New Investment Guidance from TPR means Responsible Investment "needs" to be centre stage

- *TPR introduces new investment guidance for trustees of 'defined-benefit' (DB) schemes that includes ESG expectations*
- *Both DC and DB trustees now given clear and consistent responsible investment guidelines*
- *TPR addresses long-held misconception that trustees' fiduciary duties prevents consideration of ESG factors*
- *UKSIF helps TPR incorporate clear and consistent expectations on ESG*

London, 30th March 2017 – The Pensions Regulator (TPR) today outlined new guidance for trustees of defined-benefit (DB) schemes saying they "need" to pay attention to Environmental, Social and Governance (ESG) factors where they are financially significant. This represents an important step forward for responsible investment.

The new guidance is clear: 'trustees need to take environmental, social and governance factors into account if they believe they are financially significant'. The document also encourages schemes to consider their approach to stewardship, to engage more with the stewardship policies of managers and, where appropriate, to follow the principles set out in the Stewardship Code.

The latest publication from TPR levels the playing field for all pension trustees: It is consistent with last summer's defined-contribution (DC) guidance which also emphasises the need to take financially significant ESG factors into account, as clarified in the Law Commission's 2014 report into fiduciary duties.[1]

The new guidance also follows **TPR's Executive Director for Policy, Andrew Warwick-Thompson's**, warning in September that:

"..with regards to ESG our guidance is clear that we expect [DC] trustees to take ESG issues into account when assessing portfolios over the long term."[2]

Both pieces of guidance have been produced despite the Government's decision[3] to ignore overwhelming industry support for updated investment regulation as recommended by the Law Commission.

With regard to ESG factors and long-term sustainability **the new TPR guidance states**:

'Most investments in pension schemes are exposed to long-term financial risks, which may include risks around long-term sustainability. These can relate to factors such as climate change, responsible business practices and corporate governance. We expect you to assess the financial materiality of these factors and to allow for them accordingly in the development and implementation of your investment strategy.'

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[1] http://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/

[2] http://www.professionalpensions.com/professional-pensions/news/2470190/tpr-trustees-must-wake-up-and-smell-the-coffee-on-esg

[3] Page 29 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/476447/reducing-regulatory-burdens-and-misc-regs-nov-2015-consultation.pdf

This guidance is particularly helpful given a 2016 poll which showed that 53% of trustees, scheme managers and pension professionals did not consider climate change to be a financially material risk.[4]

UKSIF was influential in promoting responsible investment to the Law Commission and has worked with The Pensions Regulator on both the DB and DC guidance over the past eighteen months- with many of our suggestions appearing in both pieces of guidance. The Pensions Regulator's work over recent months in incorporating the Law Commission's recommendations into guidance for all trustees represents a significant advance in helping to protect schemes, savers and assets and in moving responsible investment into the mainstream.

Simon Howard, Chief Executive of UKSIF, said:

"We welcome the new investment guidance for DB trustees which makes clear the Pensions Regulator's expectations for trustees in terms of ESG considerations and their role as good stewards of capital.

In the past TPR has said trustees "should" consider these matters, now the TPR says they "need" to. We welcome the increasing rigour of the guidance. The only trustees that can now ignore climate change in setting their investment policy are those that think it will have no material financial impact on carbon-related assets. That is to fly in the face of financial and scientific evidence and is an untenable position. I'm not sure anyone who thinks that can stay as a trustee."

We would also like congratulate the regulator on the manner in which it has engaged with interested stakeholders and conducted its consultations over the past 18 months. We were delighted that once again our views were considered and incorporated by TPR and believe this represents a clear step forward in mainstreaming responsible investment in the UK. We look forward to continuing to work with TPR on ways to promote more responsible investment for all trust-based schemes."

-ENDS-

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Notes to Editors:

About UKSIF:
UKSIF is the membership network for sustainable and responsible financial services in the UK. 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 240+ members and affiliates include financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more information about UKSIF, please visit www.uksif.org.

More information on TPR's new guidance is available here.

[4] *Climate change is 'overblown nonsense' and not a material risk, says industry*
http://www.professionalpensions.com/professional-pensions/news/2468851/climate-change-is-overblown-nonsense-and-not-a-material-risk-says-industry