CONSULTATION RESPONSE

US SECURITIES AND EXCHANGE COMMISSION: STRATEGIC PLAN FISCAL YEARS 2022-2026

29 September 2022

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into 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 six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research.

The PRI welcomes the opportunity to respond to the US Securities and Exchange Commission's ("SEC" or "The Commission") draft strategic plan for fiscal year 2022 to 2026 ("the Strategic Plan").[1]

ABOUT THIS CONSULTATION

This document responds to the Strategic Plan, released on August 24, 2022, which establishes SEC's three primary goals for the next four years:

- Protect working families against fraud, manipulation, and misconduct
- Develop and implement a robust regulatory framework that keeps pace with evolving markets, business models, and technologies
- Support a skilled workforce that is diverse, equitable, and inclusive and is fully equipped to advance agency objectives

As an investor-focused organization, the PRI's response is grounded in the perspective of a reasonable investor and evidence-based policy research to advance responsible investment in US financial markets while working to better support investors.

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[1] U.S. Securities and Exchange Commission (24 August 2022) Strategic Plan 2022-2026.

KEY RECOMMENDATIONS

The PRI welcomes the SEC's proposal to fulfil its mission over the next four years by focusing activities on protecting working families; maintaining a robust, relevant regulatory framework; and supporting a skilled, diverse workforce.

The Commission has a vital role to play in facilitating the coming changes to capital markets in response to the global shift to a low-carbon economy and growth of responsible investment and business practices. Market participants will require a flexible and adaptive regulatory regime that supports their efforts to mitigate risk, capture opportunities and align their activities with broader societal goals. The SEC should seek to ensure that investors can effectively identify, assess and address relevant risks. Without an appropriate regulatory framework set out by the SEC, investors will find it increasingly difficult to responsibly and sustainably invest in the US capital markets.

The PRI's key recommendations are:

- Establish a long-term strategy that helps to build and support the transition to a more sustainable financial system.
- Create a supportive environment for consideration of sustainability issues—including ESG and sustainability outcomes—while also setting rules of the road to reduce and eliminate "greenwashing."
- Finalize proposed rules on climate-related disclosure that provide the information necessary for investors to fully assess climate-related risks and opportunities.
- Improve investor access to data on human rights in line with internationally recognized standards and reporting frameworks.
- Create a baseline of human rights-related data by mandating human capital management (HCM) disclosure for all companies.
- Further coordinate efforts with standard-setting bodies and regulators to ensure consistency and improve global alignment.
- Align the Strategic Plan with emerging reporting frameworks on specific ESG issues being adopted in global markets, as identified by the PRI.
- Educate market participants on ESG considerations in investing, general concepts on sustainable finance and the transition toward a more sustainable financial system.
- Continue diversity, equity and inclusion (DEI) efforts at the Commission, paying attention to all employees, as well as to impactful workplace processes, including recruitment, retention, development and promotion.

DETAILED RESPONSE

The PRI generally supports the SEC's objectives to fulfil its mission over the next four years by focusing activities on protecting working families, maintaining a robust, relevant regulatory framework, and supporting a skilled, diverse workforce. However, the Strategic Plan does not fully account for the rapidly changing economic and financial challenges posed by the growing threat of climate change[2] and the inevitable shift to a low-carbon economy and sustainable business practices.[3]

These growing challenges require a response that will limit the potential impacts of system-level risks on investors' assets and enable capital markets to adapt to a low-carbon, sustainable economy. While governments have started responding to these issues, a more holistic, ambitious and foundational reform—including in the global financial system—is needed.

The Commission has a vital role to play in leading market participants through this historic economic and societal change. Investors require a regulatory framework that allows them to proactively adapt to emerging issues, enables flexibility as they increasingly seek to affect the impacts of their activities and facilitates the necessary shift toward a sustainable financial system.

Definitions

In this document, the PRI defines a sustainable financial system as a resilient system that contributes to the needs of society by supporting sustainable and equitable economies while protecting the natural environment.[4] Such a system should allow investors to "reliably manage and store their income for future use; custodians or trustees to protect and build financial value; and companies, governments, and other parties to access capital for investment, innovation, and consumption."

