PRI RESPONSE

BUSINESS STEERING COMMITTEE RECOMMENDATIONS FOR FFD4

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on independent evidence-based policy research, considering signatory input.

ABOUT THIS SUBMISSION

This submission is part of the suite of recommendations developed by PRI and other members of the FfD4 Business Steering Committee. The objective of the submission is to inform the substantive preparations for FfD4.

It is based on the PRI, UNEP FI, and Generation Foundation 2024 summary report, *A Legal Framework for Impact: Long Term Value Creation in a Changing World*, which can be found here: https://www.unpri.org/a-legal-framework-for-impact/a-legal-framework-for-impact-summary-report/12520.article.

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RECOMMENDATION NO. 1

Develop and implement sustainable finance policies and regulations that ensure investors can confidently set and pursue commitments to achieve positive sustainability outcomes across all asset classes in line with their duties and obligations.

ESG integration alone is insufficient to fully mitigate risks and achieve global sustainability goals. To maximize the impact of private finance and investments, including enhancing accountability and transparency, Member States should seek to not only enable more financing for developing countries, but also to address the key factors that are preventing better sustainability outcomes in investments.

Policy makers should continue to clarify legal duties where necessary, while shifting the emphasis decisively to policies that support and incentivize investor pursuit of positive sustainability outcomes.

RATIONALE FOR RECOMMENDATION NO. 1

Many governments are seeking to help investors put capital to work addressing crises like climate change. However, despite increasing commitments from investors, companies, and governments, the world is not on track to achieve global sustainability goals, including those set out in the Paris Agreement[1] and the Sustainable Development Goals.[2] Consequently, investment portfolios remain exposed to sustainability risks – including system-level risks.

There is a continuous feedback cycle between the decisions taken by investors, the sustainability outcomes to which those decisions contribute (via the behaviour of investee enterprises), whether intended or not, and the ESG risks and sustainability opportunities that affect the financial performance of investments. Negative sustainability outcomes are drivers of both risks for individual companies and sectors, and market-wide or system-level risks that affect whole portfolios. These risks can be relevant over the near, medium and long term. Conversely, investor activity can contribute to positive real-world outcomes on issues such as climate change, biodiversity, sustainable development and human rights.

As part of their responsibilities to clients and beneficiaries, investors may need to assess the real-world sustainability outcomes to which investment decisions and ownership activities can contribute and consider how these outcomes affect the system-level risks to which their portfolio is exposed.[3] System-level risks that involve economy-wide effects cannot be mitigated by traditional asset class-based diversification. Narrow ESG integration does not aim to resolve non-diversifiable risks that stem from system-wide issues.

Addressing the drivers of sustainability-related system-level risks is key to protecting and enhancing financial returns as well as contributing to positive sustainability outcomes. Investors may need to take steps to increase the positive impacts of their investment activities and decrease or eliminate the negative impacts. However, there are a range of factors that may prevent or deter investors from investing for sustainability impact, including legal rules and market infrastructure and practice.

Policy makers have an important role to play in supporting investors to serve their clients and beneficiaries' financial goals by overcoming barriers to greater action to pursue impact.[4] In doing so, policy makers help mitigate system-level risks which not only protects investment value, but also advances sustainable development.

[1] IPCC (2023), AR6 Synthesis Report: Climate Change 2023.
[2] UN DESA (2023), The Sustainable Development Goals Report 2023: Special Edition.
[3] PRI, UNEP FI, Generation Foundation (2021), A Legal Framework for Impact.
[4] For more information on the specific policies that should be implemented, see the PRI, UNEP FI, and Generation Foundation 2024 summary report, A Legal Framework for Impact: Long Term Value Creation in a Changing World.

REFERENCES

PRI, UNEP FI, Generation Foundation (2024), A Legal Framework for Impact: Long Term Value Creation in a Changing World.

PRI, UNEP FI, Generation Foundation (2021), A Legal Framework for Impact.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of UN Member States further.

Please send any questions or comments to policy@unpri.org.

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