



PRI FORMAL CONSULTATION: SUSTAINABLE FINANCIAL  
SYSTEM, PRINCIPLES, IMPACT

# RESULTS

Prepared for PRI  
25 August 2016

# INTRODUCTION

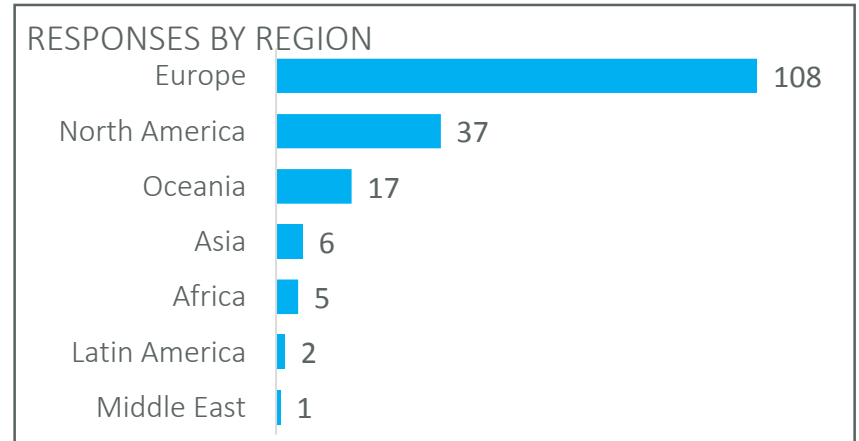
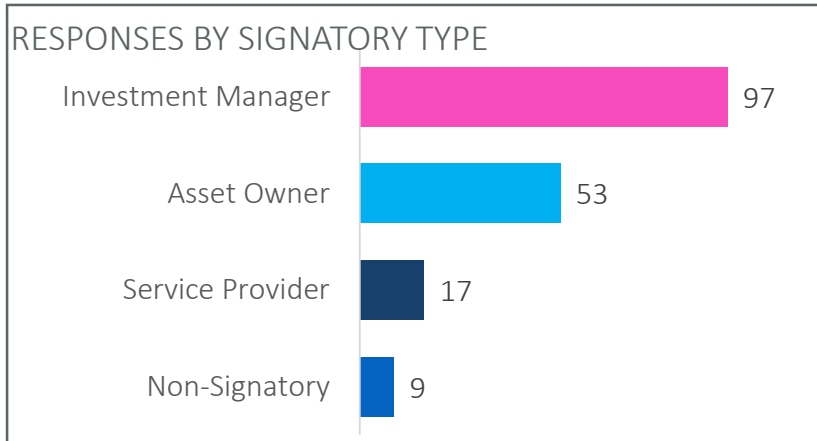
Methodology And Sample

# INTRODUCTION & METHODOLOGY

In order to discover opinions about a number of strategic changes the PRI is considering making as it celebrates its 10-year anniversary in 2016, the PRI commissioned Opinium Research to conduct an online survey with representatives of both Signatory and non-Signatory organisations. The survey was administered between 3<sup>rd</sup> June and 8<sup>th</sup> August 2016. The survey was provided in English, French, German and Portuguese (Brazil). Respondents were requested to complete open-ended answers in English.

Invitations were sent by the PRI to its database of Signatories and stakeholders. In total, 176 people completed the survey, including 167 representatives of Signatory organisations (from a database of circa. 1,500 Signatories), representing 11% of the total Signatory base.

This document provides a summary of the written responses gathered and the overriding themes. The full responses have been provided to PRI and are available as a spreadsheet upon request. These PRI also gathered feedback on the issues raised in the paper verbally at more than 20 regional consultation workshops it hosted.



# SUMMARY

A summary of feedback on the four consultation areas: SFS, Principles, SDGs, Impact

## IN SUMMARY

### CLEAR CONCLUSIONS



Overall, the majority of **Signatories welcomed the proposals made** by the PRI and felt they were relevant to the future of responsible investment.



Signatories believe the **scope, causes of risks and challenges** to the development of a sustainable financial system, and **drivers of change** were adequately captured in the consultation paper.



**Signatories want the PRI to succeed** and to be able to achieve a measurable impact on the external environment and society. **Signatories most commonly suggested using metrics such as assets under management and number of Signatories** as measures of success. All metrics should be relevant and applicable to investors.



The PRI **should partner with established reporting organisations** to develop investor supplements for their sustainability reporting frameworks



## IN SUMMARY

### AREAS OF CONCERN



Across the different consultation areas, Signatories express **concern about the PRI broadening its focus beyond responsible *investment***. Signatories want the PRI to set realistic objectives for them.



Signatories had **mixed views on whether the PRI should more closely align its work with the Sustainable Development Goals (SDGs)**. They felt strongly that any changes **should be driven by market/client demands** and should be **optional for signatories to undertake**.



Signatories also had **mixed views** on whether a **7<sup>th</sup> Principle should be added** to reflect the need for them to take steps to promote a sustainable financial system, as stated in the PRI's Mission. They also had **mixed views** on whether the **existing six Principles should be updated**.



