

SERIOUS VIOLATION OF THE INTEGRITY OF THE PRI INITIATIVE

INTRODUCTORY NOTE FROM THE PRI BOARD

Commitment

The PRI is an aspirational initiative. Organisations voluntarily sign and commit to the Principles for Responsible Investment.

Asset owner and investment manager signatories publicly commit that:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with... fiduciary responsibilities... commit to the following:

- *To incorporate Environmental, Social and Corporate Governance (ESG) issues into investment analysis and decision-making processes;*
- *To be an active owner and to incorporate ESG issues into our ownership policies and practices;*
- *To seek appropriate disclosure on ESG issues by the entities in which we invest;*
- *To promote acceptance and implementation of the Principles within the investment industry;*
- *To work with the PRI Executive and other signatories to enhance their effectiveness in implementing the Principles;*
- *To report on our activities and progress towards implementing the Principles.”*

Service providers recognise that they “*have considerable influence over how [their] clients address ESG issues*” and commit to the six Principles.

PRI Association objects and the role of the PRI Board

The objects of the PRI Association are to

- promote the PRI Initiative, by advancing the Principles for Responsible Investment; and
 - promote the consideration of environmental, social and governance issues
 - in the management and ownership of investments;
 - relating to investment policies and practices by investment managers and owner and other interested parties including consumers, non-governmental organisations, regulators and governments;
- and promote the PRI’s Mission,

and thereby to promote sustainable global commerce and a sustainable financial system.

The PRI Association Board (the **Board**) is collectively responsible for the long-term success of the PRI Initiative. The Board's role includes the promotion of the Principles and safeguarding the integrity and good reputation of the PRI Initiative, its objects and the Principles. The PRI Initiative's integrity is dependent both on the actions of the Initiative and collective commitment and good efforts of PRI signatories to the PRI Initiative, its objects and the implementation of the Principles.

Signatory accountability to the Principles

There are a series of measures to promote the accountability of signatories to the Principles. The primary measure is the mandatory annual reporting requirement. Any signatory that doesn't comply with the reporting requirements is delisted and named in the annual report.

The PRI's aim is to drive accountability on responsible investment through the investment chain via market based mechanisms. All signatories are held to account through the reporting framework, the transparency reports and data query tool.

To drive signatory progress and ensure the integrity of the Initiative the Board has agreed to two further accountability measures, communicated in the Blueprint for Responsible Investment¹. The Executive has committed to:

1. *Define a minimum standard of activity that signatories must achieve; monitor and engage with those that are not meeting with this standard and delist any that fail to do so over a two-year period.*
2. *Delist signatories that contravene the spirit of the Principles.*

The PRI is currently consulting with signatories on the proposals and methods to strengthen signatory accountability as measured by the PRI reporting framework.² This purpose of this note is to introduce the policy for engaging with, monitoring and potentially delisting signatories that put the integrity of the PRI Initiative at risk.

Signatory consultation

In 2016 the PRI consulted with signatories on '*Strengthening Accountability, Recognising Diversity*'.³ One challenge identified in the consultation was that some organisations: *had faced regulatory, legal and/or financial sanctions in recent years as a result of corporate wrong-doing... [Some signatories] argued that these behaviours contravene the spirit of the Principles and raise questions about the true level of commitment to responsible investing throughout the organisation. If the behaviour of these organisations has the potential to bring the PRI, and by extension the work of the signatory base as a whole, into disrepute, additional accountability measures for these firms may need to be introduced, they argued.*

¹ <https://10.unpri.org/the-blueprint-project/>

² <https://www.unpri.org/about/pri-governance/consultation>

³ <https://www.unpri.org/about/pri-governance/consultation>

Signatories were asked if the PRI should delist signatories whose actions or behaviour undermine their public commitment to responsible investing, the criteria and the process. Of the 497 organisations that responded to the formal consultation, 71% agreed that the PRI should “*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*”. Signatories also provided input into the suggested criteria and process. For a summary see Appendix 1 (p. 7).

Signatory rules and formal policy

Within the current Signatory rules⁴ the Board has authority to terminate signatory status:

Signatory status will cease... Upon the signatory being notified that the Board has determined, by way of a majority vote of the Board that its signatory status shall cease because the Board believes the behaviour of the signatory puts the integrity of the Initiative at risk.

Over the course of a series of meetings the Signatory and Stakeholder Engagement committee, a sub-committee of the Board, and the Board itself have discussed if and how the Board can formalise a policy to delist a signatory for placing the integrity of the PRI at risk. In the first instance the Board decided to have a formal and transparent policy rather than an ‘ad hoc’ policy. The purpose of the *formal* policy is to provide: the Board and Executive with a formal process to reference when there is an allegation of a serious violation; and assurance to signatories that there is a process and predictable response to a serious violation.

