

PRI'S RESPONSE TO CMF GENERAL RULE 386 PROPOSED MODIFICATION

January 31, 2020

INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 2800 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to contribute evidence to the ESG disclosure consultation and the proposed modification of General Rule 386 by the CMF (Comision Para El Mercado Financiero) in Chile.

ABOUT THE CONSULTATION

In 2015, CMF issued General Rule 386, which incorporated in the annual report a new section on social responsibility and sustainable development. General Rule 386 was incorporated in General Rule 30 establishing issuers' registration procedures and determining the information they need to publicly disclose in this process.

General Rule 386 included indicators on diversity and salary gap. Subsequent analysis on the effectiveness of this regulation showed inconsistencies and difficulty in comparing the reported data.

Building on these findings, and on recent developments in ESG reporting including IOSCO's 2019 statement on ESG disclosure, CMF is looking to improve the information provided by companies to investors, and meet the new information requirements by investors both locally and internationally. The proposed update is part of a broader strategy by CMF aiming to strengthen corporate governance, risk management and transparency on ESG factors by issuers. CMF is also carrying a revision of General Rule 385 on corporate governance practices.

CMF considers that ESG factors are material for corporate performance. Therefore, CMF considers that it is necessary to require issuers to publicly disclose the information proposed in the update of Rule 386. The proposed update organises sustainability disclosures in three dimensions: economic, environmental and social, and requires information on policies, performance metrics and targets. Governance disclosures (General Rule 385) are not part of this review.

PRI'S RESPONSE TO THE CONSULTATION

PRI welcomes the proposed update of General Rule 386 by CMF. The proposed update will significantly enhance the quantity and quality of environmental and social (E and S) data provided by companies to investors and the general public, and will contribute to building standardised and comparable data for the Chilean market. In particular, we welcome:

- The statement that ESG factors are material to corporate performance and constitute material information for investors;
- The inclusion of E and S data (General Rule 386) in the information provided by issuers to market stakeholders and issuers' annual reports (General Rule 30);
- The broader scope of proposed metrics to cover key E and S issues relevant to companies' operations;
- The mandatory requirement to disclose E and S metrics, which will create a level playing field among listed companies;
- The standardised metrics, which will allow for data comparability across sectors, portfolios and markets; and
- The alignment with key international standards (e.g. ILO) and reporting frameworks which will contribute to a harmonisation of ESG reporting regulations internationally.

The PRI's key recommendations for CMF are:

- To further clarify to investors that ESG factors are material and that fiduciary duties require them to embed environmental, social and governance factors in investment processes.¹ This will contribute to the effective use of the disclosed ESG information to increase investments in sustainable assets;
- To ensure an alignment between the economic reporting requirements on E and S disclosures listed in General Rule 386 with corporate governance disclosures updated by General Rule 385;
- To define a reporting methodology that specifies the scope, methods of calculation, minimum reporting thresholds, board oversight, monitoring and enforcement mechanisms, as well as guidance on how to assure the quality of reporting by third party auditors;
- To require context-based performance assessment of E and S disclosures (analysed and explained in comparison with sectoral averages and historical performance) and quantified and dated targets to show how companies are aligning their strategies with globally agreed sustainability goals;
- To require the publication of ESG data alongside financial indicators, based on the same reporting scope. Such data should be published in corporate annual reports, under the supervision of the board and should be linked to companies' business models, their corporate strategy (including financial and sustainability objectives and thresholds) and risk factors.

On the proposed environmental and social metrics, we recommend:

- On emissions disclosures: to specify the indicators and methodologies required to disclose CO2 emissions, including scope 1,2 and 3, and associated targets to reduce such emissions. We also recommend that CMF adds a requirement to disclose forward looking analysis as recommended by the TCFD;
- On waste disclosures: to disclose the total volume of waste generated, including hazardous waste;

¹ <https://www.unpri.org/sustainable-markets/fiduciary-duty>

- On water disclosures: to disclose the total amount of water withdrawn (in addition to the total amount of water used);
- To add a disclosure requirement on pollutants (in addition to greenhouse gas emissions), for example as specified by the GRI Standard 305 (<https://www.globalreporting.org/standards/gri-standards-download-center/gri-305-emissions-2016/>).

In addition to this update, we recommend that CMF contributes to the international dialogue on ESG reporting harmonisation and standardisation. We recommend that CMF works with other multilateral reporting stakeholders to create a global, standardised and comparable corporate ESG reporting framework, including standardised ESG indicators and underlying methodologies. Once such an international standard is defined, CMF should align its reporting requirements with the internationally agreed reporting framework and metrics.

Further improvements to corporate ESG reporting could include the following aspects:

- industry-specific and activity-based disclosures including sector and activity-relevant material ESG issues;
- corporate accountability on general economic contribution, local development and investment;
- forward-looking and scenario-based ESG disclosures, in alignment with the Taskforce on Climate related Financial Disclosures (TCFD) framework

The PRI has experience of public policy on ESG disclosure and responsible investment across multiple markets and is available to further support the work of the CMF on promoting ESG disclosure and sustainable investment.

Any question or comments can be sent to policy@unpri.org.