



UK Social Investment Forum

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**UKSIF submission:
1 May, 2003**

UKSIF response to FSA CP170, DP19 and HMT/DWP consultations on product disclosure and Sandler simplified investment products

Please find below the UK Social Investment Forum (UKSIF) response to the cross-cutting ethical/ socially responsible investment (SRI) aspects within:

- **FSA CP170** - Informing consumers: product disclosure at the point of sale.
- **FSA DP19** - Options for regulating the sale of "simplified investment products".
- **HM Treasury/ DWP** - Proposed product specifications for Sandler "stakeholder" products.

Our response is informed by our product provider and IFA members (see www.uskif.org and the appended membership list below for details). A copy of this submission has been sent separately to the DP19 and the Treasury/ DWP consultation teams.

SRI disclosure for all pooled investment schemes

To ensure transparency and accountability, UKSIF recommends that all pooled investment schemes, including the proposed Sandler "stakeholder" products, disclose the extent (if at all) to which social, ethical and environmental (SEE) issues are taken into account in the selection retention and realisation of investments; and their policy (if any) relating to the exercise of rights (including voting rights) attaching to investments.

Alignment with occupational and stakeholder pensions

The current reforms provide a timely opportunity to bring disclosure on all pooled investments in line with UK occupational and stakeholder pension schemes, EC recommendations made in the CSR Communication of July 2002 (see below) and Australian legislation which requires that all products with an investment component include SRI disclosure within their product disclosure statements.

Further, a recent report from the UK Government's Strategy Unit, recommended that SRI disclosure should be extended to charity investments (see 'Private Action, Public Benefit: A review of charities and the wider not-for-profit sector', Strategy Unit Report, September 2002). Charity Commission support for the recommendation is given in the recently updated 'CC14 – Investment of Charitable Funds'.

Consumer Demand and Empowerment

Nearly 500,000 individuals, representing >5% of the investing population, now have ethical/ socially responsible savings. A survey by the Ashridge Centre for Business and Society found that 62% of senior managers think their pension fund should use social and environmental criteria in investment decisions.

Recent research by Jupiter Asset Management reveals that over 90% of investors

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in its SRI funds believe it is important to have detailed information on where their money is invested and how investment decisions are made.

A disclosure measure for all pooled investments would empower consumers and help ensure that they could assess the investment policies governing their investments. The measure would be particularly effective if there was a requirement that the statements were proactively communicated in literature relating to the fund.

SRI and Consumer Education

Enhanced consumer understanding of the investment process is a long term aim of these reforms. "It is clearly in consumers' (and, we believe, in firms') interests that the disclosure regime for these products should be as effective as possible so that [consumers] can make more informed decisions about what they are buying and the consequences of their purchase" (CP170, paragraph 1.2). Accordingly, transparency about how and where a consumer's assets are invested should be integrated into the product disclosure regime.

UKSIF's work with the Personal Finance Education Group (www.pfeg.org) and the FSA indicates that debates about SRI can be a useful tool to engage individuals on personal finance investment issues. Our forthcoming three year programme on the retail ethical/ socially responsible sector (see the [iRetail Revolution outline](#) enclosed) will build on this potential. We hope that the FSA will consider the use of ethical/ socially responsible investment case studies to help implement Sandler's recommendations on enhanced consumer education.

SRI Disclosure in the Key Facts Document, Quick Guide & FAQs

The aims of the 'Key Facts' document outlined in CP 170 are to improve disclosure for packaged products - focusing on *suitability* and product cost.

We feel that 'suitability' needs to encompass the fact that nearly half-a-million individual investors currently integrate social, ethical or environmental concerns into some of their investment decisions. In recognition of this, and the predictions for growth in ethical consumerism (as demonstrated by Co-op Bank's Ethical Purchasing Index), the 'Key Facts' document should give reference to SEE disclosure and any SRI stance taken by the fund manager/ product provider. This information should be included in the 'Quick Guide' and explained in more detail in the 'Frequently Asked Questions' section.

Information on the funds approach to SRI should be included in Section 7 of the FAQs - 'Where are my payments invested?' and explained in more detail within the 'Choosing a fund' booklet. Question 5 in the Quick Guide should be expanded to ensure that consumers understand that risk is not the only factor that could affect their fund choice.

Suitability Letter

The FSA view the suitability letter as a 'useful way to convey information to consumers relevant to their wider understanding of the transaction at hand' (CP170 para 4.68).

The suitability letter should include information on SRI and confirmation of the clients SEE concerns. In addition to enhanced consumer understanding, the provision of such information could help to reduce the likelihood of future allegations of mis-selling or unsuitable-sales.

UKSIF's recommendations relating to the provision of financial advice and adviser training are detailed in [our response to CP166](#) dated 25 April 2003.

European Considerations

UCITS III Directive – SRI disclosure within the ‘Simplified Prospectus’

The European UCITS III Directive will require all non-life collective investment schemes and OEICs to provide a ‘Simplified Prospectus’. Within this document, product providers are required to give a “profile of the typical investor the unit trust/common fund or the investment company is designed for”. Information to indicate whether or not the fund might be suitable for an ethical/ socially responsible investor should therefore be included.