The Board has discussed multiple aspects and concerns about a formal policy:

- **Complexity.** Every likely serious violation will be unique and complex. The Board did not want to restrict its possible response to a serious violation by having a very prescriptive process or criteria. The process should be simple, flexible, powerful and narrowly focused.
- **Criteria.** Typical criteria can be included in the policy, but these are not exhaustive.
- **Engagement.** Fines or legal sanctions often occur many years after the offense. If part of the purpose of the policy is to safeguard the integrity of the PRI, then the PRI must respond to an allegation in good time. Engagement is an active and legitimate response by the PRI to a possible serious violation.
- **Voluntary delisting.** The policy should include an option for the offending organisation to voluntarily delist itself.
- **Raising a serious violation.** The Board discussed possible sources of complaints: media, stakeholders, signatories, the Executive, the Board. The Board agreed that the Executive can raise issues to the Board.

The Board agreed that delisting a signatory for a ‘serious violation’ should be considered an extreme and *last resort* measure.

⁴ https://www.unpri.org/download_report/9566

Next steps

The PRI welcomes constructive comments from signatories to improve the draft policy. Please contact christopher.sperling@unpri.org to arrange a call to provide your feedback or provide written feedback.

The Board will reflect on feedback received from signatories before approving the *Serious violations policy* (p. 5).

SERIOUS VIOLATIONS POLICY

Introduction

The PRI is an aspirational initiative. Organisations voluntarily sign and commit to the Principles for Responsible Investment. The PRI Initiative works with signatories to further the implementation of the Principles. It does this by providing guidance, facilitating collaboration, engaging with signatories and wider stakeholders.

The PRI Initiative's integrity is dependent both on the actions of the Initiative and collective commitment and good efforts of PRI signatories to the PRI Initiative, its objects and the implementation of the Principles. The *Serious violations policy* is one means to safeguard the reputation, integrity and good efforts of the PRI and its signatories.

The Signatory rules⁵ state that the Board has authority to terminate signatory status:

Signatory status will cease... Upon the signatory being notified that the Board has determined, by way of a majority vote of the Board that its signatory status shall cease because the Board believes the behaviour of the signatory puts the integrity of the Initiative at risk.

This policy sets out for the PRI Board, Executive and Signatories a formal process and criteria to reference when there is an allegation of a serious violation to the integrity of the PRI Initiative and its objects, the Principles and the good efforts of its signatories. The aim is also to provide assurance to signatories that there is a process and predictable response to a serious violation.

1. Authority

- 1.1. The PRI Board, by way of a majority vote of the PRI Board, has the authority to delist a signatory if the Board believes the behaviour of the signatory puts the integrity of the Initiative at risk.
- 1.2. The PRI Board can delegate the investigation, recommendations and monitoring of any scenario within this policy to a PRI Board sub-committee or other suitable body.
- 1.3. The final decision(s) to engage, monitor and / or delist resides with the PRI Board.

2. Criteria

- 2.1. Serious violations of the integrity of the Initiative ('serious violation') typically include, but are not limited to, actions by a signatory or group of signatories that:
 - 2.1.1. put the integrity of the PRI Initiative and its objects, the Principles and the commitment and good efforts of its signatories to the PRI Initiative, its objects and the implementation of the Principles at risk;
 - 2.1.2. are serious (material and / or significant);
 - 2.1.3. are systematic (organised and / or an outcome of an organisation's culture); and
 - 2.1.4. are within the legitimate sphere of control of the signatory.

⁵ https://www.unpri.org/download_report/9566

3. Legal responsibility

- 3.1. The PRI will not involve itself in any way in any claims of a legal nature that a party may have against a participating company or vice versa. Similarly, the measures set out within this policy are not intended to affect, pre-empt or substitute for other regulatory or legal procedures or proceedings in any jurisdiction.

4. Raising an allegation

- 4.1. The PRI Executive can raise an allegation of a serious violation for the consideration of the PRI Board.
- 4.2. Any organisation can raise an allegation of a serious violation to the PRI Executive.
- 4.3. The role of the PRI Executive is to use its judgement to filter out prima facie frivolous allegations. If a matter is found to be prima facie frivolous, the party raising the matter will be so informed and no further action will be taken on the matter by the PRI Executive. For courtesy reasons, the matter will nevertheless be shared with the signatory concerned.

