

# Confidence building measures among PRI signatories

Based on responses to the 2017 reporting framework



# Over 70% conduct internal verification of their PRI responses

- 75% of signatories conducted internal verification, out of which over 50% was reviewed or signed off by their CEOs/C-suite level staff
- The compliance team provides robust review – only 30% signatories have done this
- Over 20% did not conduct any type of CBMs for their 2017 Transparency Report
- 22% of signatories also use CBMs that are unspecific to the PRI, such as RI labels, ESG audit of holdings and/or 3<sup>rd</sup> party assurance of sustainability type reports

## What are confidence building measures?

Confidence building measures (CBM) include a range of activities investors undertake to increase the credibility of their Transparency Reports. From basic to advanced they include:

- internal review
- internal audit of processes
- external data assurance
- external assurance of the implementation of the processes

# External data assurance of PRI or other ESG reports is rare

- 11% of signatories used or plan to use 3<sup>rd</sup> party assurance for selected responses or for all their PRI transparency report.
- The most common PRI data assured are financial and operational data already assured as part of the annual accounts and engagement and voting figures which stem from clients requirements from service organisations
- The standards are centre to aspects that are more easy to measure, such as financial data, ESG operational data (ISAE 3000) more pertinent for physical assets such as property and infrastructure, and operational risk controls (ISAE 3402)
- This is an emerging field and signatories need clarity to distinguish RI process assurance - that is closely related to internal controls – from ESG data assurance.

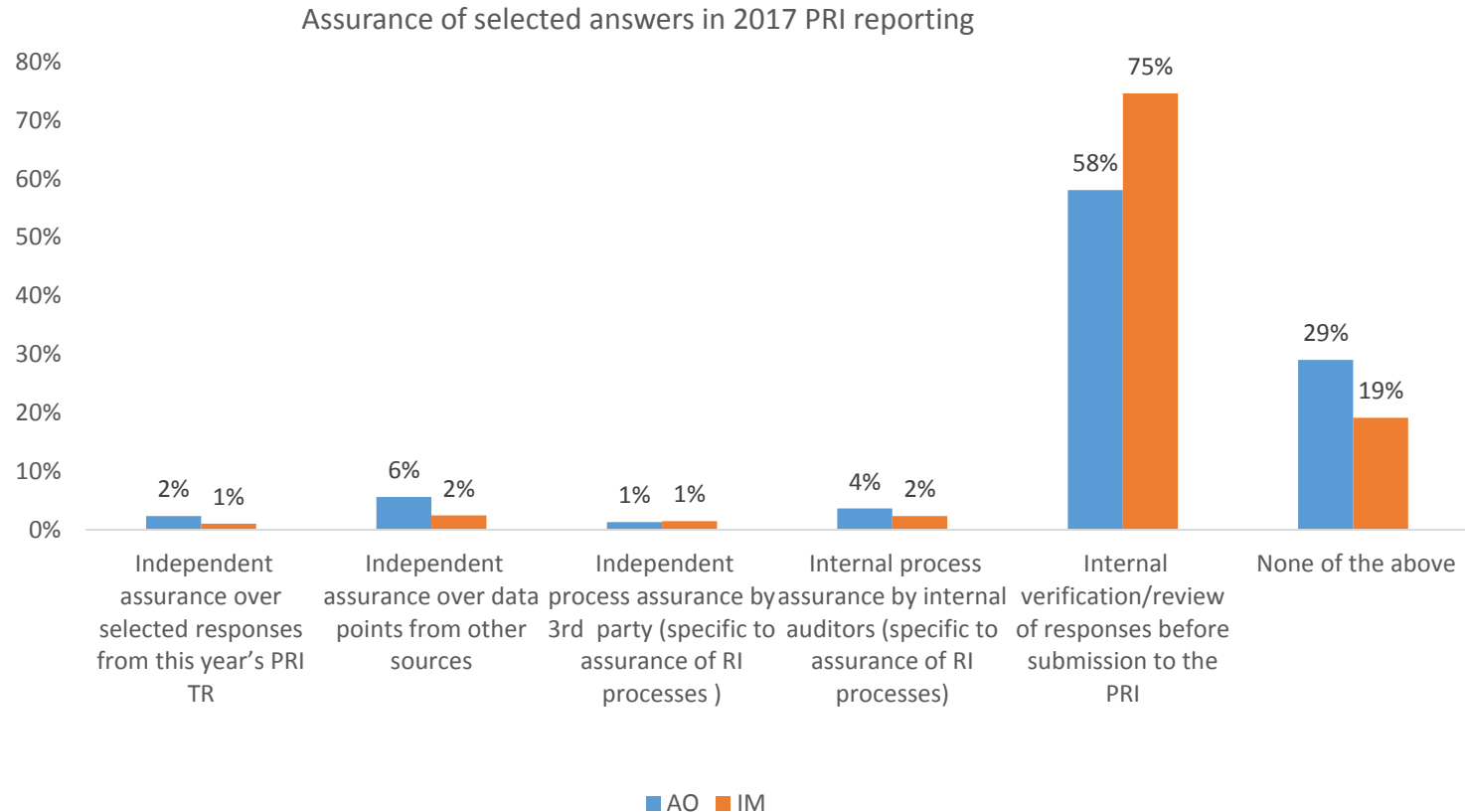
# Internal or external audit of controls related to RI processes is rare

