PRI Principles for Responsible Investment

SERVICE PROVIDER REPORTING FRAMEWORK 2018

Overview and guidance

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UNEP Finance Initiative
Changing finance, financing change

United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

1 We will incorporate ESG issues into investment analysis and decision-making processes.

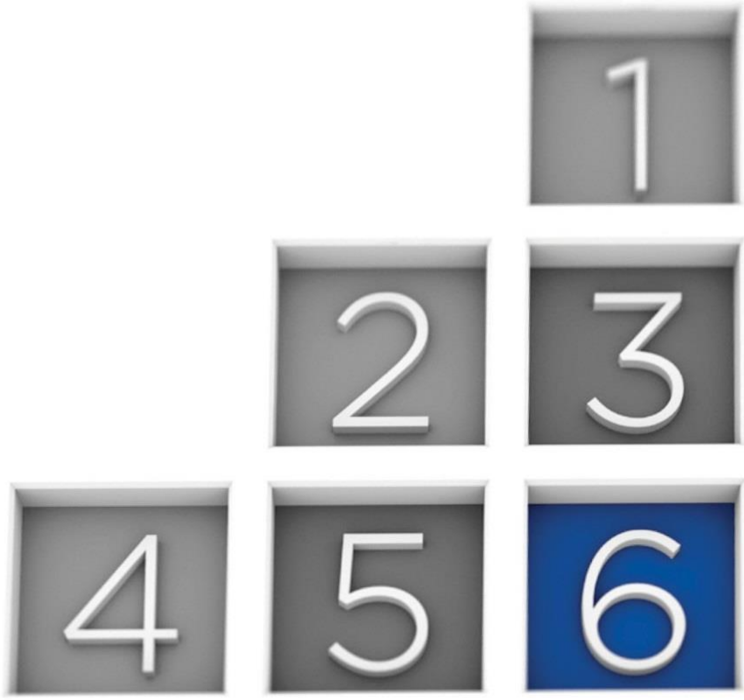
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 **We will each report on our activities and progress towards implementing the Principles.**



This Reporting Framework is intended to promote the application of Principle 6 of the Principles for Responsible Investment (PRI). The PRI Initiative was launched by the United Nations in 2006 after former UN Secretary-General Kofi Annan brought together a group of the world's largest institutional investors, academics and other advisors to draft a set of sustainable investment principles. At the heart of the six Principles for Responsible Investment is the premise that investors have a duty to act in the best long-term interests of their beneficiaries and this means taking into account environmental, social and governance factors.

Contents

Preface

The Framework is a product of the PRI's global signatory base. The PRI thanks our signatories for their contributions during the development of it. The PRI also thanks the members of the Reporting and Assessment Advisory Committee (RAAC) for their support and feedback.

This document is divided in two main sections:

- The overview, which helps signatories understand the main goals and characteristics of the Reporting Framework.
- Reporting guidelines, which highlight the scope and general approach towards reporting on the Framework.

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Overview of the Service Provider Reporting Framework

Objectives of the Framework

The Service Provider Reporting Framework has three key objectives:

To be an accountability tool for the PRI and its signatories.

Becoming a service provider signatory is a commitment to providing, developing and promoting services that support clients' implementation of the Principles. To facilitate this, the PRI generates reports based on signatory responses to the Reporting Framework to help them demonstrate how they are meeting these commitments.

To provide a standardised transparency tool for signatories' own reporting.

The Framework allows signatories to report their progress in a systematic and consistent manner and provides them with a number of outputs to share with stakeholders.

To increase the visibility and transparency of the service provider market to investors and other stakeholders

Reporting to the PRI allows for greater insight into, and improved access to, service provider information, which might also stimulate dialogue between service providers and investors. This may also induce healthy peer competition and enhance best practice among service providers. Signatories will gain a better understanding of where their organisation sits in relation to peers and competitors at the local and global level.

