LSEG response to the DWP consultation on
'Clarifying and strengthening trustees' investment duties'.

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Department for Work and Pensions
Strategy Policy and Analysis Group
Private Pensions and Arm's Length Bodies Directorate
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Leeds
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Dear Ms Donnelly and Ms Bird,

London Stock Exchange Group is pleased to respond to your consultation on 'Clarifying and strengthening trustees' investment duties'.

London Stock Exchange Group ("LSEG" or the "Group") is a financial market infrastructure provider with significant operations in Europe, North America and Asia. Its diversified global business focuses on four key areas:

1) Capital formation – operate regulated markets and MTFs across asset classes including London Stock Exchange and Borsa Italiana, AIM / AIM Italia the SME Growth Markets as well as Turquoise (pan European equity trading venue) and MTS (pan-European Sovereign bond venue).

2) Information Services – Through FTSE Russell, the Group is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. The Group also provides customers with an extensive range of data services, research and analytics through Mergent, SEDOL, UnaVista, XTF and RNS.

3) Post-trade services – majority ownership of the multi-asset global CCP operator, LCH Group ("LCH") and the Italian clearing house CC&G and Italian CSD Monte Titoli.

4) Technology services – trading, market surveillance and post trade systems for over 40 global organisations.

This response does not reflect the views of the LSEG Pension Trustee.

LSEG has been working in sustainable finance for over 20 years and has contributed our unique insight and experience working with issuers and investors to the global and domestic policy debate.

We were signatories to the letter of support for the final recommendations from TCFD, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures, in June 2017. LSEG has been a member of the UN-backed Sustainable Stock Exchanges Initiative, and through FTSE Russell we have been a founding signatory of the Principle for Responsible Investment (PRI) since 2006.

Domestically, we were a member of the UK Green Finance Taskforce and contribute to the Green Finance Initiative. At an EU- level, we were a member of the High-Level Expert Group, and are now represented on the Technical Expert Group by Borsa Italiana.

London Stock Exchange Group issued guidance[1] on ESG disclosure for its listed companies in February 2017. London Stock Exchange ranks 4th globally (and first among major stock exchanges) for the quality of ESG disclosure of its listed companies.[2] FTSE Russell has been providing sustainability indexes and benchmarks since 2001, when it launched its pioneering index family _FTSE4Good. It currently calculates over 100 sustainability indexes and assesses more than 4,000 listed companies globally against its ESG methodology[3], and over 13,000 companies against its Green Revenue data model[4].

LSEG and FTSE Russell has relationships with many of the world's largest pension funds, including APG, PGGM, Norges in EU, CalSTRS in US and GPIF in Japan.

Renewable and Green Energy at LSEG

78 Green Bonds raising $**24.5bn** in 7 different currencies.	**100+** ESG indices Our data shows that approx. 25% of listed companies globally already generate some of their revenues from green products and services that enable transition to the low carbon economy.	**73** Green companies with a combined market cap of **$7bn**	LSEG is ranked **no.1** among major global exchanges for quality of ESG disclosure from its listed businesses (Aviva/Corporate Knights 2017)	FTSE Russell's Green Revenues data model and FTSE Green Revenues Index Series- track companies that generate green revenues – a critical component missing from current sustainability models	**14** Green Funds with an aggregate value of over **$7bn**

Please find below our responses to the DWP consultation questions. We look forward to engaging further as policies are developed. Should you have any questions on the response or wish to discuss it in detail, please do not hesitate to contact us- Anoushka Babbar: ababbar@lseg.com.

Consultation response

Q1. We propose that the draft Regulations come into force approximately 1 year after laying, with the exception of the implementation report, which would come into force approximately 2 years after laying.
a) Do you agree with our proposals?
b) Do you agree that the draft Regulations meet the policy intent?

[1] Details available at www.lseg.com/esg
[2] See Corporate Knights, Measuring Sustainability Disclosure: Ranking the World's Stock Exchanges, October 2017, - report available at http://www.corporateknights.com/reports/2017-world-stock-exchanges/
[3] Available at http://www.ftserussell.com/financial-data/sustainability-and-esg-data/esg-ratings
[4] Methdology overview accessible at http://www.ftserussell.com/financial-data/sustainability-and-esg-data/green-revenues-data-model

No comment.

Q2: We propose to require all trustees of all schemes which are obliged to produce a SIP to state their policy in relation to financially material considerations including, but not limited to, those resulting from environmental, social and governance considerations, including climate change.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?

We support DWP's view that trustees should – take into account all financially material risks and opportunities, which should include ESG and climate change considerations, and may be short or long term in nature. We also support the proposal that trustees should state their policy on the evaluation of financially material considerations in a publicly available Statement of Investment Principles (SIP), which will be supported by an annual implementation report. Disclosure of the policy will provide clarity to the pension beneficiaries.

We also note that the adoption of this proposal will support listed companies – which are required to disclose financially material ESG information, and to report against a set of ESG themes and KPIs (regardless of their materiality)[5]. Asset owners' transparency regarding their approach to consideration of financially material risks, including ESG ones, gives investee companies confidence that their disclosure efforts do not only meet compliance requirements, but fulfil investor demand for ESG information, which provides the business case for their ESG disclosures.

