

PRI'S RESPONSE TO THE FSB DRAFT DIRECTIVE ON SUSTAINABILITY REPORTING AND DISCLOSURE REQUIREMENTS OF REGULATION 28(2)(C)(IX)

INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 1900 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$70 trillion in assets under management. 55 of these signatories are based in South Africa.

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 on revisions to the FSB draft directive on Sustainability Reporting and Disclosure Requirements to be issued to prescribe requirements to ensure compliance with Regulation 28(2)(c)(ix).

The PRI's guidance on writing an ESG integrated investment policy is available online: <https://www.unpri.org/asset-owners/investment-policy>.

The guide provides:

- a best-practice model structure for an investment policy;
- detailed advice on researching and revising an investment policy;
- guidance on how to implement an investment policy;
- what to consider when monitoring investment policy efficacy.

ABOUT THE CONSULTATION

Regulation 28(2)(b) of the regulations to the Pension Funds Act, 1956 ("the PFA") requires all funds to have an investment policy statement and Regulation 28(2)(c)(ix) requires that boards of funds consider environmental, social and governance factors before investing in an asset. This Directive provides guidance in respect of the content of some of the essential aspects of an investment policy statement and the manner in which that content is disclosed by pension funds.

The current consultation has been launched to explore views on proposed amendments on investment policy statement requirements and reporting and provision of information to stakeholders.

PRI'S RESPONSES TO THE DRAFT DIRECTIVE

Summary:

The PRI welcomes the Draft Directive of the FSB on Sustainability Reporting and Disclosure Requirements. In particular, we support:

- The terminology used to define sustainability (page 3).¹
- The requirement to fully consider sustainability issues across asset, asset class, and investment manager selection, and in active ownership (page 3).
- The requirements to report on implementation of sustainability integration (page 4).

We encourage the FSB to:

- Make available the PRI's guidance on writing an ESG integrated investment policy in support of the Draft Directive.
- Monitor the implementation of the Directive, with feedback provided for pension funds on the processes they have in place to fully consider sustainability issues. This could include publishing case-studies of good-practice implementation.
- Incorporate in the Directive the climate-related risk disclosure recommendations of the FSB Task Force on Climate-related Financial Disclosures (TCFD) for both investors and the companies in which they invest.
- Reference the PRI reporting and assessment framework as one way in which South African pension funds can disclose their sustainability processes.²

PRI comments:

The PRI welcomes the Draft Directive. By implementing their commitments to sustainability with sufficient scale and depth, the PRI believes South African pension funds can accelerate the development of responsible investment through the investment chain.

The Draft Directive provides a comprehensive check-list of items that should be covered by investment policy statements. It also requires the reporting of such information through pension funds' financial statements and annual trustee report to beneficiaries. The Draft Directive provides practical guidance to pension funds that should further help implement Regulation 28 and increase accountability to beneficiaries.

The proposals of the Draft Directive are aligned with key international developments in the area of investment policy statements and reporting such as those of the UK Green Finance Task Force³ recommendations and the EU Action Plan on sustainable finance⁴.

¹ Page 3: "sustainability" means the ability of an entity to conduct its operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. Sustainability includes managing the impact that the business of an entity has on the life of the community, the broader South African economy and the natural environment in which it operates. It also includes the converse, namely considering the effects that the society, economy and environment have on business strategy. Sustainability includes economic and ESG considerations. "Sustainable" has a meaning consistent with this.

² <https://www.unpri.org/signatories/signatory-accountability/about-pri-reporting>

³ <https://www.gov.uk/government/publications/accelerating-green-finance-green-finance-taskforce-report>

⁴ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#commission-action-plan-on-sustainable-finance

For example:

- The UK Green Finance Taskforce recently recommended that relevant regulators should ensure fiduciary duty clearly states the importance of ESG issues and that trustees can make investment decisions that are based on beneficiary preferences⁵.
- The European Commission Action Plan for Financing Sustainable Growth aims to further clarify institutional investors and asset managers' duties to take sustainability into account in the investment process and enhance disclosure requirements⁶.

The proposals of the Draft Directive are also consistent with the recommendations of the South Africa Roadmap on *Fiduciary Duty in the 21st Century*, published with UNEP FI and The Generation Foundation in 2016⁷.

The Roadmap specifically recommended that the FSB provide practical guidance to enhance the impact and monitoring of Regulation 28 on the investment and to review the implications of the size and structure of pension schemes on governance quality. In addition, the roadmap encouraged the FSB to review investment manager mandates to ensure that they reflect the expectations for investment practice set out in Regulation 28. We believe the Draft Directive is an important first-step in achieving these recommendations.

To ensure pension fund trustees have the knowledge and resources to implement the directive, the PRI, UNEP FI and The Generation Foundation have made available complimentary access to the *trustee module*⁸ of the *PRI Academy* for 80 trustees at pension funds across South Africa.⁹ Once the training is complete, the PRI would welcome an opportunity to brief the FSB on the training, how training supports the objectives of the Draft Directive, and indeed, the implementation of Regulation 28.

Finally, the PRI has experience of public policy on ESG integration and responsible investment across multiple markets and is available to support the work of the FSB on promoting sustainable investment. Any further question or comments can be sent to policy@unpri.org.

⁵ <https://www.unpri.org/news-and-press/green-finance-taskforce-report-uk-poised-to-become-green-finance-leader-/2973.article>

⁶ <https://www.unpri.org/sustainable-financial-system/explaining-the-eu-action-plan-for-financing-sustainable-growth/3000.article>

⁷ <https://www.fiduciaryduty21.org/south-africa.html>

⁸ The trustee module includes training on ESG issues and fiduciary duty, how to incorporate ESG issues into the RFP process, how to speak about ESG issues to other board members, and how to engage investment managers and investment consultants around ESG issues.

⁹ <https://priacademy.org/>