20 May 2009

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Private Pensions Policy & Regulation
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Dear Tim Found

Response of UKSIF, the sustainable investment and finance association, to "Review of Disclosure of Information Requirements applying to Occupational, Personal & Stakeholder Pension Schemes"

Thank you for the opportunity to respond to this consultation document.

We have copied our response to Lord Myners. This is in view of his interest in effective ownership by investors and related matters. Our response addresses the contribution of pension fund disclosure to achieving his policy objectives.

The Importance of Information Disclosure by Pension Schemes about Responsible Investment Policies, including Ownership Policies, and their Implementation

UKSIF has a long-standing interest in the disclosure of information by occupational, personal and stakeholder pension schemes, particularly the disclosure of information on responsible investment policies, including ownership policies, and how these are implemented.

It is nearly ten years since the government first introduced the UK's groundbreaking "responsible investment disclosure" regulation for occupational and stakeholder pension schemes[1]. This regulation has been widely praised and copied across the world. It requires the statement of investment principles, disclosed to members on request, to address:

> (a) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and
>
> (b) their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.

Information disclosure requirements play an essential role in ensuring effective pension scheme governance. The financial crisis has demonstrated the importance of stronger trustee and civil society oversight of investment decision making, including, when necessary, robust challenge. This is both in the interests of beneficiaries and the wider public interest. Government needs to ensure that information is available to members, beneficiaries, their representatives and other stakeholders about pension fund investment decision making to enable this oversight. The disclosure requirements for occupational, personal & stakeholder pension schemes form an essential part of this information provision.

We agree with Lord Myners who, speaking at the 2009 NAPF Investment Conference, said:

> "While pension fund trustees rightly can and do delegate investment decisions and rely on investment advice, trustees are nonetheless the ultimate decision-makers for occupational

[1]Now part of Clause 2 of The Occupational Pension Schemes (Investment) Regulations 2005. http://www.opsi.gov.uk/si/si2005/20053378.htm.

> pension funds. Pension trustees and other ultimate investors must show that they are taking governance more seriously. … Trustees owe it to their pension holders to challenge effectively where necessary. And you should not underestimate the long-term financial value of insisting on sound governance." (our emphasis)

We support also the view of the OECD Guidelines for the Protection of the Rights of Members and Beneficiaries that:

> "Adequate disclosure, in addition to helping to effectuate the substantive and procedural rights of members and beneficiaries, may also lead to more effective pension plan governance by enabling members to monitor certain aspects of plan administration."[2]

"Responsible Business: Sustainable Pension" 2009 Report

Since 2006, UKSIF has run the Sustainable Pensions Project to assist pension funds to deepen their responsible investment practices. As part of this, we undertake a survey every two years of the corporate pension funds of the UK's corporate responsibility leaders (i.e. UK-listed companies in FTSE4Good and/or the Climate Disclosure Leadership Index 2008). The results of the latest survey will be published in our report "Responsible Business: Sustainable Pension 2009" in early June.

The survey has found that four fifths of participating funds now have a Responsible Investment (RI) policy, compared with only two thirds in 2007. However, detailed communication to members and other stakeholders about the RI policy and its implementation remains relatively low:

- Two fifths (40%) of funds exceeded minimum legal requirements in communicating about the RI policy to members and other stakeholders, an increase from a third in 2007
- A fifth of funds referred to their RI policy in their Annual Report and the same proportion posted details on web sites
- A tenth of funds communicate annual voting records, while less than a tenth disclose the fund's engagement strategy or about participation in collaborative investor initiatives.

In the light of the mismatch between Lord Myners' priorities on the one hand and this relatively low level of transparency on the other, we believe that there is a clear case for government action to require greater transparency by occupational, personal and stakeholder pension schemes about responsible investment policies and their implementation. This includes disclosure of responsible investment requirements within investment management agreements and investment manager performance against these requirements. Such action would be in line with the recent policy focus on effective regulation that redresses the balance between ownership and trading and contributes to financial stability and the long-term interests of financial market participants.

Consultation Question Responses

In the light of the above, our responses to your consultation questions are as follows:

Consultation Question 1

We support the concept of a single high level principle but believe that the current text is insufficient. The principle needs to make it clear that

1. Members, beneficiaries and their representatives should be given sufficient information to allow them, individually and collectively, to hold pension schemes to account for their ownership practices and other investment decision making.
2. Sufficient information should be made publicly available to enable civil society to hold pension schemes to account, in the public interest, for the impact of their ownership practices and other investment decision making.

Consultation Question 2

In principle, we support the concept that there should be common transparency requirements across all three types of pension scheme so long as this does not result in lower transparency requirements for any specific type of scheme. As described above, we believe that transparency requirements should be increased to support effective oversight of pension scheme governance for both trustee-based and contract-based schemes.

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[2] Page 12 at http://www.oecd.org/dataoecd/16/33/34018295.pdf.

Consultation Question 3
Web site technology alters dramatically the cost benefit case for information disclosure. It enables online publication of information that traditional distribution costs restricted to limited audiences and/or "on request". To achieve the government's policy objectives described above, the new disclosure regulations should take greater advantage of this opportunity to require that non-personal information is made freely available to members, beneficiaries, their representatives and civil society on the internet rather than to limited audiences "on request".

In particular:

- Paragraph 7 should be modified to include a requirement to make information on ownership practices, other investment decision making and other appropriate non-personal information available online to the general public.
- There should be an explicit requirement to make the statement of investment principles accessible to the general public online, either for all pension schemes or for those over a threshold size in terms of members or assets.
- There should be a requirement to provide information online about how the statement of investment principles is implemented.

Consultation Question 4
Members, beneficiaries, their representatives and other stakeholders should feel confident that they will obtain access to the information to which they are entitled without the cost and delays associated with legal action. A "reasonable period" approach is acceptable only if the relevant regulator has the powers, commitment and resources to enforce this.

Consultation Question 5
We have no comments in response to this question.

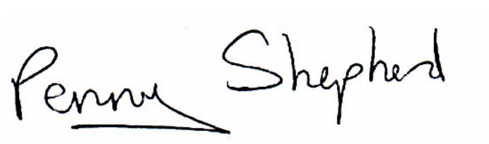
Consultation Question 6
As described above, we believe that electronic communication should be used to increase the amount and effectiveness of information disclosure as well as to save costs. In principle, we also support greater use of electronic communications to deliver environmental and other benefits, so long as an appropriate level of paper-based communication is available to those without access to electronic communication.

UKSIF – the Sustainable Investment and Finance Association

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support 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. Our overall strategic objective is to ensure that the UK finance sector is the world leader in advancing sustainable development through financial services.

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 200+ members and affiliates include pension funds, institutional and retail fund managers, investment banks, financial advisers, research providers, consultants, trade unions, banks, building societies and non-governmental organisations. For more information, please visit www.uksif.org.

With best wishes



Penny Shepherd MBE
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UKSIF – the sustainable investment and finance association

cc. Lord Myners, Financial Services Secretary, HM Treasury

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