UKSIF

18 November 2011

The Kay Review
Department for Business, Innovation and Skills
Spur 2, Floor 3
1 Victoria Street
London SW1H 0ET
Email: kayreview@bis.gsi.gov.uk

Dear Professor Kay

**UKSIF response to Call for Evidence by the
Kay Review of UK Equity Markets and Long-Term Decision Making**

Thank you for the opportunity to respond to your call for evidence issued on 15 September.

We are grateful to BIS officials for briefing responsible investment analysts and other representatives of our members on your interests and priorities at UKSIF's seminar on the Kay Review held at Sarasin & Partners on 16 November.

This response draws both on comments made at the seminar and on UKSIF's knowledge of the experiences and views of our members from our past seminars and policy submissions. In this response, we have aimed to use this knowledge and experience to collate evidence and identify specific policy proposals and other practical suggestions.

We have focused our answers on questions 1, 2, 4, 5, 6, 7 and 8 in the Review paper. We have also proposed and answered an additional question about "closing the investment chain" through positive influence by companies on asset owners.

A: Background

Kay Review aim: To examine the mechanisms of corporate control and accountability provided by UK equity markets and their impact on the long term competitive performance of UK businesses, and to make recommendations

UKSIF warmly welcomes the Kay Review. We are delighted that the Secretary of State has asked Professor Kay to conduct this review following the government's *Consultation on a Long-term Focus for Corporate Britain* which closed earlier this year.

We regard this farsighted initiative as an important mechanism to restore legitimacy and public trust to UK equity markets. We believe that there is an urgent need to return public equity markets to their proper role as the most effective way to allocate capital for long-term wealth creation. As the world faces the challenges of environmental limits and associated social change, public capital markets that operate in the long-term interests of companies, savers and society as a whole have a vital role to play to drive the massive capital reallocation needed to enable economies to respond. If public equity markets do not respond effectively to this challenge, we believe that this is likely to drive a flight to other asset classes.

Long term decision making is more necessary than ever to enable the UK to compete in a changing world. In 2009, UK government adviser Sir John Beddington warned that in coming decades the UK "must address rising demand for food, energy and water, while mitigating and adapting to climate change." [1] Equity markets need to play their part by enabling companies and investors to better take account of long term needs.

Market-based solutions and incentives to drive improvements in accountability, customer demand, governance and transparency are an effective way to deliver long term investment decision making. However, all parts of the investment chain need to act to improve the way that equity markets behave today.

Responsible investors as a group have been among the first to consider the risks and opportunities from long-term social and environmental challenges. Leading practitioners have a particularly strong understanding of the market failures which sometimes prevent investors from translating this knowledge into investment decision making.

Based on their knowledge and experience, we believe that interventions to improve the investment chain would be particularly valuable in the following areas:

1. **Procurement & Financial Literacy**
   This includes
   - Encouragement and support by employers and plan sponsors in both the private and public sectors.
   - Improved public procurement of investment services, with a binding requirement for significant asset owners in or influenced by the public sector to become signatories to the UN-backed Principles for Responsible Investment (PRI) and leaders in PRI implementation.
   - UK legislators to act as role models through leadership in responsible investment by the UK Parliamentary Contributory Pension Fund.
   - Improved understanding of the true role of equity markets as long-term allocators of capital in school based education and public awareness. This includes a role for companies and the public sector to improve the understanding of employees benefitting from workplace pensions and savings,.
2. **Asset Owner Demand**
   This includes:
   - Practical guidance for pension fund trustees and other fiduciaries on the effective implementation of their fiduciary responsibility, including its interaction – where relevant - with measures such as the 2004 Pensions Act and The Pensions Regulator's guidance. The recent Charity Commission guidance "Charities and Investment Matters: A guide for trustees (CC14)" is a good example of such practical guidance.
   - Improved mandates, eg.the International Corporate Governance Network is developing a long-term investment mandate.
   - Improved selection and scrutiny of investment managers. Investment consultants have developed manager assessment techniques and made recommendations on ways for trustees to scrutinise performance in responsible ownership and ESG integration. Greater use of this support is now needed.
3. **Transparency**
   - By asset owners, investment managers and companies
4. **Incentives & Pay**
   - Including improved mandates as described above