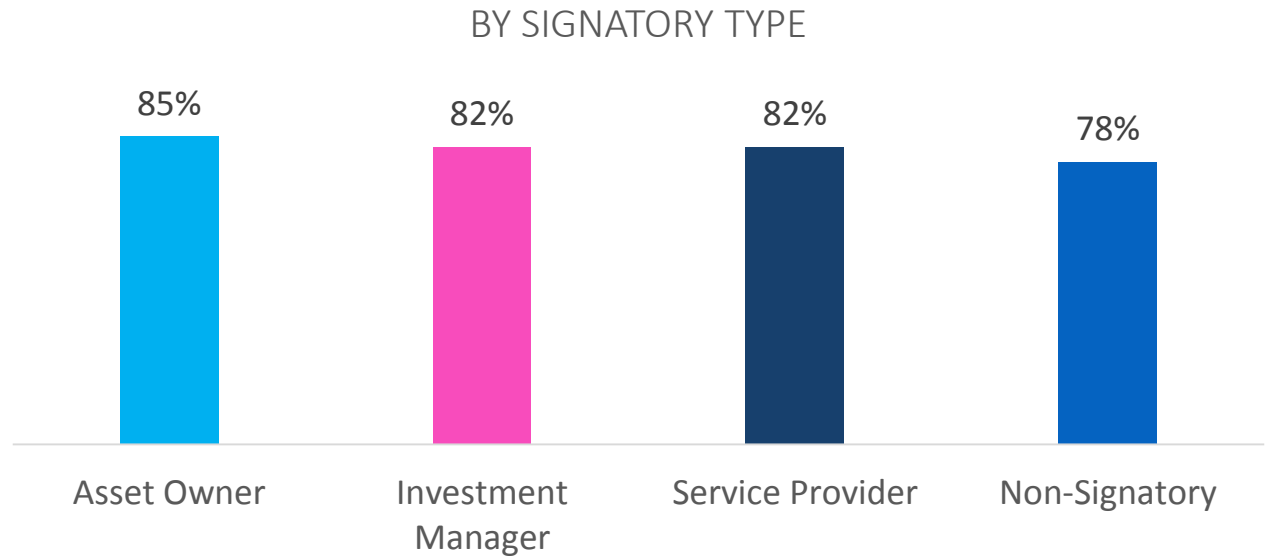
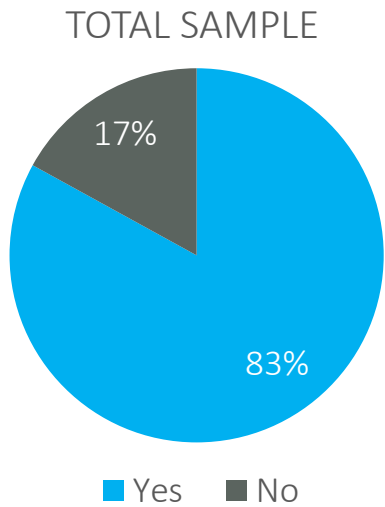
# SUMMARY OF RESPONSES

A summary of responses to each question in the consultation

# SUSTAINABLE FINANCIAL SYSTEM

A majority agree that the inclusions and exclusions adequately capture the scope of the financial system the PRI should focus on.

DO YOU AGREE THAT THESE INCLUSIONS AND EXCLUSIONS ADEQUATELY CAPTURE THE SCOPE OF THE FINANCIAL SYSTEM THAT THE PRI SHOULD FOCUS ON?





# SUSTAINABLE FINANCIAL SYSTEM

Many Signatories believe the scope should be broadened, for example by including a focus on retail advisers and investors. However, others felt the scope was already too broad and are wary of the PRI's remit and focus becoming too complex.

## Include the retail sector

“Given the importance of **retail financial advisers** in the distribution of investment products to retail investors and beneficiaries, especially in regard to retirement savings, it would be worthwhile **bringing this segment closer to the work of the PRI**”

“What was the reason for excluding the retail channel from the scope? If you are thinking about the next 10 years, are there any plans to **widen the scope of the PRI to include retail investors?**”

## Broaden the focus

“If the **sustainability** of the financial system is to be considered by the PRI, it would be best done in reference to the **whole financial system**. Linkages between different parts of the financial system are key to its overall function, and an unduly narrow approach could lead to conflicting perspectives that undermine the sustainability and objectives of the system as a whole”

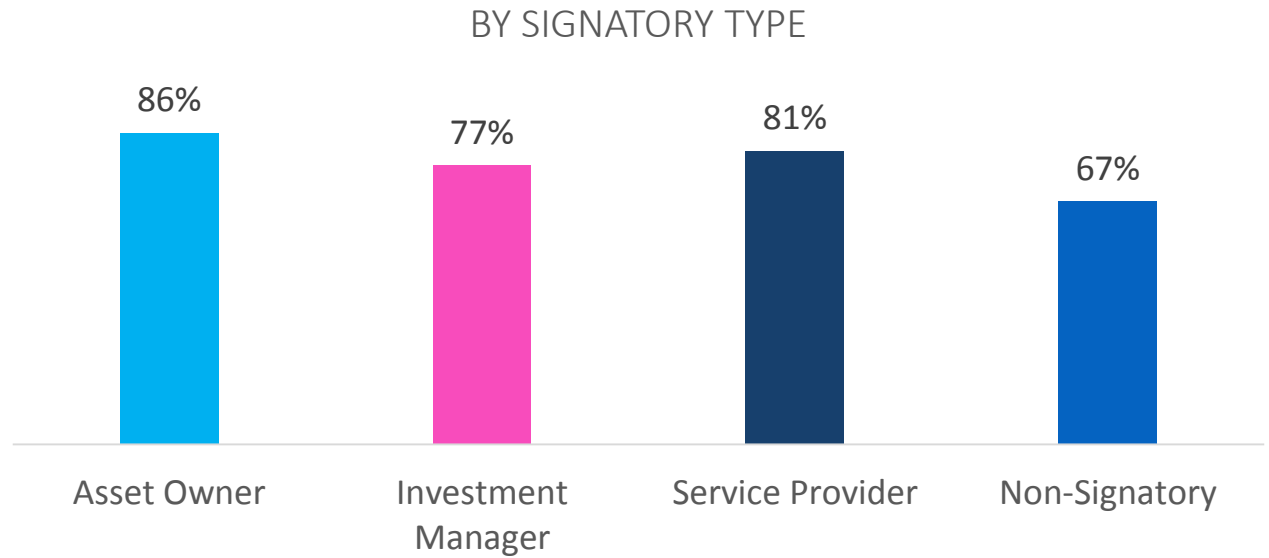
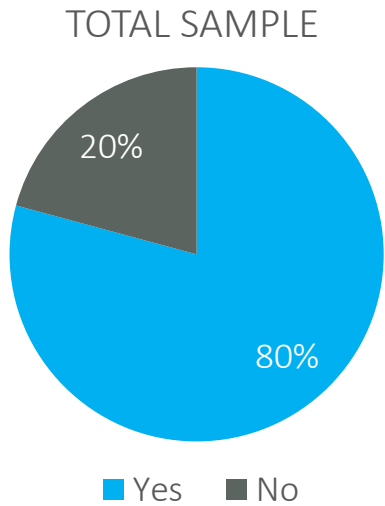
## Focus on the PRI's core mission

“In our view, **the proposed scope is much too broad**. There is still **much work to be done on the PRI's core mission** of serving investors' needs within responsible investment and engagement.”

