Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: consultation@taskforceonsocialfactors.co.uk

Dear TSF,

Financial Services Consumer Panel response to TSF guidance consultation on considering social factors in pension scheme investments: Guidance from the Taskforce on Social Factors

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of financial services policy and regulation in the UK.

Our focus is predominantly on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policy where relevant to the FCA's remit.

The Panel considers that society's ability to address social factors in ways that improve outcomes is very important. Having effective frameworks in place that facilitate this, is therefore helpful. The Panel therefore thanks the Taskforce on Social Factors for the opportunity to respond to this consultation and would like to make the following points:

1. The Panel considers that the information and case studies provided in the appendices to this consultation provide a helpful framework that will allow pension trustees and others to consider how to approach social factors as part of their investment strategy. As such, it considers these appendices make an important contribution to the debate.
2. However, the Panel is uncomfortable with how the opening sections of the document have been framed. In particular, the Panel is uncomfortable with the implication that it should automatically be a key part of the role of pension trustees to address a wide range of social factors in their approach to overseeing pensions. It considers a more neutral stance would be more appropriate to frame the guidance. This is because the Panel considers that the primary focus of pension trustees should be to ensure that scheme members end

up with a good pension, which (given issues around pensioner poverty) is itself addressing a social issue. The Panel also notes that the guide does not currently explicitly address either how to establish a mandate from scheme members in relation to social factors, or any considerations around the sponsor's covenant, and considers that it would be helpful to address these omissions. The Panel suggests that reframing the opening sections might help, to capture the follow issues:

- It is important for pension schemes to deliver for their members, especially as pensioner poverty is an important social issue in its own right that needs to be addressed. However, beyond that fundamental requirement, pension trustees should consider how much emphasis they place on a wider set of social issues when setting their strategy. There are a variety of important questions to ask to determine what the optional strategy for the scheme should be, including:
    - Have I met all the legal requirements in this area?
    - What mandate do I have from scheme members to consider social factors in developing a strategy for the scheme (beyond the legal minimum)? How should I establish what member preferences are, in order to inform that mandate? Does that mandate include allowing a trade-off between potential returns and the scheme's ability to address wider social factors (i.e. are members willing to forego potential returns, or only invest to address social factors where it would be neutral or positive for returns)? Does the mandate from scheme members cover all social factors, or does it only permit a focus on a few specific issues?
    - What impact might the pension scheme's stance on social factors have on the scheme sponsor? Could failure to act on social issues embarrass the scheme's sponsor in a way that might undermine the sponsor's covenant (for example, by undermining customers' trust)?
    - What should the scheme's risk appetite be in relation to social issues?

3. Other issues that the Panel would note:
    - It would be helpful to consider how the strategies associated with the FCA's proposals[1] on sustainability labelling might be used to help here.
    - While it might be hard to mitigate <u>fully</u> systemic risks, it is not correct to say they cannot be mitigated at all from an investment perspective (p6). For example, in the recent

[1] https://www.fca.org.uk/publications/consultation-papers/cp22-20-sustainability-disclosure-requirements-sdr-investment-labels

pandemic, some sectors such as pharmaceuticals, PPE manufacturers and live streaming benefitted.

- The use of issuer in the heading on p19 is ambiguous (given the context) - data provider might be more helpful, to distinguish from issuers of financial assets.
- Where strategies rely on stewardship, it is important to consider up front what the consequences will be if the engagement does not achieve its goals. For example, would it lead to the sale of assets?
- The benefits of attendance face-to-face should be weighed against the environmental costs of doing so (p22).
- It would be helpful to have an appendix covering abbreviations and definitions.
- It would be helpful to consider accessibility in formatting any final guidance, particularly in relation to the choice of a very small font

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel