

# THE PRI'S SIGNATORY CATEGORIES

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## GUIDELINES FOR POTENTIAL SIGNATORIES

*These guidelines were initially approved by the PRI Board on **1st December 2016** and were last updated in December 2017. New precedents will be added quarterly and the guidelines will be reviewed on an annual basis. If you have any questions contact the PRI via [info@unpri.org](mailto:info@unpri.org).*

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## THE PRI'S SIGNATORY CATEGORIES

The Principles for Responsible Investment (PRI) sees accurate categorisation of PRI signatories as key to providing the best possible support for each signatory's responsible investment journey.

The PRI categorises each new signatory into one of three categories:

1. asset owner (AO);
2. investment manager (IM);
3. professional service partner (PSP).

These categories allow the PRI to involve each signatory appropriately in the PRI's governance, attribute signatories to the right fee band, and provide the best possible support for each signatory, given their function in the financial system.

Signatory categorisation is ultimately the responsibility of the PRI Board, comprised of PRI signatory representatives elected by PRI signatories.<sup>1</sup> The Board's Signatory and Stakeholder Engagement Committee (SSEC)<sup>2</sup>, which is made up of current signatories, provides guidance and recommendations to the Board and Executive on signatory status and categorisation, for final Board approval.

As part of the categorisation process, the PRI aims to:

- Increase the adoption of the Principles by signing up signatories at the highest level of a group.
- Sign up signatories when they have a sufficient level of autonomy to integrate ESG factors into their investment practices and decision making.
- Categorise signatories based on their predominant activity, so that tailored responsible investment advice and resources can be provided.

This guide has been written for potential signatories to explain the criteria for categorisation of new signatories and highlight individual cases and exceptions.

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<sup>1</sup> [PRI Board Directors Terms of Reference](#)

<sup>2</sup> [Signatory and Stakeholder Engagement Committee Terms of Reference](#)

## CRITERIA FOR BECOMING A SIGNATORY

As part of signing the six Principles, PRI signatories commit to:

- abide by the Articles of Association and the Signatory Rules;
- report on annual progress in implementing the Principles<sup>3</sup>;
- pay annual fees<sup>4</sup> to support the operational costs of the PRI
- follow the ‘spirit’<sup>5</sup> of the Principles for Responsible Investment.

The PRI is an UN-supported organisation and all PRI signatories are therefore expected to have their headquarters in a country recognised by the UN as either a member state, observer or dependency<sup>6</sup>. The UN Global Compact also adopts this criterion.

### Summary of governance, reporting, services and fees according to signatory category

Category	Governance	Reporting and assessment	Access to services	Fees
Asset owners	Majority of PRI Board	Report annually	All	Based on AUM
Investment managers	Minority of PRI Board	Report annually	All	Based on AUM
Professional service partners	Minority of PRI Board	Report annually (voluntary in 2017)	Some limits	Based on number of staff

### Network Supporter

An organisation which does not qualify for asset owner, investment manager or professional service partner membership, (such as an industry association) but officially endorses the PRI can become a Network Supporter.

Network Supporters are not signatories but can make use of the PRI’s public-facing (not signatory-only) services, activities, resources and a PRI logo. They do not pay fees, but are required to report annually on how they have been promoting the PRI to their members. They have no role in the PRI’s governance.

The Network Supporter category allows the PRI to work with key stakeholders across the globe to further the adoption of the Principles.

<sup>3</sup> For more information, see the [PRI website reporting page](#).

<sup>4</sup> For more information on the sign up process and annual fees see the [becoming a signatory page](#) on the PRI website.

<sup>5</sup> 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 corporate 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, each signatory commits to the [6 principles](#):

<sup>6</sup> [United Nations member states](#)

## CATEGORIES, CRITERIA AND CONDITIONS

1. Signatories will be categorised based on a 'principle' approach. In particular, to identify AOs four main characteristics will be sought:
  - 1.1. the investor's place in the investment chain,
  - 1.2. discretion on its assets,
  - 1.3. the long-term nature of its investments and
  - 1.4. the non-commerciality of its asset management activities.
2. Signatories will be categorised according to their predominant activity.
3. A group headed by a passive trust structure will be assessed according to its predominant lower level activities.

The PRI is an asset owner-led organisation, with a majority of positions on the PRI Board allocated to representatives from asset owner signatories. Asset owners, in theory, have the power to drive responsible investment practices through the investment chain. The PRI sees accurate categorisation of PRI signatories as key to driving responsible investment through the investment chain and providing the best possible support for each signatory's responsible investment journey.

