

Briefing Paper for Meeting between DWP and UKSIF, June 2005

Short-term Recommendations presented by UKSIF to DWP in Dec 2003

The Pensions Minister stated then that these would be addressed in the implementation of the 2004 Pensions Act rather than in the Act itself and invited UKSIF to assist at that point.

1. DC Schemes – Empowering the Individual Investor:

Context:

- Steady move from Defined Benefit (DB) pensions to Defined Contribution (DC) schemes - where the individual takes the investment risk
- Most DC schemes do not offer wide choice of funds, let alone SRI options - but choice is increasing following Myners' recommendations
- Some scheme members want an SRI option to be available to them – and c5% of the investing population choose SRI options for personal pensions, ISAs etc

Policy recommendation: All DC pension schemes should allow members to invest their own (and their employer's) contribution in a responsible way.

Public and Trustee support:

- "8 in 10 investors believe that employers should offer an ethical investment option for occupational pension schemes." Source: NMG Research covering 675 investors

To what extent do you agree that it should be a legal requirement for defined contribution schemes in the UK to offer an "ethical" option?					
<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	Agree	Strongly agree	<i>Don't know</i>
8%	8%	27%	32%	19%	5%

(Source: Ashridge trustee research (to be published in Jan 04))

2005 Update:

"In a world that is increasingly moving to defined contribution pension provision, trustees .. should .. seek to offer the option of an ethical fund where there is a demand for it." Christine Farnish, NAPF, delivering the 2005 UKSIF Annual Lecture, April 2005.

2. DB Schemes – Closing the Implementation Gap:

Context:

- SRI disclosure legislation introduced in July 2000
- In 2000 UKSIF found that 59% of pension funds (78% by assets) had incorporated SRI policies into their SIPs - with engagement/activism being the preferred approach
- Recent studies have identified a gap between SRI policies and practice for most UK pension funds

Policy recommendation: Reporting of engagement/activism to ensure implementation, this would also help drive implementation of the City's wider code on activism.

Trustee support:

To what extent do you agree that additional regulation or legislation is needed to require pension funds to report on the implementation of their SIPs in the report and accounts?					
<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	Agree	Strongly agree	<i>Don't know</i>
8%	12%	23%	35%	21%	0%

"Trustees from the larger funds were particularly keen on the idea – 26% agreed with the statement above and a further 35% strongly agreed. Indeed, no trustee from a larger fund strongly disagreed with this proposition". Source: Ashridge trustee research (to be published in Jan 04)

2005 Update:

The HMT consultation document "Myners principles for institutional investment decision making: review of progress" (December 2004; end of consultation March 2005) proposed revision of the (voluntary) Myners Principles to incorporate this policy recommendation.

UKSIF Response to the Pensions Regulator Consultation on the Code of Practice for Trustee Knowledge and Understanding (TKU)

Sent 8 June 2005

The UK Social Investment Forum (UKSIF) welcomes the inclusion of the following in 'Chapter 7: Guidance on the scope of trustee knowledge and understanding':

- In Box 8. re DC/AVCs: 'Investment strategy and member investment choices'
- In Box 11. re SIPs: 'Socially responsible investment and corporate governance'

We would also be happy for the online guidance and e-learning materials referred to in the consultation document to link to our latest trustee toolkit '*Responsible Investment: Trustee Toolkit (2005 edition)*' available from the homepage of www.uksif.org:

- This document sets out best practice first steps for trustees of DB and DC schemes based on HMT's proposed changes to the Myners Principles and, for DC schemes, the principle that member investment choice is important.
- The document was developed by UKSIF staff under the guidance of an Advisory Board including trustees, investment consultants, and fund managers, and was formally launched at UKSIF's 2005 Annual Lecture, where Christine Farnish, Chief Executive of NAPF, gave the key note speech.

UKSIF Longer Term Recommendations – Framework for Discussion (Draft)

UKSIF is keen to support and encourage:

1. Investment policy and practice that delivers *at the same time* an effective pensions system (defined by the DWP five year strategy and principles for reform) and the government's sustainable development strategy.
2. Synergies in consumer communications between encouragement of savings and investment (including pensions) and delivery of the government's sustainable development strategy, eg. In relation to climate change communications (planned £12M government campaign), sustainable consumption.
3. Delivery by public sector pension funds of the government's commitment to sustainable public procurement.

