ASSOCIATION OF CONSULTING ACTUARIES
Association of Consulting Actuaries Limited · First Floor (129) · 40 Gracechurch Street · London · EC3V 0BT
Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk

3 September 2021

info@pensionqualitymark.org.uk

Dear Sir/Madam

Subject: Responsible Investment Quality Mark: Consultation on Standards

I am writing on behalf of the **Association of Consulting Actuaries (ACA)** in response to the above consultation issued by PLSA. Our members work for a wide range of pension and investment consultancy firms and provide advice to trustees of defined benefit and defined contribution schemes.

We hope you find the comments in the **attached appendix** of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact vanessa.hodge@mercer.com or on 07920 261321.

Your sincerely

Vanessa Hodge

Chair, Investment Committee
On behalf of the Association of Consulting Actuaries Limited

Appendix: Answers to consultation questions from ACA

PLSA Responsible Investment Quality Mark: Consultation on Standards

Q1. Do the proposed areas for assessment cover the core areas of responsible investing?

Please indicate what, if any, core responsibilities should be added or strengthened or amalgamated in the standards.

The proposed assessment areas do cover the core areas of responsible investment. However, the explanation of the E in ESG is largely climate focused, whereas other environmental considerations are also growing in prominence. For example, the launch of the TNFD to recognise the importance of nature-related risks, such as those caused by diminishing biodiversity. Whilst this taskforce is in its early stages, it would be great for this RIQM 'Plus' to recognise schemes that consider such issues in their RI process. In some respects, given the high (and very justifiable) focus on climate change, splitting climate change apart from E could make some sense, we would hope this could also encourage schemes to aspire to greater consideration of a wider set of Environmental factors, and create more collaboration in areas that may not immediately create investment benefits but will impact factors such as biodiversity. In many cases these collaborations are far more effective than individual approaches.

Given this Quality Mark is about Responsible Investment we understand why there is not a separate section on covenant and funding but under the investment section we think it may be beneficial to reference these. Given that a scheme's asset strategy need to be integrated with covenant and funding, the RI element should also take this into account. As an example, if a scheme had a parent who was heavily exposed to a carbon emitting industry it may make sense to have even more stringent restrictions on high carbon intensity assets in the pension scheme asset portfolio and for this to be referenced in an SAA.

On amalgamation, 'Area 1: Focus on member interests' and 'Area 7: Communication and Engagement' are closely related and could be combined for simplicity. However, we also understand a desire to give 'Focus on member interests' primacy by including it first and to have 'Communication and engagement' as the final area to emphasize that it should cover all other areas.

Q2. Does the Quality Mark set sufficiently high expectations of effective Responsible Investment for all schemes and funds?

Bearing in mind that the Quality Mark is, unlike the new ESG regulations, for schemes of all sizes, we believe that the expectations of the Quality Mark are sufficiently high. We recognise that applying for the RIQM is voluntary and that take up should be encouraged. Therefore, requirements should not be overly onerous, particularly given varying resources and if too much time is dedicated to achieving the Quality Mark it could detract from other areas. However, requirements to achieve and retain the Quality Mark also need to show that tangible steps are being followed and meaningful progress is being made and, in that respect, it may be useful to have more than two levels so that schemes can gradually show improvement over time.

The principles-based approach strikes a good balance between the two considerations of not being too onerous and meaningful progress being made, but a pathway for gradual improvement with clear levels to move between could be valuable. For example, if a scheme can see some very easy and beneficial steps that can be taken quickly, that may make the trustees more likely to start down the path of attaining a Quality Mark.

In respect of how the Quality Mark is structured we particularly like the emphasis on meaningful engagement beyond minimum regulatory requirements and the expectation that RI should be built into the structures and expectations of investment. As noted above and below though, some examples of how this could be gradually integrated for schemes with less governance time could be valuable. Ultimately the easier it is for schemes to implement the requirements of the Quality Mark (whilst reaching very high standards) the greater its impact will be.

Q3. Should all schemes and funds be expected to meet the criteria set out in the standards? Are there elements which would be less suitable for certain types or sizes of scheme? Are there additional elements that would be appropriate for Plus applicants?

We like the principles-based approach set out in the consultation document. This allows schemes of varying sizes and resources to gain the RIQM and aspire towards the RIQM (Plus). Although as noted above it may be useful to have different grades (beyond standard and plus) as there are a significant number of requirements and it may be beneficial for schemes to be able to do this step by step. This could also be helpful as it could show the most value additive elements as the lowest grade such that schemes can quickly reach a minimum standard. In addition, through time the minimum standards could be increased which would gradually pull up more schemes. There is a risk that if something is seen as too difficult to begin with not enough schemes partake.

As explained in Q1, we believe that consideration of environmental risks, beyond climate, would be appropriate for 'Plus' applicants, to encourage collaboration and the development of 'best practice' approaches.

In respect of the setting of a net zero target for RIQM Plus, our view is that this should be amended to 'setting climate related targets' as a net zero target may not be appropriate for all schemes – for example if they are working to a shorter timeframe eg approaching buy-out. It should also be a criterion for RIQM as opposed to just RIQM Plus with potentially RIQM Plus being awarded for those who can show strong progress towards their climate related target.

Q4. What further supporting material or guidance could assist schemes or funds?

To boost collaboration between schemes and funds, it would be great to see the PLSA produce material and examples to show 'best practice' for each area. This would help all schemes and funds in improving their processes and set rising foundations for RI integration.

Related to the previous comments about making this a more step by step process such that schemes can take a gradual path over a couple of years it would be good to see some case studies of implementation with the areas that were considered the most beneficial covered first.

Q5. Do you have any additional comments on the standards?

Whilst the principled approach promotes inclusion and differences in approach, it can also be quite vague. As part of the evolution of the RIQM, it would be helpful, over time, to have more clarity around requirements that must be met and how applicants will be judged.

This is a general comment that ACA has made around a number of consultations in this area but we believe that there should be references to proportionality both within the requirements and against other risks a scheme faces. As an organisation, we fully agree that RI is an integral part of all schemes' investment strategies but there are also many other areas that Governing Bodies need to take into account when running a pension scheme. For all these areas, including an RI assessment needs to consider the risk/reward vs governance time in order to ensure that resources are being targeted at the highest priority risks. As an example, a scheme that is 3 years from buy-out may be best to focus trustee resources on which insurance companies are adapting most effectively to RI approaches rather than reviewing their current managers and advisors.

We hope you find the comments of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact vanessa.hodge@mercer.com or on 07920 261 321.

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