5. Engagement

- 5.1. It is the Board's decision to engage with and / or monitor a signatory that has been accused, or admitted guilt or received a legal sanction for a serious violation.
- 5.2. A typical engagement will comprise of a formal letter from the PRI to the signatory:
 - 5.2.1. noting that the actions appear to be a serious violation;
 - 5.2.2. asking the signatory to respond to the allegations, and where relevant outline corrective measures, and to state their continued commitment to the Principles; and
 - 5.2.3. informing the signatory that the PRI will monitor the situation.

6. Non-communication

- 6.1. If the participating signatory refuses to engage with the PRI after an allegation of a serious violation within two months of first being contacted by the PRI Board the signatory will be delisted.

7. Disclosure

- 7.1. The PRI Board will disclose, via the PRI website, that it has decided to engage with, monitor or delist a signatory whose behaviour it considers puts the integrity of the Initiative at risk.
- 7.2. The PRI Board will disclose the formal engagement letter to the signatory and the formal response.

8. Delisting

- 8.1. Delisting a signatory for a serious violation is a last resort measure after engagement.
- 8.2. In typical circumstances the Board will not delist a signatory unless there has been an admission of guilt or legal sanction.
- 8.3. A signatory can choose to voluntarily delist after an alleged serious violation or admission of guilt or legal sanction.
- 8.4. Any organisation that is delisted for a serious violation cannot re-apply for signatory status until two calendar years have elapsed since the date of delisting.

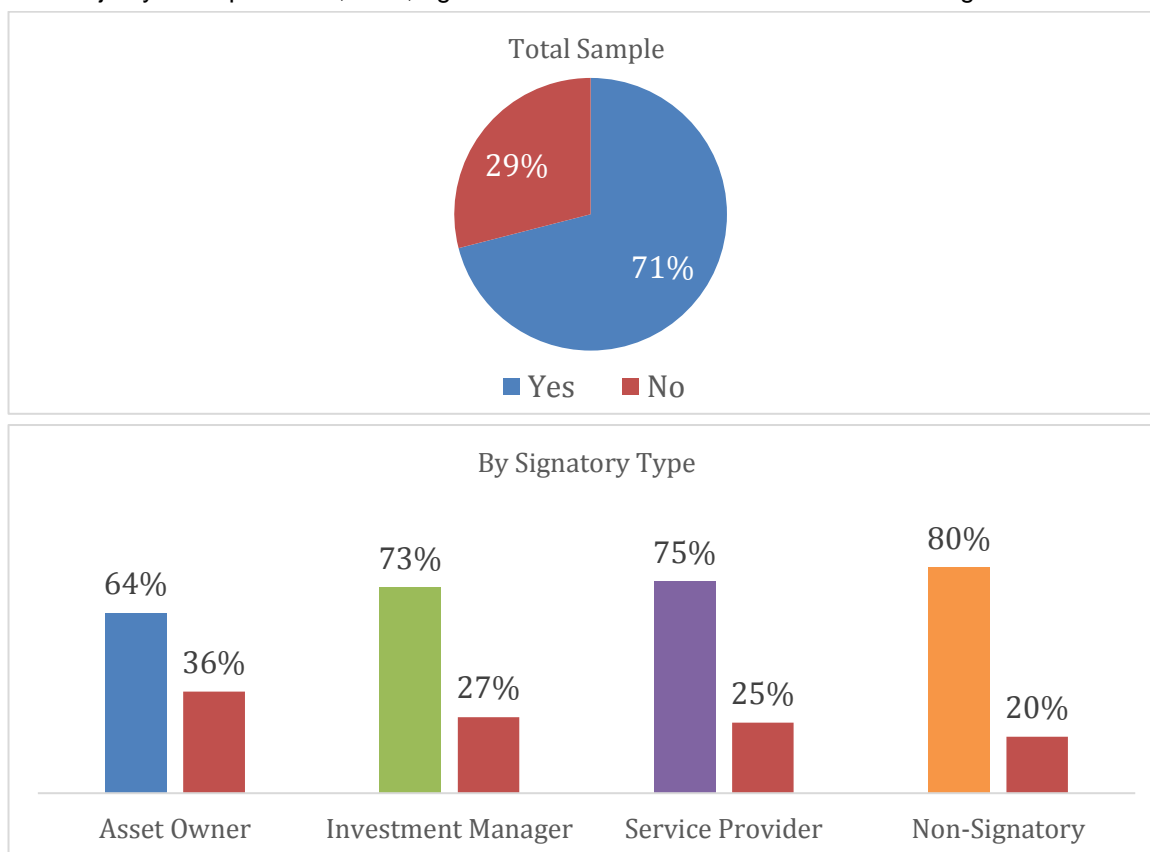
APPENDIX 1: SIGNATORY CONSULTATION RESULTS

