Investment Consultants Sustainability Working Group ("the Group")

Response to the proposed PLSA Responsible Investment Quality Mark (RIQM) consultation dated June 2021

The Investment Consultants Sustainability Working Group is a collaboration between 17 UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry. You can find more about the group at www.icswg.org. This note sets out our comments on the proposed PLSA Responsible Investment Quality Mark (RIQM) in response to your consultation dated June 2021.

In summary, whilst the Group is generally supportive of efforts to improve practices in responsible investment across the financial services industry, we do not believe that the introduction of a further standard in the form of the RIQM as proposed by the PLSA will achieve this. We do however believe that the RIQM could be evolved into a self-assessment framework for trustees that would encourage incremental improvements in practices and transparency for members. We expand on these comments below and would be delighted to further discuss our thoughts with you.

In the introductory remarks to the consultation document, you noted, following your October 2020 report, that "we [the PLSA] would consider whether to develop a new standard to recognise the good practice of many pension schemes regarding responsible investment" although it is then also noted that the RIQM is presented as "a new standard to which schemes can aspire". The launch of the RIQM suggests that the conclusion drawn was that a new standard is both desirable and necessary.

We would question why PLSA believe this to be the case as the underlying rationale for the RIQM is not immediately obvious from the consultation. In the recent past, we have seen the launch of the 2020 UK Stewardship Code as a market leading standard coupled with the introduction of minimum regulatory reporting requirements in the form of TCFD and Implementation Statement requirements, both of which raise the minimum threshold for responsible investment practices by pension funds and have served to drive improvement in practice and engagement by trustees.

It seems reasonable to conclude that the RIQM seeks to occupy a "middle ground" that allows pension schemes to demonstrate that they are doing more than is required by regulatory minima, yet do not have the resources or ambition to report against the leading standards of the UK Stewardship Code. Whilst the consultation poses the question as to whether the standards being proposed for the RIQM are high enough, we do not believe the standard is a necessary introduction at this time. We would therefore like to propose an alternative route forward and would welcome further discussion with the PLSA on this.

The first goal of the RIQM is one of seeking to drive improvements in responsible investment practices, an ambition that we support. However, recognising that approaches to embedding such practice are incremental in nature, we believe that many pension scheme trustees need clearer guidance on the steps that they can take to progressively improve their activities, rather than needing to aspire to a particular line in the sand. The principles of the RIQM recognise that there are various actions that can be taken, yet there seems to be little recognition of the need for continued progression.

Recognising this challenge, particularly in addressing those schemes which are less engaged, one current project of the Group has been to provide support in this area. The asset-owners workstream of the Group is developing an "asset owners guide" which aims to help trustees identify how to progress their journey towards integrating sustainability considerations into their decision-making processes. This guide seeks to ensure that all trustees can recognise that there is somewhere they can start and create progressive actions. We are also aware of others who have similarly presented the idea of "responsible investment as a journey", such as the A4S ESG Maturity Map.

In our view, the RIQM could be adapted by the PLSA into a set of guiding expectations providing trustees with a standardised assessment framework. Whilst this could retain the basic principles and assessment areas of the RIQM, it could be presented in such a way that it can be employed by trustees during meetings either as a basis for self-assessment and/or to support the framing of an ongoing agenda for improvements to existing practices. In this way, trustees will consistently be presented with a relevant, evolving and transparent set of standards which they can aspire towards, rather than a discrete objective.

Evolving the RIQM into such a self-assessment framework would also address another of our concerns, namely the increased reporting burden that the RIQM would otherwise require. Pension scheme trustees have already been subjected to an increase in the reporting burden on responsible investment issues as a consequence of regulatory change. The RIQM as presented would require further reporting, or as a minimum the conveyance of various materials for assessment, which draws resource away from other productive purposes. Further, the RIQM seems to propose internal reporting of information and a form of "audit" rather than externally oriented reporting.

In creating an internally useful self-assessment framework, the PLSA could better support ongoing improvements in trustee governance, create focus on the actions that are being undertaken by trustees and the outcomes that may be achieved. By facilitating self-assessment, the PLSA could actively challenge trustees to understand the steps that they have already taken whilst encouraging the discussion and deliberation of the steps that it may be appropriate to take next. This would help ensure that the actions being taken are always relevant to any schemes own circumstances.

We also see such an approach as offering a means for improved transparency as the PLSA could encourage self-reporting by trustees against the framework. We believe that self-assessment would readily lend itself to a more simplified form of reporting of the actions that have been undertaken and possibly a "mark" against each aspect of the framework. Such output could then, for example, be included as part of an Implementation Statement.

Whilst such an approach does not carry the perceived kudos of a quality mark, we believe this would improve transparency for scheme members. We further believe this would be in keeping with the focus on member communication and engagement, set out as Area 7 of the RIQM principles. Although we would question the intrinsic value to members of the RIQM, we see greater value in a quality mark attached directly to member communication, explicitly recognising the efforts that trustees have made to convey their responsible investment practices, at whatever level, to their beneficiaries.

We hope that you find our comments helpful and Group members would be delighted to further discuss our suggestions with you.

The Investment Consultants Sustainability Working Group members:

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