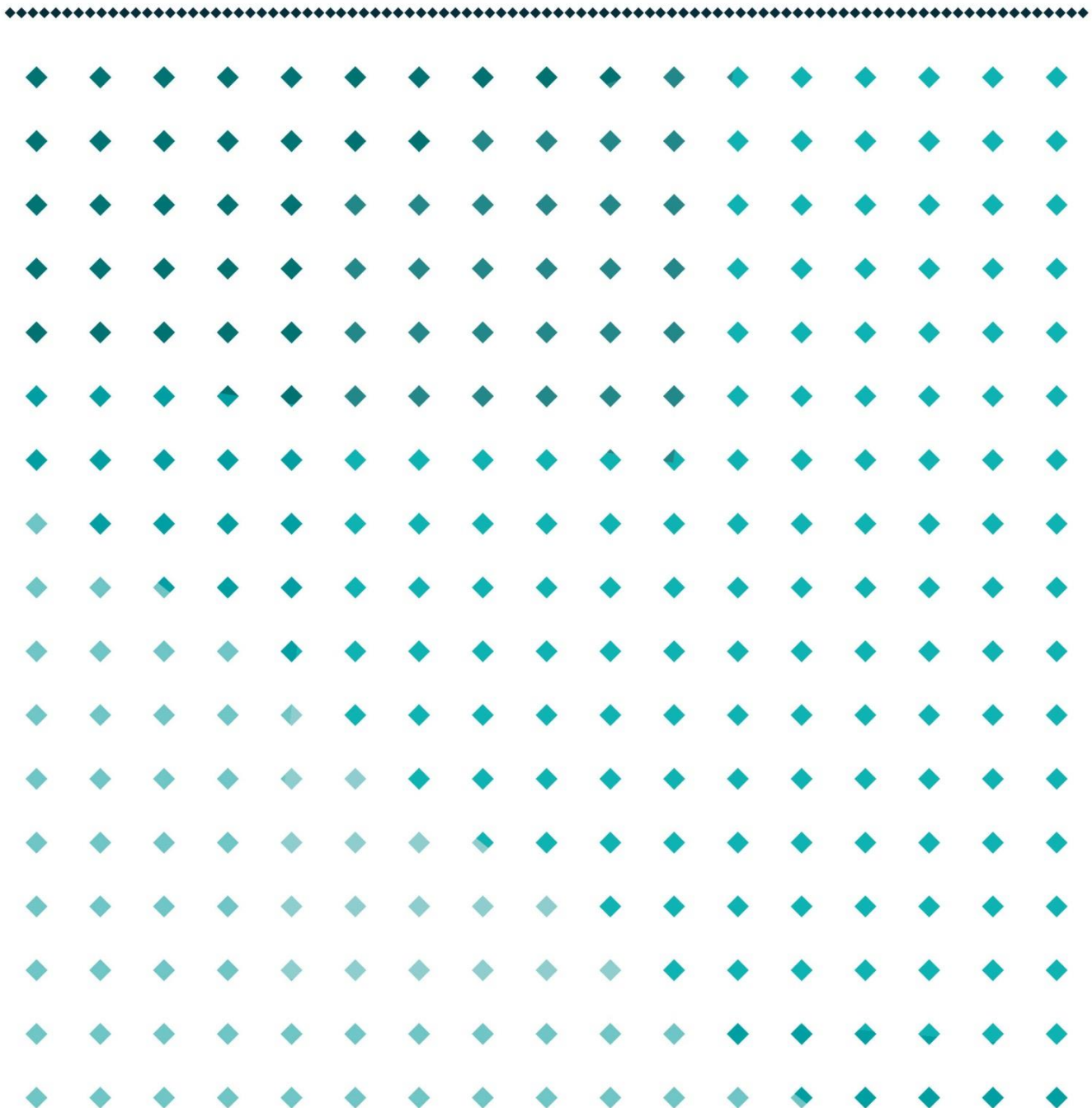


CONSULTATION RESPONSE: UN PRINCIPLES OF RESPONSIBLE INVESTMENT – RECOGNISING DIVERSITY, STRENGTHENING ACCOUNTABILITY



INTRODUCTION

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

UN PRINCIPLES OF RESPONSIBLE INVESTMENT (PRI)

The [six principles of responsible investment](#) were launched with the backing of the UN in 2005 and now have [over 1,500 signatories](#) from across the investment industry.

Feedback to the PRI executive's 2015-2018 strategic plan identified varying levels of commitment to responsible investment, and suggested that PRI accreditation was being used by some signatories as a marketing device.

The PRI subsequently issued this consultation to consider how they could better recognise the different stages that signatories are at in their progress towards becoming responsible investors and the ways in which the PRI can support and verify whole-hearted compliance with the spirit of the principles.

RECOGNISING DIVERSITY

1. Should the PRI use its reporting and assessment data to publicly differentiate between signatories that are advanced from those at an early stage? Should this include all signatories or only certain categories?