The PRI broadly uses "sustainability outcomes" to refer to the social and/or environmental result connected to an investment in the real world. A focus on real-world outcomes in the investment decision process allows investors to pay attention to financial risks and opportunities while also considering how to minimize potential negative outcomes and increase positive outcomes for people and the planet.[5]

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[2] A recent report by the world's largest re-insurance company, Swiss Re, estimates that climate change could cause major economies to lose 10% of GDP in the next 30 years. Also, the National Oceanic and Atmospheric Administration recently reported that "the total costs [of billion-dollar weather and climate disaster events] for the last five complete years ($788.4 billion) is more than one-third of the disaster cost total of the last 43 years."

[3] The US has approved more than USD$500bn in funding to adapt to and mitigate climate change. Other governments around the world have set either binding or voluntary goals to phase out carbon emissions over the next 30-50 years.

[4] The Principles for Responsible Investment (July 2016), Nine Priority Conditions for a Sustainable Financial System

[5] The Principles for Responsible Investment (June 2020), Investing with SDG Outcomes: A Five-Part Framework.

GOAL I: PROTECT WORKING FAMILIES AGAINST FRAUD, MANIPULATION, AND MISCONDUCT

1.1 Pursue enforcement and examination initiatives focused on identifying and addressing risks and misconduct that affects individual investors

The PRI supports the SEC's efforts to carry out its mission to protect investors, including where issues arise from misrepresenting actions in relation to sustainable investing; commonly known as greenwashing.[6] Considering the growing interest in ESG- and sustainability-linked products, the Commission should consider allocating necessary resources for its staff's training, including the Divisions of Examinations and Enforcement, on efforts by registrants to consider sustainability in their investment practice. Training and education would help equip SEC staff to understand the processes required to incorporate sustainability-linked values drivers—including ESG issues—in investment decision making and active ownership. Education would also help staff effectively investigate greenwashing claims, protect investors and better facilitate the growing shift to sustainable and responsible investment.

1.3 Modernize design, delivery, and content of disclosures so investors, including in particular retail investors, can access consistent, comparable, and material information to make informed investment decisions

Recent PRI research reviewed 120 reporting instruments across nine jurisdictions and five global initiatives and identified the US as a "low-regulation jurisdiction" for ESG-related reporting.[7] The study also shows several emerging reporting frameworks on specific ESG-related issues that are likely to gain traction in the coming years. There is growing global recognition of the gaps and limitations to our current reporting regime and the future needs of market participants.

Comprehensive Sustainability Reporting

The increased recognition of the role of responsible investors in taking action on sustainability outcomes is forcing a reconsideration of the considerations necessary, and "decision-useful" data needed to support them.

At a time of renewed market ambition to resolve corporate reporting on ESG issues, the PRI examined the basis of a comprehensive "end-to-end" sustainability reporting system. This system includes three core components which provide the path to understanding an entity's ESG risks and opportunities, environmental and social performance and contribution to wider outcomes.[8]

Recent work by the Commission has begun to provide insights to investors on these components, requiring enhanced disclosure of climate-related risks, specific disclosures if a company has set

[6] ShareAction defines the term "greenwashing" as "the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products." ShareAction (March 2020), Point of No Returns: A ranking of 75 of the world's largest asset managers' approaches to responsible investment.

[7] The Principles for Responsible Investment (July 2022), Review of Trends in ESG Reporting Requirements for Investors.

[8] The Principles for Responsible Investment (June 2020), Driving Meaningful Data: Financial materiality, sustainability performance and sustainability outcomes.

climate-related targets or goals, and specific disclosure requirements on the impact of certain funds. Each of these components of disclosure are necessary for investors.

Climate-Related Information

The PRI supports efforts by the SEC to mandate disclosure of climate-related information by public and private companies as well as enhanced fund and adviser disclosure on their ESG-related practices. We also support continued efforts to align the SEC's proposed rulemakings with the TCFD recommendations and the ongoing work of the IFRS Foundation's International Sustainability Standards Board (ISSB). Such alignment could help to establish a global baseline for sustainability-related issuer information. Principle 1 of the PRI states that signatories "will incorporate ESG issues into investment analysis and decision-making processes". PRI signatories commit to considering investment-relevant ESG information, including climate-related risks and opportunities. The SEC's proposed rules are necessary for investors to fully consider the information important to their decision-making processes and will provide investors greater consistency, comparability and decision-useful information.