# SUSTAINABLE FINANCIAL SYSTEM

A majority agree the list adequately captures the causes of risks and challenges to a sustainable financial system.

DO YOU AGREE THAT THIS LIST, AND THE MORE DETAILED LIST IN THE SUPPLEMENTARY DOCUMENT, ADEQUATELY CAPTURES THE CAUSES OF RISKS AND CHALLENGES TO THE DEVELOPMENT OF A SUSTAINABLE FINANCIAL SYSTEM THAT THE PRI SHOULD ADDRESS?



Q2. Do you agree that this list, and the more detailed list in the supplementary document, adequately captures the causes of risks and challenges to the development of a sustainable financial system that the PRI should address?  
Base: Total Sample (172); Asset Owners (51); Investment Managers (96); Service Providers (16); Non-Signatories (9)

# SUSTAINABLE FINANCIAL SYSTEM

Many Signatories felt the list was already very comprehensive, but cited external issues such as climate change and ESG engagement as areas the PRI should increase focus on. Where Signatories suggested additions, they were typically for greater detail on ESG issues already listed.

## The relationship between investors & companies

“There needs to be more **ESG engagement between companies and investors**. Companies should be promoting the spirit of ESG and teaching investors where possible and appropriate about the development in this area.”

“One cause of risk in **the relationship between investors and companies** is that listed companies and issuers have grown so large that the 'human scale' is missing and investments are concentrated in ever growing and larger companies.”

## Externalities to add

- Climate change
- Access to healthcare
- Food security
- Technology development
- Generational change
- Protection of historically, architecturally and/or culturally significant sites
- Protection of geologically and/or biologically important sites/habitats
- Human trafficking
- Human slavery/Indentured Labour
- Child labour
- Animal welfare

# SUSTAINABLE FINANCIAL SYSTEM

Some Signatories would like greater prioritisation of the risks and challenges the PRI will address. Signatories said that the list was long and, while this made them comprehensive, they could become a distraction from the key focus of the PRI and investors. Some even suggested that other organisations were better placed to address certain issues.

## Provide prioritisation

“We think the list is very comprehensive but the **prioritisation of risks is important**. Leverage and bubbles are two core sources of risk/externality to the financial system. Most other risks can be seen as subsets of these two issues and can be eliminated or lessened by renewed focus and awareness of threats to the financial system and its resilience.”

“The challenge will be **crystallising these into key priority (focus) areas** where the PRI determines it can have the greatest influence / impact. Categorising the areas of risk and challenges into the four key areas shown in the consultation paper is a positive first step. Perhaps a worthwhile consideration may be the **creation of sub-categories** for the more extensive 'underlying lists' of causes and risks”

## Better addressed by other organisation

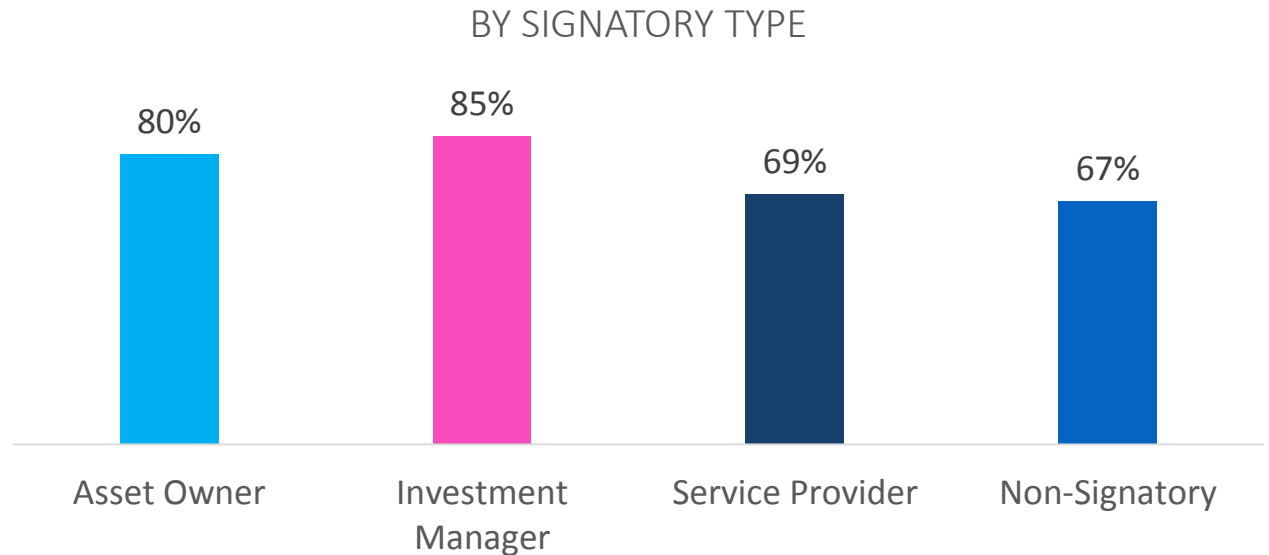
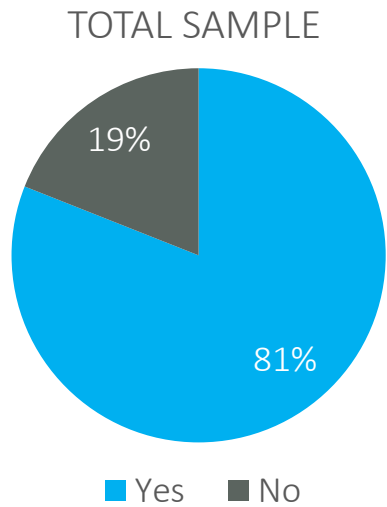
“The question of trying to identify all facets of financial risk may, we suggest, be best addressed by agencies such as the IMF, World Bank, WTO and the FSB.”