This approach would be fairest and most transparent to signatories and stakeholders. Part of the function of the Principles of Responsible Investment is to provide reassurance for stakeholders, particularly asset owners and their beneficiaries, that their money is being invested responsibly. If some signatories are able to embrace the principles more completely than others, it makes sense for the PRI to clarify this.

2. Should the PRI publicly disclose individual signatory Assessment Reports and/or scores in the future? Should this include all signatories or only certain categories?

As with the previous question, greater transparency enables the stakeholders who might refer to PRI accreditation as part of their investment considerations to make better informed decisions, potentially rewarding providers that take responsible investment more seriously.

As a general point, growing interest in Responsible Investment creates an increased risk of investors seeking PRI verification for marketing purposes. Equally, as once-pioneering responsible investment practices become more mainstream, expectations of leaders in the field – ie PRI signatories – will also need to rise in order to ensure continuous improvement. These changing dynamics of the responsible investment sector means that raising the standards demanded of signatories is a natural evolution for the PRI initiative (and a sign of its success).

3. Should the PRI place signatories in a broad public tier (e.g. Gold, Silver, Bronze) to reflect their progress, inviting signatories to self-select their tier based on criteria established by the PRI? If so, should the PRI publicly disclose which signatories are in each tier or only those in the 'Gold' tier (i.e. most

advanced)? Should this include all signatories or only certain categories (e.g. investment managers or asset owners only)?

As with previous answers, this additional detail/differentiation would help stakeholders who might refer to the PRI, particularly in a market where participants are potentially keen to artificially burnish their responsible investment credentials. It would also encourage continuous improvement towards complete adoption of responsible investment practices.

If tier-ing is to be introduced, it could initially be done on a private basis, giving signatories the opportunity to improve their categorisation before it is made public. This would safeguard the PRI against allegations of 'moving the goalposts' for signatories.

It will also be critical to ensure that even the lowest class of signatory - bronze, in this example - is seen as a positive label and is preferable to being a non-signatory.

What criteria should a signatory be required to satisfy to be placed in the 'Gold' tier/classified as advanced (e.g. independent assurance of their PRI reporting submission, reporting in every asset class where they hold more than 2% of their assets, scoring an 'A' or 'A+' in some or all modules, depth and breadth of their engagement activity, or some other measure/combination of measures)? Should these criteria or the reporting and disclosure requirements be different for different signatory categories?

Independent verification of reporting submissions seems fundamental to ensuring robust compliance with the principles. It might also be worth looking not only at the reporting of actions but also their impact - eg how successfully signatories exerted influence over investee companies.

In terms of criteria, it could make sense to use the same criteria for each signatory category, but different standards. So for example, disclosure of voting record could be a criteria for all signatories, with the level of disclosure - eg clients only (bronze); the wider public (silver); or the wider public, together with narrative explanation for voting position (gold) - informing the categorisation

4. Should the PRI make further changes to its reporting and assessment process, indicators, methodology, reporting or disclosure requirements to better capture signatory practices, progress and performance in order to identify advanced signatories (e.g. revise the methodology to stipulate that no more than 10% of signatories can score an 'A' or 'A+' in each module)? If so, please explain.

Would it be possible to pilot this approach, or examine similar initiatives that adopt a 'bell curve' approach?

There are arguments both for and against – the proposed system would be unable to recognise a scenario in which more/fewer than 10% achieve high standard, and is therefore potentially mis-leading.

On the other hand, it would act as a spur to better performance and a system that identifies leaders & those less-engaged in relative terms as well as absolute is useful. If the objective of the PRI is to ensure continuous improvement from signatories, then a rolling 'gold standard' along these lines would have some merit.

Perhaps a separate system of annual recognition (PRI awards?) for best performers (with sub categories for best newcomer, most improved, best in emerging markets etc) to encourage out-performance could work alongside fixed criteria/standards?

5. Should the PRI extend the grace period for new signatories to give them additional time to learn and develop before having to report publicly? If so, how long should this be and to which signatories should this apply?

If one of the objectives of the PRI is to encourage responsible investment practices, then greater accommodation of investors that are at an early stage of the implementation of the PRI would be a positive step.

This is contingent on the investors being genuinely keen to incorporate the PRI more completely, and sufficient support and resources being made available to them.

One of the benefits of different categorisation of membership would be that the PRI would be able to support less-advanced signatories in this way, without diluting standards or creating the risk of 'freeriders' unfairly attaining the same reputational benefits as more whole-hearted compliers.

6. Should the PRI introduce a new category of membership to accommodate potential signatories that are not comfortable reporting publicly, but would like to begin the process to become a signatory and access some of the learning and development opportunities that the PRI provides? Should this apply to all categories of signatory?

There is a risk that this would lead to benefits of PRI accreditation without fully committing to the principles

Perhaps this approach could work if 'members' were allowed to access PRI training/learning, but were not permitted to brand themselves as PRI signatories

What criteria should the PRI use to determine whether to admit these organisations as members? Before they are admitted as full signatories, what benefits should they be able to access (e.g. collaborative engagements, events, implementation support guides, ability to use the PRI logo in their marketing materials)? Should there be a time limit on how long an organisation can remain in this category before progressing to full signatory status, and if so, how long? Should this differ according to signatory category?

