



Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111
(415) 830-9220
sasb.org

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Mr. Dariusz Stanko
IOPS Secretariat
2 rue André-Pascal
75775 Paris Cedex 16
France

Re: Consultation on Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds

I write as the Director of NGO Outreach for the Sustainability Accounting Standards Board (SASB), an independent 501(c)(3) not-for-profit organization that issues industry-specific sustainability accounting standards for the disclosure of financially-material information to investors. Using a robust due process with significant market input, SASB has established standards for 77 industries across 11 sectors which include, on average, six disclosure topics and thirteen associated metrics. SASB standards help investors by fostering company disclosures of environmental, social and governance (ESG) and other sustainability data that is comparable, consistent, and financially material—empowering investors to make better investment and voting decisions.

Thank you for the opportunity to review the Supervisory Guidelines. We sincerely appreciate the citation of SASB in the Supervisory Guidelines as a tool to meet the TCFD Recommendations. Building on the principles-based approach of the TCFD Recommendations, the SASB standards provide industry-specific topics and metrics to enable companies to effectively disclose relevant, useful information about corporate exposure to and management of climate-related risks and opportunities to their investors.

SASB supports IOPS's efforts to encourage supervisory authorities to consider environmental, social and governance factors in pension fund investment and risk management. Consideration of ESG factors provides a complete view of long-term performance. Research has established that the management of certain ESG factors can materially impact both accounting and market returns. Therefore, a deep understanding of ESG performance, integration of ESG factors in valuation and modeling, as well as engagement on sustainability issues allows managers to generate superior returns. As businesses improve their performance on key environmental, social and governance factors, we can all benefit from more sustainable economic growth.

After reviewing the paper, we offer the following recommendations for your consideration:

16. Definition of social risk

SASB's [Conceptual Framework](#) categorizes the "S" in ESG into a range of dimensions, including social capital and human capital. *Social capital* relates to the perceived role of business in society or the expectation that a business will contribute to society in return for a social license to operate. It includes human rights and community relations as noted in the guidelines. It also includes customer privacy, access to and affordability of quality of products and services, customer welfare, and data security. *Human capital* addresses the management of a company's human resources (employees and individual contractors) as key assets to delivering long-term value. These include labor practices, employee health & safety, and employee engagement, diversity & inclusion.

We recommend that the Supervisory Guidelines expand its terminology of social risk to include the term "Social and human capital risks" and integrate the above issues into its definition. A full list of these issues can be found on SASB's [Materiality Map](#).

III. Disclosure of ESG factors in the investment and risk management process

The SASB standards for [Asset Management and Custody Activities](#) offers some useful considerations for the disclosure of processes used to incorporate environmental, social, and governance (ESG) factors in investment policies. Excerpts from the SASB standard are provided below. We recommend incorporation of this type of guidance to the "Annotation" for 1.7 (26) and 1.9 (28).

FN-AC-410a.2. Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies

- 1) Describe ESG incorporation practices. The discussion shall include, but is not limited to:
 - Parties responsible for day-to-day incorporation of ESG factors
 - Roles and responsibilities of employees involved
 - Approach to conducting ESG-related research
 - Approach to incorporating ESG factors into investment strategies

- 2) Describe the oversight/accountability approach to the incorporation of ESG factors. The discussion shall include, but is not limited to:
 - Formal oversight individuals and/or bodies involved
 - Roles and responsibilities of employees involved
 - Criteria used in assessing the quality of ESG incorporation

- 3) Describe how ESG factors are incorporated in the assessment of and influence the entity's views on:
 - Time horizon of investments
 - Risk and return profiles of investments
 - Traditional fundamental factors such as economic conditions, central bank policy, industry trends, and geopolitical risks

FN-AC-410a.3. Description of proxy voting and investee engagement policies and procedures

- 1) Discussion of the approach to proxy voting, including, but not limited to, its process for making proxy voting decisions. The discussion shall include, but is not limited to:
 - The scope of the entity’s voting activities
 - The objectives of the entity’s voting activities
 - How, if at all, the entity’s voting approach differs among markets
 - Whether the entity has a default position of voting in favor of management in particular markets or on particular issues
 - Whether and how local regulatory or other requirements influence the entity’s approach to voting
 - Whether the entity votes by proxy or in person by attending annual general meetings (AGMs) (or a combination of both)

Footnote 40

The SASB Materiality Map provides an interactive tool that identifies metrics used to assess and manage relevant climate-related risks and opportunities, by industry. We recommend providing a hyperlink for the Materiality map (<http://materiality.sasb.org/>) where SASB is cited in Footnote 40.

Thank you for considering these recommendations. If you have any additional questions or comments, please contact me at sonal.dalal@sasb.org.

Sincerely,

Sonal Pandya Dalal

Director of NGO Outreach
Sustainability Accounting Standards Board