We see particular synergies between sustainable development and the following pensions strategy themes:

- Individual investor confidence and trust in investing and saving more
- Investment climate and behaviour that ensures this trust is well-founded, including ensuring an appropriate level of macroeconomic stability
- Informed choice

We welcome the Pensions Minister's speech on 17 June 2005 at the TUC trustee event and look forward to discussing its implications.

Relevant Initiatives led by other Departments

Defra

New UK sustainable development strategy "Securing the future" launched by the Prime Minister, March 2005. The government's sustainable development web site states that it "commits the Government to consider the impact of all its policies on sustainable development at key-stages of the decision-making process. We want to produce policies that are appraised against the new principles set out in the strategy: (1) Achieving a sustainable economy, (2) Promoting good governance, (3) Using sound science responsibly, (4) Living within environmental limits and (5) Ensuring a strong, healthy and just society. *For a policy to be sustainable it must respect all five of these principles*, although some policies will inevitably place more emphasis on certain principles than others. Any trade-offs should be made in an explicit and transparent way. In order to meet this key objective we are working on 2 key areas: (a) Ensuring that policy makers have the skills they need to put sustainable development into practice (b) Ensuring that policy makers have the appropriate tools with which to appraise policy."

Key priorities include

- Sustainable consumption and production
- Leading by example in public procurement (where a sustainable public procurement task force chaired by Sir Neville Simms has been set up; it reports in April 2006)

The government's sustainable development strategy can be found at

www.sustainable-development.gov.uk

<http://www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm>

<http://www.sustainable-development.gov.uk/delivery/integrating/integrating.htm>

DTI

"The Government sees CSR as the business contribution to our sustainable development goals. Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides.." *"We have an ambitious vision for UK businesses to consider the economic, social and environmental impacts of their activities, wherever they operate in the world"* (from www.csr.gov.uk)

CSR Minister – currently Malcolm Wicks, who also supports energy and sustainable development.

"Corporate Social Responsibility: International Strategic Framework" launched March 2005; priority actions include establishing a time limited expert advisory group to support its implementation and using the UK Presidency of EU and G8 to drive the agenda.

EU Presidency Conference on CSR and the Finance Sector to be held 1-2 December 2005 in London.

Creation of the CSR Competency Framework and CSR Academy (www.csracademy.org.uk) to increase business skills in CSR. CSR academy launched by then CSR Minister Stephen Timms in July 2004.

Priorities in May 2004 report "CSR: A Government Update" include "engaging institutional investors on recognition of the impacts of social and environmental factors on long term business performance".

HM Treasury

Myners review of institutional investment plus related developments, including the consultation document "Myners principles for institutional investment decision-making: review of progress" (December 2004).

The Chancellor's speech at the Energy and Environment Ministerial Roundtable on 15 March 2005 is widely regarded as the most significant recent signal. He said *"More than sixty years ago in 1944, the great British economist John Maynard Keynes laid down what he believed were the foundations of economic policy – that it was for government to ensure the twin objectives of high and stable levels of growth and employment. Today we know that there is a third objective on which our economies must be built – and that is environmental care."* and *"we must build our economies on a platform of economic growth, full employment and environmental care. We must make climate stability, energy investment and energy security central to economic policy."*

http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2005/press_29_05.cfm

Selected Relevant Non-Government SRI Initiatives since 1999

Pension Fund Initiatives

- Institutional Investors Group on Climate Change
- Enhanced Analytics Initiative
- Marathon Club (response to Myners)
- Env't Agency Research/Mandate
- NAPF Policy on SRI and CSR
- Pharma Futures (on future of pharmaceutical sector)

Other Industry Initiatives

- ABI Guidelines
- Carbon Disclosure Project
- Just Pensions (UKSIF)
- UKSIF/Eurosif Transparency Guidelines
- European Social Investment Forum
- London Principles for Sustainable Finance (for WSSD)
- UNEP FI Principles for Responsible Investment (under development)
- Mercers investment mgr survey (late 2004)
- Equator Principles (Project Finance, with IFC)

Commercial Products

- Various SRI research services
- Corporate Responsibility Exchange (by London Stock Exchange)

Other Initiatives

- Centre for Sustainable Investment's educational work with Financial Sector Skills Council, UK SIP, etc.
- Fairshare (and previously Ethics for USS) – for campaigning by pension fund members
- 3iG (International Interfaith Investment Group – www.3ignet.org)

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