Uptake of external assurance is currently limited due to several factors including lack of RI specific standards, process-based nature of PRI Reporting Framework and is not a regulatory requirement.

- Internal controls form the main building block in ensuring organisations implement what they say to their clients and beneficiaries
- Majority of signatories are missing out by not conducting an internal audit of their internal controls related to their RI processes, which helps:
  - identify and reduce risks
  - meet ESG objectives
  - facilitate external assurance
- Signatories don't have to audit all their processes, rather should focus on the processes covering majority of their assets and review processes every 3-5 years.
- The 4% who did audit their controls focused on governance and strategy (roles, KPIs, policy), active ownership and ESG incorporation processes

# 75% of managers conducted internal verification of their 2017 submission

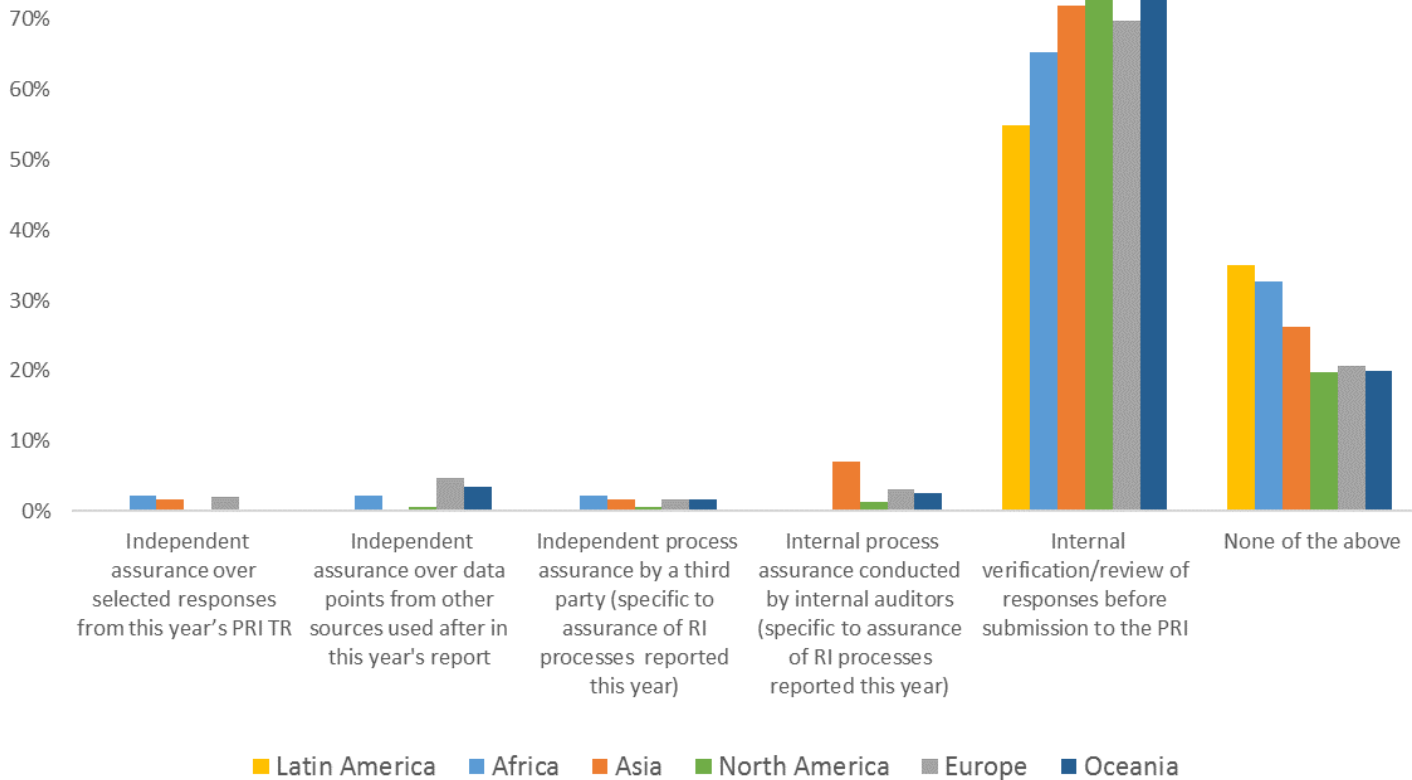
Majority conducted an internal verification, though it's less common among asset owners (AO). 20% of managers (IM) and 30% of AOs did not conduct any type of confidence building measure.



Based on 1248 signatories (303 asset owners and 945 investment managers)

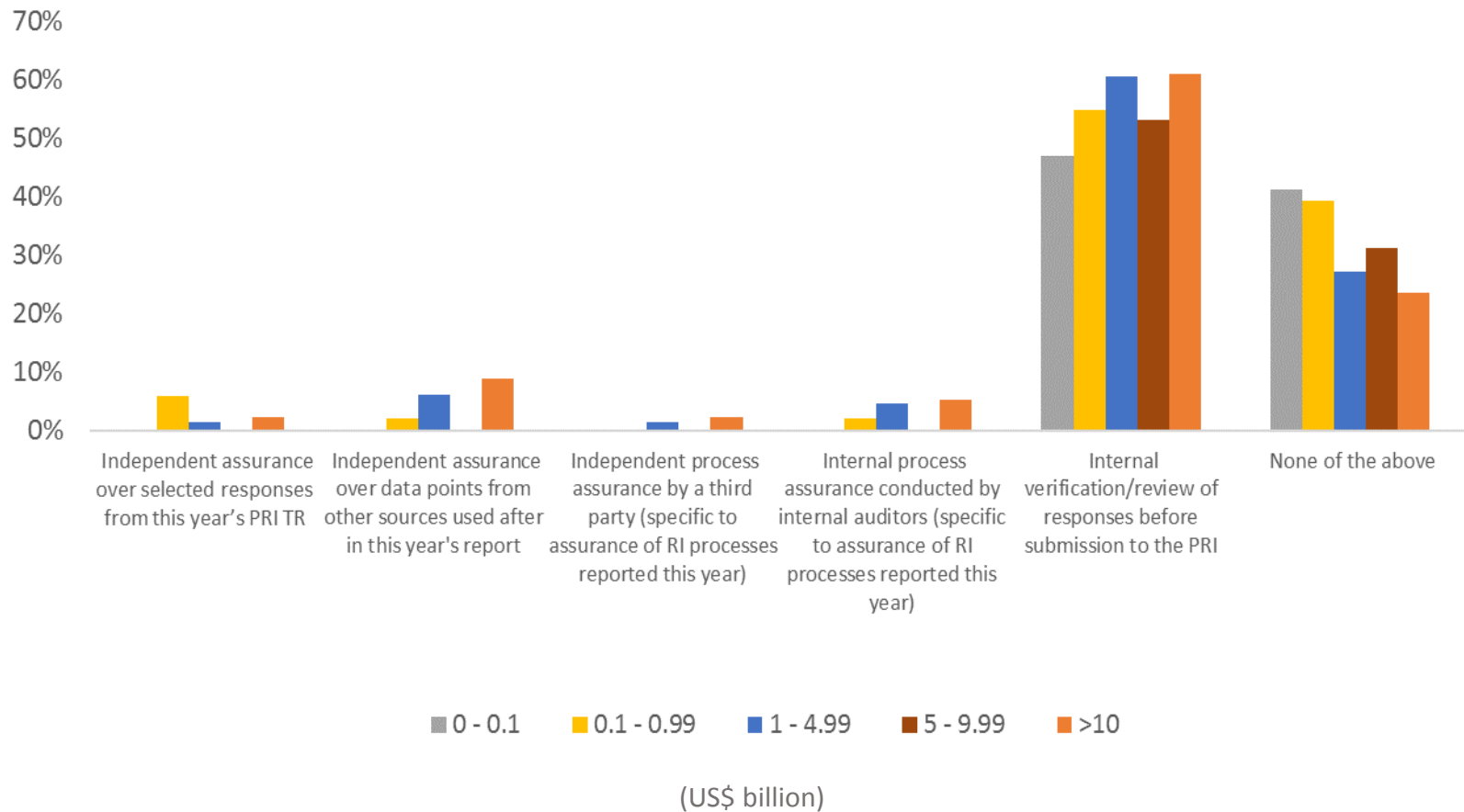
# Signatories across regions conducted internal verification