Structure of the Framework

Module set-up

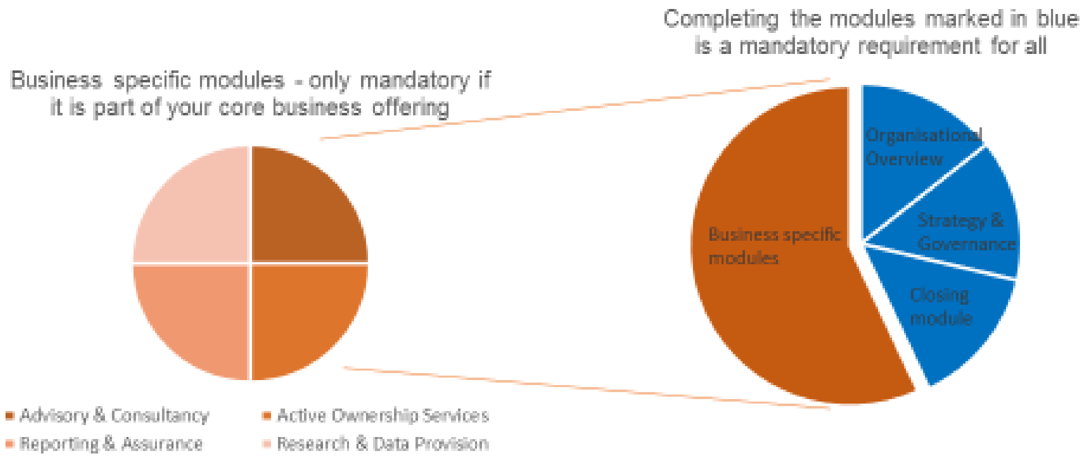
The Framework has seven modules. There are modules applicable to all signatories, these are mandatory to complete:

- Organisational Overview (OO)
- Strategy and Governance (SG)
- Closing Module (CM)

There are also specific modules for certain service provider business areas:

- Advisory and Consultancy (AC)
- Active Ownership Services (AOS)
- Reporting and Assurance (REP)
- Research and Data Provision (RDP)

It is mandatory to complete the business specific modules if they represent your core offering or main business activity[1]. If you have several business offerings, some of which do not represent the core of your services, you can report on these voluntarily. If your services do not fit into the business specific modules, you will still be able to report your services in the OO and SG modules.



[1] For dedicated service providers this indicates the main services that you offer to clients that form an essential part of your organisation's activities. The core business offering/main business activity is often the main source of a company's profits and/or revenue and sometimes the activity the company was originally set up to carry out, i.e. their main reason for being.
For investment managers, this relates to the services that you also provide that form a substantial part of your non-investment business activity.

Introducing the seven modules

This section provides a brief introduction to the seven modules that make up the Framework and offers overarching guidance on where to report particular types of activity.

Modules applicable to all signatories (OO, SG, CM)

Organisational overview (OO)

In this module signatories should provide an overview of their organisation. This will help stakeholders to understand what the organisation does, its structure and core business offering(s). It also functions as a filter, with responses determining which indicators and modules will be completed in later parts of the Framework.

Strategy and governance (SG)

This module looks at an organisation's overall approach to responsible investment and ESG services (e.g. governance, policies that cover your approach, and resources allocated to responsible investment and ESG issues). You can also report on how you interact with clients and incorporate feedback.

Closing module (CM)

This module allows you to report on whether your responses to the Framework have been assured in any way. It also invites you to provide feedback on the Framework, and gives you the opportunity to review the information you have reported before you submit.

Modules – specific to business areas

These modules will be relevant to you if any of the below four categories describe the type of services your organisation provides. If your organisation does not identify with any of them, you can still report on your business offering(s) as 'Other' in the OO and SG modules.

Advisory and consultancy (AC)

The Framework defines advisory and consultancy services as the "Provision of financial or non-financial advice on a retainer or ad hoc basis relating to environmental, social, and/or governance aspects of investment activity. Services provided do not include active investment management and fiduciary management. Examples of advisory and consultancy services include, but are not limited to, custodial services, investment policy development, strategic asset allocation, investment research and manager selection and monitoring."

The information reported in this module will enable your stakeholders to understand your organisation's approach to responsible investment, including your product offerings, areas of expertise, and how your activities add value for your clients.