We would also like to highlight how DWP's recommendations are consistent with a recent legislative proposal issued by the European Commission as part of its Action Plan on Financing Sustainable Growth[6]. The proposed regulation will introduce consistency and clarity on how institutional investors, such as asset managers, insurance companies, pension funds, or investment advisors should integrate environmental, social and governance (ESG) factors in their investment decision-making process. Exact requirements will be further specified through delegated acts, which will be adopted by the Commission at a later stage. In addition, those asset managers and institutional investors would have to demonstrate how their investments are aligned with ESG objectives and disclose how they comply with these duties. Therefore, the implementation of DWP's proposal should see UK-based pension scheme on a level playing field with respect to their EU- based equivalents.

We have indication from the market that pension funds are already taking steps in the direction outlined by DWP's proposal. FTSE Russell works closely with investors to develop investment solutions geared to take account of financially material ESG risks and opportunities, in line with their mandates and investment policies.

A relevant case study is the investment solution recently developed by FTSE Russell for one of the UK's largest corporate pension funds, HSBC's, and the UK's largest passive fund manager, LGIM. It consists in a bespoke green index solution that integrates both factors and climate change considerations, in addition

[5] See Companies, Partnerships and Groups (Accounts and non-financial reporting) Regulations 2016 - transposition of the EU Directive 2014/95/EU on the disclosure of non-financial and diversity information (NFR Directive) and Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

[6] European Commision, "Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341", 24 May 2018 – available at https://ec.europa.eu/info/law/better-regulation/initiatives/com-2018-354_en

to an exclusionary approach (Smart Sustainability Index) [7]. This enables HSBC Pension Scheme to reduce the exposure of its default equity option to the risks associated with climate change, while enhancing exposure to the opportunities stemming from the green economy as identified by FTSE Russell's Green Revenues methodology. HSBC Pension Scheme have already invested £4bn into this solution, and HSBC Pension Scheme's CIO is quoted as saying: "We believe this fund will offer our members a better risk adjusted return, incorporate some climate change protection and deliver improved company engagement"[8].

We also work closely with the largest global pension funds such as the Government Pension Investment Fund (GPIF) of Japan, which selected the FTSE Blossom Japan Index as a core ESG benchmark through its flagship fund. GPIF is the largest pension fund in the world with over $1.3tn in assets.

We would suggest that as institutional investors look to encourage robust standards, in governance and other areas, from listing venues, across fixed income, fund, and equity markets; that these differences in standards should be taken into account when investment decisions and allocations are made across those markets and listing venues. Otherwise there is a risk that markets with lower standards may be chosen for listings even if such standards are incompatible with the wider sustainability objectives of trustees.

Q3: When trustees prepare or revise a SIP, we propose that they should be required to prepare a statement, setting out how they will take account of scheme members' views.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?
We have no comment.

Q4. Do you agree with our proposal not to require trustees to state a policy in relation to social impact investment? If not, what change in legislation would you propose, and how would you address this risk of trustee confusion on this point?
We agree that the current focus should be regarding consideration of financially material ESG considerations by trustees.

Q5: We propose that trustees should be required to include their policy in relation to stewardship of the investments, (including monitoring, engagement and voting) in the SIP.
a. Do you agree with the policy proposal?
b. Do the draft Regulations meet the policy intent?
We agree that trustees have an important stewardship role, and disclosure and transparency can support this.
Regarding stewardship, we have recently published our STEP (Stewardship, Transition and Engagement for Change) report[9] which demonstrates how we work with corporates, NGOs and investors to improve disclosure and foster transparency for the long-term benefit of the market and ultimately the societies we all operate within. This includes a number of academic studies demonstrating the tangible benefit of stewardship.

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[7] It's the FTSE All-World Ex CW Climate Balanced Factor Index. Index overview available at http://www.ftse.com/products/downloads/climate-balanced-factor-overview.pdf
[8] http://www.ftserussell.com/files/press-releases/ftse-russell-new-smart-sustainability-index-launched-and-selected-lgim-future
[9] Available at http://www.ftserussell.com/files/research/2018-step-change-report-ftse-russell-stewardship-transition-and-engagement-program

Q6: When trustees of relevant schemes produce their annual report, we propose that they should be required to: - prepare a statement setting out how they have implemented the policies in the SIP, and explaining and giving reasons for any change made to the SIP, and - include this implementation statement and the latest statement outlining how trustees will take account of members' views in the annual report.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?
No comment.
Q7: We propose that trustees of relevant schemes should be required to publish the SIP, the implementation report and the statement setting out how they will take account of members' views online and inform members of this in the annual benefits statement.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?
No comment.

Q8: Do you have any comments on the business burdens and benefits, and wider non-monetised impacts we have estimated in the draft impact assessment?
Q9: Do you have any other comments on our policy proposals, or on the draft Regulations which seek to achieve them?
No comment.

Q10: Do you agree that the revised Statutory Guidance clearly explains what is expected of trustees in meeting their duty to publish the SIP, implementation statement, and statement of members' views?
No comment.

Q11: What evidence or views do you have of how well the other requirements in the SIP are working? What areas for further consideration and possible future change would you suggest?
No comment.