Employer Covenant Practitioners Association

News Release

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Employer Covenant Practitioners Association paper explains how climate change can be reflected in employer covenant assessments

8 February 2022: The Employer Covenant Practitioners Association ("ECPA") has today published a paper entitled "Reflecting climate change impact and risks in employer covenant assessments".

Co-authored by a number of ECPA practitioners, the paper explains how climate change is impacting on the covenants of a range of employers sponsoring UK Defined Benefit pension schemes; and sets out suggested approaches to addressing climate change impacts – whether risks or opportunities – in employer covenant assessments and scheme Integrated Risk Management ("IRM") plans.

Distinguishing the specific impacts of climate change from the broader ESG agenda, the paper considers how physical, liability and transitional risks affecting the financial performance and outlook of scheme sponsors can be evaluated in a proportionate and manageable way. The paper acknowledges that, for certain sponsors, transitional changes to new technologies may offer considerable opportunities if they are able to secure strong market positions as a result of developing market-leading products in response to regulatory change or shifts in patterns of demand.

Given existing climate change reporting requirements – such as under TCFD – the paper emphasises that work on climate change evaluation can take place collaboratively with sponsors, building on existing analysis.

Commenting on the paper, Karina Brookes, Chair of the ECPA said:

"Our members are seeing the impacts of climate change feed into the performance of sponsors right now. Transitional risks, for example, are affecting both the free cash flows and – potentially – the longevity of sponsors where demand for their existing products may atrophy over time; or where substantial investment in R&D is needed. But, as the paper emphasises, many sponsors are successfully addressing the impacts of climate change – and a number will secure market-leading positions through innovation in response to regulatory and demand shifts.

"The paper sets out clearly and systematically how our member firms can consider climate change in their work – and advise Trustees and sponsors on how it might be reflected in scheme funding and IRM plans. It contends that robust sectoral analysis – including understanding regulatory requirements – is a helpful starting point from which climate change impacts on sponsor free cash flows and longevity can be considered.

"Certain of the longer-term time horizons relevant to climate change – such as "net zero by 2050" – are distinctly relevant for the run-off of pension liabilities over decades to come. It is vital, therefore, that appropriate and proportionate consideration is given to climate change in employer covenant work. This paper sets out how, as a profession, we can reflect this crucial issue in our advice".

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About the Employer Covenant Practitioners Association (ECPA)

The **Employer Covenant Practitioners Association** was originally established in 2012 as the Employer Covenant Working Group (ECWG) to discuss issues relevant to providing financial advice to clients on matters connected with the employer covenant, to participate in discussions with bodies such as the Pensions Regulator and Pension Protection Fund and to raise standards in the employer covenant financial advisory industry generally.

As well as making representations to Government and other bodies on covenant issues arising from proposed changes in regulation and legislation, the Association has produced a number of guides for advisers and sponsors, including principles of covenant assessment for scheme valuations; guidance on transactions in distressed and non-distressed environments and developing best practise on Integrated Risk Management. All guides and a list of members are available at the Association's website https://ecpa.org.uk/