



GLOBAL SUSTAINABILITY STANDARDS BOARD (GSSB)

Care of tax@globalreporting.org

Mander House
Mander Centre
Wolverhampton
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28 February 2019

Dear Sir or Madam,

LGPS Central Limited (“LGPS Central”) welcomes the opportunity to respond to the Global Sustainability Standards Board’s (GSSB) consultation on the GRI topic-specific Standard: Tax and Payments to Governments.

LGPS Central was established as part of the programme of pooling local authority pension fund assets in order to reduce costs and provide access to asset classes such as direct infrastructure. We currently manage around £14bn on behalf of our partner funds. Our partner funds are Cheshire Pension Fund, Derbyshire Pension Fund, Leicestershire County Council Pension fund, Nottinghamshire Local Government Pension Fund, Shropshire County Pension Fund, Staffordshire Pension Fund, West Midlands Pension Fund, West Midlands Integrated Transport Authority Pension Fund, Worcestershire County Council Pension Fund.

LGPS Central has committed to place Responsible Investment at the heart of its investment process, as articulated in our *Responsible Investment and Engagement Framework*¹. As long-term investors, we are supportive of improved disclosure standards that improve the fairness and transparency of our investee companies’ tax strategies. We believe sustainable tax practices are part of building a sustainable business, supporting returns to long-term shareholders. Either directly or through our outsourced stewardship provider, we engage companies on tax strategy and disclosure. As an organisation that was created by and for local authority pension funds, we also have an inherent inclination to agree with the view that companies have a moral obligation – not just a commercial interest - to pay and disclose tax payments in a fair and transparent manner.

In drafting responses to consultations that concern additional disclosure requirements, LGPS Central applies the following principles:

1. Disclosures should focus on material issues

¹ www.lgpscentral.co.uk/responsibleinvestment

2. Disclosures should add value to companies and long-term investors
3. Disclosures should be decision-useful
4. Disclosures should create as little burden and cost as possible
5. Disclosures should introduce the correct incentives and behaviours and avoid unintended consequences including 'boiler-plating' by disclosers
6. Disclosures should be prepared in a format and located in a document useful to the reader

With that in mind, we are very supportive of the proposals to introduce improved tax disclosures into the GRI framework.

In our consultation response, we wish to emphasise the following points:

- 1) We support country by country reporting of tax payments and believe that all proposed disclosures are critical for an investor's appraisal of a company's tax strategy
- 2) We believe there are certain areas in which the disclosures could go further, including the use and management of tax advisors, and of membership of organisations and trade associations known to lobby for lower levels of tax accountability

Our additional comments are provided with respect to the consultation questions below.

Should you wish to contact LGPS Central about this consultation response, please do not hesitate to get in touch.

Yours sincerely,

Michael Marshall
Director of Responsible Investment & Engagement, LGPS Central Limited

Question 1: Are any of the management approach disclosures in *GRI XXX: Tax and Payments to Governments* not understandable and/or feasible? If so, why, and, what, if any, wording revisions or guidance would you suggest?

We believe all the management approach disclosures are understandable and feasible.

Question 2: With respect to reporting requirements in the management approach disclosures in *GRI XXX: Tax and Payments to Governments*, are all of them critical to describing the management approach on tax and payments to governments. If not, which requirements are not critical?

We believe that all of the management approach disclosures are critical in this regard, and we comment the Technical Committee on the work undertaken.

Question 3: Are any of the topic-specific disclosures in *GRI XXX: Tax and Payments to Governments* not understandable and /or feasible? If so, why, and, what, if any, wording revisions or guidance would you suggest?

We believe all the topic-specific disclosures are understandable and feasible.

Question 4: Do you have any comments on the definitions included in the glossary of *GRI XXX: Tax and Payments to Governments* (line numbers 588 - 625)? Are there any additional terms in the draft Standard that need to be defined?

We feel that the glossary should include a definition of “tax haven”.

Question 5: Are there additional references, other than those listed in *GRI XXX: Tax and Payments to Governments* (line numbers 626 - 635), that could be useful in understanding and applying the Standard?

No comment.

Question 6: Are there any disclosures in *GRI XXX: Tax and Payments to Governments* that are not critical to understanding an organization’s tax practices? Are there any critical disclosures missing from *GRI XXX: Tax and Payments to Governments* that are necessary to understanding an organization’s tax practices?

We believe that all proposed disclosures are critical. We would, however, recommend certain extensions to the proposed disclosures. This is discussed below.

Line 235: We believe that organisations should report additionally on their use of tax advisors, naming the organisation used, stating how alignment between the advisor and the organisation’s own tax approach is ensured in documentation (e.g. in engagement letters) and through service monitoring.

Line 248: We believe that the disclosure of use of tax havens, use of tax incentives, and transfer pricing, should be mandatory, not just advised in the guidance.

Line 257: We believe that a company must disclose the scope of its tax strategy, providing details where coverage is less than 100%. We think therefore that disclosure of scope should appear as a requirement rather than in the guidance only. Scope should be defined as it is elsewhere in the GRI protocol.

Line 308: We think that an additional suggestion for the embedding of tax strategy could be the company's approach to remuneration (or other incentives), either for (i) tax professionals in the organisation, ensuring tax minimisation is not an overriding objective (ii) executive management and whether tax burden affects variable remuneration (iii) whether the Board's oversight removes monetary incentives to pursue unsustainable tax strategies (presuming Board directors are remunerated on a flat fee basis).

Line 355: We believe organisations should report on the consistency of tax practices including assurance across different geographic locations. If looser standards are adopted in certain regions, companies should disclose this and provide a rationale as to why this aligns with the overall tax strategy.

Question 7: If you are a reporting organization, do you believe the draft Standard as it is presented in this form and/or the topic of tax and payments to governments, would be material for your organization?

Not relevant.

Question 8: If you represent an organization that is currently reporting publicly on tax and payments to governments, how do the disclosures in *GRI XXX: Tax and Payments to Governments* compare to what you are currently reporting? Is your organization subject to any existing public reporting requirements on tax and payments to governments? If so, which one/s?

No comment.

Question 9: Do you have any other comments or suggestions related to this draft Standard?

We believe that the disclosure standards could be improved by encouraging further transparency in two areas. Firstly we believe that companies should review their membership of trade associations and other organisations that are known to have lobbied to reduce tax accountability, and that companies should disclose the outcomes of these reviews. Secondly we believe companies should disclose the promptness of their payments of tax liabilities. Delays to the receipt of tax revenues can be meaningful for some countries. There is a case for adding promptness disclosures to both management approach and to topic-specific reporting.