

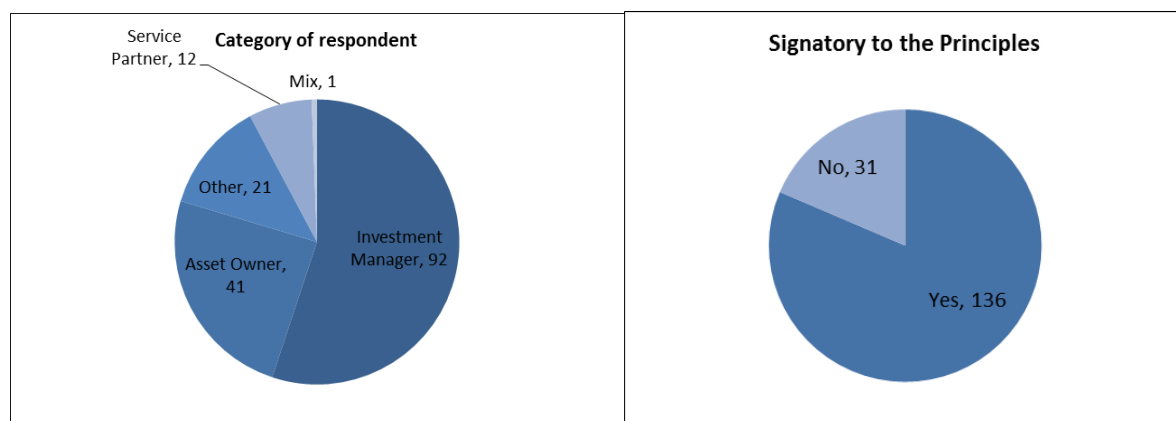
Summary of Consultation Feedback

Background

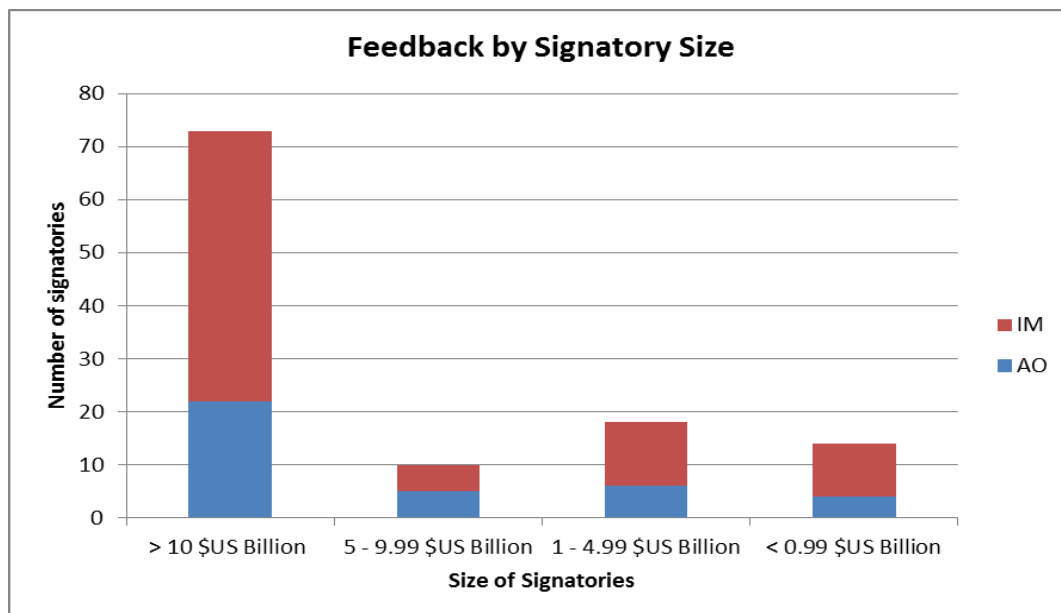
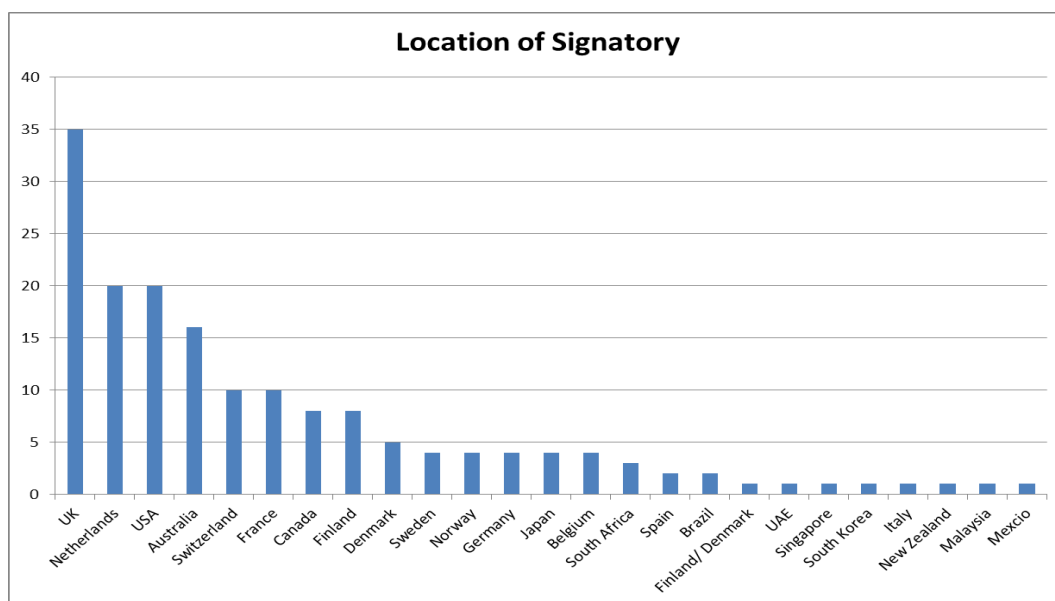
PRI's Reporting and Assessment survey has been in place since 2006. In early 2011 - reflecting feedback from PRI's signatories, growing demands for transparency, the growing diversity among PRI's signatories – the PRI Secretariat initiated a process to develop a framework that could be used by signatories for reporting on their responsible investment activities and that could be used by PRI in its annual reports on progress.