Human Rights-related Information

A 2021 analysis by the PRI found that several investors—including a number based in the US—reported using the UN Guiding Principles on Business and Human Rights (UNGPs)[9] and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises[10] to set policies on sustainability outcomes.[11] To this end, investors will increasingly need appropriate disclosures from companies on human-rights related issues, including but not limited to human capital management information. The PRI views that company activities generally impact three groups of stakeholders: workers, communities and consumers or end-users. Each of these groups should be considered when developing policy measures, in line with the recommendations in the UNGPs and OECD Guidelines for Multinational Enterprises.

Additionally, there is a global trend of reporting the risk of modern slavery and other human rights impacts related to investments.[12] By way of illustration, the Autorité des Marchés Financiers (AMF), the Quebec securities regulator in Canada released a notice to provide guidance to issuers on existing disclosure requirements relating to modern slavery.[13] While this notice does not provide any legal requirements, AMF staff clarifies its expectations on how issuers can determine what information they must disclose in order to improve or fulfil their disclosure requirements. In line with this growing trend of requiring companies to disclose data on their human rights performance, the European Union has taken meaningful steps, including adopting a proposal for a Directive on Corporate Due Diligence,[14] and announcing a plan to ban products made with forced labor. This is expected to

[9] United Nations (2011), Guiding Principles on Business and Human Rights.

[10] Organisation for Economic Co-operation and Development (December 2015) Guidelines for multinational enterprises.

[11] The Principles for Responsible Investment (June 2021), Human rights – case studies.

[12]The Principles for Responsible Investment (July 2022), Review of Trends in ESG Reporting Requirements for Investors (p.11)

[13] Autorite des Marches Financiers (September 4, 2018), Notice relating to modern slavery disclosure requirements.

[14] European Commission (23 February 2022) Proposal for a Directive on corporate sustainability due diligence and annex.

increase availability of issuer data on human rights issues, but also bring increased attention to the potential outcomes of investment decisions.

Human Capital Management Information

The PRI encourages the SEC to prioritize the development of its rulemaking on human capital management (HCM) disclosure to provide the information necessary for investors to assess the extent to which issuers invest in their workforce. The investment industry increasingly recognizes that HCM disclosure can help investors to promote decent work[15] and can set a baseline for a wider range of human-rights-related information.[16]

According to the Working Group on Human Capital Accounting Disclosure, a group of ten academics that includes former SEC Commissioners Joe Grundfest and Robert Jackson, there has been “an explosion” of companies that generate value “due to the knowledge, skills, competencies, and attributes of their workforce. Yet, despite value generated by employees, US accounting principles provide virtually no information on firm labor.”[17]

Signatories interviewed by the PRI highlighted a number of categories for metrics on HCM pertinent to their work including diversity, pay, benefits and eligibility, and health and safety, disaggregated by race and gender, in order to identify and monitor risks across their portfolios.[18]

Global Alignment

The PRI recognizes the Commission’s commitment and support for global regulatory alignment, which will benefit US investors and global capital markets through operational and compliance efficiencies. We encourage the Commission to make additional efforts toward alignment of sustainability-related regulatory frameworks to avoid market fragmentation and facilitate comparability of data across various jurisdictions.[19] Moreover, global alignment on sustainability-related issues would help prevent greenwashing and foster investor confidence in sustainable finance.

Earlier this month, 65 investors, companies and professional accounting firms from around the world joined a call to action developed jointly by the PRI, the World Business Council for Sustainable Development and the International Federation of Accountants for global sustainability-related

[15] The Principles for Responsible Investment (11 July 2022) How investors can advance decent work.

[16] Human Capital Management Coalition (27 September 2022), Welcome to The Human Capital Management Coalition.

[17] Professor Ralph Richard Banks, Professor Paul Brest, Professor Gerald Davis, Professor Colleen Honigsberg,, Professor Shivaram Rajgopal, Professor Daniel Taylor, Professor Ethan Rouen, Professor Robert J. Jackson, Jr., Professor Joseph A. Grundfest, Professsor John Coates, (7 June 2022), Working Group on Human Capital Accounting Disclosure Petition for Rulemaking.

[18] The Principles for Responsible Investment (1 March 2022), US Signatory Interview Briefing: Human Capital Management.