EU SRI Disclosure for all pooled investment schemes

In order to achieve the above aim of indicating suitability to investors, we believe the fund would need to disclose the extent to which they take SEE issues into account in their investment strategies and their policy relating to the exercise of their rights attaching to investments within the ‘Simplified Prospectus’.

Indeed, we believe a pan-European SRI disclosure measure should be considered for all collective investment schemes throughout the EU. This was outlined in [UKSIF’s response to the CSR Green Paper](#) in December 2001 (see www.uksif.org) and more recently by the European Sustainable and Responsible Investment Forum in a letter to DG Markt on the proposed [Institutions of Retirement Provision \(IORP\) Directive](#) (see www.eurosif.org).

Disclosure of SEE information is in accordance with EC recommendations outlined in the July 2002 Communication on Corporate Social Responsibility. Section 5.5 of the Communication states “The Commission invites occupational pension schemes and retail investment funds to disclose whether and how they take account of social, environmental and ethical factors in their investment decisions”. The UCITS III Directive is an opportunity to implement this recommendation and extend best practise on SEE disclosure within Europe.

SRI and Sandler “stakeholder” Products

Provision of advice within 1% fees

Many of our product provider and IFA members have voiced concern that the 1% cap on charges for sales of the Sandler “stakeholder” products does not allow for the cost of giving advice. We understand this matter will be addressed within many other submissions from the retail industry, therefore, we have not discussed this any further within our response.

SRI options in the Sandler suite

UKSIF is concerned that the prescriptions around diversification may exclude the possibility of a product provider offering an SRI fund within the Sandler “Stakeholder” suite of investment products.

Given that >5% of the investing population hold ethical/ socially responsible investments, and that this figure is growing, we feel that consumers should be able to exercise their choice to invest responsibly within the “Stakeholder” suite. We would be grateful for any clarification that HM Treasury or the Department for Work and Pensions could offer regarding this concern.

Q9 – Alternative methods of controlling risk

With regard to fund volatility and risk, EIRIS (the Ethical Investment Research Service) has studied the performance of UK retail ethical/socially responsible funds looking at the volatility of monthly returns over the period 1996 to 2002.

The EIRIS research demonstrates that ethical/socially responsible funds appear to have lower total risk than other funds with the same financial objectives and geographical focus.

These findings strongly suggest that the use of tracking error as a measurement of risk, rather than total volatility, could have the effect of excluding many ethical/ socially responsible funds simply because they are different, rather than because that difference leads to greater total volatility for the consumer. Therefore, we consider setting limits for the tracking error of Sandler funds would not be an appropriate mechanism for controlling risk.

Stakeholder Pensions

We seek clarification that current ethical/ socially responsible 'Stakeholder Pension' schemes would be permissible if 'Stakeholder Pensions' are integrated into the Sandler suite. UKSIF research conducted in 2001 identified eleven such schemes.

DP19 and sales of Sandler "stakeholder" products

As discussed above, access to information on the fund's approach to SRI may be a key dimension for some consumers when assessing the suitability of an investment. Such consumers should not be excluded from investing in Sandler products due to a lack of information. Access to SEE information should be available to consumers under all three of the scenarios ('Self-help and plain English warning', 'Guided self-help and 'Focussed advice') outlined in DP19. In particular, an SRI disclosure measure may be more critical under the first two scenarios where the "stakeholder" products would be sold with little or no advice.

SRI and the Child Trust Fund

Please find enclosed [UKSIF's July 2001 response to HM Treasury's consultation on iSavings and Assets for All](#) regarding the development of the Child Trust Fund.

UKSIF is grateful for the opportunity to respond to CP170. This response has been developed based on the Forum's mission to support and encourage the development and positive impact of socially responsible investment. It does not necessarily reflect the views of every Forum member.

If you would like to discuss any of the matters above, please do not hesitate to contact me. I look forward to your response.

Yours sincerely

Helen Wildsmith
Executive Director
UK Social Investment Forum

Enclosures:

- [Retail Revolution – programme outline](#)
- [UKSIF response to iSavings and Assets for All, July 2001](#)
- [UKSIF 10th Anniversary Review of Activities](#)
(a list was also provided with the printed submission, showing Fund Manager / Institutional Investor and IFA members and affiliates of UKSIF - see [UKSIF's directory](#) for the current list)

See also:

- [UKSIF Response to CP166 – Reforming Polarisation: Removing the Barriers to Choice](#) (April 2003)

The UK Social Investment Forum is the UK's membership network of stakeholders in socially responsible investment. UKSIF's 250+ members and affiliates include institutional investors, product providers, independent financial advisers, banks, consultants, NGO's and individuals interested in SRI. UKSIF also provides the secretariat to the All-Party Parliamentary Group on Socially Responsible Investment. Further details on our aims, activities and membership can be found on our website at www.uksif.org.

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