“The **list seems a bit too detailed** and covering a number of issues which we would not expect to be addressed by the PRI, but rather by national platforms such as Eumedion. **We do not believe the PRI should become a global asset owner/asset manager watchdog/regulator.**”

# SUSTAINABLE FINANCIAL SYSTEM

A majority agree the drivers of change identified are the most important ones for the PRI to monitor to ensure its work remains relevant. Those who do not agree suggest that these drivers ‘are too abstract’ and too distant from the ESG issues that are directly under the control of investors.

DO YOU AGREE THAT THE DRIVERS OF CHANGE IDENTIFIED IN THE PAPER ARE THE MOST IMPORTANT TO MONITOR TO ENSURE THAT THE PRI’S WORK REMAINS RELEVANT TO THE FINANCIAL SYSTEM OF THE FUTURE?



# SUSTAINABLE FINANCIAL SYSTEM

Climate change, inequality, political instability and trust in the financial services industry were identified as possible areas to add to the list of drivers.

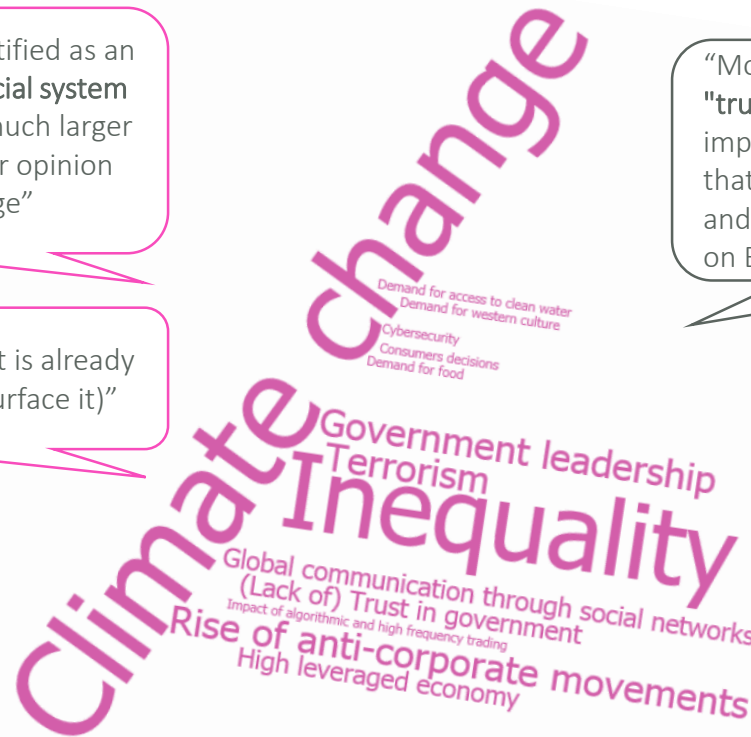
## SHOULD ANY DRIVERS BE ADDED TO THE CURRENT LIST?

“Climate change, which has been identified as an external geopolitical force to the financial system in the consultation, seems to have a much larger impact on the sector and should in our opinion be added to the list of drivers of change”

“Make climate risk an explicit feature (it is already there implicitly but no reason not to surface it)”

“More emphasis should probably be given to **“trust” in the financial system**. This is the most important driver. We need the world to know that the **financial system has changed**, evolved and is now becoming more and more focused on ESG Principles.

“Widening income gap, negative perception towards globalisation and capitalism among people.”



## ALIGNING INVESTMENT WITH SOCIETY: THE SDGS

Signatories had mixed views about aligning responsible investment with the 17 Sustainable Development Goals. While they are broadly in favour of them, around a quarter explicitly expressed caution about aligning them too closely. They think the SDGs should be used to support the Principles, rather than aligning the Principles with the SDGs. There is concern that aligning with the SDGs may impact negatively on their investment practices or performance, and Signatories do not want to be forced to do things which are not driven by market or client demand.

### HOW CAN THE PRI BETTER SUPPORT SIGNATORIES TO ALIGN THEIR RESPONSIBLE INVESTMENT ACTIVITIES WITH THE SDGS?

#### Concern about aligning too closely

“It is important that our responsible investment activities meet the requirements of our clients. Where clients explicitly ask us to align investment products with the SDGs we will do so. However, **it is not appropriate for the PRI to impose such a requirement or expectation** as an over-arching Principle across all of our investment activities.”

“The SDGs themselves are **not an investment framework** and address a range of objectives that lie outside the private market. We think it will be important for the PRI to **develop some guidance on how to interpret the SDGs** in an investment context in order to make them relevant to investors.”

“PRI should focus on **guidelines as to how RI can contribute to SDGs**. It makes sense to concentrate on specific SDGs of concern from an investment materiality perspective. To include all SDGs could prove too complex.”

“We must be mindful that **Signatories agreed to the 6 Principles (not 7) and did not sign on to the SDGs**. Any SDGs that are supported must be 100% aligned with the Principles.”

# ALIGNING INVESTMENT WITH SOCIETY: THE SDGS

Signatories suggested the PRI focus on providing examples of best practice and guidance on how to measure the impact of their investments against the SDGs, and were less enthusiastic about the PRI making reporting changes.

## HOW CAN THE PRI BETTER SUPPORT SIGNATORIES TO ALIGN THEIR RESPONSIBLE INVESTMENT ACTIVITIES WITH THE SDGS?

### Provide best practice and examples

“The PRI should provide illustrations / case studies of real life application of incorporating SDGs into ESG investment activities in order to show the positive benefits of doing so, and in order to make incorporation aspirational with these positive examples.”

“Since the SDGs were only introduced last year, it would seem more appropriate to **provide Signatories with examples of how they can support the goals going forward.**”

### Provide clear measurement structures

“We think that there should be an emphasis on **defining how impact can be measured and training for Signatories in doing so**, rather than requiring that Signatories report on this immediately, creating an unnecessary burden.”

