PENSIONS AND LIFETIME SAVINGS ASSOCIATION

28 July 2022

International Sustainability Standards Board
The IFRS Foundation
Columbus Building
7 Westferry Circus
London
E14 4HD

Sent to: commentletters@ifrs.org

Dear ISSB,

SUSTAINABILITY DISCLOSURE DRAFTS S1 AND S2

We appreciate the opportunity to respond to the above consultation. Please accept my apologies for the slight delay in our submission.

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings in the UK. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

Firstly, we'd like to note our support for the creation of an international standards board, and very much welcome the publication of these draft standards. In our 2020 report, A Changing Climate, the PLSA identified the challenge for pension schemes caused by a lack of consistent data. We found this to be especially true outside of the largest public companies in European markets, and that this was hindering pensions funds' ability to invest intelligently for a carbon constrained future. We therefore we welcome the progress that has been made by the ISSB on creating such a standard, and the high level ambition of the draft standards.

In recent years, the UK pension sector has undergone a substantial adjustment in response to the growing evidence of the extent of the climate crisis. There has been a number of new regulatory requirements on schemes to disclose information around their climate risk, investment principals, and engagement strategies – mostly notably through the introduction of mandatory TCFD reporting for all schemes with over £1 billion AUM.

However, there is now a large - and growing - number of schemes with a public commitment to 'Net Zero' alignment by 2050. In April a PLSA survey of members found that over half of those who responded (57%) currently have a commitment in place. Among those who do not, almost half (47%) anticipate having one in the next one to two years. When asked, one of the top reasons given by those with no or limited plans to introduce such a commitment, was a lack of consistent data.

We note this as it's clear that UK pension schemes are looking beyond their regulatory requirements, and are adopting a more holistic role in relation to the transition. Therefore, we welcome the largely comprehensive nature of the draft standards, in particular the requirement to set out Scope 3 emissions. However, below we have set out two areas that we would like further consideration to be given.

Impact data

At the moment the standard focuses on disclosure where material to the enterprise value, but we are concerned that this is too narrow a definition to enable investors to fully assess the impact of investments and to enable long term decision making. We would therefore like to see the standard require 'doubly material' disclosure, in that that it requires companies to also provide information on their own impact on the environment.

Whilst we recognise that pension investors have a legal responsibility to prioritise financial considerations, we feel that them having access only to enterprise value financial information is denying them the opportunity to identify challenges earlier, to engage accordingly, and to take a view of their own climate risk across their whole portfolios in a holistic manner. We note that forward looking metrics are an important part of most climate disclosure frameworks, and that there needs to be an acknowledgement of the importance of both impact and risk.

In addition, we note that the draft standard does not provide a definition or guidance on what can be considered 'material'. We believe that this risks inconsistent data, and hope that the ISSB will consider adding more detailed guidance on this. There is a risk that pension schemes will otherwise remain dependent on estimates and proxy data if they do not feel that the company information is comprehensive and consistent.

Workforce disclosure

In the UK there is a growing focus on the 'S' factor in investments, and our research suggests growing interest in it by pension schemes.

Work we carried out in partnership with Railpen, the High Pay Centre and the CIPD earlier this year notes that, though there remains significant improvement by listed companies on a number of workforce related metrics, data remains patchy. The report we subsequently published recommended both that investors, policy makers, regulators and civil society should work together to push for better disclosures, and that a baseline of minimum standards should be developed. We note that the DWP has set out some support for a similar framework in its recent response to its Call for Evidence on Consideration of Social Risks and Opportunities by Occupational Pension Schemes[1].

The PLSA believes that the lack of a standardised reporting framework hinders pension schemes abilities to invest with these considerations in mind, monitor investments, and use their stewardship abilities effectively. Clearly this has an impact on the wider issues of sustainability.

We hope that consideration should be given to whether this standard would be the correct vehicle to set out a base line, and the PLSA would be happy to continue this dialogue as the standards move forward.

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[1] https://www.gov.uk/government/consultations/consideration-of-social-risks-and-opportunities-by-occupational-pension-schemes/outcome/government-response-consideration-of-social-risks-and-opportunities-by-occupational-pension-schemes

Best wishes,

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