

PRI AND UNEP FI'S RESPONSE TO THE AMAC DRAFT GUIDELINES ON GREEN INVESTMENT

INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 2000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$82 trillion in assets under management. 15 of these signatories are headquartered in China (not incl. Hong Kong). The United Nations (UN) has been supporting the Principles for Responsible Investment ever since their launch. The PRI has two UN partners – UN Environment Programme Finance Initiative and UN Global Compact – which play an important role in delivering the PRI's strategy.

The United Nations Environment Finance Initiative (UNEP FI) is a unique global partnership between United Nations Environment and the global financial sector founded in 1992. UNEP FI works closely with over 200 financial institutions who have signed the UNEP FI Statements as well as a range of partner organisations to develop and promote linkages between sustainability and financial performance. Nine of UNEP FI's members are based in China.

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 and UNEP FI welcome the opportunity to contribute evidence to the draft *Guidelines on Green Investment* prepared by AMAC.

ABOUT THE CONSULTATION

The draft *Guidelines on Green Investment* prepared by AMAC (the draft guidelines) are formulated to implement the requirements of the 19th congress of CPC on the development of green finance and the establishment of a sound green economic system. The draft guidelines articulate how investors should implement the *Guidelines for Establishing a Green Financial System*, published by seven ministries in 2016, and aim to encourage awareness of environmental risks, clarify the definition and implementation methods of green investment, encourage the creation of green funds, improve the environmental performance of assets and enhance green and sustainable growth.

The current consultation has been launched to explore views on the draft guidelines by industry participants.

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The PRI and UNEP FI welcome the draft *Guidelines on Green Investment* prepared by AMAC. The draft guidelines will support institutional investors to accelerate the development of green and sustainable investment practices and enhance sustainable economic growth. In particular, we support:

- The definition of green investment as a systematic investment approach looking both at environmental risks and opportunities (article 2);
- The combination of financial and environmental criteria as an integral part of green investment management standards (articles 3 and 12);
- The full coverage of the guidelines to all institutional investors (article 4);
- The reference to existing national and international standards (article 7);
- The inclusion of a disclosure and monitoring mechanism by AMAC (articles 16 and 17).

The *Guidelines on Green Investment* are consistent with a global trend on sustainable investment regulations. For example:

- The European Commission Action Plan for Financing Sustainable Growth aims to further promote sustainable and green investment through regulatory measures, such as a taxonomy on sustainable investment, clarification on institutional investors and asset managers' duties to take sustainability into account in the investment process, low-carbon benchmarks and better advice to clients on sustainability¹.
- The UK Green Finance Taskforce also recently recommended that investors disclose their climate-related risks according to the TCFD framework, and that relevant regulators should ensure that fiduciary duty clearly states the importance of ESG issues².

The proposals in the draft guidelines are consistent with the recommendations of the recent PRI and UNEP FI report, *Investor Duties and ESG Integration in China*, published with the IIGF and The Generation Foundation in March 2018. This report specifically recommended that AMAC publish sustainable investment guidelines that articulate how institutional investors and investment managers should implement the *Guidelines for Establishing the Green Financial System*; that investors should have a process in place to implement sustainable investment, and that they should disclose against it. We believe the draft guidelines of AMAC are an important step forward in implementing these recommendations.

In addition, AMAC may wish to supplement the draft guidelines with:

- A recommendation that investors should incorporate all investment value drivers, which includes ESG factors, in investment practice. This should apply to all investment activity, regardless of whether there are specific green investment objectives. Taking into account ESG factors in investment activity will ensure better risk management and contribute to the goal of enhancing green and sustainable economic growth.
- A recommendation that investors should invest for the long-term, consistent with the investment time frames of their clients and beneficiaries.
- A recommendation that investors should actively engage with investee companies to improve their ESG performance and impact on the environment, known as 'active ownership'. Active ownership will help improve the dialogue on green and sustainable finance between investor and investee company.

AMAC may wish to amend the draft guidelines to:

- Endorse the TCFD recommendations, both for engagement with investee companies and investors' own disclosures. The draft guidelines can also differentiate between the main types of environmental risks: physical, liability and transition-related. This will help focus not just on static disclosures but also forward looking risks that could impair future earnings and thereby the performance of portfolios.
- Define what qualifies as good practice in green investment. The PRI and UNEP FI recommends that AMAC refer to the absolute targets that the Chinese government has agreed to, such as the Air Pollution Action Plan and China's National Defined Contribution as part of the Paris agreement. In addition, a reference to the UN Sustainable Development Goals may help provide a clearer definition for what constitutes sustainable investment.

Our international experience shows that investment guidelines and codes that are embedded in the legal framework are more impactful than those that are voluntary³. In China, the government has defined the mandate of financial markets as contributing to green and sustainable economic growth. AMAC could work with CSRC to introduce the most critical parts of the *Guidelines on Green Investment* into regulatory acts, for example on investor disclosure on ESG integration and green investment practice.

The PRI and UNEP FI have experience of public policy on ESG integration and responsible investment across multiple markets and are available to further support the work of the AMAC on promoting sustainable investment. Any question or comments can be sent to policy@unpri.org.

¹ <https://www.unpri.org/news-and-press/european-commission-releases-new-legislative-proposals-on-financing-sustainable-growth/3157.article>

² <https://www.unpri.org/news-and-press/green-finance-taskforce-report-uk-poised-to-become-green-finance-leader-/2973.article>

³ See for more details on policy design the PRI Global Guide to Responsible Investment Regulation: <https://www.unpri.org/policy-and-regulation/global-guide-to-responsible-investment-regulation/207.article>