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[1] Food, Energy, Water and the Climate: A Perfect Storm of Global Events? Speech by Sir John Beddington, Sustainable Development UK 09, QEII Conference Centre, London 19 March 2009 http://webarchive.nationalarchives.gov.uk/+/http://www.dius.gov.uk/news_and_speeches/speeches/john_beddington/perfect-storm

We are pleased that BIS is undertaking consultations on narrative reporting and executive pay as well as this call for evidence. However, we believe that government should facilitate a deep and constructive debate specifically on incentives and pay within the investment chain beyond the current consultations.

Please classify UKSIF as an "Investor representative organisation" in your analysis of consultation responses.

B: Response to consultation questions

Q1. Whether the timescales considered by boards and senior management in evaluating corporate risks and opportunities, and by institutional shareholders and fund managers in making investment and governance decisions, match the time horizons of the underlying beneficiaries.

In our response to the government's *Consultation on a Long term Focus for Corporate Britain*, we noted that "long-term wealth creation and the interests of responsible capital providers is not well served by a range of current practices within capital markets and across the investment chain."[2]

Academic evidence

There is a growing body of academic and other evidence on short-termism in the investment chain. UKSIF has collated much of this evidence in our Sustainable Capital Markets Library, available at www.uksif.org/projects/policy/sustainable_capital_markets_library.

UKSIF's Sustainable Capital Markets Library has been provided for those who influence or study the changing nature of the capital markets both within and outside the UK. It addresses particularly the impact of structures and incentives on long-term responsible investment. A brief summary of each article or report is given, with an additional link for access to the full document.

For example, the library includes the paper Lydenberg, S. 2007. "*Long-term investing: a proposal for how to define and implement long-tem investing"* which is online at www.uksif.org/cmsfiles/5382163/Lydenburgpaper.pdf.

Other bibliographies and databases about market failures in the investment chain include the information and links maintained by the PRI Academic Network[3].

We welcome 'The Economic Role of Finance', the submission to this consultation by participants in the Network for Sustainable Financial Markets (NSFM). It highlights a range of more recent academic research. NSFM includes both academics and practitioners.

Beneficiary opinion / public opinion

There is evidence that the public supports long-term responsible investment approaches. Opinion poll research conducted in September 2011 by YouGov[4] for UKSIF found that:

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[2] UKSIF response to BIS Long term consultation,14 January 2011 /www.uksif.org/cmsfiles/responses/UKSIF_Response_to_BIS_Consultation_on_A_Long-term_Focus_for_Corporate_Britain_14Jan11__2_.pdf

[3] http://academic.unpri.org/index.php?option=com_content&view=article&id=232%3Aresearching-and-publishing-current&catid=44&Itemid=100049#respubtop

[4] You Gov opinion poll Sept-Oct 2011 for National Ethical Investment Week 2011. Data at http://www.neiw.org/about/media-centre/green-and-ethical-market-spreads-its-wings and http://www.neiw.org/about/media-centre/ifas-urged-gain-green-advantage. Total sample size was 2105 adults. Fieldwork was undertaken between 28-30 September 2011. The survey was carried out online. The figures have been weighted and are representative of all GB adults

- 53% of GB adults with investments believe financial products that take social and environmental issues into account have an important, or very important, part to play in the long-term growth of the UK economy
- 58% of all GB adults believe that employer's pension schemes should match or beat the standard set by the new NEST workplace pension scheme in their approach to managing social and environmental issues before they are allowed to qualify for 'auto enrolment' from October 2012.
- 23% of GB adults with investments said their financial adviser or pension fund told them 'too little' about 'responsible ownership'; rising to 30% amongst 45-54 year olds.

Industry research
A range of studies have been published by the investment industry and its stakeholders about long-term responsible investment. There are also a number of continuing and past investor initiatives on the topic.

UKSIF maintains information on an edited selection of these, particularly for use by occupational pension funds, in its Sustainable Pensions Library, available at www.uksif.org/projects/sustainable_pensions/library.

