

Policy Guide on Environmental, Social and Corporate Governance Issues

The **Local Authority Pension Fund Forum** was set up in 1991 and is a voluntary association of 69 local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum's members currently have combined assets of over £175 billion.

About this Document

This document outlines the Forum's policy positions on environmental, social and corporate governance issues. It covers such issues as board structure, director remuneration, audit and accounting, shareholder activism, carbon management and human rights reporting. An executive summary of the document is available from the website www.lapfforum.org.

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1 Executive Summary

BOARD OF DIRECTORS	
Board Balance	LAPFF takes a nuanced approach to board balance and considers board size and directors' skills, background and experience when assessing the quality and capacity of the board.
Diversity	LAPFF supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates and to voluntarily achieve a target of 30% women on the board.
Independence	LAPFF assesses director independence in accordance with the UK Corporate Governance Code ('the Code') and additionally on a case-by-case basis.
Combined Chair/CEO	LAPFF supports the separation of the roles of Chairman and Chief Executive in all jurisdictions.
Chief Executive Appointed to Chair	Former Chief Executives should not be appointed to the position of Chair.
Succession Planning	All companies should have a succession plan, particularly those companies with unique circumstances.
Time Commitments	It is important that directors have sufficient time to devote to the company's affairs. Shareholders will be assured of this if full disclosure is made of directors' other commitments and attendance records of formal board and committee meetings are provided.
Board Evaluation	The board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process every two to three years, and should include a statement on this evaluation in the annual report.
Re-election of Directors	LAPFF supports the annual re-election of directors.
Board Strategy	LAPFF will endeavour to maintain its awareness of any corporate governance or corporate social responsibility issues surrounding shareholder approval of relevant corporate actions and strategy.
Mergers and Acquisitions	Evidence suggests that M&A success and failure (measured in shareholder value creation or destruction) can be largely attributed to the quality of a company's M&A process. LAPFF believes that public pension oversight of the M&A process can improve the success rate of M&A deals.

EXPECTATIONS FOR EXECUTIVE PAY	
Fixed versus Variable Pay	Ensure that base salary is the primary vehicle for remunerating executives because base salary is, in our view, the up-front negotiated price for doing the job. The variable component of pay should be kept to a minimum for large-cap companies.
LTIPs	Phase out the use of long term incentive plans (LTIPs) in favour of company-wide, long-term profit pools that use a straight-forward formula for calculating bonuses based on base salary and seniority.
Quantum of Pay	Assess the quantum of total awards of pay packages in determining what would be considered 'reasonable' by shareholders and other stakeholders.
Pay Inflation	Set the total pay of any new incoming executives (either internally or externally appointed) at a level BELOW that of the outgoing executive.
Pensions	Ensure directors and officers participate in company pension arrangements on the same terms as other employees. Where directors or officers receive preferential treatment the reasons for this should be explained.
Environmental & Social Performance	Claw-back bonuses and variable pay in cases where ethical standards are breached, or where poor environmental or social performance causes demonstrable harm to the company's reputation or social license to operate.
Performance Conditions	Align executive pay performance conditions with business strategy and the key performance indicators of the firm. Refrain from relying on earnings per share (EPS) and total shareholder return metrics (TSR), particularly when those metrics are adjusted to exclude discretionary exceptional items.
Performance & Payout Periods	Set performance periods according to a timeframe of three or more years and reflects the company's own business cycle. Pay out awards over a period of five or more years.
Pay Benchmarks	Discourage the use of market benchmarks for determining the comparative pay levels for executives.
Pay Ratios	Publish annually the ratio between average employee pay and average executive pay, as well as the ratio of pay between the top and bottom 10%. Provide a graph charting the pay ratio trends for the current year and the preceding five years.
Tax Planning	Ensure that efficient tax planning remains in line with the company's ethical and corporate responsibility standards. Refrain from using creative tax planning to increase executive pay.

Executive Search	Publicly advertise all new executive director positions, accompanied by a job specification document, to encourage robust competition for positions and improve the diversity of candidates.
Candidate Recruitment	Provide a transparent and equal opportunity recruitment process and give serious consideration to internal candidates for executive director roles.
Golden Hellos, Handcuffs and Parachutes	Discontinue the practice of paying 'golden hellos,' 'golden handcuffs' and 'golden parachutes' regardless of the individual circumstances of incoming executive directors.
Investor Consultation	Proactively consult with institutional investors that hold long-term positions in the firm regarding their views on the company's pay practices. Endeavour to consult with both large and small shareholders; and in particular, with those that may take a critical view.
Employee Views	Consider and include the views and recommendations of managers and employees when making remuneration decisions.
Discretion	Use discretion in executive remuneration ONLY to reduce overall levels of remuneration. Refrain from awarding transaction-related bonuses.
Directors' Service Contracts	Companies should fully disclose directors' service contracts and all contracts should include a notice period of no longer than one year.
AUDIT, ACCOUNTS & OTHER REPORTING	
Accounts and Reporting	Accounting and reporting should be balanced, clear and transparent, in line with a true and fair view of accounts, with results represented in a way that captures all material issues, including relevant environmental and social issues and risks.
Financial Reporting Standards	LAPFF believes that the current legal framework regarding true and fair view is sound but that there are problems where the accounting standards do not fit with this. There are particular problems with going concern and prudence (as identified in the Sharman Review).
Audit Committee Report	Companies should prepare a risk report as part of their audit committee report to shareholders, which should be subject to an annual shareholder vote.
Tax Report	Companies should report fully on their tax strategies and payments, including a country-by-country breakdown of tax payments in each jurisdiction in which they operate.
Internal Controls	It is the board's responsibility to set and fully disclose the company's internal control policies.