Internal verification varies, with lower levels among Latin American signatories and to a lesser degree South African signatories. External assurance is rare across all markets, reflecting the lack of RI specific standards among other factors.



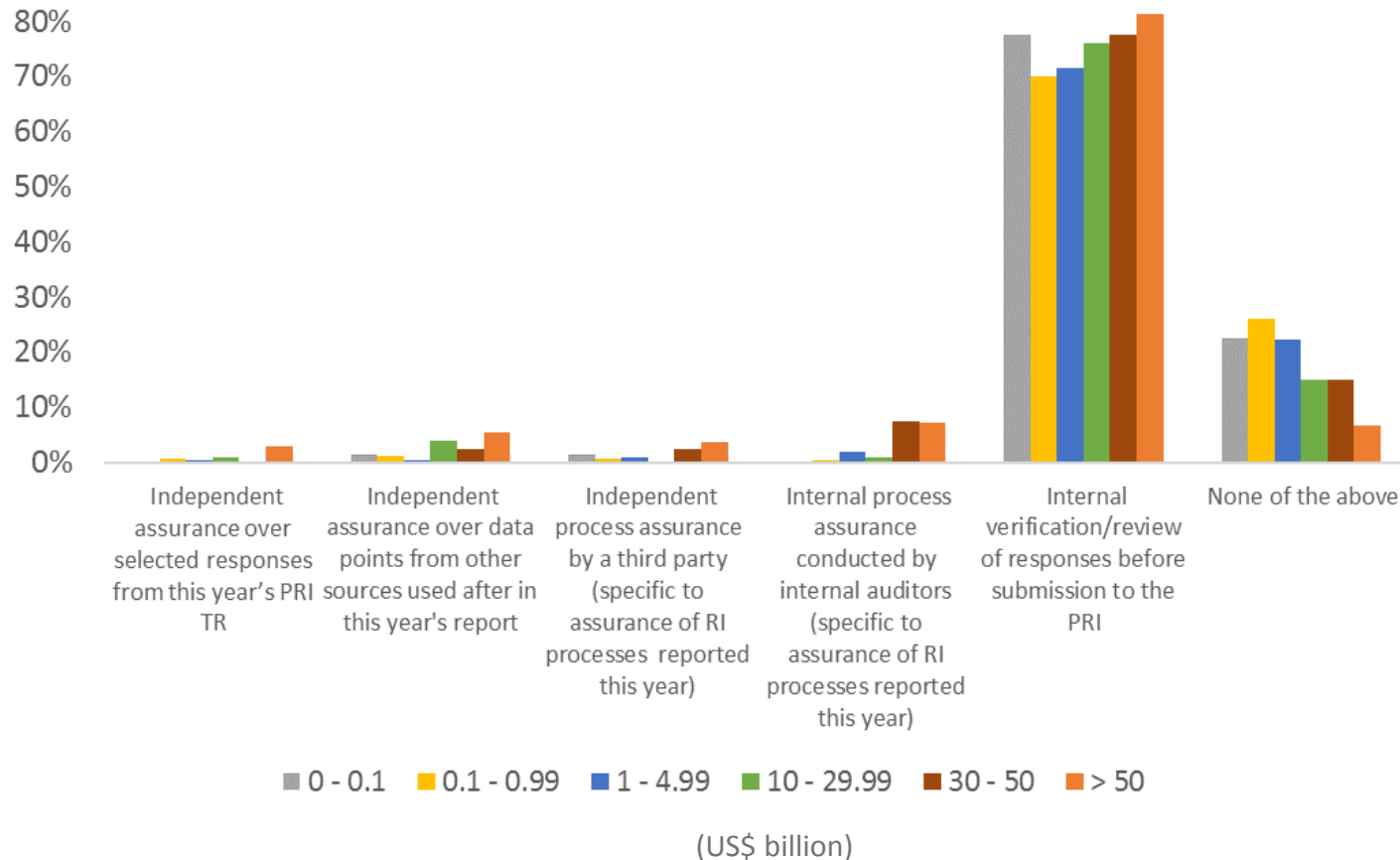
# Larger asset owners verify and assure their data more than smaller ones

While larger AUM asset owners are more likely to conduct some form of assurance, majority of the smallest AO also conducted internal verification before submitting the 2017 PRI report.



# Irrespective of size, over 70% of managers review internally their PRI responses

Overall, there is a correlation between size and conducting some form of assurance, however the difference in uptake is small.



