# The relationship between CRISA and Regulation 28 of Pension Funds Act and Integrated Reporting

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### What is CRISA?

The Code for Responsible Investing in South Africa (CRISA) was launched on 19 July 2011.

At the launch, South African Finance Minister Pravin Gordhan said the financial crisis had shown how the world needed to move from a short-term to a longer-term investment focus. He said the concept of investor returns had to be broadened to include the generation of benefits for all stakeholders in society.

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Both the King Report on Corporate Governance South Africa (King III) and the United Nations backed Principles for Responsible Investment (PRI) require institutional investors to consider ESG factors seriously in investment decisions. CRISA aims to provide guidance to the investor community on how to give effect to these requirements.

CRISA applies to institutional investors as asset owners (e.g. pension funds and insurance companies), and their service providers (e.g. asset managers, fund managers and consultants). It is a voluntary code that encourages institutional investors and their service providers to adopt the applicable principles and practices on an "apply or explain" basis.

The five key principles of the code are:

- An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
- Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- An institutional investor should recognise the circumstances and relationships that hold potential for conflicts of interest and should pro-actively manage these when they occur.
- Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to better enable stakeholders to make informed assessments.

The effective date for reporting on the application of the code was 1 February 2012. Institutional investors need to disclose fully and publicly the extent to which the code has been applied on an annual basis. If an institutional investor has not fully applied one of the principles of the code, the reasons should be disclosed publically while policies should be made available.

### What is Regulation 28 of the Pension Funds Act?

The revised Regulation 28 of the Pension Funds Act regulates how retirement funds should invest their assets to ensure that their long-term commitments to members are met. It provides guidance to trustees on how to formulate appropriate investment strategies to provide suitable retirement benefits to members, in addition to determining assets limits. It also sets out a number of principles which will strengthen the decision-making process of trustees and improve transparency and accountability to fund members and to the Registrar.

The regulation explicitly states that prudent investing should take into account all factors that could materially affect an investment, "including factors of an environmental, social and governance (ESG) character". The revised Regulation 28 became effective on 1 July 2011. The Financial Services Board had subsequently provided an extension for compliance to 31 December 2011, to allow retirement funds and their service providers time to implement the necessary systems and contractual changes.

### What is the link to Integrated Reporting?

Retirement funds are currently among the most significant holders of equities in South Africa. The ultimate beneficiaries of the funds are the individual members of retirement funds who have become the new owners of capital. The governing bodies of retirement funds are key financial decision makers and invest more than R2.3 trillion annually on behalf of the abovementioned individuals. The sphere of influence of institutional investors, as custodians of members' assets, is therefore profound. CRISA, Regulation 28, PRI and other related initiatives provide an enabling framework for institutional investors to engage and hold investee companies accountable for sustainable returns.

John Oliphant, chairman of the stakeholder committee that drafted CRISA noted that "as long-term investors with fiduciary duties, we simply cannot afford to ignore the importance of integrating sustainability issues, including ESG, into long-term investment strategies. As institutional investors we have the ability to influence and encourage the companies in which we invest to apply sound governance principles and to care for the environment in which they operate."

The long-term investment window of institutional investors typically extends beyond 30 years which is linked to the average work life of an individual. The ability of an organisation to enhance and preserve long-term sustainability in all its dimensions, without unduly sacrificing short-term performance is therefore pivotal in terms of this investment perspective.

The question often posed is: how does one assess whether an organisation will be sustainable in the long-term? Stakeholders have been inundated with multiple types of corporate reporting during recent times, with the key message often being lost in the detail.
The development of Integrated Reporting is designed to enhance and consolidate existing reporting practices, to move towards a reporting framework that provides the information needed to assess organisational value in the 21st century. According to the International Integrated Reporting Council (IIRC), the Integrated Report combines the different strands of reporting (financial, management commentary, governance and sustainability reporting) into a coherent whole that explains an organisation's ability to create and sustain value. The Integrated Report is a single report that the IIRC anticipates will become an organisation's primary report.

The IIRC launched a global investor network in March 2012. This network was established to provide an investor's perspective on the shortcomings of the current corporate reporting regime. According to the IIRC, the network is also expected to provide constructive challenge and feedback on the output of the IIRC's pilot programme, as well as "to engage with peers in the investor community".

**What is happening in practice?**
The creation of various codes, frameworks, networks and initiatives targeted at institutional investors and their service providers, highlights the pivotal role of these entities in promoting and driving long-term business sustainability. It is clear that the effect of these codes will only become evident after a period of time. Participation is mostly on a voluntary basis: user education has to take place and these measures have to become embedded in the business environment. A real change in behaviour will only be evident once long-term sustainability considerations are entrenched in the DNA of organisations and those people leading them.
Discussions with executives from different industries and businesses revealed that the impact of these codes is still in the very early stages, with proactive engagement from asset owners and service providers still not clearly evident in most instances. The Responsible Investor website reported on a confidential survey of senior investment practitioners, highlighting the "deafening silence from asset owners on socially responsible investing and environmental, social and governance issues" (www.responsible-investor.com/home/article/deafening_silence_on_esg/).

We encourage asset owners and their service providers to play a more active role, which could typically include proxy voting, collaboration with co-investors on ESG matters, publishing investment policies and service level agreements with service providers, as well as using valuation methods that incorporate ESG considerations. It is up to the responsible investor to embrace the frameworks created by CRISA and Regulation 28 and thereby to contribute to the establishment of a sustainable future.

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