PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

4 January 20211

Baron Hill of Oareford
House of Lords
London
SW1A 0AA

Dear Baron Hill,

PLSA RESPONSE: UK Listings Review

About the PLSA

The Pension and Lifetime Savings Association (PLSA) represents more than 1,300 workplace pension schemes serving 20 million savers and pensioners. Our members include defined benefit (DB) and defined contribution (DC) schemes, master trusts and local government pension funds, together controlling £1 trillion of investments in the UK and global economy. Our membership also includes 400 businesses – including asset managers, investment consultants and legal advisers – that provide essential services and advice to UK pension providers. Our mission is to ensure that everyone has a better income in retirement.

Introduction

We welcome the opportunity to feed into this Call for Evidence. As investors, pension schemes are increasingly active in their stewardship activities, and there is growing awareness of a variety of Environmental, Social and Governance (ESG) issues, in particular climate change. The sector has also been active in responding to evolving member expectations, and growing Government scrutiny in these areas.

Within the sector there has been considerable work undertaken to increase the stewardship abilities of pension funds in their investment portfolios. In October, having carried out a series of roundtables, the PLSA published a new report, '*A Changing Climate: How Pension Funds Can Invest for the Future*'. This set out a series of challenges we had identified restricting climate related stewardship, and put forward a series of recommendations as to how industry, Government, and stakeholders might respond.

We note that the Government has already responded positively to a number of those recommendations, such as the announcement of a Taskforce on Pension Scheme Voting Implementation, to look at how voting rights within pooled funds can be improved. Having observed the positive influence that pensions funds can have as investors, for example, collective action by the Climate Action 100+ group to obtain a commitment from Shell to reduce carbon emissions, we very much support this step. It would appear that the pensions sector and the Government are largely on the same page with regards to ensuring pension schemes have the influence and voting rights they need to respond to climate risk and, where appropriate, have a positive impact.

The Review

We share the Government's desire to see a strong and competitive London Stock Exchange (LSE). However, we have significant concerns that the suggestions the review is seeking views on appear to be based on the assumption that LSE can only remain competitive by reducing corporate governance standards, a step which we fear would undermine the work already undertaken to improve stewardship rights.

We therefore would like to note our opposition to any reduction in the following standards, which we believe this would be harmful to the Government's stewardship agenda, pension funds and, ultimately, pension savers.

- Current free float requirements (25%)
- The ban on dual class share structures
- Current track record requirements
- Dual and secondary listings
- Prospectus rules

Free float requirements

We believe that the current requirement, of 25%, remains appropriate, and appears to be working effectively. We would welcome a discussion on whether there may be scope to increase it further, to further enhance investor stewardship.

The Corporate Governance Code requires that, when 20% or more of votes cast again a board's recommendation for a resolution, the company should explain what actions it intends to take to consult shareholders in order to understand the reasons for the dissent. This, alongside the free float rules, is essential in ensuring that boards are accountable to minority stakeholders. It should be noted that the 25% threshold does not give minority shareholders a veto, but does give them the opportunity to effectively question a board. We are therefore concerned that any reduction in this threshold will remove a layer of accountability.

Lowering the threshold not only lowers standards, but undermines the case that LSE is world leading and fit for the future shape of the economy.

Indeed, given the wide scope of this consultation, we would welcome the opportunity to discuss increasing the 25% threshold. The Government's commitment to promoting ESG led investment within our sector suggests that further opportunities for pension fund investors to positively influence listed companies in these areas would and should be welcomed. We believe that this could enhance the accountability of boards, and result in greater scrutiny of the ESG themes that are increasingly influential in our economy.

Dual Class Share Structures

We are concerned about the possibility that non-voting shares may be permitted in premium listings, and would urge the Government to retain the principal of 'One Share, One Vote' for premium listings.

Again, we believe that any move away from this further erodes the rights of investors to influence companies, and encourages a culture of divestment rather than engagement.

Guy Opperman, Minister for Pensions, has recently been vocal about the desire for pension schemes to be active stewards, writing that "*There is such power in greater engagement by pension schemes with the companies and assets in which they invest. However… there is sometimes a gap between what pension trustees wish to do and their ability to make it happen.*"[i]

It is clear that limiting a pension fund's ability to even vote not only limited their abilities to protect their own investments against climate and other risks, but restricts the influence they can have on a societal level.

As you may be aware, there have also been a range of recent announcement regarding new requirements on pension funds to report on ESG and climate factors, through the Pension Schemes Bill currently under consideration, and the announcement of a Roadmap to TFCD reporting. We support these measures, and the Government's direction of travel. However, it is clear that a reduction in corporate governance standards will hinder, rather than improve, the ability of pension funds to meet these demands.

Strengthening standards

As the Call for Evidence sets out, it is important that LSE is associated with the highest global standards. For the reasons set out above, we do not agree that this aim will be promoted by a reduction in governance standards. Indeed, we believe that this review presents an opportunity to be seen as a leader in global reporting standards, and would urge the review to consider steps to promote this.

With the UK Government recently announcing its support for an IFRS Sustainability Standard, it is increasingly clear that there will be a worldwide move towards mandatory reporting. We believe the UK can demonstrate strong and ambitious leadership in this area, setting a worldwide precedent. We would therefore ask that consideration is given to a new requirement for firms to include climate risk data in prospectuses, to give investors a clear indication of how serious it is about responding to climate change.

We hope that the above is helpful. If you would like any further clarification or information, please do not hesitate to get in touch.

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[i] https://amnt.org/wp-content/uploads/2020/11/AMNT-report-on-obstacles-to-trustee-voting-3-Nov-2020.pdf