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UPDATE

Declaration on climate change emergency and Jersey pension schemes

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In this update, we consider the possible role of Jersey's pension industry in the context of the climate change declaration made by the States Assembly in 2019 and the potential introduction of reporting on Environmental, Social and Governance (ESG) standards by the trustees of approved Jersey schemes as proposed in the Jersey pensions consultation.

Declaration on climate change emergency and Jersey pension schemes

On 2 May 2019, Jersey declared a 'climate change emergency' in the States Assembly. There is now a political commitment to making the island carbon-neutral by 2030.

Initially, the role of Jersey's pensions industry in helping the island achieve this target may seem unclear. There are, however, a number of climate crisis initiatives in effect across the world by which the pensions schemes stand to play a major part.

Additionally, the follow up consultation to pensions regulation issued by the Government of Jersey in December 2019 contained a question which sought respondents' views on the introduction of a requirement to disclose information about the sustainability of investments, including consideration of environmental factors, to members.

This briefing considers the options available to trustees of approved Jersey schemes with regard to making informed investment decisions in light of the climate change emergency declaration and considers further the matter as posed in the follow up pensions consultation.

What does the 'climate change emergency' declaration mean?

By the declaration, the States Assembly agreed that there existed a climate emergency likely to have profound effects in Jersey.

Three strategies were therefore adopted to deal with this situation: (i) that Jersey should become carbon neutral by 2030; (ii) strategies to accelerate carbon reduction will form part of the Government Plan for 2020; and (iii) consideration of action to tackle climate change in Jersey is to be included as a standing item on the agenda of the Council of Ministers.

How does this involve pension schemes?

In summary: pension fund investment.

Pension schemes across the world are regarded as potentially major players in attempts to tackle the climate crisis by using their strong investment potential to pursue environmentally positive investment strategies.

Why is this relevant to Jersey pension schemes?

On an international basis, 'ESG' investing is gathering pace across the pensions industry. Additionally, members may become more informed and wish to know what their schemes are doing to help meet Jersey's carbon-reduction targets. Finally, a proposal to introduce ESG reporting requirements into member communications was motioned in the most recent pensions regulation consultation (see below).

What is 'ESG'?

'ESG' stands for 'Environment, Social and Governance'. As a concept, ESG describes a standard set of risks that are explicitly acknowledged and integrated into investment decision-making.

This is not the same as 'responsible investment' (which considers ESG factors in connection with the financial growth of the market overall) or 'socially responsible investment' (which is more specific to driving ethical or morally-led investment principles). Rather, ESG provides a filter through which investment decisions are seen, rather than an investment driver in its own right.

How do ESG considerations apply?

Whilst joined together for the purposes of setting a standard, each 'E-S-G' component should be considered separately. In doing so, investors may more effectively assess the risk posed by a potential investment using these factors (although there will also be the scope for crossover).

Environmental concerns can include climate issues, water management and energy usage, whilst social concerns can look at employee relations, human rights and workforce diversity. Governance considers issues such as executive remuneration, board structure and voting procedures of an investee company.

How was ESG considered in the follow up pensions regulation consultation?

The most recent pensions regulation consultation launched in December 2019 proposed new measures to help members better understand how their pension scheme is managed and how this relates to their benefits therein. Three new requirements were suggested to achieve this aim, including one which focused on disclosing investment policy information in member communications.

This proposal suggested that: 'Schemes and administrators must disclose their policy towards Environmental, Social and Governance considerations. This should outline how their investment policy takes account of the sustainability of investments, including consideration of environmental factors. This would explain the considerations taken to ensure that investments are not unduly exposed to the risk of environmental events, for example droughts, earthquakes, fire, flooding, habitat modification, climate change, pollution, sea-level rise and water abstraction, amongst others'.

Jersey pension schemes with intermediaries based in the UK may be aware that, from 1 October 2019, trustees of UK registered occupational pension schemes of more than 100 members were required to set out in their investment policy how they plan to take account of ESG considerations in their decision-making. This proposal for Jersey pension schemes therefore follows the example already in place in the UK.

The response to this consultation has not yet been published. As such, it is not known how this requirement will be implemented (if at all).

Are there any examples of pension schemes undertaking ESG decision-making in practice?

In June 2019, Norway's Government Pension Fund Global (being the world's biggest sovereign wealth fund) announced that it was to disinvest another $13 billion of assets related to fossil fuel companies. It will, however, continue to retain shares in oil companies which are switching to clean energy technologies.

This case study in ESG decision-making demonstrates the weight given to environmental concerns whilst also demonstrating the potential for investment and opportunity in companies seeking to evolve their businesses in this area.

Do Jersey pension schemes have to take any action now?

There are no requirements on the trustees of Jersey pension schemes to report on their investment strategies as yet. This may change depending on the outcome of the most recent pensions regulation consultation.

Trustees may, however, choose to implement ESG-related decision-making of their own accord. Any trustees wishing to adopt this approach may wish to speak with their asset managers and financial advisers to find an appropriate means of implementation.

Following the new requirement on some UK pension schemes to set out in their investment policy how they plan to take account of ESG considerations in their decision-making in 2019, a number of help guides and other materials are now in circulation which more fully explain the background to the new reporting standard and how such considerations should influence investment decision-making.

As this matter receives more public attention, trustees may also wish to consider how they might deal with queries from members with regard to how their pension scheme considers climate crisis issues and integrates ESG investment strategies.

Mourant Ozannes is able to help trustees talk through these policies and consider how pension schemes may be affected going forward.

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