External Auditors and Non-Audit Services	The external auditor should be fully independent and should not undertake non-audit work, as this might compromise their independence.
SHAREHOLDER ACTIVISM	
Developing an Engagement Strategy	In fulfilling its aim of protecting the pensions of members' beneficiaries, the Forum assesses long-term environmental, social and governance risks and opportunities on a case-by-case basis to determine appropriate shareholder engagement strategies. LAPFF also supports the latest UK Corporate Governance Code which states that the board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.
Forms of Engagement	LAPFF uses various forms of shareholder engagement including voting, correspondence, one-on-one company meetings, issuing voting alerts, attending AGMs, participation in investor coalitions, submitting shareholder proposals, depending on the response of the company.
Collaboration with other institutional investors	The Forum is committed to collaborating with other institutional investors or investor bodies where this will further the fulfilment of the Forum's aims and mission, but reserves the right to take its own initiatives where appropriate.
The importance of voting	The Forum believes that voting is a core element of engagement and supports vote declarations prior to AGMs as well as the public disclosure of full shareholder voting records as soon as possible following meetings.
Pooled funds	Pooled funds should be encouraged to facilitate pro rata voting and to explain publicly if and why they do not
Shareholder relations	Companies should disclose the share structure, voting rights and any other rights attached to each class of shares.
Engagement with Fund Managers	LAPFF encourages trustees to hold fund managers accountable by regularly reviewing their performance and company engagement activities.
Engagement with Asset Owners	The Forum engages with a large number of UK companies per year. LAPFF considers that the closer company managers are to their underlying asset owners the more understanding they are likely to generate for their business strategies.
CORPORATE RESPONSIBILITY REPORTING	
Non-Financial Disclosure	LAPFF encourages companies to describe how their corporate responsibility and sustainability policies align with and support the long-term corporate strategy.

Non-financial Incentives	Companies should endeavour to develop non-financial incentives and reward systems to help attract, motivate and retain staff.
Employment, Health and Safety	LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value.
Human Rights	The Forum encourages companies to adopt human rights policies and management practices in line with the UN Guiding Principles on Business and Human Rights and believes these policies and practices should be disclosed to shareholders.
Political Donations	LAPFF assesses the issue of political donations on a case-by-case basis.
Carbon Management and Reporting	The Forum strongly supports the introduction of mandatory carbon emission reporting in all jurisdictions.
Carbon Management and Reporting	LAPFF considers that companies should report on their approach to carbon management in the context of how they are factoring the relevance of climate change into their business strategy.
Water and business strategy	LAPFF considers that companies should report on their approach to use and protection of water resources in relation to their business strategies.

2 Board of Directors

2.1 Board Balance

LAPFF takes a nuanced approach to board balance and considers board size and directors' skills, background and experience when assessing the quality and capacity of the board.

In assessing a company's governance structure, LAPFF will take account of the overall structure of the board in terms of its composition, separation of powers, the relationship between executive and non-executive directors and board committees. Analysis may also focus on those aspects of directors' appointments which can be clearly assessed: the process by which individuals are appointed, their contractual terms, their independence (in the case of non-executives), and the provision of sufficient information to allow a clear judgement on calibre, experience and potential conflicts of interest.

LAPFFs' view of the role and composition of a board concurs with the principles set out in the Code. In order to undertake these functions there should be a balance of executive directors and non-executive directors with broader experience who are in a position to act independently and hold executive management accountable for their actions. The ratio of different types of director is important, as is the overall size of the board. Independent non-executives may find themselves outnumbered and outvoted on large boards where there are many executive directors. Equally, boards with large numbers of directors may become unwieldy. Succession planning and executive pipeline development are viewed as important tools to ensure appropriate board composition, including sufficient diversity.

2.2 Diversity

LAPFF supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates.

LAPFF considers this is important principally because it discourages 'group think', which is vital if there is to be effective challenge process. Gender diversity is a necessary but not sufficient attribution to achieve diversity of thinking on a board, thus we believe the case for diversity on boards should not rest on gender alone but should include ethnic and international minorities as well as on thinking styles and experience.

In order to widen the basis of experience on boards and improve their accountability and representativeness, companies should extend their search for non-executives beyond the boards of other listed companies (and thus avoid 'back scratching') to include individuals with a greater diversity of backgrounds. International candidates, those with relevant experience in the public, academic or voluntary sectors, or at divisional level in other companies may well fulfil the remit. LAPFF is a supporter of the 30% Club, an initiative to encourage companies to voluntarily commit to improving boardroom diversity by striving to achieve the target of 30% women on corporate boards. LAPFF would also like to see companies clearly set out their targets for the percentage of female representatives at the executive committee level and two levels below, as well as disclosure against these targets in order to measure progress against an established time frame. However, LAPFF does not believe that legislation is the best way to create sustainable, meaningful change in this area. Growing the female talent pipeline needs to be high on the agenda for every board.

2.3 Independence

LAPFF assesses director independence in accordance with the latest UK Corporate Governance Code ('the Code') and additionally on a case-by-case basis.

Independence is determined partly by an individual's character and integrity. These cannot be objectively assessed by shareholders on a consistent basis and are therefore not an appropriate area for written guidelines, although shareholders may, in particular cases, want to address the issue directly with boards.

Outside of a subjective assessment of individual qualities there are a number of criteria identified by the Code which may be assessed in an objective fashion. Certain positions, such as the chairman of the Audit Committee, also require independence of a particular type, in this case from the audited entity. It is LAPFF's view that it is appropriate for shareholders to form their own view of a directors' independence based on these criteria.

2.4 Combined Chair/CEO

LAPFF supports the separation of the roles of Chair and Chief Executive

The role of the Chair is distinct from that of the Chief Executive. The Chairman has responsibility for leading the board and for ensuring that the board runs effectively. The Chair should also ensure effective communication with shareholders. Placing these responsibilities in the hands of the person responsible for running the company's business can lead to unfettered powers of decision. This arrangement can be particularly problematic in relation to succession planning, as loss of a joint Chairman/CEO (as happened to Total in 2014) can lead to an even greater leadership vacuum at a company than if a dedicated Chairman or dedicated CEO were to leave abruptly.

Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided.

2.5 Chief Executive Appointed to Chair

Former Chief Executives should not be appointed to the position of Chair.

LAPFF believes there are inherent dangers in allowing a former chief executive to go on to become chair of the same company. Often comments made by chairs who have previously been chief executives reveal a great deal about how they view their new role, and it is apparent that many have difficulty making the transition to the role of chairman and giving up the more immediate strategic decisions that are in the ambit of a chief executive.

2.6 Succession Planning

All companies should have a succession plan, particularly those companies with unique circumstances.

In LAPFF's view, succession planning is unlikely to be universally important to business performance. Numerous studies have shown that when CEOs die unexpectedly stock prices go up rather than collapse. Nonetheless, there are circumstances in which we consider

succession planning is likely to have material implications for corporate and stock price performance:

- i. When a company chooses not to comply with the Code and installs an incumbent CEO as Chairman (for example, Stuart Rose's dual role appointment at Marks & Spencer and the Forum's subsequent engagement with the Company).
- ii. When a company has an iconic CEO.
- iii. When the incumbent CEO stunts the development of potential successors.
- iv. When the company is experiencing a period of rapid growth.
- v. At a strategic inflection point.