The draft reporting framework was developed by the PRI Secretariat in conjunction with a group of experts (the Technical Committee) representing the range of perspectives and interests of PRI's members, including those of asset owners, asset managers, investment advisors and independent advisors. Asset class-specific supplements were prepared by PRI Secretariat-convened Asset Class Advisory Groups. As part of the drafting process, the PRI Secretariat also obtained regional input from its Regional Advisory Groups in North America, South Africa, Japan and Oceania.

Over the period 5 September until 21 October 2011, the PRI Secretariat consulted publicly on the draft framework, with the aim of gathering feedback and comment from all PRI signatories. Comments were sought through the PRI's website and through several outreach activities. The PRI received over 150 responses to the consultation, as well as a series of informal comments from signatories. To get a sense of the source of the feedback see tables below¹:



¹ These statistics have been calculated shortly after the close of the consultation. We subsequently have received additional feedback which has not been added to these graphs; their addition would not alter significantly the results of the breakdown of the feedback received.



The PRI Secretariat also presented the draft framework at its annual conference (PRI in Person) in Paris in September 2011, convened a series of webinars to discuss the draft framework, participated in a number of one-on-one and group discussions with PRI signatories, and wrote a series of articles about the background to and content of the draft framework.

This document summarises the feedback received from the consultation, highlighting the main technical and policy issues that were raised in the course of the consultation.

Overall Feedback

The feedback on the draft reporting framework was broadly positive. There was relatively little criticism of the idea that PRI signatories should report, and there was a general – although not universal – support for the approach adopted in the reporting framework (notably the greater focus on asset classes, the delineation between direct and indirect investors, and the freedom offered to respondents to describe their approach rather than simply reporting against PRI-defined indicators).

Despite this support, two key reservations emerged quite clearly: (a) reporting burden, (b) the manner in which the reported information might be used by PRI (in particular, desire to know how it will be used for future assessment).

- Many respondents felt that the new approach would be too burdensome and time-consuming, particularly for smaller organisations and for those signatories with both direct and indirect investments. The concerns focused on both the overall number of questions as well as the request for too much detail against individual questions.
- Signatories expressed concerns about how the reported information would be used to in a future assessment framework. There are two kinds of reservation. One is that respondents cannot properly respond to the question of what reporting is required until they have a clear view of how this reporting will be used for assessment. This concern about benchmarking had a significant influence on the specific feedback received during the consultation with much of this feedback explicitly focusing on how a particular question or data point might be used in benchmarking, rather than whether the question or data point was relevant, important or appropriate for pure disclosure purposes. The other reservation expressed by a number of signatories – and particularly some asset owners – that the reporting framework should focus on the goal of encouraging transparency across the industry, rather than being primarily seen as a precursor to benchmarking.

Structure, Logic and Approach

An overwhelming majority of respondents (91%) agreed with the main elements of the new approach. There was broad support for the distinction between indirect and direct investors, the asset class-specific questions and for a survey structure based more on business logic and less on reporting rigidly against the six Principles.

