Climate change (FAI011)

All pension schemes face some degree of material risk from climate change. These risks may include the physical effects of climate change such as:

- rising temperatures
- higher sea levels
- droughts
- floods
- storms

They may also include the impact of changes associated with the transition to a low-carbon economy such as:

- impacts on the strength of any sponsoring employer
- new climate policy
- disruptive technology
- shifting investor sentiment
- deteriorating reputation

Climate change and investments

Under section 249A of the Pensions Act 2004,[CL1] governing bodies of certain schemes must establish and operate an effective system of governance (ESOG) (see **Scheme governance**) including internal controls (see **Managing risk using internal controls**). However, there are certain exemptions.[CL2] An ESOG should ensure that consideration of environmental factors is part of the governing body's investment decision-making (see **Stewardship**). Governing bodies should:

- talk to their advisers and asset managers about how short and long-term climate change risks and opportunities are built into their recommendations
- understand what measures are being taken to reflect climate change risk within investment portfolios

> Governing bodies of certain schemes[CL3] are required to include policies in their **statement of investment principles** on **environmental, social and governance considerations**. This includes climate change.

CL1 Article 226A of the Pensions (Northern Ireland) Order 2005
CL2 Section 249A(3) of the Pensions Act 2004 [Article 226A(3) of The Pensions (Northern Ireland) Order 2005]
CL3 Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

Governing bodies are not required to align their investment and funding plans with the objectives of the Paris Agreement and other climate change goals, such as the UK's own target of net zero emissions by 2050. However, they may wish to examine how their governance practices and investment decision-making (where applicable) take account of global progress towards those goals.

Managing scheme risks from climate change

Governing bodies that are required to establish and operate adequate internal controls[CL4] for their scheme should, as part of their risk assessment, assess the risks and opportunities associated with climate change. Learn more in **Identifying and assessing risks**.

Under section 249A of the Pensions Act 2004,[CL5] governing bodies of certain schemes[CL6] with 100 members or more[CL7] should have in place a risk-management function as part of their ESOG (see **Scheme governance**). Our expectations for these governing bodies are set out below. Other governing bodies may wish to consider these as best practice.

- Consider the possible short, medium and long-term effects of climate change on the objectives of the scheme and its operations.
- Maintain and document processes for identifying and assessing climate-related risks and opportunities.
- Integrate these processes into their risk management and governance arrangements.
- Ensure the governing body oversees, assesses and manages climate-related risks and opportunities related to the scheme.

CL4 Sections 249A and 249B of the Pensions Act 2004 [Articles 226A and 226B of the Pensions (Northern Ireland) Order 2005]
CL5 Article 226A of the Pensions (Northern Ireland) Order 2005
CL6 (Northern Ireland) Order 2005]
CL7 Section 249A of the Pensions Act 2004 and regulations 3(1)(3)(a), (5), (6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 [Article 226A of the Pensions (Northern Ireland) Order 2005 and regulations 3(1)(3)(a), (5), (6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations (Northern Ireland) 2018]

Glossary

Paris Agreement
The international framework to address climate change