In each case, investors and other stakeholders require sufficient information about a company's succession planning process to be able to determine the degree of business risk (or opportunity) present in the event of a change in CEO.

Currently disclosure on this subject tends to be restricted to a statement to the effect that a succession plan is in place. In our view this deprives interested parties of the opportunity to make a fully informed qualitative judgement with respect to what can be a critical component of the future direction and performance of the company.

2.7 Time Commitments

It is important that directors have sufficient time to devote to the company's affairs. Shareholders will be assured of this if full disclosure is made of directors' other commitments and attendance records of formal board and committee meetings are provided.

LAPFF believes that a focus is required on the time that directors have available to perform their role, and this must logically raise a question about individuals with multiple directorships. We note that the Walker Review set out a minimum expected time commitment of 30 to 36 days in a major bank board. A 2012 study showed that FTSE 100 Chairmen generally need two days a week to perform their roles effectively. The Forum concurs with the Code which suggests that a full-time executive should take on no more than one FTSE100 non-executive position nor the chairmanship of such a company.

2.8 Board Evaluation

The board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process at least every three years, and should include a statement on this evaluation in the corporate governance section of the annual report.

The Forum considers that this reporting should include meaningful, high-level information to assist shareholders' understanding of the main features of the evaluation process. Relevant disclosure in this regard is likely to be found in:

- i. The behaviours that the board evaluation is designed to measure and encourage.
- ii. The board's learning from the evaluation.
- iii. The action points arising from the evaluation process.
- iv. Performance against prior action points.

- v. Evidence that the outcome of board evaluations has been fed back into board planning more broadly.
- vi. The extent to which the board has established “the tone for risk management and internal control and put in place appropriate systems to enable it to meet its responsibilities effectively.”

Outside agencies can appraise the board’s composition, including its mix of skills and experience. The Forum concurs with Walkers’ observation that board composition is a poor predictor of board performance. Our view is that only when shareholders get better disclosure on past board performance will they be in a position to predict future board performance.

Progress on reporting the critical dynamics created by a board’s composition and the nature of the board’s functioning as a high performance team has been slow. We believe this puts a greater onus on boards to evidence how they function as a team, particularly in regard to the quality of any challenge process to decisions on major risk and strategic issues. The most likely place for such disclosure is in the board’s annual evaluation statement.

2.9 Re-election of Directors

LAPFF supports the annual re-election of directors.

Whilst investors will generally want to be supportive of management, there will be instances where governance concerns will result in the desire to oppose the re-election of a given director. The boards of UK companies not listed on the FTSE 350, and therefore not yet subject to annual re-election requirements, should be encouraged to hold annual director re-elections. In practice we do not think this will pose practical problems for companies, and they will not face a challenge unless there are genuine shareholder concerns.

2.10 Board Strategy

LAPFF will endeavour to maintain its awareness of any corporate governance or corporate responsibility issues surrounding shareholder approval of relevant corporate actions and strategy.

Decisions taken by directors on strategic or operational issues can clearly have a major impact on the financial interests of institutional shareholders and those beneficiaries to whom they have a fiduciary duty. In relation to ESG issues, even where they are ultimately rejected as having negligible weight, (because they have little effect on the relative value of an investment, for example) LAPFF believes they should form part of the basket of considerations to which a decision-maker has regard and on which non-executive directors constructively challenge the board. Risk management and internal control systems are other such considerations.

In deciding on any form of engagement with a company on a strategic issue, LAPFF places the highest priority on optimising the interests of its own members and the interests of its underlying beneficiaries.

Many board decisions on strategic issues become subject to shareholder approval. Examples include specific corporate actions such as takeovers, mergers or capital reorganisations. They are put to shareholders because either by law or under listing rules, they are deemed to be of

such importance, and to have such significant implications for the rights of shareholders, that shareholders need to specifically approve them.

Compliance with corporate governance best practice will rarely be the decisive factor in arriving at a position on an issue of strategic importance for an investee company. However LAPFF members expect full information to be provided on the matter, together with an assessment of the likely financial and strategic impact on the company and its stakeholders.

2.11 Mergers and Acquisitions

Public pension funds should have oversight of the M&A process to improve the success rate of M&A deals.

The average large company gets nearly a third of its growth from M&A. In turn, evidence suggests that M&A success and failure (measured in shareholder value creation or destruction) can be largely attributed to the quality of a company's M&A process. Nonetheless, in our experience, companies that employ M&A in their growth strategies rarely provide their shareholders with information that would enable them to judge the quality of their M&A processes ahead of time, or the opportunity to provide feedback on those processes. More detail on strategic and implementation issues shareholders should consider is provided by the LAPFF Trustee Guide 'Which Deals Create Value.'

3 Expectations for Executive Pay

3.1 Fixed versus Variable Pay

Ensure that base salary is the primary vehicle for remunerating executives because base salary is, in our view, the up-front negotiated price for doing the job. The variable component of pay should be kept to a minimum for large-cap companies.

We see variable pay as added reward for exceptional performance, not as an expected supplement to the annual wage. Variable payouts that are in excess of the negotiated rate for the job serve to increase pay volatility and create cost uncertainties for shareholders. Placing greater emphasis on the fixed component of pay, in our opinion, will reduce complexity and lead to more straightforward and understandable remuneration schemes, both for shareholders *and* for the executives themselves.

3.2 LTIPs

Phase out the use of long term incentive plans (LTIPs) in favour of company-wide, long-term profit pools that use a straight-forward formula for calculating bonuses based on base salary and seniority.

We fail to see the value of long-term incentive plans in motivating people to oversee complex business strategies spanning many years. Success in business is driven by the love of the job, an entrepreneurial spirit, calculated risk taking, and managing expectations. Few executives would admit that if they were paid more, they would perform better, and few would succeed in explaining exactly how their LTIP motivates them to achieve company goals. We lament that

LTIPs have been used as a tool to complicate executive pay. As such we advocate for a return to simpler model of pay based on long-term profits. We recommend that companies endeavour to pay out the bonuses over five or more years to encourage long-term strategic thinking and staff retention by allowing annual profits to accrue in the bonus pool and be paid out in future years.

3.3 Quantum of Pay

Assess the quantum of total awards of pay packages in determining what would be considered ‘reasonable’ by shareholders and other stakeholders.

The board, supported by the remuneration committee, should take all existing elements of remuneration into account including salary, benefits, bonuses, share option awards, and long term incentive schemes, discretionary awards and pension contributions in order that the actual amount granted is considered as a whole. Quantum should be assessed in terms of the individual’s contribution to long-term value creation for shareholders as well as in the overall context of ‘reasonableness’.