Contribution of long-term responsible investment skills to international competitiveness of the UK finance sector
The need to reallocate capital to address environmental and social change provides both an opportunity and a challenge for UK financial services.

The UK sustainable and responsible finance industry is widely recognised for its global leadership in long-term investment:

- It manages approximately 14% of the responsibly managed assets tracked by sustainable investment and finance associations globally[5].
- It ranks second globally in the number of signatories to the UN-backed Principles for Responsible Investment with 121 signatories, behind the USA (130 signatories) and ahead of Australia (119 signatories)[6].

The growing number of PRI signatories globally demonstrates both increasing demand for long-term investment skills and the growing competition to supply these. Addressing market failures that impede long-term investment approaches can therefore be an important contributor to the competitiveness of the UK finance sector.

Asset owner timescales
Although we have not collated evidence on asset owner timescales as major investment consultants are best place to advise on this, our members frequently comment that even long term institutional investors such as pension scheme trustees tend to monitor and review fund managers on short timescales.

Some members also say that pension fund trustees often have insufficient time and/or appetite to develop their skills in procurement and oversight of responsible ownership or long-term investment mandates.

Nevertheless, there are some positive signs of longer-term thinking by asset owners. These include the results of UKSIF's 2011 *Responsible Business: Sustainable Pensions* survey described below. This survey found evidence of the trend identified by Eurosif in its 2009 study, *Investment Consultants and Responsible Investment*, where 89% of investment consultants anticipated an increase of clients' interest in ESG matters in the following three years[7].

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[5] Approximately £940 billion of over £6.5 trillion in assets using latest figures available at July 2011.
[6] http://www.unpri.org/publications/annual_report2011.pdf; Data at end July 2011.
[7] http://www.eurosif.org/research/investment-consultants-and-responsible-investment

Proposed additional question on "closing the investment chain" through positive influence by companies on asset owners

Addnl Q: Whether UK companies use their influence effectively to encourage 'long termism' in the investment chain

In addition to their role as long-term investments, companies can play a vital role in improving long-termism in the investment chain through their influence on corporate pension funds, employees and other stakeholders.

UKSIF research has found that a large number of corporate pension funds are still lagging behind the leading schemes in their approach to long-term investment.

For this reason, government should influence leading companies to assist and encourage their corporate pension funds to implement long-term investment practices.

Government should also encourage companies to educate employees, customers and suppliers about the value of long-term investment practices.

Evidence from the UKSIF Sustainable Pensions project

Since 2006, UKSIF's Sustainable Pensions project[8] has assisted UK occupational pension funds to adopt more sustainable and responsible investment strategies. Project research has included three biennial surveys in 2007, 2009 and 2011 of the responsible investment practices of the UK corporate pension funds of companies that are corporate responsibility leaders.

The 2011 UKSIF *Responsible Business: Sustainable Pension* report was based on questionnaire responses from UK corporate pension funds of companies included in the FTSE4Good Series and the Carbon Disclosure Leadership Index in January 2011. The results indicated a step change in how corporate pension funds were responding to the case for responsible investment, with some impressive examples of excellent practice. Equally positively, it demonstrated that pension funds that started on the responsible investment journey tended to deepen their practices over time. Nevertheless, it found that a very large number of UK corporate pension funds are lagging behind the leading schemes in their approach to responsible ownership and investment.[9]

The research suggests that plan sponsors would have influence if they encouraged their corporate pension funds to require long-term responsible investment approaches. According to the 2011 survey, three fifth of funds with a responsible investment (RI) policy gave "some" or "great" significance to alignment with the plan sponsor's sustainability policy. One third gave "great" significance to this. Both proportions were broadly unchanged from 2009. In addition, participating funds identified a range of benefits from their RI policy. These included mitigating reputational risk associated with the sponsor covenant (ie. protecting the sponsor covenant by reducing the risk that the pension fund would threaten the reputation of the employer).

