

# PRI RESPONSE

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## **RACE TO ZERO 2022 CRITERIA CONSULTATION**

May 20, 2022

# 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 its analysis and recommendations based on signatory views and evidence-based research. The PRI welcomes the opportunity to respond to the Race To Zero's call for feedback on its 2022 criteria consultation.

# ABOUT THIS CONSULTATION

This [consultation](#) has been designed by the High-Level Climate Champions, the UNFCCC and the Expert Peer Review Group for the Race to Zero. From February to April, 2022, over 150 experts met in working groups to discuss eight key topics to strengthen and consolidate the Race to Zero criteria. This final stage of the consultation is intended to collect feedback from others. PRI is pleased to respond from its perspective as a network that includes net zero commitments by asset managers, asset owners, and financial sector service providers.

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# KEY RECOMMENDATIONS

The PRI welcomes the opportunity to contribute to this consultation by Race to Zero and shares its vision to continuously drive upward convergence in the rigor and comparability of net zero commitments by diverse groups.

The PRI's key recommendations are:

- to focus on clarifying starting line criteria around decarbonization targets as well as corporate and policy engagement; and
- to encourage the integration of net zero commitments into an overall approach to ESG; and
- to maintain reporting through individual net zero initiatives while ensuring consistency across initiatives.

## DETAILED RESPONSE

It is critical for net zero criteria to be ambitious and to involve science-based targets that follow 1.5 degree-aligned, science-based, low-or no-overshoot pathways for the future trajectory of climate change. It is also important to maintain a clear, simple, and easily communicated set of criteria to maximize participation in Race to Zero and enable effective accountability against criteria.

PRI's response is based on its involvement in net zero initiatives in the financial sector as well as its work to support its base of over 5,000 signatories with guidance and capacity building to reduce climate risk and carbon emissions in their operations and portfolios. PRI is involved in a number of net zero initiatives, including the Net Zero Asset Owners Alliance, the Net Zero Asset Managers initiative, Net Zero Investment Consultants Initiative and Net Zero Financial Service Providers Alliance. Our response considers how the criteria would apply to these initiatives but does not necessarily reflect the views of the initiatives or its members.

### Starting line criteria

We are supportive of clarifying starting line criteria for Race to Zero commitments in the financial sector. Initiatives may find it productive to harmonize their requirements around the following issues that we have found to be useful focus points of investors' climate actions efforts:

- a. setting and reviewing near-term decarbonization targets for 2025 or 2030 at the latest, and at least every five years in line following initial targets with 'no to low overshoot' pathways;
- b. accompanying portfolio shifts with both corporate and policy engagement in line with limiting global warming to 1.5 degrees above pre-industrial levels; and
- c. ensuring that decarbonization occurs in a holistic context of social and environmental analysis

While we support clarifying the starting criteria for Race to Zero qualification for **absolute annual emissions** to be reported to net zero initiatives by all members, we note that this information will vary depending on type of financial institution and should be subject to the appropriate methodology being developed by initiatives in question and approved by Race to Zero.

Investors' experience has shown that **engagement, both with investee companies and with policymakers**, is a necessary part of climate risk management and to fulfill net zero goals, along with

asset allocation and security selection decisions. We are supportive of the proposal for Race to Zero participants to disclose their activities and resulting changes these areas.

At the same time, we understand that investors' ability to conduct these activities will vary. For example, some asset owners who hire external managers will reasonably focus on oversight of those fund managers rather than direct engagement with investee firms. Also, engagement and stewardship practices are most developed in the listed equity space and may take different forms, or be less strategically central, for investors in some other asset classes. Finally, some smaller investors may not have the internal capacity to conduct public policy engagement to the same degree as others. All investors, however, can disclose their approach to these topics and their rationale for the activities they do or do not undertake.

Regarding public policy specifically, PRI supports the creation and inclusion of a new policy engagement requirement that covers the disclosure of any membership of trade bodies/lobbying associations and the reporting of a summary of political engagement activities annually.

PRI would also suggest greater clarification on whether expectations would be different for the various types of Race to Zero members and partners, and how distinct political contexts and political systems in jurisdictions would be factored into the design of starting line criteria.

In addition, we support the clarification of the concept of fair share and offsets with clear guidance on how this should be applied in the context of low/no-overshoot pathways. We recommend referring to the UN-Convened Net Zero Asset Owner Alliance's position paper on [negative emissions technology](#).

Finally, we would recommend for reporting to continue to take place through individual initiatives, without a new requirement for entities to report to Race to Zero as an umbrella group. It should be made clear in all cases, however, that target setting should begin as soon as possible, and near-term targets should be published no later than 12 months following joining an initiative holding Race to Zero approval, with annual progress reporting.

#### Leadership practice

We support highlighting leadership practice especially around areas where there are not yet widely recognized methodologies that would enable Race to Zero to adopt them as starting line criteria. We particularly support the proposal **on sector-specific targets** for financial institutions, as currently recommended in the UN-Convened Net Zero Asset Owner Alliance's [Target Setting Protocol](#) and taking into account relevant anti-trust regulations where applicable.

We note that guidance and methodologies for certain issues covered by the Race to Zero consultation (including nature, transition planning, Paris aligned policy engagement, and just transition) are not yet advanced enough for these to be integrated as starting line criteria. Many financial institutions are still at the target-setting stage focusing on decarbonization targets in line with net zero goals.

We **support initiatives that are developing guidance** and approaches to integrate these issues into the financial sector's overall approach to climate and encourage members of Race to Zero to actively participate in these initiatives and processes. These include, for example, the PRI's Sustainable Commodities Practitioner Group, PRI's Human Rights Stewardship initiative, Finance for Tomorrow's

Investors for a Just Transition, the UK Transition Plan Taskforce, and the Glasgow Financial Alliance for Net Zero's upcoming consultations on transition plans and sectoral pathways, among other initiatives.

In addition to referencing the guidance and approaches developed by those initiatives, we recommend that leadership practice includes the **evidence of consistent, proactive engagement in supporting Paris-aligned climate policies** at sub-national and national levels, and particularly for investors, with portfolio companies. PRI recommends referring to the 14 indicators of the [Global Standard on Responsible Lobbying](#) in defining this leadership criteria.

We also recommend that as part of leadership practices, entities should disclose their plans to **phase out investments in fossil fuel production and consumption**.

#### Operationalization

PRI is supportive of best practice guidance including recognizing early movers and leaders. Initiatives will be well-placed to propose case studies to support these materials.

PRI is also supportive of delisting criteria for net zero initiatives and recommends that these are integrated into initiatives' governance documents and made publicly available.

#### Conclusion

It is critical for Race to Zero to continue ratcheting up ambition for Race to Zero initiative members and are supportive of the development of the necessary guidance and standards for participants. We continue to support efforts to build a community of entities with robust commitments to decarbonization in pursuit of our common goal of a net zero carbon economy by 2050.

*The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Race to Zero, further to its mandate to build a strong coalition of entities around the world to support the transition to a carbon-free economy.*

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