GUIDANCE ON PRI PILOT CLIMATE REPORTING

BASED ON THE RECOMMENDATIONS OF THE FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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

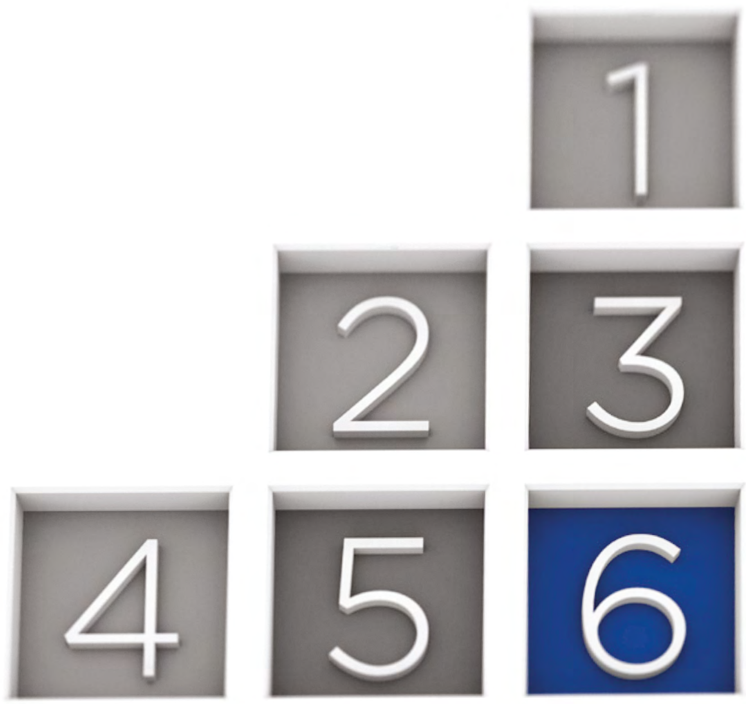
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

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.**



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

PRI AND CLIMATE DISCLOSURE

This guidance note aims to support signatories in piloting climate reporting based on the recommendations of the FSB Task Force on Climate-related Financial Disclosures.

PRI signatories consider climate change to be the most important environmental, social or governance issue that they face. As a principles-led initiative, the PRI supports the implementation of the Paris Agreement on climate change. We aim to support our signatories in financing the transition to a low-carbon global economy, and in recognising the risks and opportunities presented by that transition.

The PRI has been working closely with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in its recommendations for companies and investors to report on their assessment and management of climate risks. Our chair, Martin Skancke, serves on the TCFD, as do representatives of a number of our signatories[1].

The Final Report: Recommendations of the FSB Task Force on Climate-related Financial Disclosures (TCFD) marks a turning point in how companies, banks, insurers, investors and regulators understand and respond to climate risk and opportunity.

The recommendations mark a vital step forwards on climate change – crucially providing investors and companies with a common financial language for it.

We strongly support the TCFD's final recommendations, published in June 2017. These have been supported by nearly 400 investors representing US$22 trillion in assets under management[2]. In addition, more than 100 firms have provided statements of support to encourage take-up of the recommendations.

We have a range of activities underway to support their implementation. These include a collaborative engagement programme to encourage corporate reporting as proposed by the TCFD, advocacy with governments and stock exchanges to formally endorse the recommendations.

In addition, we are enhancing the PRI reporting framework to integrate new climate-related indicators based on the TCFD recommendations. Specifically, we are providing, in the 2018 reporting and assessment cycle, the opportunity to pilot additional indicators that will produce TCFD-aligned disclosures.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

1 https://www.fsb-tcfd.org/about/
2 http://investorsonclimatechange.org/wp-content/uploads/2017/05/v2-Final-Letter-to-G20.pdf

PRACTICAL BENEFITS OF PILOT CLIMATE REPORTING

There is a strong business case for disclosure of climate risks and opportunities by asset owners and asset managers. As concern builds about the likely impacts of climate change, and as policy efforts to curb emissions accelerate in many regions, clients and beneficiaries are increasingly expecting investors to explain how they are responding to the issue.

The TCFD provides a framework to provide that explanation, and one that is becoming widely adopted. A growing number of regulators are endorsing its recommendations, which are becoming viewed as leading practice. Completing the PRI climate reporting indicators will enable signatories to implement the TCFD guidance, demonstrating good practice.