Type	Articles of Association definition	Rationale and/or considerations for categorisation
AO	An organisation that manages or controls investment funds, either on its own account or on behalf of others, and which owns more than half of such investment funds.	<p>The entity has <b>all</b> of the following:</p> <ul style="list-style-type: none"> <li>• <u>Institutional investor entity</u> at the top of the investment chain and directly accountable to beneficiaries or the government;</li> <li>• <u>Investment discretion</u> over all or most of its assets (e.g. not subject to the direction of independent financial advisors (IFAs) or beneficiaries);</li> <li>• <u>Long-term</u> investment capacities and motivations;</li> <li>• Stable <u>non-commercial</u> governance arrangements.</li> </ul> <p>Because of this rationale, AOs:</p> <ul style="list-style-type: none"> <li>• Make asset allocation decisions based on meeting their projected liabilities or other investment objectives such as preserving principal or meeting government charters;</li> <li>• Capital preservation and/or retirement provision is the primary motive and they are ultimately answerable to pensioners or the government rather than shareholders.</li> </ul>
IM	An organisation that manages or controls investment funds, either on its own account or on behalf of others, and which does not own more than half of such investment funds.	<ul style="list-style-type: none"> <li>• Make investment decisions according to guidelines stated in investment management agreements (IMA) or fund formation documents.</li> <li>• The majority of its assets are subject to the direction of AOs, IFAs or beneficiaries.</li> <li>• Not the counterparty to transactions or derivatives.<sup>7</sup></li> </ul>
SP	Is an organisation that does not manage investment funds but provides services to asset owners and/or investment managers that assist in the fulfilment of the Principles.	<ul style="list-style-type: none"> <li>• Provide investment advice to AOs or IMs, including asset allocation and manager selection.</li> <li>• Conduct due diligence of managers and products.</li> <li>• Deliver services such as proxy voting, provide data, etc.</li> </ul>

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<sup>7</sup> Being an agent, investment managers do not bear credit or liquidity risk in their portfolios.

## ORGANISATIONS WITH MULTIPLE ENTITIES

The PRI aims to encourage responsible investment and the wide implementation of the Principles. Financial groups only signing up specific funds that have strong ESG performance can give an inaccurate picture of their group's ESG performance overall. Therefore, when an organisation is made up of a number of different entities, the PRI requires them to sign at the **highest level of the group**, if possible.

The PRI pays special attention to branding and distribution to allow market actors to clearly distinguish between PRI signatory entities and non-signatory entities.

Within this approach, it should be noted that:

- Where a subsidiary has signed and the wider group has not, the wider group cannot 'inherit' PRI signatory status.
- Where a highest-level entity signs on behalf of a group, all subsidiaries' assets should be included as part of their application and reporting.
- Subsidiaries can then represent themselves as a signatory through their parent company, providing they demonstrate implementation of the Principles and this is reported in their parent organisation's reporting and assessment responses.
- Subsidiaries (or a joint venture) can sign up separately from the group if their parent is already a signatory.<sup>8</sup> They will be subject to the same terms of any other separate signatory, following the rule of 'one signatory, one reporting and assessment, one fee'.

However, in rare cases, subsidiaries that are reasonably autonomous can sign up separately even if their parent organisation is not a signatory. Autonomy will be assessed by the characteristics below, with no one characteristic being more important than another:

- The subsidiary is a separate legal entity to the parent.
- The subsidiary has ultimate control over its investment and risk management decisions.
- The subsidiary has a separate distribution (sales) function.
- The subsidiary has a separate reporting structure in the eyes of the regulatory authority.
- The subsidiary's directors and the board appointment process is independent of the parent.
- The subsidiary has a clearly differentiated branding that signals different approaches.
- The subsidiary manages a minority of the relevant assets of the owner entity as other third parties manage their assets too.
- The signatory was previously independent (before a merger) and still subject to shareholder agreements.

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<sup>8</sup> Subsidiaries can sign as independent signatories and report independently. In this scenario, the parent company is required to continue to report the entire group's AUM in their report, though they can refer to the report of their signatory subsidiary for that part of their PRI reporting.