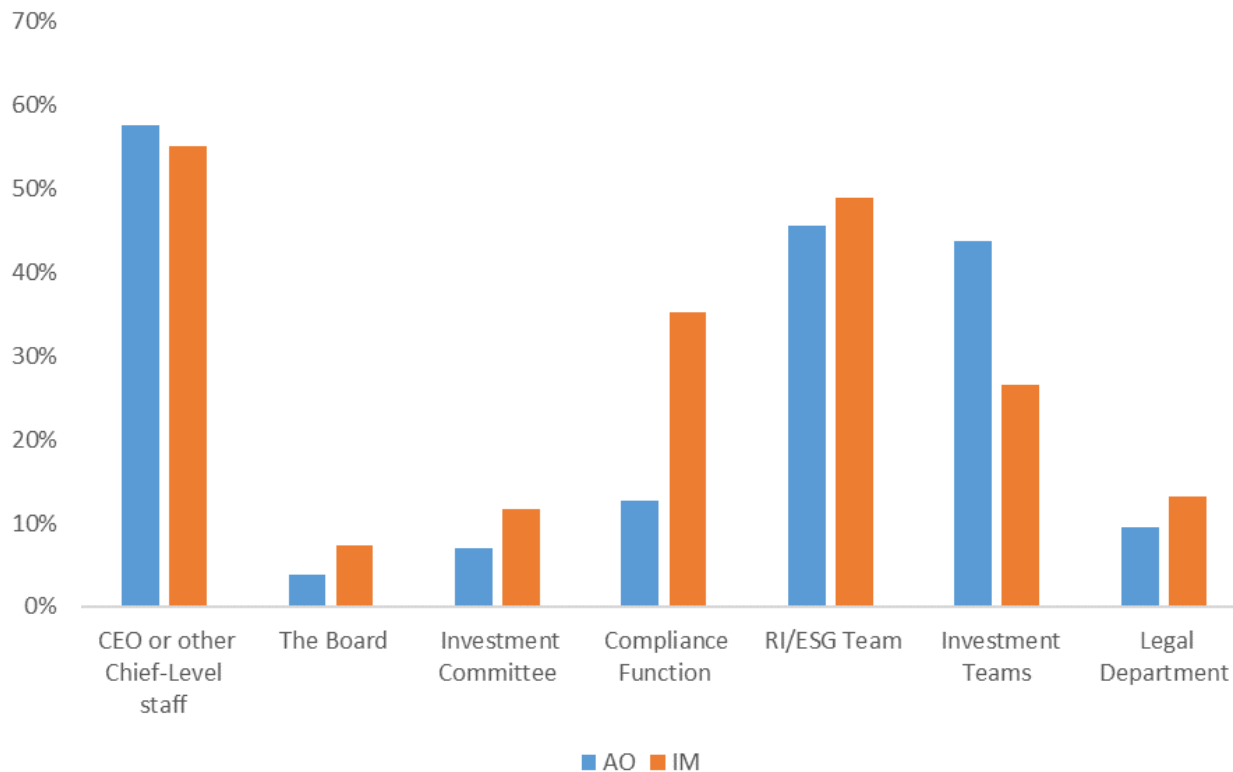
(US\$ billion)



# CEOs commonly review responses or sign-off PRI Transparency Reports

Internal verification is more robust when it involves a compliance team remote