As above - if the objective is to encourage responsible investment, it seems sensible to widen access to training, support as much as possible but to restrict the use of PRI logo/accreditation. This ensures maximum support for organisations, but also incentivises further improvement and safeguards against exploitation of the PRI.

STRENGTHENING ACCOUNTABILITY

7. Should the PRI delist signatories that do not demonstrate meaningful progress implementing the Principles over time?

It is probably necessary to maintain this sanction as a possible last resort. Without the possibility of de-listing, there is a much stronger incentive to use the PRI as a marketing device and ignore the spirit of the initiative

What criteria should the PRI apply to determine whether a signatory has made ‘meaningful’ progress (e.g. the level or pace of change in signatory assessment scores in some/all modules, year-on-year, or some other source/measure)? Should this differ according to signatory category?

Concrete evidence of implementation of some of the ‘possible actions’ listed on the PRI website (<http://www.unpri.org/about-pri/the-six-principles/>) as evidence of compliance with each principle could be a guide to progress.

**Should signatories that satisfy the criteria for delisting be given an opportunity to improve before they are delisted? If so, how, and over what timeframe?
Should the PRI publicly disclose those signatories at risk of delisting each year?**

It seems only fair to offer ‘at risk’ signatories to offer the chance to improve – the possibility of sudden de-listing might deter potential signatories from engaging with the PRI in the first place.

In most cases, the objective of more sustainable, long-term, ethical investment is more likely to be achieved by working with less-engaged organisations and supporting them, rather than through punishment.

8. What information should service provider signatories be required to disclose each year via the PRI Reporting Framework? Should this be assessed by the PRI?

Examples could include:

- Concrete evidence of the ‘possible actions’ listed as examples of putting each of the six principles into practice.
- Evidence of impact as well as activity also useful

9. Should the PRI delist signatories if they act in a manner that brings their publicly stated commitment to responsible investing, or the work of the PRI (and by association, other signatories), into question? Please provide examples.

What criteria should the PRI use to determine this (e.g. written complaints from other signatories or stakeholders, confirmed fines or regulatory sanctions)? Who should make the final decision (e.g. the PRI Executive, PRI Board, a separate committee of signatories)?

It would be sensible to consult with all stakeholders over such a significant step, to ensure a balanced and well-informed perspective. Written complaints and regulatory sanctions ought to merit investigation, though arbitrary triggers for de-listing might limit flexibility. The final decision ought to rest with PRI board.

10. Can you identify any positive or negative consequences for the PRI that may arise from implementing any of the initiatives proposed in this paper, in particular as a result of the PRI adopting a more active role in publicly monitoring, assessing and reporting signatory progress? If so, how might the PRI mitigate these risks?

Positive: The credibility of the PRI could be enhanced by more robust accountability processes, leading to a more meaningful assurance for stakeholders who refer to the PRI in their investment decisions.

Negative: Reputational risks to signatories from de-listing or categorisation below the top tier of signatories could result in disengagement with PRI on part of signatories

On balance, the benefits of positive consequences outweigh risk of negative consequences. Tightening criteria (ie raising standards) feels like a natural evolution for PRI – and recognition of the success of the initiative and its signatories to date

11. Do you have any additional comments about how the PRI can better recognise diversity and strengthen accountability across the signatory base?

n/a

ASSET OWNER ENGAGEMENT

12. How can the PRI better incentivise and support asset owners to implement responsible investment, beyond the initiatives already outlined in this paper and the PRI's strategic plan?

The Association is always keen to better educate pension funds and help them understand Responsible Investment, and incorporate into their investment strategy. We would be very happy to work with the PRI on this

Capacity is clearly an issue for many funds – could PRI play a role exercising voting rights or promoting best practice in terms of setting responsible-investment focused mandates for prospective asset managers? Similarly, there are a plethora of different investment products/services purporting to support RI exist. Support navigating this space would also be of great value.

In our experience, how seriously a fund takes responsible investment very often depends on individual staff of trustees. At the same time there is growing regulatory interest in trustee/governance skills and competences, while ESG-related risks to pension fund investments are becoming more widely acknowledged.

Therefore, there ought to be a heightened need for trustees who understand how and why responsible investment is important to pension funds – some form of PRI training or accreditation for individuals, as opposed to just organisations, could be useful in this respect.

13. How can the PRI's reporting and assessment data be made more useful to asset owners in selecting, appointing or monitoring their managers, and to investment managers in showcasing advanced practices to potential asset owner clients (e.g. adding additional indicators, making voluntary indicators mandatory)? How could the mechanisms and channels for delivering and sharing this information be improved?

Narrative reporting, including case studies of successful engagement, is always useful in terms of adding context to data

There are still many in the pension funds sector who do not fully understand the case for responsible investment. Therefore, any figures relating to the financial benefits of adopting the PRI – or cost of not doing so – are likely to be hugely influential.