**Organisations that have both asset owner and investment manager entities or activities.**

Organisations that include both asset owner and third party investment management entities or activities can become a signatory on a consolidated group basis. If the organisation owns more than half of the funds it manages or controls, it is categorised as an asset owner. If not, it will be categorised as an investment manager. These organisations will report their activities as a group, most likely as internally managed (at least those invested via the investment management entity).

Typically, however, most organisations with both asset owner and investment manager entities find the consolidated approach not representative of how they operate. These organisations prefer to sign up as two distinct signatories, an asset owner and an investment manager. The investment manager signatory will report like other investment managers. The asset owner signatory will report the assets managed directly by its own investment manager entity as if internally managed, and the assets managed by third party investment managers as externally managed.

## DECIDING A SIGNATORY'S CATEGORY: THE PROCESS

- Upon receipt of an application, the PRI Executive consults the signatory categorisation guidelines. If the Executive judges that the applicant is applying to the wrong category, they will be advised as such, citing the guidelines;
- If the applicant disagrees with the Executive's decision, it can choose to take their case to the SSEC (process description below). The burden of proof resides with the applicant;
- New cases are reviewed by the SSEC and when in doubt categorisation recommendations are presented to the Board for final approval. The SSEC meets quarterly to review outstanding cases;
- The Board has the authority to decide signatory status and signatory categorisation as set out in the [PRI Articles of Association](#) and [Signatory Rules](#).
- New cases referred to the SSEC and the PRI Board are recorded in a register of precedents, the basis for future categorisation decisions.

### APPLICANT'S CATEGORISATION APPEALS PROCESS:

1. The applicant organisation disagrees with the interpretation of the Executive / Committee;
2. The applicant organisation writes a formal letter to the SSEC (via the Executive) explaining why it disagrees with the categorisation and the reasons for re-categorisation;
3. SSEC discussion of the case and categorisation recommendation to the PRI Board;
4. The PRI Board makes the final decision on signatory categorisation and the SSEC sends a formal letter to the applicant organisation notifying them of the decision;
5. Signatory categorisation guidelines are updated as necessary and placed on the PRI website.

### REGISTER OF PRECEDENTS

This PRI's precedents register records new cases in a way which protects commercial confidentiality but clearly sets out the reasoning for each precedent.

A summary of the precedents is included in the back of this guide.

## PRECEDENTS

The precedents and exemptions listed here outline specific PRI signatory categorisation decisions where the above guidelines either do not provide enough information or are not strictly applicable. These precedents and exceptions are approved by the PRI Board and the rationale for the decision is stated.

### **AFPs, Afores and Private Open Pension Plans**

The PRI classifies Administradoras de Fondos de Pensiones (AFPs) and Administradoras de Fondos para el Retiro (Afores) as asset owners as they are exclusively dedicated to administer pension accounts and related services under close government supervision. Strictly defined government requirements and restrictions on fee levels, fund offerings, investments and returns ensures that the commercial nature of the Afores and AFPs will not conflict with their mandate to provide pensions. Similar provisions apply to private open pension plans in Brazil.

### **Banks**

Banks can become signatories if they have a significant wealth management arm or an asset management arm that is not a separate legal entity. The PRI encourages any investment managers that are part of banks to sign the Principles independently. The PRI does not provide tailored services for bank treasuries and non-asset management activities.

### **Campaigning organisations**

The PRI values all organisations that work towards a more sustainable financial system globally. If campaigning organisations also provide services to investors, for a fee, they can become professional service partner signatories based on that activity.

### **Defined contribution pension funds**

Defined contribution (DC) pension funds can be asset owners or investment managers, depending upon the nature of their operations and activities. Where the DC pension fund acts on behalf of, rather than at the direction of, individual beneficiaries or members, it will generally be an asset owner. Where the DC pension fund acts as a platform for individual investors, such that the fund's asset allocation substantially reflects the judgment of the beneficiaries or their advisors, rather than the trustee, the fund will generally be an investment manager.

For example, an Australian workplace superannuation fund would generally be an asset owner, while a United States DC pension fund selected by a company as its 401(k) plan provider generally would be an investment manager (unless in practice most of the plan's assets were allocated by default and the corporate arrangement was a long term arrangement).

The degree of commerciality of a DC pension fund signatory's operations in securing funds also affects whether it would be an asset owner or investment manager. Commercial providers tend to delegate asset allocation discretion, and therefore invest at the direction of beneficiaries, clients, or financial planners. As a result, defined contribution pension schemes run by commercial manager houses, which are responsible to their shareholders for their profitability, will typically be considered investment managers.