Engaging with the pilot will, we believe, also help investors develop their climate change strategy, as practice evolves. Pilot reporting can help raise internal awareness and establish processes for information collection and analysis.

Trialling the climate indicators is voluntary, the indicators will be voluntary for signatories to disclose, and they will not be included in the PRI's existing assessment process. However, the pilot process will provide participating signatories with a stand-alone *Climate Transparency Report* that can be used for internal or external purposes.

Participation in the pilot will help develop the investment community's response to the TCFD guidance. The PRI will analyse signatory pilots in late 2018, with a view both to reviewing the indicators used, and to feed our findings into the TCFD's formal assessment of how its recommendations are being implemented, in 2019.

SUMMARY OF BENEFITS OF PILOT CLIMATE REPORTING FOR PRI SIGNATORIES

- Demonstrate commitment to FSB Task Force's good practice guidance
- Strengthen internal capacity for climate-related risks and opportunities
- Option to use Climate Transparency Reports externally for stakeholders

Climate risk disclosure is a complex and evolving field. We particularly recognise the challenges faced by investors in addressing climate risks and opportunities in their investment strategies and products, and in selecting the appropriate investor metrics. We plan to produce additional guidance for asset owners and investment managers on these and related issues.

These complexities notwithstanding, we believe that piloting the PRI's climate indicators will support signatories in their understanding of the issues involved, demonstrate good practice, and allow signatories to help shape the investment community's response to climate disclosure.

This guidance note explains the steps signatories can take to participate in the climate reporting pilot, as well as highlighting how and why leading investors are embracing climate risk disclosure.

EXAMPLES OF PRI SIGNATORIES REPORTING BASED ON TCFD

Investor good practice in implementing TCFD is still evolving, but the following good practice examples highlight how PRI signatories are approaching reporting based on TCFD.

AVIVA PLC.

The UK-based financial services group has produced an extensive – and early – response in line with the Task Force's recommendations. That response includes two pages in the Aviva Plc.'s Annual Report and Accounts 2016, reflecting the company's "multiple roles" as an asset owner, insurer, investor and asset manager.

The response is organized in line with the TCFD's recommendations, broken down by governing climate-related risks, strategy, and risk management, with this latter organised by physical, transition and liability risks. It also includes a section on the metrics and targets used to assess and manage climate-related risks and opportunities.

AXA GROUP

In welcoming the TCFD's draft recommendations in December 2016, French insurance giant AXA stated that it had "initiated real and essential work, already achieved for most of it, to meet as quickly as possible the transparency requirements suggested by the TCFD".

Two months earlier, AXA's climate disclosures had been recognised by the French ministry of the environment. The company won an international award from the ministry to showcase the best climate-risk disclosures by investors.

Its 49-page document, orientated towards France's Article 173 climate disclosure regulation, sets out how AXA integrates climate-related criteria into investment decisions and engagement. It includes AXA's climate goals, its climate risks, and how it communicates on the issue to clients and beneficiaries. The company also included a two-page summary of this report in its main financial report and accounts, directing readers to the longer document.

AXA is changing how its climate reporting is structured for 2017, and will align it with the TCFD recommendations.

ENVIRONMENT AGENCY PENSION FUND

The £3 billion Environment Agency Pension Fund (EAPF) – which manages the pensions of 24,000 current and former workers of the UK government's environmental regulator – has been a vocal supporter of the work of the TCFD.

Its latest climate policy statement, published in October 2017, states that EAPF will "actively support the adoption" of the TCFD recommendations, through engagement with companies, regulators, policymakers and other intermediaries to demand higher disclosure standards and increased transparency for, and by, investors.

"We commit to continue to demonstrate best practice in our own climate-related financial disclosures," it adds.

Within its annual financial report, EAPF sets out is climate policy, its climate investment beliefs, and a narrative description of work done in prior years to better understand the fund's climate impacts and exposures.

It also elaborates its carbon targets – with quantified investment and decarbonisation targets, as well as a commitment to engagement – and a range of the carbon metrics it uses.

Nonetheless, despite the wealth of narrative and data provided, the 2017 edition of the report notes that: "The two primary limiting factors in our ability to provide reliable carbon metrics across the whole fund are the availability of consistent and comparable data and the resource time taken to pull all the information together.

"We are however tireless in our efforts to work with others in addressing carbon-related financial disclosures and hope that our own disclosures, whilst not perfect, are market leading."