Asset classes

Most signatories thought the Reporting Framework captured the most appropriate asset classes. However, a significant number of respondents (almost 20%) expressed surprise that Inclusive Finance had been included as one of the asset classes.

Asset classes that were suggested for future inclusion in the Reporting Framework include Commodities (most popular), Hedge Funds, Derivatives and Emerging Market investments (both

Equities and Bonds). Individual signatories also suggested the inclusion of thematic funds focused on specific areas such as shipping, forestry, solar and wind energy.

New structure

The broad majority of respondents agreed with the move away from reporting strictly against the six PRI Principles, citing benefits such as less repetition, an easier focus on the distinction between asset classes, and avoiding the danger that institutions focus on "how to respond to principles rather than describing their own philosophy and priorities when asked to rigidly follow the 6 principles".

However, some 15% of the respondents disagreed with the new approach, arguing that PRI signatories have explicitly signed up to the six principles, and that the new reporting framework would weaken the link to the principles.

Specific Reporting Requirements

Open and Closed Questions

The draft reporting framework includes both open-ended (i.e. free text) and closed (i.e. reporting against specific indicators) elements. Across the respondents as a whole, there was no clear consensus on whether open-ended or closed questions were preferred; while several respondents liked the idea of free text to allow signatories the freedom to describe their own approach, concerns were raised about how free-text elements would or could be assessed in a benchmarking exercise. One common theme was that, if such elements are to be used for benchmarking, detailed guidance should be provided on the content and length of answers for free text sections, and on how specific answers would be assessed.

Level of Detail

A number of asset owners expressed concern about the quantity and detail of information demanded, highlighting that some pension funds have limited staff/resources and that demanding reporting requirements would be seen as too onerous. Suggestions were made to rotate and comment on only one reporting section per year or lengthen the reporting cycle to reporting once every two years, in order to reduce the reporting burden.

Mandatory/Voluntary Elements

Respondents have provided detailed feedback on the elements that should be mandatory to report and those that should be voluntary. Looking across all of the asset classes, there was a broad consensus that:

- Reporting on policies and processes should be mandatory.
- Reporting on specific examples or private discussions/engagement with companies should be voluntary.

- Respondents should not be required to report on commercially sensitive or confidential information.

While not necessarily representative, a number of other suggestions were made by respondents:

- Compulsory but not publically disclosed information should be kept to a minimum. Some respondents queried the purpose of this intermediary category.
- Signatories should be able to decide their own level of disclosure to the public.
- Signatories should only be required to publicly disclose that information that relates to how they implement the six Principles. Any information, and in particular any mandatory reporting requirements, about engagement with companies should be anonymised.

Small funds

Twenty five smaller funds responded to the consultation. Of these, almost 50% stated that the draft reporting framework is too detailed and time-consuming for small investors. Most suggested that small funds should have a shorter, tailored reporting questionnaire made up of a core set of mandatory questions.

Specific Issues

Resources for Responsible Investment

Opinions were split on this issue. While a group of respondents (over 20%) explicitly commented that disclosing resources is important and useful, there was concern about this as a measure of sophistication of the responsible investment approach. Several respondents commented that resources are not necessarily a good reflection of RI within the organisation.

On a practical level, it was suggested that it would be difficult to properly quantify resources where there is split-time, third-party external providers, or where ESG is integrated into individuals' roles rather than having separate RI roles.

Specialist funds

Of the forty eight signatories that responded to this question, twenty seven explicitly stated that they agreed with the stronger emphasis on specialist funds.

A small group of respondents raised concerns about a potential shift in focus away from ESG integration and that a focus on specialist funds contradicts the PRI's goal of integration.

Several respondents requested very clear definitions around what constitutes specialist funds or mandates.

Use of examples to support reporting on engagement

There was broad agreement on the use of examples to support answers about engagement, especially as a means to share best-practice. Almost all respondents agree with capturing examples of innovative strategies and best practice.

There was general agreement that the number of examples should be kept low to reduce the administrative burden. All except one respondent said the number should be somewhere between one and five examples. Asking for ten examples was seen as excessive.

Several respondents commented on the issue of confidentiality around reporting examples, stating that they would not want to reveal investee names in giving examples of engagement.

Measuring Performance/Outcomes

A number of respondents highlighted the practical challenges of measuring performance outcomes such as the financial benefits of ESG-related research or attributing changes in corporate performance to a specific engagement activity.

Responsible Investment versus PRI Principles

While most respondents were supportive of the move towards asset class-specific reporting, a number expressed concern that this would move attention away from the six Principles.

Addressing feedback

The PRI is looking at various measures to address these challenges in conjunction with the Technical committee, Asset class and Regional Advisory groups and other key stakeholders. For more details on how PRI is attempting to address these challenges, please refer to the “Way forward” document.