3.4 Pay Inflation

Set the total pay of any new incoming executives (either internally or externally appointed) at a level BELOW that of the outgoing executive.

We question the pervasive practice of awarding new executives with equal or greater pay packages than their predecessors. With any new job, there is a period of learning and adjustment that can last several years. To help address the upward spiral we see in the executive pay market, we think it is appropriate for new executives to have their pay set lower than the outgoing executive. This leaves room for new executives to receive modest pay rises for exceptional performance as they grow into the role and ‘prove their worth’ to shareholders. It will also help address what we see as ever-greater pay inflation at the executive level.

3.5 Pensions

Ensure directors and officers participate in company pension arrangements on the same terms as other employees. Where directors or officers receive preferential treatment the reasons for this should be explained.

We fail to understand the rationale for providing preferential pension arrangements to directors and officers, such as better accrual rates in DB schemes, or contribution rates in DC schemes. The Forum has issued guidance with National Association of Pension Funds (NAPF) for companies on best practice disclosure of pension entitlements. Ideally, all employees of the company should receive fair and reasonable pensions in line with their tenure of service.

3.6 Environmental and Social Performance

Claw-back bonuses and variable pay in cases where ethical standards are breached, or where poor environmental or social performance causes demonstrable harm to the company’s reputation or social license to operate.

We do not believe it prudent to award executives for making decisions to increase profits if it means the company's ethical conduct or reputation will be severely damaged in the process. Such short-term thinking can be value-destroying, and is another form of 'reward for failure.' In order to reinforce expectations regarding long-term, sustainable growth in line with company standards and ethics, we think claw-backs should be used upon the discretion of the remuneration committee and in consultation with shareholders.

3.7 Performance Conditions

Align executive pay performance conditions with business strategy and the key performance indicators of the firm. Refrain from relying on earnings per share (EPS) and total shareholder return metrics (TSR), particularly when those metrics are adjusted to exclude discretionary exceptional items.

We are not convinced that EPS and relative TSR are good measures of performance for the purpose of pay, as they are open to market distortion and are poor measures of actual performance. We find it particularly concerning when companies inappropriately adjust these measures to exclude certain exceptional items that formed part of the fundamental business decisions in the year. We view such adjustments as misleading and adding to the complexity of pay schemes. We advocate that if companies choose performance metrics that these be well-aligned to the fundamental objectives of the business and that executives themselves understand and can influence in their day-to-day tasks.

3.8 Performance and Payout Periods

Set performance periods according to a timeframe of three or more years and reflects the company's own business cycle. Pay out awards over a period of five or more years.

We do not believe that performance can be accurately measured in two or three years and consider if there are performance periods these should be of three years or longer, with preference to those stretching to five or ten years in order to align executives with the long-term view.

3.9 Pay Benchmarks

Discourage the use of market benchmarks for determining the comparative pay levels for executives.

We believe there is a false market for executives, due to the small and homogenous pool of candidates whose current pay packages (as a group) are inflated to begin with. Benchmarks serve to simply justify current levels of pay based on this false market. In addition, high rewards at one company can inflate pay within the peer group, regardless of each company's fundamental performance.

3.10 Pay Ratios

Publish annually the ratio between average employee pay and average executive pay, as well as the ratio of pay between the top and bottom 10%. Provide a graph charting the pay ratio trends for the current year and the preceding five years.

We want companies to create a shared vision of growth and success in collaboration with employees at all levels. However, we are concerned that the growing gap between pay at the top and everyone else can undermine morale and motivation in the workforce. We do not advocate that companies set an upward limit on the ratio of executive pay to average employee pay, but we believe the publication of these ratios on a yearly basis will make the remuneration committee more accountable for making appropriate pay distributions.

3.11 Tax Planning

Ensure that efficient tax planning remains in line with the company's ethical and corporate responsibility standards. Refrain from using creative tax planning to increase executive pay.

We recognise that efficient tax planning is an important part of cost management. However, pay policy changes should not be solely driven by tax planning, nor should the timing of awards be driven by expected tax advantages. Tax revenues are essential for maintaining the social infrastructure on which companies rely. Therefore tax planning, both generally and in terms of executive pay, should not be carried out in a way that threatens the company's reputation or is misaligned with internal corporate responsibility or ethical guidelines.

3.12 Executive Search

Publicly advertise all new executive director positions, accompanied by a job specification document, to encourage robust competition for positions and improve the diversity of candidates.

We believe that the current market for executive directors is distorted. The small and relatively homogenous pool of candidates that companies currently draw from in the executive search process serves to perpetuate the escalation of executive pay through a cycle of golden handshakes and golden parachutes. Shareholders can gain the most value out of an executive search process (and therefore negotiate to pay the lowest price for the best candidate) if the search process is both transparent and draws from a broad pool of candidates with diverse backgrounds and experience.

3.13 Candidate Recruitment

Provide a transparent and equal opportunity recruitment process and give serious consideration to internal candidates for executive director roles. Implement a robust succession planning process to identify and develop future leaders.

All recruitment processes should be transparent and give all candidates, internal and external, an equal opportunity to be considered for the role. We question the assumption that all executive-level skills are transferrable across companies and industries, and question the value that companies increasingly attribute to 'superstar CEOs.' Clearly, in some circumstances, recruiting an external executive to bring new thinking and an outside perspective may be needed. However, we are of the view that external recruitment can sometimes lead to high payouts for new executives while resulting in mismatched expectations, culture clash, or longer induction periods that may harm the business and provide poor value for money. For these reasons, internal candidates should be given serious consideration in the recruitment process.

3.14 Golden Hellos, Handcuffs and Parachutes

Discontinue the practice of paying ‘golden hellos,’ ‘golden handcuffs’ and ‘golden parachutes’ regardless of the individual circumstances of incoming executive directors.

We do not accept the prevailing view in the executive pay debate that money is the best motivator for executives. We want our CEOs and executive directors to work hard and be motivated by the challenge and mastery that comes with the job, not by the pay package they expect to receive. We believe that companies that can demonstrate a compelling Employee Value Proposition will be more successful at recruiting, motivating and retaining the right kind of staff. Companies should compete for staff on this basis, not on the basis of the pay package alone. As such, we believe the payment of golden hellos to entice executives into new positions to be wholly inappropriate. The practice of golden handcuff arrangements can also make it difficult for companies to attract talented people on reasonable terms. Replacement awards with strict performance conditions linked to the long-term, sustainable performance of the company may be acceptable in certain circumstances and will be evaluated on a case-by-case basis.