from the reporting process but can pose a challenge in very small organisations that lack such specialist teams.

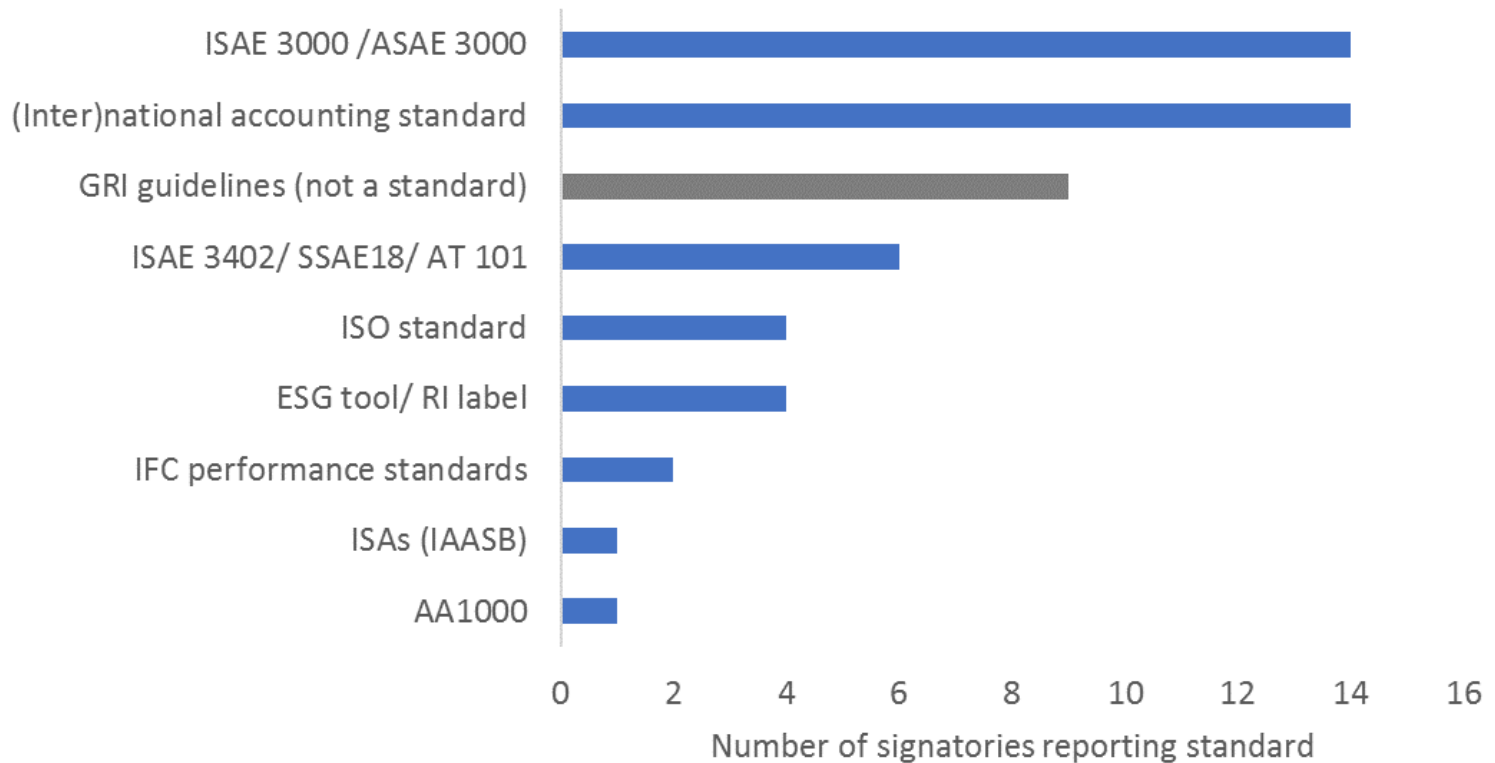
Who conducted internal verification of the whole report