### **Development finance institutions (DFIs)**

DFIs are financial institution that provides development finance (e.g. equity capital, loan capital) to fund businesses for economic development. DFIs are categorised as asset owners. They are required to report on their responsible investment activities in the programmatic portfolio rather than their treasury function, but they can report on both if they choose to.

### **Diversified investment holding companies**

These organisations buy majority shares in companies to run them as multi-sector organisations. As they are not designed for investment management purposes, they are not accepted as PRI signatories. The [UN Global Compact](#), one of the PRI's UN partners, provides services for diversified investment holding companies.

### **Endowments and foundations**

Endowments and foundations are categorised as asset owners. If stipulated by donors these organisations can report their AUM to the PRI in confidence. The PRI will not publish the AUM for these asset owner signatories and there will be restricted staff access to these figures.

### **Execution and advisory services**

Organisations that solely run execution and advisory services will be listed as professional service partners and will be expected to report from January 2018. Organisations that also manage assets may be categorised as investment managers, depending on their predominant activity. Those that primarily manage assets and also provide these services will be required to include these assets in their AUM figure, but will not be required to report on their responsible investment activities for those assets anywhere but in comment boxes provided.

### **Family offices**

Single investing family offices are categorised as asset owners but investing multi-family offices will be categorised as investment managers or professional service partners dependent on their predominant activity. As for endowments and foundations, family offices can report their AUM figures to the PRI in confidence. This is for safety and security reasons. The PRI will not publish the AUM for these asset owners and there will be restricted staff access to these figures.

### **Fundraising organisations**

Investment managers that are in the fundraising stage can sign the PRI as provisional signatories. They are granted this status for 12 months, after which their status is reviewed and, if necessary, renewed at the discretion of the PRI. The fee for provisional signatories is based on the target size of the fund. Once they are actively managing assets they must inform the PRI.

### **Funds owned by trust companies with investment decision authority**

Trustee companies of investment funds that have distinct boards and have final sign off over investment decisions and manager selection can sign the PRI as an investment manager. This will only be permitted when the trustee company selects an investment manager that is already a signatory.

### **Insurance and re-insurance companies**

The PRI classifies insurance and re-insurance companies as asset owners because they have legal ownership of their assets. Moreover, insurance companies generally do not engage in commercial competition based on the investment performance or investment beliefs of their funds. Some insurance companies have both an asset owner and investment manager function. In this scenario, the organisation can sign up as a group or two separate signatories: an asset owner (for the liabilities side) and an investment manager.

### **Mutual funds/unit trust**

Signatories are organisations, not individual funds run by an organisation. Individual funds cannot sign the PRI. These include but are not limited to [SICAVs](#), collective investment vehicles and unit trusts.<sup>9</sup>

### **Media organisations**

Media organisations may sign the PRI as professional service partners. Signatories that are media organisations have restricted rights to the PRI's services. This is to prohibit access to sensitive information, particularly on the Collaboration Platform.

### **Relisting signatory**

Organisations that have been signatories and delisted can re-join the PRI. However, when they do so, they will not be granted the customary grace period of one reporting cycle.

### **Professional service partners not servicing investors**

Professional service partners that provide services to investors (directly or indirectly) may join the PRI. These typically include asset consultants, research houses, the accounting firms, professional service firms, data providers, rating agencies etc. Providers that only serve companies with no connection to the financial services industry are encouraged to join the [UN Global Compact](#).

### **Sovereign wealth funds (SWFs)**

SWFs are categorised as asset owners. Some SWFs do not publish their AUM and often do not share it with partners or providers. SWFs have the option to report or not to report their AUM figures when they sign up to the PRI or are due to complete the annual report.

### **Third party management companies**

Third party management companies (Mancos) typically offer risk management and fund governance services to investors to address regulatory compliance in certain markets (for example for [UCITS](#) in Luxembourg). Generally, ManCos delegate portfolio management and risk management to the fund sponsor's chosen investment manager, and administration and custody activities to an external administrator and custodian. ManCos may also delegate distribution to a global distributor or sub-distribution network. These organisations will be signed up as professional service partners.

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<sup>9</sup> These are not asset owners but investment funds that collect capital and then manage the capital via another body. There would typically be an entity that is responsible for running it, even if it is just administrative. It is at this level (the level responsible for running the investment fund) that the organisation is eligible to become a PRI signatory.