[19] The Principles for Responsible Investment, The World Bank and Chronos (June 2022) How Policy Makers Can Implement Reforms for a Sustainable Financial System: Part II: Implementation Guide for Sustainable Investment Policy and Regulation Tools - Taxonomies of Sustainable Activities (p.6) Interoperability—allowing companies to collect and report in a manner that effectively serves both local and global requirements— helps meet the needs of global capital markets, including investors who allocate capital internationally, companies who operate and raise capital across national borders, and the accounting profession that serves all consumers of corporate reporting.

standard-setting efforts to more closely align key concepts, terminologies and metrics upon which disclosure requirements are built.[20]

The Commission should consider best practices provided by international standard setters on sustainability-related disclosures, terminologies, financial and investor education, and the use of ESG ratings and data in the context of sustainable finance, among others. International standard setters undertaking such efforts include the International Organization of Securities Commissions (IOSCO), the Science Based Targets Initiative, the Intergovernmental Panel on Climate Change, the Organisation for Economic Co-operation and Development, the United Nations Environment Programme Finance Initiative, TCFD and ISSB.

As mentioned above, "Social" disclosure, including HCM disclosure, should look to align with commonly accepted international standards such as the UNGPs and the OECD Guidelines for Multinational Enterprises. Existing disclosure frameworks such as the Global Reporting Initiative (GRI) and the upcoming European Sustainability Reporting Standards are built on these standards.[21] This trend towards alignment can already be seen in initiatives such as the Jurisdictional Working Group established by ISSB, of which the SEC is part, and the ISSB/GRI memorandum of understanding.[22]

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[20] The Principles for Responsible Investment, World Business Council for Sustainable Development, International Federation of Accountants (September 2022), Leading Financial Market Participants Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure.

[21] UN Guiding Principles Reporting Framework (September 2017), Salient Human Rights Issues.

[22] IFRS (24 March 2022) IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures.

GOAL II: UPDATE EXISTING SEC RULES AND APPROACHES TO REFLECT EVOLVING TECHNOLOGIES, BUSINESS MODELS, AND CAPITAL MARKETS

2.1 Update existing SEC rules and approaches to reflect evolving technologies, business models, and capital markets

As stated above, the Commission has a vital role to play in facilitating capital market adaptation in response to the global shift to a low-carbon economy and growth in more responsible investment and business practices. Market participants will require a flexible and adaptive regulatory regime that supports their efforts to mitigate risk, capture opportunities and efficiently align their activities with broader societal goals.

2.2 Examine strategies to address systemic and infrastructure risks faced by our capital markets and our market participants

A more sustainable financial system would consider system-level and infrastructure-related risks to capital markets and participants and ensure capital markets can support their intended beneficiaries in the long term. The SEC, as the regulator overseeing the largest capital market in the world, should support the design and implementation of a more sustainable financial system for the future.

The Commission should create and strengthen a supportive regulatory framework that would allow investors to better understand and manage sustainability outcomes relevant for their beneficiaries. Issues such as climate change and inequitable, inefficient socio-economic structures threaten the long-term performance of economies and by extension investors' portfolios.[23]

Expectations from investors, including retail investors and institutional asset owners, over how investors and issuers should consider the impacts of their activities have evolved and are increasingly driven by visibility and urgency around sustainability outcomes. The PRI has proposed a five-part framework for investors seeking to understand the sustainability outcomes of their investments. This framework proposes investors take action to contribute to positive real-world outcomes connected to investments and ensure those are consistent with meeting sustainability thresholds such as the SDGs.[24]

2.3 Recognize significant developments and trends in our evolving capital markets and adjust our activities accordingly

The global economy and capital markets are set for an unprecedented shift as governments and societies move to limit their contributions to and mitigate effects of climate change. In the past month alone, the US approved $369 billion in funding to support the transition to low-carbon economies and California—the world's fifth largest economy—passed legislation to phase out the sale of internal combustion engines. In response—and in order to preempt—this inevitable transition to a low-carbon economy, the Commission should review relevant future regulations and the basic structure of its

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[23] Boffo ,R., and R. Patalano (2020), OECD Paris: ESG Investing: Practices, Progress and Challenges.

[24] The Principles for Responsible Investment (2020) Investing with SDG Outcomes: A Five-Part Framework.

2022-2026 strategy as these will be crucial years to better enable an efficient transition for capital markets.