3.15 Investor Consultation

Proactively consult with institutional investors that hold long-term positions in the firm regarding their views on the company’s pay practices. Endeavour to consult with both large and small shareholders; and in particular, with those that may take a critical view.

As shareholders with an active interest in the companies we own, we believe companies should make their best efforts to consult with investors on their pay policies and practices. Only through meaningful dialogue with large and small shareholders in open forum, can the remuneration committee ensure that pay is both appropriate, and in line with shareholder expectations. We would particularly encourage outreach to investors that may take a critical view of remuneration, and for transcripts of the discussion to be made available to all shareholders.

3.16 Employee Views

Consider and include the views and recommendations of managers and employees when making remuneration decisions.

In our view, the issue of executive pay is not solely the purview of the remuneration committee. Decisions made about pay at senior levels affect the rest of the organisation; both in terms of influencing the availability of capital to be distributed elsewhere (dividends, reinvestment, employee pay and bonuses), and the motivation and productivity of middle-management and junior employees. We therefore believe that incorporating the views of employees is critical when setting executive pay. We strongly encourage companies to consider having employee representation on the remuneration committee, or formally canvassing employee views through surveys or separate advisory committees. In all cases we would encourage the company to implement a formal process to feed these views back into the deliberation of the remuneration committee, and to report back to shareholders on how the committee considered those views.

3.17 Discretion

Use discretion in executive remuneration ONLY to reduce overall levels of remuneration. Refrain from awarding transaction-related bonuses.

We acknowledge that there is not a 'one size fits all' approach to pay. We expect companies to follow due process to arrive at their decisions on setting executive pay. At no time do we think it appropriate for remuneration committees to use discretion to increase levels of pay. We do think it appropriate that discretion is used to decrease pay based on poor financial or environmental and social performance. Nor do we think it appropriate to award executives for overseeing transaction-related bonuses, such as mergers and acquisitions, as we see this to be a normal function of the job.

3.18 Directors' Service Contracts

Companies should fully disclose directors' service contracts and all contracts should include a notice period of no longer than one year.

The most common notice period for directors' contracts is one year, which has reduced substantially over the past decade due to investor pressure. Rolling contracts of longer than one year can, and have led, to excessive compensation payments.

In UK common law, there is an obligation on the employee to seek work (to 'mitigate' their loss) and, if he/she secures work before the end of the notice period, he/she should cease claiming remuneration from the original employer. Companies have the right to enforce this duty of mitigation by negotiating the level of compensation payable. Yet most companies do not state that they will seek to apply mitigation during settlements and those that do, often do not do so in practice. Companies should apply the principle of mitigation rigorously.

Liquidated damage provisions, or pre-determined compensation clauses, are useful for clarifying the situation for both company and employer, and can be a simple alternative to mitigation by guaranteeing payment that poses less cost to the company. For instance, if a contract provides for one year's notice but only six months' liquidated damages, the company has capped its liability at the lower amount. However, the liquidated damages set out in contracts are usually equivalent to, or sometimes more than, that payable under a normal notice period. Any liquidated damage provisions should be clearly set at a level that is lower than the payment due under a notice period.

4 Audit, Accounts and Other Reporting

4.1 Accounts and Reporting

Accounting and reporting should be balanced, clear and transparent in line with the legal requirement of true and fair view as set out in the 1947 Companies Act, with results represented in a way that captures all material financial issues, including relevant environmental and social issues and risks.

Proper accounts and reporting is a fundamental element of accountability to shareholders and reinforces control by shareholder collectively based on appropriate information. Reporting should be objective and comprehensive. Accounting policies and judgements that have a material impact on results should be clearly identified. It is particularly important to distinguish between the different elements of an Annual Report to demarcate responsibilities. The Accounts are audited and carry joint and several responsibilities between the auditors and directors – which is giving assurance on the financial integrity of the business. Other parts of the Annual Report are under the responsibility of the directors alone. The term ‘Financial Reporting’ is potentially blurring responsibilities.

LAPFF robustly supports the principle that the accounts are addressed to the shareholders for the benefit of the shareholders and creditors, and for the proper conduct of the AGM, which includes, approving the dividend (which must be lawful by reference to the numbers in the accounts), reappointing the directors and assenting to their remuneration.

LAPFF robustly upholds the going concern basis of preparing accounts. The shareholder residue is likely to be very different on a going concern compared to an on-going concern basis. LAPFF recognises significant problems with IFRS in this regard.

LAPFF believes that a company’s long-term financial success can only be achieved on a sustainable basis. Directors should identify their key stakeholders, develop appropriate policies for managing relationships with them and they should report on and be held accountable for the quality of these relationships since they are an important component of a company’s long-term strategy and competitive position.

4.2 Financial Reporting Standards

LAPFF believes that the legal framework is sound, the problem is that the accounting standards do not fit with it. LAPFF has taken an independent opinion from George Bompas QC, who identifies particular problems in reconciling the accounting standards with the true and fair view requirement of the law, and the legislative requirement to distinguish distributable reserves (real profits) and paper ones.

This gives rise to significant financial governance and monitoring problems. Pay may be miscalculated as a matter of course, companies may be paying unlawful dividends and as well as reporting financial performance, companies should consider providing additional information on a range of issues that also reflect the directors’ stewardship of the company in respect of all stakeholders. These issues include information on a company’s commitment to employees, to society and to its impact on the environment in which it operates.

4.3 Audit Committee Report

Companies should prepare a risk report as part of their audit committee report to shareholders, which should be subject to an annual shareholder vote.

In addition to encouraging non-financial reporting by companies, LAPFF would also encourage investors and their advisers to properly consider the risk disclosures made by companies before approving them. This report should also disclose the scope of the external auditors’

report, which should address risks of material mis-statement, materiality and a summary of audit scope. Risks should also include environmental, social and governance factors and how these factors affect financial performance.

4.4 Tax Report

Companies should report fully on their tax strategies and payments, including a country-by-country breakdown of tax payments in each jurisdiction in which they operate.

The Forum supports modernisation and reform of international taxation rules and structures as part of ongoing measures to reform tax practices improve the resilience of global financial systems as recommended by the OECD and G20.

Companies should be transparent and report fully on their tax strategies, risks and payments, including a country-by-country breakdown of tax payments in each jurisdiction in which they operate.

While LAPFF appreciates that responsible, efficient tax planning is appropriate for companies and is supported by investors, aggressive tax planning can be viewed as both a reputational and operational risk for companies. It is helpful for investors to understand company taxation practices and strategies to assist asset owners to undertake their own investment governance, risk management and due diligence obligations, vital to carrying out our fiduciary duties.

