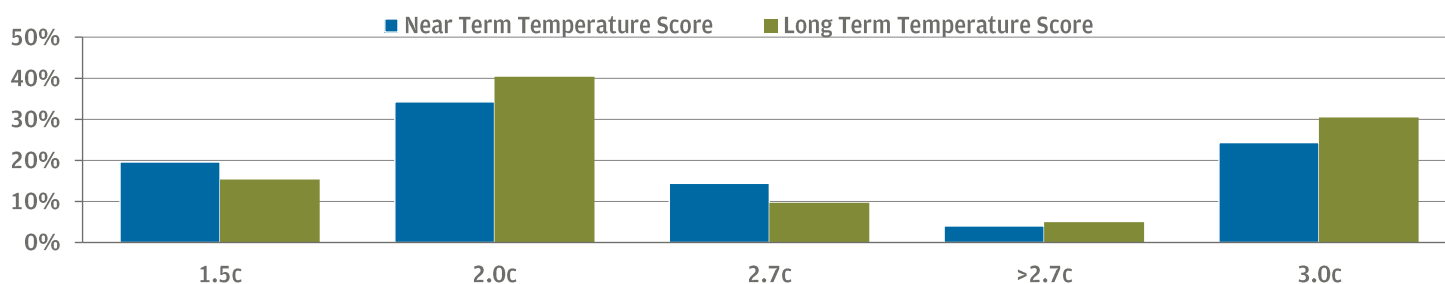
The platform is also able to compute carbon measures such as carbon intensity and carbon footprint and can display the pension scheme, portfolio, country, asset type and sector level temperature scores to assist with scenario analysis.

We have collaborated with clients and a leading law firm to produce an example of the type of TCFD metrics and measures that can be generated from the platform to assist trustees and support the disclosure reporting requirements:

# J.P. Morgan Service and Operating Model

Measure (Total Scheme)	Target	2021	2020	% Change
<b>Carbon Intensity</b> (Scope 1&2) Tons of CO2e/\$mm revenue	7% reduction p.a.	332	360	8% reduction
<b>Total CO2 Emission</b> (Scope 1&2) Tons of CO2e	7% reduction p.a.	15 million	16 million	6% reduction
<b>Carbon Emission (Footprint)</b> Tons of CO2e emission for each million £m invested	7% reduction p.a.	250	265	6% reduction
<b>Climate Transition Pathway</b>	7% reduction p.a.	2.5	2.7	7% reduction
<b>% of Assets where Climate Related Metrics where available</b>	85%+	85%	83%	2% increase
<b>% of Assets that are signatory to the UN Global Compact</b>	65%+	66%	65%	2% increase
<b>% of Assets in Carbon Related Assets</b>	5% reduction p.a.	9.5%	10%	5% reduction
<b>% of Assets in Renewables</b>	Minimal 5% of Total Scheme	5%	4.5%	11% increase

## Temperature Score Distribution



We are actively engaging with clients to further develop our ESG analytics capabilities in an effort to support them as they integrate sustainability and climate-related risks and opportunities into their investment principles and associated decision-making, engagement and reporting process.

Should you wish to discuss the J.P. Morgan ESG Analytics tool or any of the content covered in this briefing please contact one of the following J.P. Morgan representatives:

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