Investor Education

Research continues to emphasize the need to educate market participants and society at large, including young investors,[25] on ESG-related investing, general concepts on sustainable finance and the transition to a sustainable financial system. A survey conducted by IOSCO revealed that investor education is an instrumental tool to support sustainable finance and protect investors against greenwashing, misleading advertising and marketing and improve understanding of ESG-related products.[26]

To meet the specific needs of retail investors, especially for diverse and underserved communities, the Commission should consider organizing community-based financial literacy programs on sustainable finance as part of its investor education and outreach programs. Financially literate investors would be better equipped to face the growing complexity of investment products, which could serve to improve their investment outcomes in the long term.

More than half of the jurisdictions included in the IOSCO survey have implemented at least one financial education program in relation to sustainability-related risks, and several other jurisdictions intend to undertake such initiatives in the future.[27] The PRI recommends the SEC consider looking to the work being done in other jurisdictions around the world for best practices and resources on education initiatives relating to sustainable finance. Some of the areas of focus include: sustainable finance instruments and products; climate-change-related risks; social risks; environmental risks; greenwashing risks; sustainability-focused asset managers; standard setters; ESG credit rating agencies; and, impact investment.

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[25] Morgan Stanley Institute for Sustainable Investing (2021) Sustainable Signals: Individual Investors and the COVID-19 Pandemic.

[26] International Organization of Securities Commissions (November 2021) Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

[27] International Organization of Securities Commissions (November 2021) Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

GOAL III: SUPPORT A SKILLED WORKFORCE THAT IS DIVERSE, EQUITABLE, AND INCLUSIVE AND IS FULLY EQUIPPED TO ADVANCE AGENCY OBJECTIVES

3.1 Focus on the workforce to increase capabilities, leverage shared commitment to investors, and promote diversity, equity, inclusion, accessibility, and equality of opportunity

The PRI welcomes the SEC's commitment to prioritizing DEI within its own workforce. The PRI encourages its signatories to consider DEI information in their investment and ownership decisions and to shape inclusive corporate cultures, business models and societies. Just as investors have an important role to play in advancing DEI not only at the issuer level but also within their own organizations, the SEC can also model progress on DEI.[28]

In its Annual Report to Congress for Fiscal Year (FY) 2021 (Report), the Commission highlights the progress it has made toward achieving the goals and objectives of the Dodd-Frank Act and the SEC's Diversity and Inclusion Strategic Plan.[29] The Report shows that representation of women increased to 45 percent in FY2021, slightly up from 44.7 percent in FY2020 and the percentage of minorities also increased to 45.4 percent in FY2021, up from 38.9 percent in FY2020. However, while the percentage of new employees in FY2021 who are Black or African American increased from FY2020, percentages among new hires identifying as Hispanic or Latino and Asian decreased from FY2020.

By supporting a skilled workforce that is diverse, equitable and inclusive, the SEC can create an inclusive culture that could serve as a model for investors. Inclusive corporate cultures ensure a diverse workforce that reflects the makeup of society, which will vary according to the region or country where the company operates. We encourage the SEC to continue these diversity efforts and pay attention to all employees, as well as to different workplace processes that can have an impact on DEI, including recruitment, retention, development and promotion.

Also, it is noteworthy that a lack of diversity among US financial regulators has persisted for decades.[30] A 2020 research paper provides empirical evidence showing that African Americans have been largely excluded from senior leadership opportunities since the New Deal.[31] Addressing racial wealth gap issues and other social inequities could be supported by increased diversity and a culture of inclusion throughout the financial services industry, including across US financial regulatory bodies. Financial regulators write the rules of the financial system and are responsible for making policy decisions on issues like investor protection and how capital moves through society and at what cost. As such, diverse communities in society should be well represented among the decision-makers.

[28] The Principles for Responsible Investment (2022) Diversity, Equity & Inclusion: Key Action Areas for Investors.

[29] U.S. Securities and Exchange Commission Office of Minority and Women Inclusion (March 2022), Annual Report to Congress: Advancing Diversity, Equity and Inclusion.

[30] Brooks, Christopher J. (22 December 2021), CBS News: There isn't much racial diversity among financial regulators.

[31] Brummer, Chris; Georgetown University Law Center (September 2020) What do the data reveal about (the absence of Black) financial regulators?.

The PRI has experience in contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Securities Exchange Commission further in the US.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org.