As well as providing assistance and encouragement, companies can help corporate pension funds to implement long-term investment practices by proposing appropriate employer-dominated trustees. The 2009 UKSIF *Responsible Business: Sustainable Pension* survey found that leadership in responsible investment was being driven by trustees. The 2009 report recommended "Plan sponsors might be asked to identify appropriate employer nominated trustees … The Environment Director, HR Director or CSR Manager may all be suitable candidates."

We have also commented on this aspect in our response to Q5.

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[8] www.uksif.org/sustainablepensions

[9] 'Sustainability escapes funds', FTFM, 28 August 2011, http://www.ft.com/cms/s/0/590e4c54-cfe1-11e0-a1de-00144feabdc0.html

Q2. How to ensure that shareholders and their agents give sufficient emphasis to the underlying competitive strengths of the individual companies in which they invest.

As described below, there is growing evidence of the importance of competitive strengths in addressing key mega-trends like climate change. There is also increasing capacity within the investment chain to analyse these strengths through an environmental, social and governance (ESG) lens.

However, as described elsewhere, asset owner demand and other measures are essential to drive effective use of this capacity. Therefore please see also our responses to Q5, Q7 and our "additional question" above for additional evidence and policy suggestions.

Materiality of a long-term focus for corporate performance

The Impact of a Corporate Culture of Sustainability on Corporate Behaviour and Performance, a recent working paper from academics at Harvard Business School and London Business School[10], concluded that companies with a strategic focus on ESG issues show financial outperformance, and a stock market and accounting value premium after three years. They found that the premiums continue to rise in further years.

This builds on earlier research supported by the UNEP Finance Initiative Asset Management Working Group which concluded that selected ESG issues are material and affect shareholder value in both the short and long term[11].

Buy-side and sell-side analysis

Over the last ten years in particular, significant capacity has developed within asset managers,"sell-side" investment banks and independent research providers to assess the competitive strengths of companies using environmental, social and governance analysis.

For example, UKSIF's membership includes a number of leading investment banks[12] and independent investment research providers[13], and Bloomberg and Thomson Reuters provide ESG support and are UKSIF members.

ESG analysis capacity is recognised in the annual Thomson Reuters Extel and UKSIF Sustainability and SRI Survey Awards which celebrated their ninth anniversary in 2011[14]. The 2011 Survey represented the views of over 400 investment professionals from 23 countries, Votes were cast from 209 buyside firms and 20 brokerage firms/research houses. Brokerage firms recognised for their research included CA Cheuveux, Bank of America Securities – Merrill Lynch, Citi and HSBC.

Examples of ESG research are available from the London Accord project at www.longfinance.net/programmes/london-accord.html.

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[10] http://www.hbs.edu/research/pdf/12-035.pdf
[11] Eg. Linking Environmental, Social and Governance Issues to Company Value (UNEP FI, 2006) http://www.unepfi.org/fileadmin/documents/show_me_the_money.pdf
[12] www.uksif.org/members/member-directory/investment_banks
[13] http://www.uksif.org/members/member-directory/research_advisory
[14] http://www.uksif.org/cmsfiles/press/5388742/Extel_UKSIF_SRI_Awards_2011.pdf

Q4. Whether Government policies directly relevant to individual quoted companies (such as regulation and procurement) sufficiently encourage boards to focus on the long term development of their business.

Stable regulatory frameworks that drive long-term competitiveness

Government policy has most potential to influence investors and corporate boards to focus on the long term through its regulation of externalities – such as its policies on climate change. This has widespread investor support. For example, in October 2011, 285 investors representing over 20 trillion US dollars in assets stressed the need for effective climate policy action and a recent report by UNEP FI and others underscored the importance of "investment-grade" policy. The report emphasised that long-term policy stability is critical and retroactive changes can significantly damage investor confidence[15].

Sustainable public procurement

The scale of public sector budgets means sustainable procurement by Government[16] has significant potential to encourage a more long term focus by companies and to raise the importance of this to their investors. Today, there is a range of tools and material to support sustainable public procurement. For example, the Commission for Sustainable London 2012[17] has produced material on good practice in sustainable procurement by government from companies.

In addition, in our response to Q5, we propose policy interventions to harness the power of public procurement specifically of investment services to increase asset owner demand for long-term investment.