Reporting and assurance (REP)

Services relating to the preparation and presentation of corporate, sustainability or integrated reporting, and financial reporting for clients. This category also includes audit, and external assurance services for clients. Other types of reporting, such as reporting on assets and the performance of investment managers is not covered by this category.

The information reported in this module will allow your stakeholders to understand your approach to reporting and assurance, and how you incorporate ESG factors into your product offerings.

Research and data provision (RDP)

Collection and preparation of raw data, ratings, or analysis of ESG related information or issues. Offerings may be off the shelf or client tailored. This category includes brokerage firms. Activities that are intended to provide strategic advice or affect investment strategy or key decision making should be reported under Advisory and Consulting Services instead.

Examples of research and data provision services include, but are not limited to, analysis, benchmarking reports, ratings, raw data and surveys.

The information reported in this module will enable your stakeholders to understand your organisation's approach to research and data provision and what processes you include when making assessments and ratings. You will be able to report on how you incorporate ESG factors into these processes and product offerings.

Active Ownership Services (AOS)

Active ownership is the use of the rights and position of ownership to influence the activity or behaviour of investees. Active ownership services provided at any stage of engagement activities for investors, including engagement or engagement support services, research, and advice. Activity can be individual or collaborative. Services related to any stage of proxy voting, including voting execution and voting advisory. This category includes advice or services related to shareholder resolutions. Activity may also include engagement with policy makers or regulators. This category does not include service providers that only inform their clients of voting outcomes, e.g. as part of a custodial role or similar, or service providers that only provide a platform for voting.

The information reported in this module will enable your stakeholders to understand your organisation's overarching approach to responsible investment/ESG incorporation. You will be able to report on your voting and engagement practices and how you factor ESG into these processes.

Other

In this instance, 'Other' will apply to any service provider signatory that does not offer any of the above services. If you report 'Other' in the Service Provider Reporting Framework, a separate indicator will be activated that will allow you to describe this business activity.

Indicator characteristics

Mandatory and voluntary indicators

Most modules contain both mandatory and voluntary reporting indicators. The Framework requires mandatory public disclosure of most indicators relating to core practices or activities. However, in addition to these, some indicators also refer to advanced or uncommon practices that might also be commercially sensitive. For this reason, the Framework also has voluntary indicators. The below shows a summary of the types of indicators you can find in the Framework.

- *Mandatory indicators*: Mandatory to report, mandatory to disclose. These reflect core practices and capture your implementation of the Principles. Responses to these indicators will be made public.
- *Voluntary indicators*: Voluntary to report, voluntary to disclose. These typically reflect alternative or advanced practices. Signatories can choose whether to complete these indicators and whether to make responses public.
- *Mandatory to report, voluntary to disclose*: Because these indicators may request confidential or commercially-sensitive information, they are voluntary to disclose, but mandatory to report.

Closed ended and open ended indicators

The Reporting Framework captures information in a combination of closed ended (multiple choice) and open ended (free text) indicators. These are used for different purposes:

- *Closed ended indicators* capture information in a standardised way that is easy to analyse. Many indicators in the Framework have been designed in this way, with the goal of collecting information on responsible investment/ESG implementation. This will help to develop a common language for discussion and monitoring. In addition to this, some closed-ended indicators are used to identify types of signatories for peering and analysis purposes, and to tailor the indicators that responders will be presented with in the online tool. Importantly, most closed ended indicators have a section called “Additional Information” which enables reporting organisations to add context to their response, or add additional details to more fully capture their responsible investment/ESG implementation.
- *Open ended indicators* allow you to describe their responsible investment/ESG implementation in free text, providing narrative information which may not be captured by closed ended indicators.
- *Mixed indicators* are indicators that are a mix of close ended and open ended indicators (beyond the ‘Additional Information’ free text).

Purpose of indicators

The Framework has been designed to enable a diverse set of signatories to follow their own pathway when reporting, determined by their specific characteristics and business offerings.

The information in the Framework will be used by the PRI to produce a transparency report for individual signatories and to develop other resources for signatories.

Indicators in the Framework have a number of purposes which are clearly labelled throughout the Framework. These purposes at times overlap. The following categories are used:

Gateway: The responses to these indicators in the online tool 'unlock' other indicators or modules if they are relevant for the reporting organisation.