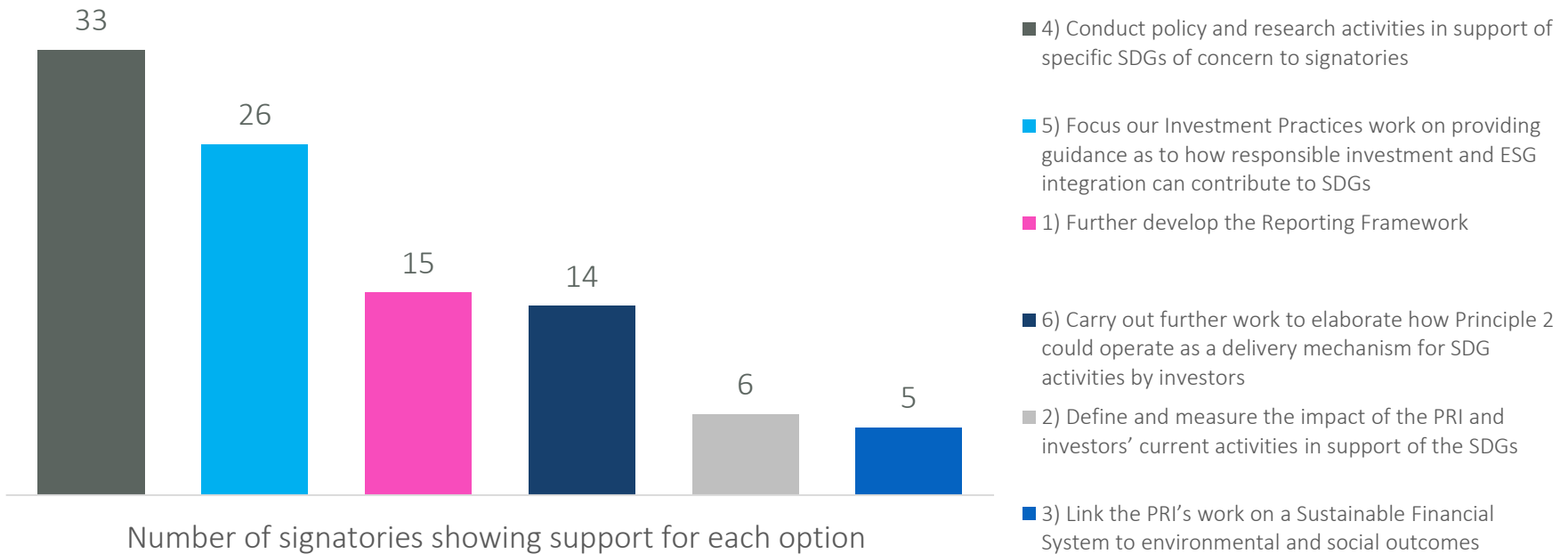
“Measuring impact is complex and there is still a general lack of recognised methodologies to this, which may lead to a race to reporting on impact/SDGs, without the necessary strong methodological underpinnings.”



# ALIGNING INVESTMENT WITH SOCIETY: THE SDGS

Of the six options presented in the consultation paper by the PRI, options 4, 5, 1 and 6 are the ones that Signatories most commonly approved of explicitly – namely conducting policy and research activities and providing guidance on integration through its Investment Practices work. While some Signatories explicitly said the Reporting Framework could be further developed to capture activity on the SDGs, a similar number were wary of this, and at the very least felt it should be optional. Some suggested a trial phase for any new reporting.

HOW CAN THE PRI BETTER SUPPORT SIGNATORIES TO ALIGN THEIR RESPONSIBLE INVESTMENT ACTIVITIES WITH THE SDGS?



## ALIGNING INVESTMENT WITH SOCIETY: THE SDGS

Signatories suggested the PRI prioritise which SDGs they should focus on and convene signatory meetings and events to build understanding on how the SDGs affect different investors based on their asset class, region and political contexts. The outcomes of these meetings could then form the basis for general guidance and targets the PRI could share with the wider Signatory base.

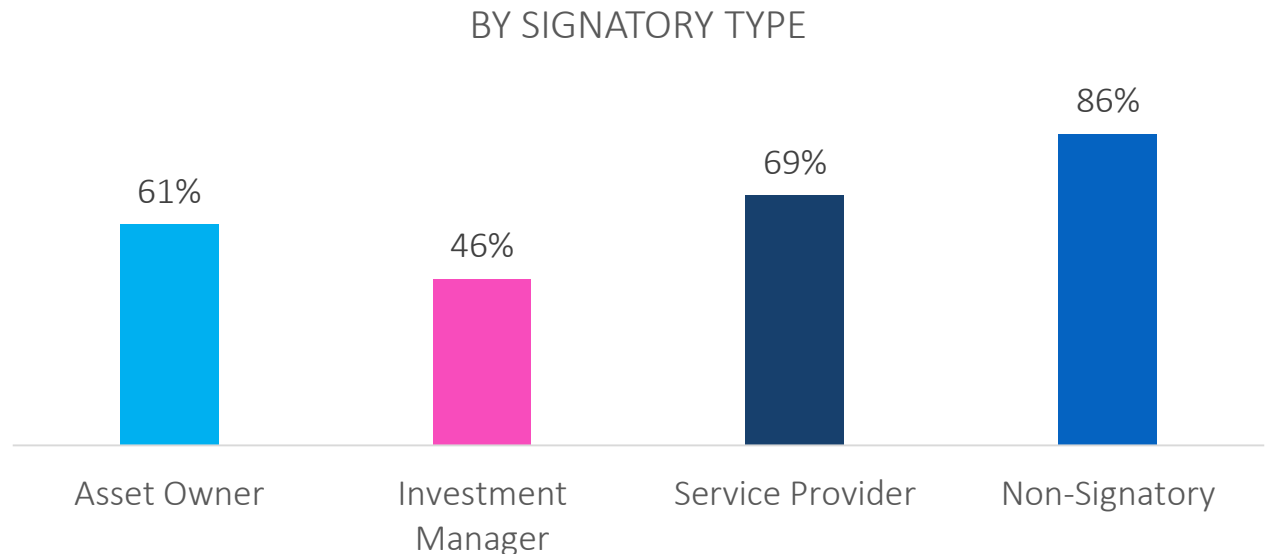
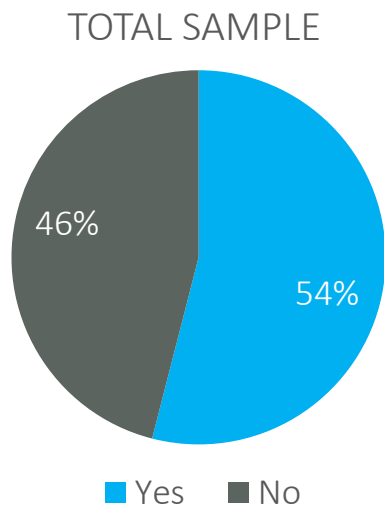
### HOW CAN THE PRI BETTER SUPPORT SIGNATORIES TO ALIGN THEIR RESPONSIBLE INVESTMENT ACTIVITIES WITH THE SDGS?