Q5. Whether Government policies directly relevant to institutional shareholders and fund managers promote long-term time horizons and effective collective engagement.

Sustainable public procurement of investment services: evidence

Government can make a significant contribution to promoting long term time horizons in the economy by requiring good practice on sustainable procurement of investment services by public sector asset owners.

UK public sector asset owners have significant power in the UK investment market. In particular, with 4.6 million members, the Local Government Pension Scheme (LGPS) is one of the largest pension schemes globally. Although it is administered by over eighty separately governed local bodies, if all the funds were combined together they would, according to UNISON, form the fourth largest pension fund in the world[18].

Today, only nine of these eighty individual LGPS bodies have signed the UN-backed Principles for Responsible Investment (PRI), an internationally recognised framework to help investors consider long-term issues such as the environment in their investment processes.

The Parliamentary Contributory Pension Fund (PCPF), the government-sponsored pension fund for Members of Parliament, does not appear to be a leader in long-term responsible investment. As of 18 November 2011, it is not listed by the Financial Reporting Council as a

[15] http://www.iigcc.org/__data/assets/pdf_file/0019/15283/2011-Global-Investor-Statement-Press-Release.pdf

[16] National Sustainable Public Procurement Programme, DEFRA, March 2011; Government procures a wide range of goods and services, spending around £236 billion annually-http://sd.defra.gov.uk/2011/03/the-national-sustainable-public-procurement-programme/

[17] Sustainably Sourced, CSL October 2011 http://www.cslondon.org/2011/10/commission-publishes-sustainability-review-of-london-2012-merchandise/

[18] http://www.communities.gov.uk/documents/statistics/pdf/2006082.pdf and http://www.unison.org.uk/acrobat/B5213.pdf

signatory to the UK Stewardship Code[19] or by the UN-backed Principles for Responsible Investment as one of its signatories[20].

But UK public pension funds have also shown that excellent practice is possible. For example, the Environment Agency Pension Fund, which is one of the largest funds in the LGPS, has ensured that all their managers and suppliers are PRI signatories and it asks each manager to report quarterly on the extent to which their assets are both financially robust and environmentally credible.

Similarly, the new NEST workplace pension scheme – set up by the UK government - has introduced an exemplary approach to managing sustainability issues and has recently signed the PRI.

Sustainable public procurement of investment services: policy recommendations

The government should require all LGPS funds to drive effective long-term approaches through their purchasing of investment services. There are good models in other local government sustainable procurement practices but one of the most useful tools is PRI. Because this measures leading practice around the world, it offers an evolving benchmark for LGPS funds.

The government should therefore require all LGPS funds to sign up to PRI. This would create a clear way for local authorities and their employees and other stakeholders to assess the long-term investment leadership of their fund.

Similarly, the government should encourage or require the Parliamentary Contributory Pension Fund (PCPF), the pension fund for Members of Parliament, to sign up to the Stewardship Code and the UN-backed Principles for Responsible Investment and, more generally, to be role model for leadership in long-term investment practices.

Stock lending

At UKSIF's seminar on the Kay Review, particular concern was expressed about the practice of stock lending as a potential contributor to short-termism and volatility. Stock lending may benefit the institutions borrowing and lending the stock while externalising associated costs on to the wider market. In addition, asset owners may be exposed to unrecognised or unquantified counterparty risk as a result of the practice. In the light of this, we believe that the Kay Review should consider this issue.

Stock lending has been recognised as a concern by leading pension funds. For example, UKSIF's 2011 *Responsible Business: Sustainable Pension* survey found that two fifths of corporate pension funds with a responsible investment policy had a policy to recall stock for voting (either directly or delegated). One fifth either directly recall stock for voting or had a policy of not lending stock.

Introduction of pension auto-enrollment

The implementation of pension auto-enrollment offers an opportunity for government, employers and the pensions industry to educate employees about the role of equity markets as long-term allocators of capital for wealth creation. This is aided by the exemplary approach to long-term responsible investment being implemented by the National Employment Savings Trust (NEST).