Descriptive: These are often open-ended narrative indicators.

Implementation guidance

This section provides guidance on how to produce a report that is representative of an organisation's overall approach to responsible investment and/or ESG incorporation. To supplement the guidance in this section, reporting organisations should also view the Main Definitions document, which explains key terms used across the Framework.

Reporting scope

Determining your signatory category

The PRI holds approximately 15 different types of service provider sub-categories; this makes our service provider signatory base very diverse. However, the uniting characteristic of all service providers is that they are not stewards or managers of assets in their own right.

Consolidated reporting

When determining the scope of reporting, you should include any subsidiaries that are more than 50% owned by the parent entity. For asset consultants reporting on their assets under advisement (AUA), all the AUA of majority owned (>50%) subsidiaries should be included in the total AUA figure reported by the parent entity. There may be cases where there are exceptions to this. Signatories that are unsure should contact the Reporting and Assessment team at reporting@unpri.org.

If a subsidiary of a signatory is also a signatory to the PRI, the subsidiary will have to complete the Framework separately for their own organisation. For asset consultants that are signatories to the PRI where their parent company is also signed up to the Principles, the asset consultant should report on its own total AUA, including any assets under advisement on behalf of their parent entity and other clients. In this case, the parent entity is still encouraged to report its consolidated AUA (hence still describing the activities of its subsidiary in its consolidated report) but it also can choose to exclude AUA managed by the subsidiary from its own reported total AUA figure and hence from all the activities reported. Signatories should describe the approach they take to reporting on its AUA in indicator AC 02.2.

Mergers and acquisitions

In the case of significant changes to the structure or ownership of an organisation during the reporting year, such as mergers and acquisitions, the signatory may choose:

- whether to report the activity of the entire new entity;
- or during the transition (for a maximum of one reporting period), report the activities of the original signatory organisations separately. In the latter case it is recommended that the subsidiary signatory completes their reporting before delisting.

In each case above, the reporting organisation should use indicators OO 01 to explain the approach that was taken; this should be reflected in their responses across all modules and indicators. Most indicators offer the ability to provide additional explanatory information using open-ended response fields. Please contact reporting@unpri.org if you fall under this scenario to ensure that your interpretation of reporting is correct and for the Reporting and Assessment team to ensure that we can build your outputs accordingly.

Reporting year

This refers to the 12-month period for which the reporting organisation provides information. The reporting year may be the normal financial reporting year, or a period that has been selected specifically for the Framework. Once you choose your 12-month reporting year, you should apply this period consistently each year to avoid overlap or gaps in your reporting.

'Reporting year' should not be confused with the 'reporting period', which is the period for which the online reporting tool is open (beginning of January to end of March).

Faithful and accurate reporting

To achieve its objectives, the information provided by signatories must give a full and faithful representation of their approach to responsible investment/ESG incorporation. Signatories should disclose all relevant activities mandated by the Framework accurately, irrespective of where they are on the journey to implementing the Principles.

Indicators should be completed with reference to the responsible investment/ESG implementation across the entire organisation, not the practices for specific ESG/RI services, unless required otherwise.

The PRI encourages reporting organisations to disclose how they have reviewed and validated the information contained in their submission. The approach can be explained in indicator CM 02.

Interpretation of the indicators

Systematic or occasional application of processes

The terms ‘systematic’ and ‘occasional’ are sometimes used within the Framework. The exact interpretation will vary depending on the type of process being described, but in general the term ‘systematic’ should be used to describe planned processes that have been designed to cover all material issues or factors, and which are carried out by all relevant staff. ‘Occasional’ should be used to describe ad-hoc processes, which are not a routine part of day-to-day operations, or which are carried out by some, but not all, relevant staff.

Defining the systematic approach is a matter of professional judgement. Responders should bear in mind the Framework’s objective to deliver a level of transparency that provides an accurate representation of the organisation’s approach to responsible investment/ESG. Differences in approach between different strategies, or parts of an organisation, can be explained in the ‘Additional Information’ boxes provided.