“An obvious starting point would be to **form a Working Group** comprised of **representatives of all asset classes**, who would look at the SDGs in detail to see how they might be integrated into an investment strategy. This would most likely entail **making a shortlist of SDGs in scope**, which are relevant to investors and can be **linked to KPIs that investors could actually influence**. The Working Group might then publish a white paper on the topic, suggesting different ways that investors can adopt one or more of the SDGs as a target outcome. The key would be to **allow for flexible adoption of targets**, as **investors in different asset classes and geographies will have very different priorities**.”

## UPDATING THE PRINCIPLES: ADDING A 7<sup>th</sup> PRINCIPLE

There is mixed opinion on whether the Principles should be updated to include a reference to the need for Signatories to promote a sustainable financial system. Among asset owners and service providers there is broad agreement but investment managers are more divided.

SHOULD THE PRINCIPLES BE UPDATED TO INCLUDE A CLEAR REFERENCE TO THE NEED FOR SIGNATORIES TO TAKE STEPS TO ADDRESS BROADER FINANCIAL SYSTEM RISKS AND PROMOTE A SUSTAINABLE FINANCIAL SYSTEM, AS STATED IN THE PRI'S MISSION?



## UPDATING THE PRINCIPLES: ADDING A 7<sup>th</sup> PRINCIPLE

Signatories in favour of updating the Principles said it was fundamental to the future of responsible investment and believe it will lead to Signatories being more proactive in promoting a sustainable financial system.

SHOULD THE PRINCIPLES BE UPDATED TO INCLUDE A CLEAR REFERENCE TO THE NEED FOR SIGNATORIES TO TAKE STEPS TO ADDRESS BROADER FINANCIAL SYSTEM RISKS AND PROMOTE A SUSTAINABLE FINANCIAL SYSTEM, AS STATED IN THE PRI'S MISSION?

For

“The Principles should be updated to **encourage Signatories to commit to taking action** in this area. They should provide concrete actions that Signatories can take to promote a sustainable financial system.”

“The recognition that **responsible investment "may better align investors with broader objectives of society"** has **always been integral to our sense of what the PRI is about**. Otherwise, why are the Principles responsible?”

“This seventh Principle would draw positive lessons from the limitations encountered during the first 10 years of PRI of activity... It would be **a clear reference to the need for Signatories to take measures to address all the risks of the financial system** and promote sustainable financial system which benefits society as a whole.”

“The Principles should be updated to include this clear reference, in order to **encourage Signatories to commit to taking action** around this... Concrete actions should be aligned with the commitments aimed at companies in the SDG and FfD Frameworks in particular and aim towards implementing them in either voluntary or mandatory means via greater engagement from government authorities on this matter.

## UPDATING THE PRINCIPLES: ADDING A 7<sup>th</sup> PRINCIPLE

Those Signatories against updating the Principles said the existing Principles were already sufficient and the PRI's mission does not need to be captured in a new Principle.

SHOULD THE PRINCIPLES BE UPDATED TO INCLUDE A CLEAR REFERENCE TO THE NEED FOR SIGNATORIES TO TAKE STEPS TO ADDRESS BROADER FINANCIAL SYSTEM RISKS AND PROMOTE A SUSTAINABLE FINANCIAL SYSTEM, AS STATED IN THE PRI'S MISSION?

### Against

"Many firms are still getting to grips with the original six Principles where the PRI's main focus lies. As the PRI has stated many times before, acting to improve the financial system as a whole is likely to be a new approach for many Signatories."

"We are of the opinion that the PRI's mission statement itself clearly sets out the need for a sustainable financial system wherever PRI Signatories operate. We believe the current set of Principles are sufficient to help further the objective of this mission statement."

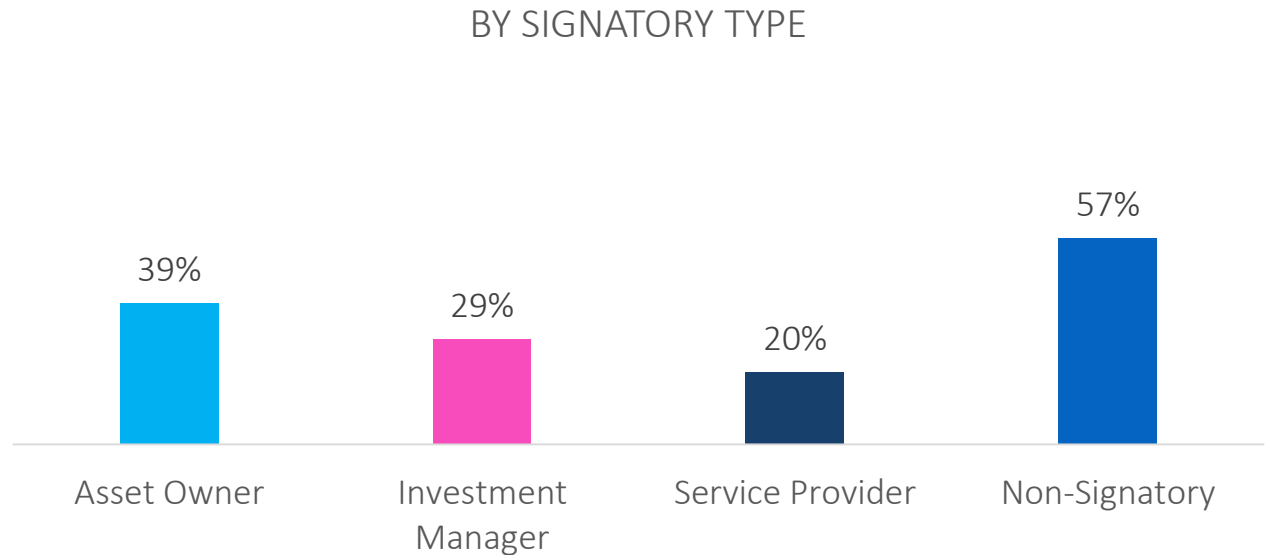
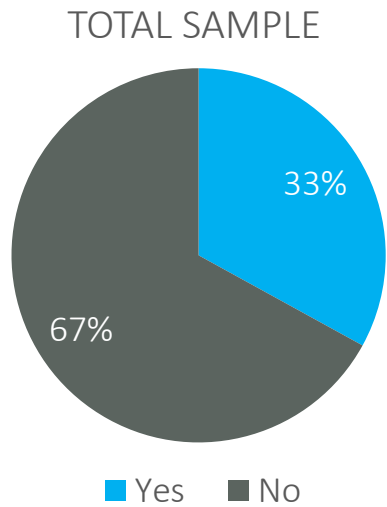
"Working towards sustainability of the financial system is not our primary concern. The six Principles as currently framed set out clearly the activities we can and should undertake as Signatories to support the sustainability of the financial system and address broader system risks. Making that a requirement in and of itself seems unnecessary and unhelpful."