# External data assurance focused on financial data and operational ESG data

ISAE 3000 was the most common standard for non-financial information while financial data in the PRI reports are also found in their annual accounts, which are audited using accounting standards.

Standards reported by signatories for 3rd party assurance of selected responses or whole PRI report



# Few standards to audit/assure implementation of RI processes and controls related to them

This CBM is an emerging field as observed by lack of standards specific to RI processes and the inadequate use of ESG data standards for auditing controls.

- Among the signatories who audit their internal controls, ISAE 3402, SSAE18 and AAF 01/06 were most commonly used for both internal and external assurance. IIA was also used by internal auditors.
- The most common processes audited/assured related to:
  - overarching strategy
  - governance roles and responsibilities
  - active ownership practices in listed equity
  - ESG integration such as exclusion lists (lesser degree)
- PRI will provide clearer guidance on this CBM through the recommendations paper to be published in January 2018

# Use of confidence building measures unspecific to PRI Transparency Report

Us of these CBMs are often associated with 3<sup>rd</sup> party assurance of PRI data or of RI internal controls.

- 22% of reporters use confidence building measures unspecific to PRI Transparency Reports including:
  - 54 of all reporters (4%) use ESG audit of their holdings,
  - 68 (5%) adhere to an RI certification or labelling scheme and
  - 66 (5%) carry out 3<sup>rd</sup> party assurance over a whole public report (e.g. sustainability report)
- **Most common RI labels reported**
  - Government-backed labels:
    - Based on EUROSIF Transparency guidelines (e.g. Luxflag, FNG-Siegel, French SRI label)
    - Australian RI label (RIAA)
  - Environmental specific labels:
    - NGERs (Australia), TEEC (France)
  - Social specific labels:
    - Novethic financol (France), Common good (Germany)
  - Other labels:
    - B corp

# Next steps

- The PRI will publish in early 2018 a paper with recommendations from the Assurance Working Group, which will be available [here](#). This will be building on [the Assurance position paper](#) the PRI published in 2016.
- The paper will include a self-evaluation tool for signatories to identify where they stand against the roadmap and provide guidance on steps required to incorporate such as:
  - Governance requirement
  - Frequency
  - Who should be involved
  - What CBM lends itself to data and which to processes
  - Standards available