

POSITION PAPER: INVESTOR DISCLOSURE AND DUTIES

Regulation on disclosures relating to sustainable investments and sustainability risks, amending Directive (EU) 2016/2341

PRI Position: Executive Summary

The PRI strongly supports the key components of this proposal. A wide range of analysis – including the EU HLEG report on sustainable finance – recognise the urgent need to strengthen the investment sector’s contribution to sustainability outcomes.

We consider reform of investor duties and disclosure critical to this. These measures will foster a more embedded and systematic integration of sustainability issues in decision-making, while maintaining appropriate flexibility to accommodate investors and advisors with differing investment styles and specialisms.

The European Commission action plan sets out a series of complementary reforms. The disclosure proposal will benefit from, but does not rely upon, these reforms. We therefore do not believe it is conditional on the adoption of any other aspect of the EU’s sustainable finance action plan, but one part of a mutually reinforcing and necessary set of reforms.

The PRI’s key recommendations are:

- Adopt and implement this proposal, as part of a consistent and complementary package of reforms under the EU Action Plan on Sustainable Finance.
- Clarify the relationship with ESG and the prudent person principle in IORP and work to establish consistent procedural steps for demonstrating compliance (Article 10).
- Strengthen the definition of sustainable investment (Article 2) by introducing requirements to ‘do no significant harm’ across environmental, social and governance issues.

About the PRI

The PRI is the world’s leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their 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 PRI was an observer to the High Level Expert Group on Sustainable Finance and now rapporteur to the taxonomy stream of the Technical Expert Group on Sustainable Finance.

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ANALYSIS OF KEY PROVISIONS

Article 1: Subject matter

- This proposal aims to provide harmonised rules on transparency for investors and advisors (where covered by EU legislation). The PRI finds that in some markets, asset owners in particular are heavily reliant on investment advisors. This can limit their ability to implement an ESG-integrated investment strategy. For this reason, we fully support this proposal covering both investors and advisors and hence providing necessary consistency across the intermediation chain.

Article 2: Definitions

Article 2, Paragraph 1, o:

- The definition of sustainable investment is fundamental to the success of this proposal. The original definition of sustainable finance was too broad, even when balanced with mandatory disclosure of sustainability impacts. Sustainable investments should make a substantive contribution to environmental, social and/or governance objectives, with reference to the EU's sustainability taxonomy (when established). They should 'do no significant harm' to the other objectives.
- Sustainability risks and opportunities are dynamic, evolving in response to changing scientific understanding and societal expectations. An indicative list of sustainability risks could help financial market participants to understand the range of potential risks, while leaving sufficient flexibility to exercise their own judgement.

Article 3: Transparency of the sustainability risk policies

- The requirement to disclose a risk policy will provide a clear impetus to investors. Despite growing awareness of the financial materiality of sustainability risks, studies suggest that upwards of 80% of European asset owners do not integrate sustainability risks into their policies¹. A separate global study of international investors found that 73% do not fully consider sustainability issues in long-term decision-making². We support the proposal for disclosure of a risk policy. Crucially, the measures proposed are also flexible to allow investors to adapt the requirements to their specific investment context.
- It is important to clarify that an investor cannot fulfil the requirements of this regulation by stating that no policy has been established.
- To ensure that disclosures are meaningful and comprehensive, further clarification of the content of sustainability risk policies, to include governance, asset allocation, investment strategy and engagement is needed.

Article 4: Transparency on the integration of sustainability risks

- We fully support the transparency requirements set out in Article 4. These are necessary to ensure that potential clients can properly interrogate the investor or advisor's approach and make an informed decision.

¹ Study of 1241 European asset owners: Source: Mercer, 2017 European Asset Allocation report <https://www.uk.mercer.com/content/dam/mercer/attachments/private/uk-2017-european-asset-allocation-report-new.pdf>.

² Source: State Street Global Advisors, PERFORMING FOR THE FUTURE, <https://www.ssga.com/investment-topics/environmental-social-governance/2018/08/esg-institutional-investor-survey.pdf>

Articles 5-7: Transparency on sustainability investments

- We welcome the proposals to require sustainability impact reporting by investors with sustainability strategies. For investors aiming for environmental objectives, we believe it is proportionate and reasonable to request disclosure on impacts. This will help to build trust and credibility in the market and encourage convergence around high quality metrics of investment outcomes.

Consistent investor duties

- Clear, harmonised investor duties across the entire intermediation chain are foundational to the EU's entire sustainable finance strategy. We strongly support action by the EU to clarify these duties and establish consistent procedures for demonstrating compliance. One way to address this would be to empower the European Commission to develop delegated acts in this area, consistent with existing empowerments under other key financial services directives.
- We agree with the need to clarify Article 19 of the IORP Directive with respect to environmental, social and governance risks and opportunities. We propose the following:

Member States shall require IORPs registered or authorised in their territories to invest in accordance with the 'prudent person' rule and in particular in accordance with the following rules:

- a) the assets shall be invested in the best ~~(long-term)~~ interests of members and beneficiaries as a whole, **consistent with their investment timeframe**. In the case of a potential conflict of interest, an IORP, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries;*
- b) **IORPs must consider the impact of long-term factors, including ESG factors, in investment decision-making and the decision-making of their agents;***
- c) ...*

- We would also support measures to encourage pension funds to engage with their beneficiaries and ensure they have a sound understanding of their preferences. This is consistent with proposed changes to [MiFID II](#) and [IDD](#).