"We support an update to the Principles, however we strongly caution that the scope of any additional Principle should be limited to the areas where Signatories can have an impact. For greater clarity, we would support a new Principle that was narrowly focused on working towards eliminating challenges to the financial system in the context of Signatories' ESG activities."

## UPDATING THE SIX PRINCIPLES

Two thirds of Signatories could not identify any other revisions to the existing six Principles. Those that did suggested the PRI incorporate references to financial system risks and the SDGs within the existing six Principles, combine Principles 4 & 5, expand Principle 2 and update Principle 6 to include a reference to public disclosure.

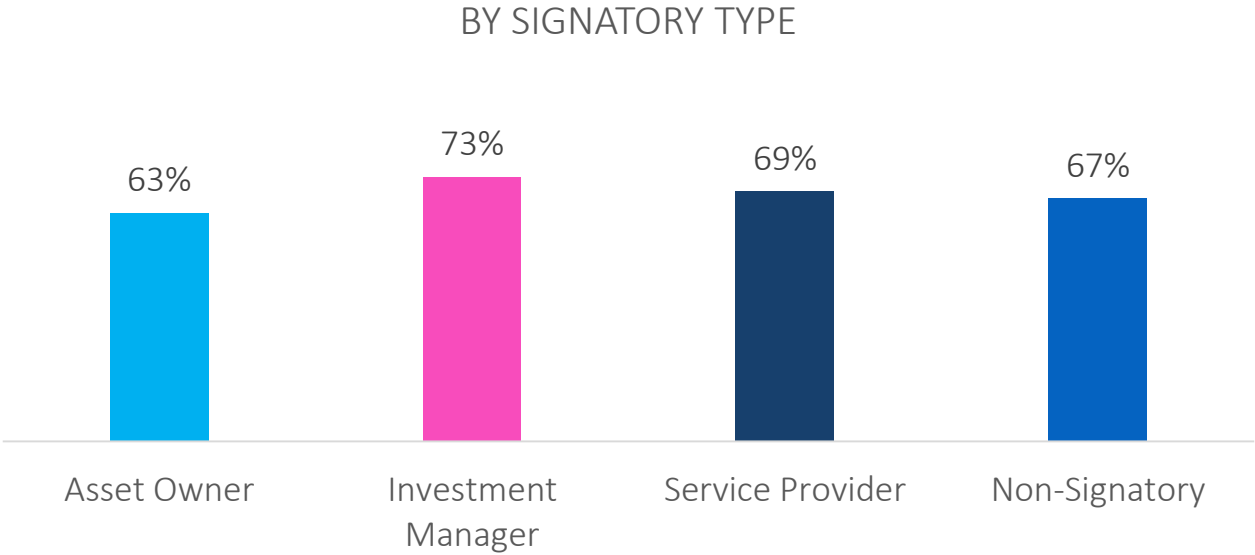
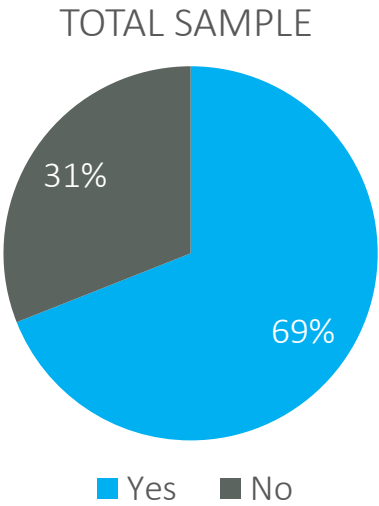
CAN YOU IDENTIFY ANY OTHER REVISIONS THAT MAY NEED TO BE MADE TO THE EXISTING SIX PRINCIPLES TO ENSURE THEY BETTER REFLECT THE RESPONSIBLE INVESTMENT ACTIVITIES AND PRIORITIES OF SIGNATORIES?



# REPORTING FRAMEWORK: PARTNERSHIPS

Signatories are in favour of the PRI partnering with other reporting organisations as they believe this will make reporting more streamlined, reduce bureaucracy, increase credibility and enable the PRI to cover a wider scope.

SHOULD THE PRI PARTNER WITH OTHER ESTABLISHED REPORTING ORGANISATIONS (E.G. GRI, IIRC) TO DEVELOP INVESTOR REPORTING SUPPLEMENTS FOR THEIR SUSTAINABILITY REPORTING FRAMEWORKS (AS PER STEWARD REDQUEEN’S RECOMMENDATION)?



Q9. Should the PRI partner with other established reporting organisations (e.g. GRI, IIRC) to develop investor reporting supplements for their sustainability reporting frameworks (as per Steward Redqueen’s recommendation)?  
 Base: Total Sample (134); Asset Owners (39); Investment Managers (77); Service Providers (14); Non-Signatories (4)



# REPORTING FRAMEWORK: CAPTURING IMPACTS AND OUTCOMES

Signatories want flexible ways to report and do not want this to become too complex or burdensome. Because of the diverse range of impacts and outcomes, a 'one size fits all' approach will not work. Where Signatories do provide details on the impact of their RI activities, these are very specific and may not be applicable to all.