In 2016 the PRI consulted with signatories on ‘*Strengthening Accountability, Recognising Diversity*’.⁶ One challenge identified in the consultation was that some organisations: *had faced regulatory, legal and/or financial sanctions in recent years as a result of corporate wrong-doing... [Some signatories] argued that these behaviours contravene the spirit of the Principles and raise questions about the true level of commitment to responsible investing throughout the organisation. If the behaviour of these organisations has the potential to bring the PRI, and by extension the work of the signatory base as a whole, into disrepute, additional accountability measures for these firms may need to be introduced, they argued.*

Below is a summary of the responses to questions related to PRI delisting 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.

Question 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? Yes? No?

The majority of respondents, 71%, agreed that the PRI should be able to delist signatories.



Base: Total Sample (496); Asset Owners (97); Investment Managers (324); Service Providers (60); Non-Signatories (15).

⁶ <https://www.unpri.org/about/pri-governance/consultation>

Signatories were invited to provide comments on the proposal. Issues raised by signatories:

- The PRI's role and remit to delist signatories.
- The idea that values based judgements to condition membership could undermine the non-prescriptive, aspirational Principles.
- The complexity of investment organisations (parents and subsidiaries) and of the decision-making process.
- The subjectivity of responsible investment definitions and whether an organisation brings responsible investment and / or the PRI into question is a subjective decision.
- The capacity and resources for the PRI to judge potentially very complex scenarios.
- The legal and reputational risk for the PRI if it does act.
- The potential to politicise the PRI, with campaign groups seeking action via the PRI.

Question 9: Please provide examples

Examples given by signatories ranged from:

- Market-wide issues and possible impacts; to
- ESG issues and possible impacts; to
- *Commitment* to 'Responsible Investment' / PRI focused processes and issues.

Specific examples given by signatories:

Categorisation	Examples
Market-wide / ESG issues and potential impacts	Fraud
	Market manipulation
	Bribery
	Corruption
	Ethical misconduct
	Breach of OECD guidelines
	Responsible investment controversies (for example investing in controversial companies or countries)
	Investing in the knowledge that the investment will have a severe adverse ESG impact (for example human rights, environmental and public health issues)
Commitment to 'Responsible Investment' / PRI focused issues	Act against a stated RI / ESG policy (for example investing in tobacco)
	Regulatory sanctions with a link to PRI commitment
	Breach or disregard the Principles
	Consistently challenging the necessity for RI
	Publicly repudiate the Principles
	Act contrary to stated commitment to the Principles
	Calling into question the intention / ability / willingness to abide by PRI requirements
Misrepresentation in PRI reporting	

Question 9b: What criteria should the PRI use to determine this (e.g. written complaints from other signatories or stakeholders, confirmed fines or regulatory sanctions)?

The most common sentiment was that the proposed mechanism for delisting signatories should only be used in 'extreme' / 'exceptional' / 'significant' circumstances. Criteria suggested:

- Gross misconduct / malfeasance

- Confirmed fines or regulatory sanctions
- % of assets and / or material fines
- Systemic / cultural: repeated rather than isolated incidents
- Organisational, not individual acts
- Actions within the sphere of the signatories' control

Although signatories noted that even with confirmed fines or regulatory sanctions that the PRI would need to exercise caution:

- In some scenarios, it might be advantageous for a company to settle;
- Expertise is required to contextualise and provide relevant information about local issues;
- Fines can vary given specific national laws and / or political conditions.

Question 9b: Who should make the final decision (e.g. the PRI Executive, PRI Board, a separate committee of signatories)?

Most respondents, typically, commented that a 'robust governance structure' for the decision-making was critical. Signatory suggestions for the process and decision-makers:

Suggested model	Ombudsman
	CFA
	PFA (Professional Financial Advisor)
Suggested process elements	Clear guidelines / criteria
	Pre-empting potential reputational issues
	Watch list
	Written complaints mechanism – stakeholders
	Written complaints mechanism – signatories
	Nomination – certain number of signatories
	Preliminary investigation
	Signatory right of defence (comply or explain)
	Engagement – formal letter to the CEO
	Formal warning
	Agreed plan of action
	Corrective period
	Probation period
	Post-incident communication
	Red flag on business ethics in assessment report
Delist – last recourse	
Suggested decision-makers	PRI Executive
	PRI Board
	Sub-set of the PRI Board (Ethics committee)
	Signatory committee (peer-review)
	Advisory expert panel
	Secret poll of signatories.