Craig Martin, Chief Pensions Officer, Environmental Agency Pension Fund

FIRST STATE INVESTMENTS

First State Investments states that the shared responsibility to address climate change "requires transparency from all stakeholders". It has therefore drawn up a "dedicated climate change disclosure", which is available on its website, aligned with the TCFD recommendations, and those made by the Global Investor Coalition on Climate Change in its Guide to Investor Disclosure.

The website offers a summary of its approach to managing climate change risks and opportunities. This is organised in line with the TFCD themes of governance, strategy, risk management and metrics and targets.

The investment manager also includes climate-related information for most of its investment teams. Some of these include detailed data on carbon exposure in intensity terms, and how portfolio carbon intensity compares with the industry sector average, for example.

Will Oulton, global head of responsible investment at First State Investments, says that the company's starting point was considering what disclosure would be most appropriate to allow stakeholders to get a proper understanding of its approach to long-term climate risk. That process generated disclosures that were close to the recommendations of the TCFD, he says.

Because First State is a subsidiary of Australia's Commonwealth Bank Group, the firm does not produce an annual report. The parent company's report does not refer directly to the TCFD, but does reference the group's Climate Policy Position Statement, which states that the company is undertaking climate scenario analysis.

2018 PRI REPORTING FRAMEWORK AND TCFD

This section covers how the PRI Reporting Framework has been aligned to TCFD and will help you in navigating the PRI pilot climate reporting indicators.

MAPPING OF TCFD AND THE PRI REPORTING FRAMEWORK

The TCFD structured its recommendations around four thematic areas, representing elements of how organizations operate: governance, strategy, risk management, and metrics and targets. The PRI's new pilot climate indicators map to those four areas:

TCFD RECOMMENDATION	RELEVANT PRI INDICATOR
a) Describe the board's oversight of climate-related risks and opportunities.	SG 7.1 CC SG 7.1a CC
b) Describe management's role in assessing and managing climate-related risks and opportunities.	SG 7.1 CC SG 7.1b CC
STRATEGY	
a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	SG 13.1 SG 13.1a CC SG 14.1 CC SG 14.2a CC
b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	SG 1.3b CC
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	SG 13.1a CC
RISK MANAGEMENT	
a) Describe the organization's processes for identifying and assessing climate-related risks	SG 14.7 CC SG 14.9 CC
b) Describe the organization's processes for managing climate-related risks.	SG 14.7 CC SG 14.8 CC
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	SG 14.7 CC
METRICS AND TARGETS	
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	SG 14.4a CC
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	SG 14.4a CC
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	SG 14.4b CC

PRI PILOT CLIMATE REPORTING: WHO, WHEN, WHERE, HOW AND WHAT?

The 2018 PRI Reporting Framework has been aligned with TCFD through pilot climate reporting indicators that are voluntary to disclose, voluntary to report, and will not be assessed by the PRI.

WHO:
PRI signatory asset owners and investment managers can report using the pilot climate reporting indicators.

WHEN:
Those signatories participating in the pilot will be expected to complete the climate indicators as part of their normal PRI reporting cycle, between January and March of 2018.

WHERE:
Participants in the pilot will receive a Climate Transparency Report. If they choose, this report can be publicly disclosed alongside their RI Transparency report.

The TCFD also recommends that climate-related financial disclosures are also provided in mainstream, public annual financial filings. This is in line with the PRI's existing reporting and assessment framework. While reporting to the PRI is an obligation for all signatories, we also strongly recommend that the outputs from PRI reporting are used in mainstream disclosures to regulators, clients and beneficiaries. Signatories can draw on their Climate Transparency Report to do so.

HOW:
Signatories participating in the pilot will be asked to complete additional questions in the Strategy and Governance module of the reporting framework.

WHAT DO SIGNATORIES REPORT?
The Climate Reporting Indicators are available in full online.

All signatories will be given the option to check tick-boxes in questions SG 01.3, SG 13.1, SG 14.2 and SG 14.4. Doing so will triggered additional questions.

