Remarks for IFC – Valeria Piani June 2017

The Principles for Responsible Investment ¹ is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. We represent over 1700 of the world’s largest pension funds, insurance companies, fund managers and service providers who collectively manage more than 62trillion US$ in assets under management. We also represent several hundred service providers that include data collection and research services, reporters and assurers. Our signatories believe that applying our six principles to their operations can help manage risks, lead to better returns and better align investment behaviour with the broader objectives of society – something we see well aligned with the UN’s Sustainable Development Goals.

Commitment to transparency and accountability

Adequate transparency is a key requirement for a well-functioning investment chain and should apply to all actors along the chain. Adequate disclosure implies that it meets the demands of those actors, including material ESG factors, but also meaning values and outcomes. We firstly approach transparency and disclosure via the PRI’s own reporting framework. Then, there is the corporate reporting and disclosure that investors use, and what we know of investor views on this topic.

The PRI is committed to the ideals of transparency and accountability; they are part of our central tenets. Our sixth Principle specifically requires signatories to report on their responsible investment activity, and we maintain a large reporting tool and framework² that has allowed us to collate the largest database of responsible investment information globally.

The PRI has as such been instrumental in facilitating disclosure among our asset owners and investment managers. In 2006, only a handful reported publicly on their responsible investment activities. In 2017, 1200 investors will have Transparency Reports on their responsible investment activity on our public website. This transparency is assisting dialogue between asset owners and asset managers, and helping asset owners to hold them to account. It also provides and evidence base for what responsible investment activity is possible and what is reasonable to expect. From 2018, it will be mandatory for service providers to similarly report.

¹ https://www.unpri.org/about
² https://www.unpri.org/report
The original group of PRI signatories included some large, influential asset owners. When they issued requests for proposals, they asked fund managers whether they had signed the Principles. And this was good enough - the PRI became a shared reference point for the industry. It provided a clear framework for responsible investment, and we developed to provide tools and services to the industry.

Now, even most mainstream asset managers have teams and products dedicated to ESG – it’s almost unthinkable to ignore it. In an increasingly busy market, responsible investment can give a competitive edge.

However, while we celebrate that many of our signatories are making progress, we need to be vigilant against green and indeed blue washing. So in our ten-year strategy, we’ll be outlining our plans for a minimum standard that all our signatories must achieve – and we’ll seek to delist those who contravene the spirit of the Principles.

**Corporate disclosure**

In addition, we encourage signatories to seek appropriate disclosure on ESG issues by the entities in which they invest through Principle 3, as this ensures that investors have the information they need to incorporate ESG issues. We are keen to collaborate with other entities to develop alignment on what information is supplied and how, though at present we make no recommendations.

There is a long-running debate over whether standardised or customised information is more desirable, which runs up against the reality that investors are all different, and so are companies. However, investors do wish to see reporting (including CSR/ESG-reporting) presented in the context of strategy, governance, performance and future prospects in a way that provides them with information on value creation over time.

Investors are (primarily) interested in material ESG issues and generally desire companies to make the materiality assessment. But at the same time, investors usually want companies to have a thorough process of stakeholder dialogue with investors, NGOs, local communities, employees, business partners and governments. Investors understand that this dialogue may ask for a relatively wide set of sustainability/ESG-data.

What is interesting from a perspective that considers the UN SDGs, is the increasing investor interest in the contribution of companies and investors to wider objectives of society, including global sustainability challenges - particularly relevant areas which are likely to have an impact on performance over time.

Meanwhile, emerging forms of reporting mechanisms and technology developments are providing organisations with new options in how they report and present information. The increased use of ESG information by investors will drive improvements in how that data is collected and used, in a shift towards integrated outcomes. Given the PRI’s focus on integrating ESG factors into investment management, we also see clear advantages in encouraging signatories to disclose material financial and ESG performance information in the same place.

Listed companies and organisations providing reporting standards are struggling with the issue of how to integrate relevant factors on areas including CSR/ESG in their value creation models and corporate reporting. To some extent this is because investors are sending mixed signals about their preferences.
Recognising the importance of reporting mechanisms to support adequate disclosures, the PRI has
provided input to the work of the Task Force on Climate-related Financial Disclosures (TCFD), an
initiative of the Financial Stability Board that is seeking to encourage voluntary corporate disclosure
on climate change issues.

In recommendations published in December 2016, the Task Force sets out how organisations across
all sectors and jurisdictions might produce consistent climate-related financial disclosures of use to
investors, lenders, and insurance underwriters in understanding material risks. It calls for disclosures
around governance, strategy, risk management, and metrics and targets, and for those disclosures to
be made in organisations’ financial filings, given the materiality of climate issues.

Alignment of reporting frameworks for investors and measuring impact

As part of our work with the TCFD, PRI has committed to align our signatory reporting and
assessment process with the Taskforce’s recommendations and in 2018 the PRI will provide
guidance on how we have aligned our own Reporting Framework to allow investor reporting on
cclimate.

While we are examining TCFD alignment, we are collaborating with other organisations with a view to
connecting information collection. The TCFD is a good example of an effort to drive alignment of reporting
standards. Aligning our Reporting Framework will serve the purposes of efficiency in reporting, whilst allowing us to test
a move towards outcomes-based reporting. It will be the precursor of efforts to allow investors to report on SDG-
related impacts.

We know that interest in the SDGs in increasing amongst the signatory base from PRI reporting data. In 2016, only
one signatory mentioned them in their PRI reporting. In 2017, this has risen to over 61. In addition, signatories are
increasingly reporting that they are measuring both the financial and ESG impact of their investments (see box).

Practically speaking, it will be difficult to propose a method of measurement on the SDGs without first
understanding clearly the ‘why’ and ‘how’ aspects – that is the investment case and practical implementations. Analysis of reporting data on ESG and financial impact measurement will help us
to understand potential frameworks and approaches. But unifying an approach across different
investor types will be difficult, and many investors also consider this proprietary information that
gives them a competitive advantage – hence may be unwilling to share their approach.

We know from our initial roundtables with GRI and UNCG on corporate reporting on the SGDs that
there is still uncertainty on how investors should and can measure their impact. This is an important
question for us to address before we develop a measurement tool. The UN has provided guidance
on measurement for some but by not all of the indicators, and this remains at company level.

Measuring impact

Of the 572 signatories that report on integration of ESG factors into their listed equity assets, 33%
report that they measure whether their approach to ESG issues impacts funds’ financial
performance – 61% reporting positive impact, 12% negative impact and 24% no impact. This is
more than the 27% or respondents that measure whether their approach to ESG issues impacts funds’ ESG performance (of which,
89% report positive impact).

3 https://www.fsb-tcfd.org/
We understand well the proliferation of reporting frameworks, standards, disclosure platforms, and take seriously concerns around reporting burden. We already align our own reporting framework with other frameworks where possible and relevant.

Information should have to work for the end user. When reporting is successful, the act of pulling together the report has helped an organisation to form a cohesive view of its activity, it has considered stakeholders and the appropriate audience and it has selected material information.

The trends that we see and would like to pursue are collaboration, alignment and efforts to shift reporting towards outcomes and impact.