The OECD BEPS Action Plan is supported in seeking reform and improved international tax practices that will benefit companies, regulators and investors. Accordingly LAPFF supports adoption of the Action Plan by regulators and implementation in both spirit and practice by companies.

4.5 Internal Controls

It is the board's responsibility to set and fully disclose the company's internal control policies. However it is essential that these do not shift responsibility from those controls already needed to provide an opinion under audit that the accounts give a true and fair view

LAPFF concurs with the Turnbull Committee's conclusion that 'a sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets'. Communications with shareowners will benefit where companies decide to go beyond the basic requirements and identify the significant areas of risk and how the company manages these. These risk areas should not be limited to financial issues. Overall, the going concern position is sensitive to various parts of the business model including the overall degree of financial and business control. Fundamentally the correct going concern position does not flow from merely listing risks, but assessing their impact properly. To this end, it is important to ensure whistle-blower protection is in place so that '[w]histle-blowers can bring new information to the attention of competent authorities which may assist them in detecting and imposing sanctions for irregularities, including fraud.'

4.6 External Auditors and Non-Audit Services

The external auditor should be fully independent and should not undertake non-audit work, as this might compromise their independence.

According to the FRC, the primary objective of an audit of the financial statements 'is for the auditor to provide independent assurance to the shareholders that the directors have prepared the financial statements properly'. To reach this objective the Auditing Practices Board (APB) has adopted its view on auditor's independence and objectivity, set out in the 'Ethical Standards for Auditors' issued in December 2004. The Forum supports this objective and considers that the independence of the auditor is of most importance to shareholders, both in respect of individual companies and in terms of audit's public policy function of ensuring investor confidence in financial reporting.

The Forum considers that:

- There is a conflict of interest for auditors providing non-audit services to companies for which they provide audit services.
- A conflict of interest occurs when the auditor provides consultancy services for the management at the same time as it undertakes an audit on behalf of the shareholders. The auditor in this case cannot be truly independent from the management since other commercial interests can compromise auditors in their ability to confront directors on difficult issues.
- The current ethical guidance on objectivity within the auditing profession is not sufficient to prevent significant concern being raised.

Regulations for companies regarding the disclosure of non-audit work were updated in 2011. These regulations build on the 2008 regulations, which require that the amount of non-audit services should be disclosed under ten headings in the notes to the annual accounts. LAPFF considers this a step towards better governance but we consider that companies should disclose in the audit committee report the policy for awarding non-audit services to auditors. We do not consider it sufficient simply for the committee to disclose that the company has a policy on non-audit work; the practicalities surrounding the awarding of it should also be disclosed. Therefore, this policy should identify which non-audit services the external auditors are prohibited from providing, the process by which other non-audit services are approved, the broad nature of the non-audit work and specific details of the nature of the work to be undertaken.

We consider that an auditor that undertakes the statutory audit for a company should only perform this duty and those other services supplied pursuant to legislation. Other professionals should undertake all other non-audit work. Among the current non-audit services auditors currently undertake, we consider taxation and tax advice to be potentially one of the most controversial ones given the scope for reputation risk. In addition, we consider a company's auditors should not undertake internal audit functions for the same company they audit.

There have been further developments in relation to auditor rotation with both the European Union and the Competition and Markets Authority backing a requirement for public interest entities to tender for auditors every ten years, and to rotate auditors after twenty years. LAPFF supports this position as a means of facilitating auditor independence.

5 Shareholder Activism

5.1 Developing an Engagement Strategy

In fulfilling its aim of protecting the pensions of members' beneficiaries, the Forum assesses long-term environmental, social and governance risks and opportunities on a case-by-case basis to determine appropriate shareholder engagement strategies. LAPFF believes that pension funds should not now have to opt into considering responsible investment factors, but should be required to address such issues as part of their routine investment processes.

The Forum recognises that at the heart of its mission is the fiduciary duty of its member funds to protect the pensions of their beneficiaries. This requires a long-term perspective. The Forum is committed to conducting shareholder engagement on behalf of its members in a way that helps fulfil their fiduciary responsibility and safeguard long-term investment returns; this is the underlying consideration when developing and deciding on Forum policies on shareholder engagement. From the perspective of the Forum, this means conducting its shareholder engagement in a way that recognises business risks and opportunities connected with governance and sustainability factors, including proactively consulting on executive remuneration. LAPFF understands this engagement to mean that LAPFF funds have the power to engage with the responsible investment agenda provided that their activities are reasonable, proportionate, minimise adverse investment risk impact and do not undermine long-term investment returns to their pension funds LAPFF supports the latest UK Corporate Governance Code which states that the board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

The Forum decides on the level of its involvement in any shareholder campaign on a case-by-case basis, actively monitoring the marketplace to enable the full Forum membership to take strategic decisions in responding to the policy issues on the Forum's agenda, as well as initiatives developed by other investment bodies in the UK and global markets. When the Forum receives information, from its members, external organisations such as other institutional investors, investor bodies, NGO's or trade unions, or through its own monitoring on governance or sustainability concerns, the research and engagement partner will assess the significance of any issue raised, and draft a position paper for discussion by the Executive Committee and/or the full LAPFF membership.

These discussions serve to assess what policies the Forum will adopt in relation to the investment issues at stake, the degree to which the Forum can make a difference to the issue at hand, and which companies will be targeted should the Forum opt to pursue engagement. After such a decision is made, the research and engagement partner undertakes a detailed comparative assessment to identify and contrast best practice where possible, and then proposes an engagement strategy to be adopted by the Forum and executes that strategy.

5.2 Forms of Engagement

LAPFF uses various forms of shareholder engagement including voting, correspondence, one-on-one company meetings, issuing voting alerts, attending AGMs, participating in investor coalitions, submitting shareholder proposals and encouraging vote declarations depending on the response of the targeted company.

The Forum chair will usually initiate dialogue with a company by writing to the chairman of the board, with the objective of obtaining more information where required, and to request a meeting with the Chairman or appropriate board member to explore the company's approach to any environmental, social and governance issues deemed particularly relevant to company performance. Progress is monitored at all companies that the Forum engages with, to identify any changes in practice and to determine the need for further action.

One element of engagement is attendance at company Annual General Meetings (AGMs). LAPFF considers it important to publicly recognise progress made by companies as well as using this as an avenue for opening a dialogue with a company's board where a previous engagement relationship may not exist. On occasions, the Forum will issue voting advice to members by means of Voting Alerts. Recommendations may be positive, i.e. to support particular resolutions or director elections, or may target a particular concern through opposing relevant resolutions. The Forum also issues press releases from time to time.