INVESTMENT POLICY (SG 01.3)

If a signatory selects the box stating that its investment policy covers climate change, the following questions are triggered:

SG 01.3a CC	Describe how your products or investment strategy might be affected by the transition to a lower-carbon economy.
	Free text, 500 words
SG 01.3b CC	Describe how climate-related risks and opportunities are factored into your investment strategies or products.
	☐ We factor climate-related risks and strategies into our investment strategies or products. *Free text, 500 words* ☐ We do not factor climate-related risks and strategies into our investment strategies or products. *Free text, 500 words*

OVERSIGHT AND IMPLEMENTATION RESPONSIBILITIES FOR CLIMATE CHANGE ISSUES (SG 07.1 CC)

If signatories state that: board members or trustees; CEOs, CIOs, CROs or the Investment Committee; or other chief-level staff or head of department, have oversight and/or implementation responsibilities for climate-related issues, the following questions are triggered:

SG 07.1a CC	For the **board level** roles or for which you have **climate-related issues** oversight/ accountability or implementation responsibilities, indicate how you execute these responsibilities.
	Free text, 500 words
SG 01.3a CC	For the **management-level** roles which assess and manage **climate-related issues**, provide further information on the structure and process involved.
	Free text, 500 words

CONSIDERATION OF SCENARIO ANALYSIS AND/OR MODELING (SG 13.1)

Where signatories are asked if the organisation considers scenario analysis and/or modelling in which the risk profile of future ESG trends at portfolio level is calculated, two additional options are provided, depending on the scenario used for the analysis:

SG 13.1 CC	☐ We consider scenario analysis that includes factors representing the investment impacts of future climate-related risks and opportunities (Selecting this will trigger SG 13.1a CC) Is this scenario analysis based on a 2°C or lower scenario? ○ Yes ○ No

An additional question is asked:

SG 13.1a CC	Please describe the resilience of your organisation's strategy, considering different future climate scenarios.			
	Strategy affected	Changes to strategy	Description of scenario and time-horizon	How analysis has been used

CLIMATE-RELATED RISKS AND OPPORTUNITIES (SG 14)

The pilot climate indicators include a number of questions covering climate-related risks and opportunities, including the processes to identify the risks and opportunities.

SG 14.1 CC	Describe the process used to determin which climate-related short, medium and long-term risks and opportunities could ha a material impact on your organisations and its activities.
	Free text, 500 words

If signatories confirm that they consider climate change and related issues as an investment risk and/or opportunities (in SG 14.2), the following question is triggered:

Please describe how you define “short”, “medium“ and “long” term, and describe your material climate-related issues over these time horizons.		
	Definition	*Description of material climate-related issues*
Short term		
Medium term		
Long term		

SG 14 also includes a series of questions relating to climate-related risks and opportunities, including:

- The tools used to manage climate-related risks and opportunities (SG 14.4)
- The key metrics used to assess climate-related risks and opportunities (SG 14.4a CC)
- Key targets set (SG 14.4b CC)
- The risk management processes for identifying, assessing and managing climate-related risks (SG 14.7 CC)
- The processes for prioritising climate-related risks (SG 14.8 CC)
- Engagement activities with investee companies regarding climate risk (SG 14.9 CC)
- The use of data from climate-related disclosures (SG 14.10 CC)

FOUR STEPS TO PILOT CLIMATE REPORTING IN 2018

PRI recommends that signatories work towards the following steps to pilot climate reporting during the 2018 reporting cycle:

STEP 01

UNDERTAKE GAP ANALYSIS ON WHERE YOU ARE NOW VERSUS TCFD

- Information gathering: understand where the information needed for pilot climate reporting is within the organisation, who is responsible for it, and establish internal channels for sharing of the information.
- Gap analysis: how far away from the TCFD approach are you now in terms of governance, strategy, risk management and metrics?
- Closing the gap: understand what is needed to pilot climate reporting including senior-level discussion and resourcing implications.

STEP 02

OBTAIN INTERNAL BUY-IN FOR PILOT CLIMATE REPORTING

- Raise internal colleague awareness on TCFD.
- Highlight the practical benefits of pilot climate reporting.
- Decide scope of your response and parameters.
- Decide whether pilot climate report will be for internal or external use.

STEP 03

PILOT THE PRI REPORTING FRAMEWORK IN DRAFT FORM

- Complete PRI reporting framework climate indicators in draft.
- Report back to internal teams, approval for submission.
- Submit the pilot climate report within your 2018 PRI submission.

STEP 04

DETERMINE NEXT STEPS FOR CLIMATE REPORTING

- Internal review of *Climate Transparency Report* from the 2018 PRI reporting framework.
- Develop action plan for improving practices and reporting.
- Reuse *Climate Transparency Report* externally as appropriate.

The Principles for Responsible Investment (PRI)

The 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.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org