The implementation of the Retail Distribution Review (RDR)

There are early signs of a new interest from the financial services industry and from companies in promoting savings through the workplace. This seems to be driven by two developments. One is the restructuring of the financial advice industry as a result of the Financial Services Authority's Retail Distribution Review. The other is an increasing recognition that employees

[19] http://www.frc.org.uk/corporate/stewardshipstatements.cfm
[20] http://www.unpri.org/signatories/index.php?country=UK

need encouragement and support to access savings vehicles like ISAs in addition to and sometimes ahead of pension schemes.

Government should encourage companies to educate employees about long-term investment approaches as part of this trend.

Financial literacy in schools

In our view, informed support by savers and beneficiaries for effective capital markets requires the development of improved financial literacy skills through the school curriculum. In particular, school education about capital markets should improve understanding of their role in long-term capital allocation and the nature of responsible ownership and voting. Greater care should be taken in the promotion and use of stock-market trading games in education as these may communicate that capital markets are primarily about short-term trading rather than about the capital allocation needs of companies and long-term savers.

Other measures

In UKSIF's response to the government's *Consultation on a Long term Focus for Corporate Britain*, we highlighted that a range of laws, regulations, standards and taxation policies may have unforeseen consequences in encouraging short-termism in investment markets. Mark-to-market accounting for pension fund liabilities is one widely-quoted example of such a measure. We also recommended that government should consult on the use of tax incentives to encourage longer-term ownership. Although we have not submitted specific evidence on these issues, we hope that Professor Kay will consider them.

Q6 Whether the current legal duties and responsibilities of asset owners and fund managers, and the fee and pay structures in the investment chain, are consistent with asset owners' long term objectives.

Fiduciary Responsibility

There is a growing body of research on legal duties and responsibilities within the investment chain. This includes:

- 'Protecting our Best Interests' (FairPensions, March 2011)[21].
- 'Fiduciary responsibility - Legal and practical aspects of integrating environmental, social and governance issues into institutional investment' (A follow-up to the 2005 'Freshfields Report'; UNEP FI Asset Management Working Group, July 2009)[22]
- Legal framework for the integration of the Environmental, Social and Governance issues into institutional investment ('Freshfields Report', UNEP Finance Initiative Asset Management Working Group, 2005)[23]

This research indicates that, in principle, long-term decision making is consistent with legal obligations and can and often should be considered more desirable.

However, at our seminar on the Kay Review on 16 November, UKSIF members highlighted that pension fund trustees are inhibited by lack of guidance in implementing their fiduciary responsibilities. Two factors that contributed to this were:

- Legal advice that was arguably over-cautious
- The interaction between fiduciary duty under common law and explicit responsibilities laid down in statute or regulation.

In general, members felt that the issue was not one of a need to change or clarify the law but rather to give practical guidance on good practice in effective implementation. The recent Charity Commission publication "Charities and Investment Matters: A guide for trustees

[21] www.fairpensions.org.uk/sites/default/files/uploaded_files/fidduty/FPProtectingOurBestInterests.pdf
[22] http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf
[23] http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf

(CC14)" is a good example of such practical guidance. This was published after a consultation process that engaged significant input from charity investment specialists.

We therefore recommend that similar guidance is produced for pension fund trustees.

It is, of course, important that the process of developing this guidance does not impede or slow down the current evolution of good practice that is being supported by initiatives like the UN-backed Principles for Responsible Investment and the UK Stewardship Code.

Q7 Whether there is sufficient transparency in the activities of fund managers, clients and their advisors, and companies themselves, and in the relationships between them.

In our view, effective scrutiny and challenge within the investment chain and by civil society requires greater transparency in all parts of the chain.

Asset Owners

56% of corporate pension funds responding to the 2011 UKSIF *Responsible Business: Sustainable Pension* survey[24] reported that they made the responsible investment policy in their Statement of Investment Principles available "on request only". In contrast, less than 40% posted this policy on their web site.

In addition, less than 60% of respondents said that they communicated to fund members and stakeholders how their responsible investment policy is implemented in practice.