## HOW CAN THE PRI BETTER CAPTURE THE IMPACTS AND OUTCOMES OF SIGNATORIES' RESPONSIBLE INVESTMENT ACTIVITY VIA ITS REPORTING FRAMEWORK (E.G. SIGNATORY CONTRIBUTION TO THE SDGS)?

### Keep reporting flexible

"PRI would need to recommend different options for integrating aspects of the SDGs into their investment strategies. It would then need to define relevant KPIs that could be tracked and reported. Again, the key to the success would be a flexible framework, and corresponding KPIs, which would allow investors to adopt them according to their preferences and constraints."

### Additional reporting would not be useful

"The last thing that should be done is incorporating a section reporting on individual SDGs. Organisational impact objectives will vary widely so we are not sure how meaningful or easy it will be to capture or collate."

### Collect and track specific data

"The PRI could develop a database where Signatories are asked to input actual data of e.g. water usage/ savings in litres, number of fatalities etc. so that over time we can track the progress of Signatories."



# MEASURING SUCCESS FOR PRI

Signatories define success in various ways, ultimately leading to RI becoming the norm in the investment industry. Some even stated that the aim should be for the PRI to become obsolete. For others, broader recognition of the importance of RI and acceptance of common definitions and measures would demonstrate success. Signatories believe the way success is measured should be aligned with the Principles and how much control Signatories have over any potential impacts.

## Q8 HOW WOULD YOU DEFINE SUCCESS FOR THE PRI IN 10 YEARS' TIME?

### Change in the wider financial community

“Success for the PRI should be focused on **measuring the extent to which ESG has penetrated the mainstream financial community...** Any indicators or **measures of progress need to be directly related to the priorities of the PRI** as embodied by the Principles. Otherwise we are measuring things that investors are not directly contributing to... Ultimately, **the PRI... would not be necessary if its achieves its goal** of mainstreaming RI as it would simply become standard practice.”

### The number of Signatories

“Success should largely be **defined by the breadth of Signatories** (i.e. financial market penetration) and **depth of impact** (i.e. support of sustainable financial system). **Metrics and targets need to either align with the 6 Principles**, risk mitigation (stemming from the risks identified) or support of the SDGs (or a blend of all three). These are the primary drivers of activity and so metrics could be determined to show progress in all areas.”

### A positive impact on society

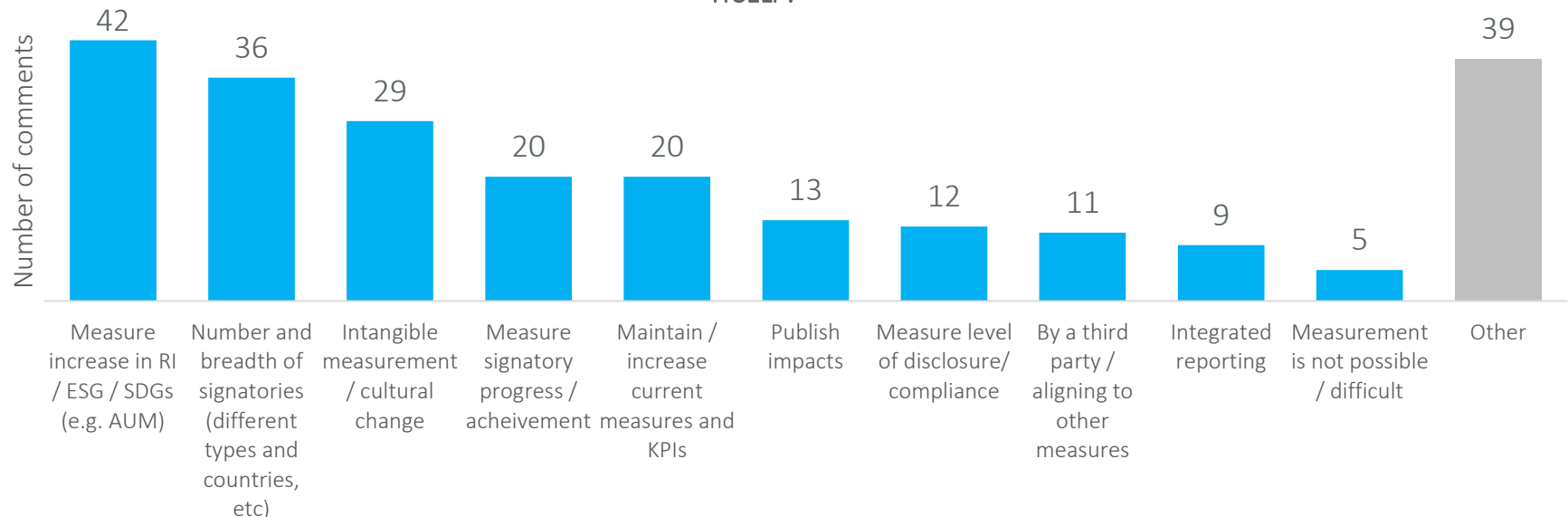
“**Making RI mainstream for all investors.** Increasing the quality of RI work among its members to actually achieve positive impact on society. PRI should use **measuring tools that can actually determine investors' net positive impact.** Ensuring that PRI members are actually committed to the Principles and making measurable progress.”

## MEASURING SUCCESS FOR PRI - EXAMPLES

Signatories provided various measures of success, from measuring the increase in RI based on assets under management (AUM), the number and breadth of Signatories, using current measures from Signatories' reporting through to measuring the impact of individual investments themselves, such as their environmental footprint.

Most comments provided an area to measure (such as 'reporting' or 'impacts') rather than an actual metric, perhaps indicating the complexity that exists in creating metrics that will work for all Signatories across all investment types.

### WHAT METRICS SHOULD THE ORGANISATION USE TO DETERMINE WHETHER IT HAS ACHIEVED THIS AND WHAT TARGETS SHOULD IT SET FOR ITSELF?



# THANK YOU

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feel and do.