Shareholder resolutions are another element of engagement strategy, and are regarded by the Forum as a means to focus attention and resources on particular issues. While the Forum will consider supporting the filing of resolutions through Member fund holdings, it will often seek collaboration with other investors. The Forum will support appropriate resolutions by other proponents where they are aligned with the Forum's work programme and policies.

The advantage of shareholder resolutions is that they can be focused on specific issues, and represent an escalation of engagement. This can be in a positive manner or where the company has not addressed investor concerns sufficiently or substantively.

5.2.1 Collaboration with other institutional investors

The Forum is committed to collaborating with other institutional investors or investor bodies where this will further the fulfilment of the Forum's aims and mission, but reserves the right to take its own initiatives where appropriate.

Collaboration is fostered through active participation in a range of networks, including the Investor Network on Climate Risk (INCR), the UN Principles for Responsible Investment (PRI) clearing house, and other investor-led bodies. LAPFF has been a PRI signatory since 2007. LAPFF also proactively consults with institutional investors that hold long-term positions in the firm regarding their views on the company's pay practices. The Forum will endeavour to consult with both large and small shareholders, and in particular with those that may take a critical view.

5.2.2 The importance of voting

The Forum believes that voting is a core element of engagement and supports vote declarations prior to AGMs as well as the public disclosure of full shareholder voting records.

Voting has legal power and is quantifiable. Ultimately voting is most effective when embedded within a broader engagement process. LAPFF recommends that the Government should exercise the reserve power in the Companies Act to mandate full voting disclosure. In addition there should be prescription as regards the nature of disclosure in order to facilitate comparative analysis.

The benefit of full disclosure is that it would facilitate the analysis of how various investors exercise their ownership rights. With the patchy reporting under the current voluntary regime this is simply not possible. LAPFF considers that the costs of making voting data public are negligible.

5.2.3 Pooled Funds

Pooled funds should be encouraged to facilitate pro rata voting and to explain publicly if and why they do not

Furthermore, the inability of asset owners to split votes in pooled vehicles restricts meaningful involvement and engagement on the part of pension funds trustees and can be a significant barrier to effective stewardship. We consider that it should be a best practice requirement, on a comply-or-explain basis, for pooled funds to enable voting decisions to be made by the underlying asset owners and to be reflected in the votes cast. Pooled funds should be encouraged to facilitate pro rata voting and to explain publicly if and why they do not, in line with the comply-or-explain enforcement of UK Corporate Governance and Stewardship Code compliance.

5.3 Shareholder relations

Companies should disclose the share structure, voting rights and any other rights attached to each class of shares.

Shareholders need to have clear information about their rights and those of other shareholders. Shareholders who have the same financial commitment to the company should have the same rights. Dual share structures with differential voting rights are disadvantageous to many shareholders and should be reformed.

A company's authority to issue shares is among the routine items for which shareholder approval is required at general meetings. LAPFF supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority. LAPFF supports the dis-application principles set out in the Pre-emption Group Statement of Principles.

5.4 Engagement with Fund Managers

LAPFF encourages trustees to hold fund managers accountable by regularly reviewing their performance and company engagement activities.

The UK Stewardship Code has increased the focus on enhancing the quality of engagement between institutional investors and companies. The Code is addressed in the first instance to firms who manage assets on behalf of institutional shareholders to help improve long-term returns and the efficient exercise of governance responsibilities. The Kay Review recognises that asset managers have become dominant in the investment chain and therefore play a key role in "exercising the attributes of share ownership."

LAPFF has long believed that trustees have an active role to play in promoting good practice in corporate governance and social, ethical and environmental matters. An important way in which trustees can become more activist, even if resources may be limited, is by regularly reviewing their fund managers' engagement activities with a view to assessing the effectiveness of that engagement, on the basis of regular (e.g. quarterly) reports from fund managers or in meetings with them. As more local authority pension funds are investing in non-UK domiciled companies, engagement with non-UK companies is gaining in importance. Delegating shareholder engagement does not mean that trustees should simply let their fund managers take over shareholder activism. Delegation still requires responsible stewardship by trustees of their managers' delegated responsibilities, in line with the UK Stewardship Code.

5.5 Engagement with Asset Owners

LAPFF considers that the closer company managers are to their underlying asset owners the more understanding they are likely to generate for their business strategies.

The Forum engages with a large number of UK companies per year. In these engagements we value the explanation from company managers of their business strategy and particular challenges they face. We consider that the closer company managers are to their underlying asset owners the more understanding they are likely to generate for their business strategies. The present culture of quarterly results presentations to City analysts and portfolio managers is probably an insufficient mechanism for such communications.

6 Corporate Responsibility Reporting

6.1 Non-Financial Disclosure

LAPFF encourages companies to describe how their corporate responsibility and sustainability policies align with and support the long-term corporate strategy.

We caution against the approach used by some reporting companies, which appears to us to have become an annual restatement of boilerplate text relating to generic, rather than company-specific risks, opportunities, and activities. "The board should monitor the quality of the information it receives and ensure that it is of a sufficient quality to allow effective decision-making."

In the UK context, the Forum's commitment to improving the quality of corporate reporting is shown through its support of the Kay Review and recommendations from the Kay Review assessment). The Forum considers that the strategic report requirements are important in providing the most useful disclosure, including ESG disclosure, for shareholders. For example, the guidance refers to the provision of forward looking information prepared 'so as to assist the members of the company to assess the strategies adopted by the company and the potential for those strategies to succeed.'

LAPFF considers there were key issues missing from the business review provisions that are now addressed more appropriately in the strategic report requirements. However, reporting could still be improved in relation to:

- Capital allocation: we believe the process by which a board allocates capital, including the trade-offs it makes between competing projects and stakeholders is critical to a shareholder's understanding of a company's ability to create value and its orientation to stakeholders and should be disclosed at a level of detail not seriously prejudicial to the company.
- Employee engagement: the level of employee engagement in a company is often a determining factor in company performance. Nonetheless, whilst there is a great deal of (boilerplate) reporting on how companies attract and retain staff there is very little (almost no) discussion of the policies, process and cultural factors companies use to motivate people to perform.
- ESG and human rights contribution to strategy and performance: Although a substantial proportion of companies refer to environmental, social and governance (ESG) and human rights matters in setting out their strategy, few companies comment on how their ESG and human rights performance contributes to this strategy according to our definition of the term and further make the consequent significant link to performance.