This lack of transparency reflected earlier UKSIF research in 2010 with a smaller sample of corporate pension funds which found that only one third made their Statement of Investment Principles available online.

The proportion of UK asset owners making a public commitment to the UK Stewardship Code also remains low[25].

We believe that regulation to require asset owner disclosure online of responsible investment policies and how they are implemented would be a proportionate response to this situation.

Asset Managers

While the introduction of the UK Stewardship Code has improved transparency by asset managers, we believe that more could be achieved. In particular, the government should review on a periodic basis whether to use its reserved powers under the 2006 Companies Act to demand disclosure of voting records.

Companies

We believe that greater corporate transparency is needed about the business strategies and key metrics to respond to environmental limits, social change and governance challenges. Investors require forward-looking business-relevant strategies and metrics rather that boilerplate text.

For example, in a Guardian interview published in February 2011, Paul Abberley, Chief Executive of Aviva Investors, an UKSIF member, said that many companies "*are failing to provide the level of information needed for investors to be able to judge their sustainability credentials, pointing out that of 20,000 publicly listed companies recently studied, less than one*

[24] http://www.uksif.org/cmsfiles/281411/25_Aug_UKSIF_Pensions_Report_2011.pdf
[25] http://www.frc.org.uk/corporate/stewardshipstatements.cfm

in five publicly reported on even a single piece of quantitative data on environmental, social or governance issues"[26]

A number of global reporting initiatives are playing a vital role in supporting this transparency. Further important initiatives include:

- Sustainable Stock Exchanges: an initiative co-convened by the UN-backed Principles for Responsible Investment, the United Nations Conference on Trade and Development, the United Nations Environment Programme Finance Initiative, and the UN Global Compact and aimed at exploring how exchanges can work together with investors, regulators, and companies to enhance corporate transparency, and ultimately performance, on ESG (environmental, social and corporate governance) issues and encourage responsible long-term approaches to investment[27]
- The call from the Corporate Sustainability Reporting Coalition for United Nations member-states to adopt at the 2012 Earth Summit a binding international commitment to develop national regulations which mandate the integration of material sustainability issues in the Annual Report & Accounts; and which provides effective mechanisms for investors to hold companies to account on the quality of their disclosures, including for instance through an advisory vote at the AGM[28].

We have made further comments on this topic in our responses[29] to government consultations on corporate narrative reporting.

Q8 The quality of engagement between institutional investors and fund managers and UK quoted companies, and the importance attached to such engagement, building on the success of the Stewardship Code.

UKSIF members tell us that mandates, investment management agreements and scrutiny by asset owners are all effective tools to drive long-term approaches in the investment chain. We therefore warmly welcome the International Corporate Governance Network's *Model Mandate Initiative*.

Inappropriate benchmarks are sometimes cited as one barrier to long-term investment approaches. At UKSIF's seminar on the Kay Review, it was highlighted that a significantly greater range of benchmarks were available today than a few years ago, including those customised to address material long-term issues like climate change.

UKSIF – the Sustainable Investment and Finance Association

UKSIF, the UK sustainable investment and finance association, supports the UK finance sector to be a global leader in advancing sustainable development through financial services. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 260+ members and affiliates include pension funds, institutional and retail fund managers, investment banks, financial advisers, research providers, consultants, banks and non-

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[26] Sustainable Business Blog – Guardian 4 February 2011 *http://www.guardian.co.uk/sustainable-business/aviva-chief-city-failure-sustainability*

[27] http://www.unpri.org/sustainablestockexchanges/

[28] Earth Summit 2012 Towards a convention on corporate sustainability reporting at Rio+20 http://www.aviva.com/data/media-uploads/news/File/Towards%20a%20convention%20on%20corporate%20sustainability%20reporting%20at%20Rio+20.pdf

[29] Available at http://www.uksif.org/projects/policy

governmental organisations. For more information about UKSIF, please visit www.uksif.org. UKSIF supports long-term responsible investment and ownership. It focuses its corporate governance support on the interface between governance on the one hand and social, environmental and ethical issues on the other.

Yours sincerely

Penny Shepherd

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UKSIF – the sustainable investment and finance association