

Responsible Investment Advisory Group

Online Meeting 5th January 2022 – 11.00am – 12.30pm

Item 7 Paper C

DWP Consultation on Paris Alignment Metric

Background

1. On the 21st October DWP published a consultation proposing to amend the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to require trustees subject to those regulations, to calculate and disclose a portfolio alignment metric setting out the extent to which their investments are aligned with the goal of limiting the increase in the global average temperature to 1.5 degrees Celsius above pre-industrial levels. This proposal aims to keep DWP regulations in step with the recommendations of the Taskforce for Climate related Financial Disclosures (TCFD).
2. The consultation, which closes on the 6th January 2022, can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028820/climate-investment-reporting-consultation.pdf
3. DLUHC's consultation on the climate risk and reporting framework that will apply to the LGPS in England and Wales has yet to be published and there is no firm indication yet whether the consultation will include reference to the inclusion of a Paris Alignment metric on similar lines to that being proposed by DWP for trustees. However, on the general principle that DWP expects the LGPS to follow in broad terms what applies to trustees it is reasonable to assume that at some point in time scheme stakeholders will be asked to comment on a Paris Alignment metric.

Consideration

4. The approach proposed by DWP is to put the measurement and reporting of a portfolio alignment metric on a statutory footing, mandating it as a 4th metric to be included in trustees' schemes' reports by amending the Climate Change Governance and Reporting Regulations and related Statutory Guidance. It is proposed that schemes be required to measure and report on portfolio alignment in addition to the existing requirements under those Regulations.
5. It is proposed that pursuing efforts to limit the global average temperature increase to 1.5°C above pre-industrial levels will be the baseline that trustees must measure and report against when considering their degree of Paris alignment. This recognises the global and economy-wide shift from focus on the Paris agreement's climate goal of holding the global average temperature increase to well below 2°C, to its 1.5°C goal (which requires net zero emissions by 2050). This shift reflects improvements in the scientific

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consensus around the impact of climate change, as set out in the IPCC's report on Global Warming of 1.5°C, and has seen the mobilisation of 733 cities, 31 regions, 3,067 businesses and 173 of the biggest investors under the Race to Zero campaign.

6. DWP are putting forward three potential tools for measuring portfolio alignment, namely:-
 - I. **Binary target measurements:** This tool measures the alignment of a portfolio with a given climate outcome based on the percentage of investments or counterparties in that portfolio that (a) have declared net zero/Paris-alignment targets and (b) are already net zero/Paris aligned.
 - II. **Benchmark divergence models:** These tools assess portfolio alignment by comparing the forecasted emissions performance of investments or counterparties in the portfolio against one or more benchmarks.
 - III. **Implied temperature rise (ITR) models:** These tools translate an assessment of alignment/misalignment with a benchmark into a measure of the consequences of that alignment/misalignment in the form of a temperature score.

Conclusion

7. Although it would be premature at this stage to discuss in detail how a Paris alignment metric might apply within the LGPS' climate risk and reporting framework, members are invited to offer some preliminary views on the efficacy of what is currently being **proposed** for trustees and whether there are any issues specific to the LGPS that the Investment Committee and the Board should be aware of.

Recommendation – that the Group considers how a Paris alignment metric might apply to the LGPS