LAPFF supports the FRC's call for reporting on material information in the annual report and agrees that inclusion of immaterial and duplicate information can detract from clear messaging. Improved reporting on linkages between information presented and business performance is welcome as well.

6.2 Non-financial Incentives

Companies should endeavour to develop non-financial incentives and reward systems to help attract, motivate and retain staff.

Most executives report being driven by non-monetary rewards including a sense of achievement, of being part of a successful management team, of working in a place where they are in tune with the organisation's values and objectives, and of building a great company. These themes recur in most studies of employee motivation and engagement. It is widely acknowledged senior executives have their own motivation calculus, their own set of needs and desired results and that, to most, money is simply a form of calibration, or a way by which senior executives compare themselves with their peers.

Equally, it has been found that the companies that most effectively motivate their employees to pursue future growth and concentrate on current performance take care to supplement financial rewards with unusually inclusive and motivating corporate cultures. At a company of this kind, employees see a close fit between its long-term interests and their own. Consequently, they are better motivated to work diligently and creatively to serve the business well. In such companies, the culture and incentive schemes serve to reinforce each other.

Nevertheless, it is virtually non-existent for a company to report extensively on how it uses non-monetary reward systems to attract and retain staff, to motivate them to perform or indeed to align their interests with the interests of shareholders by motivating them to deliver long-term business success. We consider this a material omission and, if addressed, would significantly help stakeholders appraise the quality of a company's organisational capital.

6.3 Employment, Health and Safety

LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value.

The Forum is committed to improving the quality of employment reporting by listed companies and has set out a range of core indicators of good practice that companies should disclose.

On Health, Safety and Risk Management, many companies appear to pay more attention to health and safety, and risk management outcomes than they do to the quality of the business processes that underpin these.

In spite of this, companies routinely disclose health and safety, and risk management outcomes without commenting on the quality of the business processes that underpin them (except for the usual boilerplate). We believe this gives rise to the possibility that companies become complacent (for example, as outcome data improves even when processes are deteriorating), and deprives stakeholders of the opportunity to police company behaviour effectively in this regard.

6.4 Human Rights

The Forum encourages companies to adopt human rights policies and management practices in line with the UN Guiding Principles on Business and Human Rights and believes these policies and practices should be disclosed to shareholders.

The Forum views human rights as an important business issue and a potential indicator of investment risk, in line with the position in the UK Companies Act. The Forum has a long history of engaging companies on human rights issues, particularly regarding health, safety and employment practices but not limited to these areas. Corporate respect for human rights covers both direct and indirect impacts by companies. In other words, it extends to include the rights of people that are not only directly employed by companies, but those individuals and communities that may be affected by a company's operations. Companies operating in conflict zones or those with significant operational footprints may be particularly exposed to human rights risks and may require enhanced protection of adversely affected stakeholders and disclosure of steps companies are taking to respect human rights.

We take the view that the way companies manage human rights can affect companies' reputations and their ability to operate and grow their businesses effectively, sustainably, and profitably. Therefore, improved disclosure of how companies monitor and respond to human rights risks (including labour, health and safety, and community-based risks), as well as remedial measures they undertake when adverse human rights impacts are uncovered, would be welcomed.

6.5 Political Donations

LAPFF assesses the issue of political donations on a case-by-case basis

LAPFF has general concerns over the reputational risks and democratic implications of companies becoming involved in funding the political process. However, we recognise that it may be appropriate for companies to fund business associations or groups whose activities

have a direct benefit to the company, or to undertake other funding that may fall within the ambit of the Political Parties, Elections and Referendums Act. We also recognise that UK law relating to the disclosure and authorisation of political funding is currently subject to varied interpretations. Whilst legal compliance is of course a requirement for companies, LAPFF will critically assess company proposals, especially decisions to fund SuperPACs in the United States.

6.6 Carbon Management and Reporting

LAPFF recognises the impacts that climate change is likely to have on the global economy and society as a whole. It is LAPFF's view that the scale of these impacts is such that a proactive and precautionary approach is needed in order to address them.

6.6.1 Carbon Emissions Reporting

The Forum strongly supports the introduction of mandatory carbon emission reporting in all jurisdictions.

The Forum considers that corporate carbon emission reporting should be made mandatory in all jurisdictions. This could be put into effect by integrating appropriate requirements into individual stock exchange listing requirements.

LAPFF considers that a single global reporting framework is essential in the context of initiatives seeking a consensus on global action required to tackle climate change. Companies should use international accounting tools for clarity and comparability in reporting carbon emissions, specifically the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. In determining boundaries for reporting, the 'financial control' approach should be taken, as this is the best way to ensure comparability and consistency. When reporting, companies should disclose absolute emissions and use emission intensity indicators as the latter enables better year-on-year comparison if a company is growing or shrinking.

The Forum firmly supports the UK Climate Change Act which established a target of carbon emission reductions of 80% by 2050 as against 1990 levels. This target represents an appropriate UK contribution to global emission reductions consistent with limiting global temperature rise to as little as possible above 2°C consistent with 450 parts per million of CO₂ in the atmosphere.

LAPFF considers it important that there is certainty around international objectives regarding managing systemic climate disruptive risks and a crucial element of this is encouraging emission reduction through effective legislation. With the provision of a clearly identified legislative framework on carbon reductions, companies will be able to make the necessary decisions and financial commitments to provide the short and long-term solutions to decarbonising the economy that are needed.

6.6.2 Carbon Management and Business Strategy

LAPFF considers that companies should report on their approach to carbon management in the context of how they are factoring the relevance of climate change into their business strategy.

The Forum's engagement strategy is to ask companies to identify and tackle carbon risks in their business models. LAPFF will continue to press companies on aligning their business models with a 2°C scenario.

For coal, oil and gas companies, particular attention is given to carbon asset risk, by promoting a low carbon transition. For oil and gas companies, the focus should be on value at risk, particularly from high cost projects and support can be given to returning capital to investors where appropriate.

LAPFF does not support divestment from fossil fuel companies but supports an orderly transition requiring companies to identify and tackle carbon risks in their business models. LAPFF members are supportive of investment opportunities afforded by a low-carbon future which increases diversification and provides long-term returns.

6.6.3 Water and Business Strategy

LAPFF considers that companies should report on their approach to use and protection of water resources in relation to their business strategies.

Given the current threat to water resources, arguably linked to carbon risks, LAPFF considers it important for companies to report on their water use so that investors can understand how this use affects the environment and can be sure that the resources are being used in a way that sustains business models and operations.

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