Principles for Responsible Investment

PRI CONSULTATION RESPONSE

Décret au titre de l'article 29 de la loi énergie-climat

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PRI Association

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THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3,500 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US $100 trillion in assets under management.[1]

The 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. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu 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.

This consultation response represents the view of the PRI Association and not necessarily the views of its individual members.

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[1]See https://www.unpri.org/signatory-directory/

PRI'S POSITION

The PRI welcomes the leadership shown by the French legislature in bringing forward this proposal. Article 173-V of Energy Transition Law (LTECV) has played a crucial, influential role in raising awareness of the importance of integrating environmental, social and governance (ESG) factors into investment decisions of institutional investors both in France and other countries around the world. The PRI's French roadmap of the Fiduciary Duty in the 21st Century series, published in 2018[2], identified the need to update the Article 173 in order to clarify investors' fiduciary responsibility and strengthen France's role in the development of responsible investment.

As the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR) allows member states who wish so to adopt or maintain more ambitious requirements (Recitals 28), this revision of the law is an opportunity for France to maintain its leadership on these topics and to help accelerate investor awareness and action. France's ambition could also serve as an insightful precedent for future revisions of SFDR regulatory technical standards and their continuous improvement over time.

PRI also supports efforts to align the new disclosure framework with the recommendations of the Task Force of Climate Related Financial Disclosures (TCFD), specifically the inclusion of detailed criteria related to alignment with Paris Agreement objectives, and the forward-looking metrics and methodologies associated with such analysis. On this last point, we recommend monitoring developments at international level – notably the recent TCFD consultation on forward-looking metrics, and the Net Zero Asset Owner Alliance 2025 Target Setting Protocol.

PRI would like to highlight the following:

1) **Fossil fuel share (5°b).** This item, requesting reporting on assets under management '*for activities based on exploration, production, processing transportation, refining and marketing of fossil fuels*' is welcome. The replacement of fossil fuels as an energy source is a core element of all potential pathways to reach EU climate neutrality targets by 2050. The development of fossil fuel infrastructure also frequently involves damage to ecosystems, exacerbating the biodiversity crisis.

   PRI supports the disclosure of investors' activities that are significantly harmful to climate and environmental objectives, as well as the share of assets invested in activities supporting the transition (EU taxonomy). In this regard, PRI welcomes that this indicator is aligned with the 'adverse sustainability indicator' relating to exposure to companies active in the fossil fuel sector, contained in the draft RTS on SFDR published by the ESAs in February 2021.

[2] Generation Foundation, Finance for Tomorrow, UNEPFI, and PRI (2018) : La Responsabilité Fiduciaire au 21e siècle. La Feuille de Route de la Finance Durable pour la France.

The definition of 'fossil fuels' should be clarified to cover all hydrocarbon-based fuel sources including oil and natural gas, as referenced under the definitions promoted by the Intergovernmental Panel on Climate Change[3].

2) **Alignment with Paris Agreement (6°).** We support the fact that the disclosure requests are similar to those required by the framework of the Task Force on Climate Related Financial Disclosures (TCFD). Given that over 200 French PRI signatories (asset owners and investment managers) will be reporting publicly in the coming years on climate indicators aligned with TCFD as part of the PRI Reporting and Assessment Framework, this will help standardise disclosures in France and align with international norms[4].

   We particularly welcome the items requesting that investor use scenario planning, specific time horizons and at least one quantitative indicator, as well as detailed methodological disclosure regarding how it does so. In particular, answers to the methodological questions listed in item 6°b) will provide users of the disclosed information with a thorough picture of the assumptions behind the investor's approach to climate risk, and will allow meaningful comparisons to be made between and among different institutions. These disclosures will also enable discussions regarding the relative merits of different methodologies and metrics and may aid over time in their needed improvement and standardization. For more information regarding approaches to metrics and target-setting regarding climate, we recommend consulting the PRI response to the TCFD's forward-looking discussion paper and the target-setting protocol from the Net Zero Asset Owners' Alliance.

   We also support item 6°f), that specifically points towards outlining forward-looking strategies for phase out of coal and unconventional hydrocarbons. This is a clear incentive for investors to question and engage companies operating in these sectors on their governance, strategy, risk management and transition plans. We recommend that investors and companies also consider the social implications of these policies for workers, communities, and consumers, in accordance with the objective of achieving a just transition[5].

3) **Biodiversity disclosure (7°)**. PRI welcomes this specific item and encourages investors to take part in voluntary initiatives aiming at implementing biodiversity related disclosure. Biodiversity is receiving increasing attention from investors as a financial risk which is closely interrelated with climate. Climate-related changes in temperature and weather patterns are accelerating species extinction, with potentially dire consequences for the human food supply and the global economy; and the protection of many habitats (e.g., forests) is important not only for species preservation but because of their roles as carbon sinks. Item 7° should

[3] https://www.ipcc-data.org/guidelines/pages/glossary/glossary_fg.html
[4] By the end of April 2021, all eligible PRI investor signatories will be required to report and publicly disclose against TCFD based governance and strategy indicators. Reporting on risk management, metrics and targets will remain voluntary in 2021, but by the end of March 2022, it will be mandatory for all eligible PRI investor signatories to report and publicly disclose against all TCFD based climate indicators.
[5] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement on climate change. See also Climate change and the just transition : a guide for investor action (2018) – The Grantham Research Institute on Climate Change and the Environment, Harvard Kennedy School Initiative for Responsible Investment, in partnership with PRI and ITUC.

encourage investors to start setting forward-looking goals linked to existing international agreements on the reduction of biodiversity loss.

Going forward, we recommend ensuring coherence with EU legislation, notably the protection and restoration of biodiversity and ecosystems objectives and 'Do not significant harm' criteria of the EU Taxonomy, and the 'adverse sustainability indicator' for the SFDR (activities negatively affecting biodiversity sensitive areas) – both of which are respectively to be developed by the EU Platform on Sustainable Finance and endorsed by the European Commission.

Voluntary biodiversity disclosure frameworks are also developing at a rapid pace. A number of French investors and other organizations are among founding members of the Task Force for Nature Related Financial Disclosures, which seeks to bring broader investor attention to the materiality of biodiversity risks. This work will likely contribute to defining what companies should disclose in terms of risks and opportunities related to nature and will need to be considered in the future for coherence.

4) **Financial impact of ESG risks (8°e).** We support the inclusion of information on the financial impacts of ESG risks, and suggested indicators for assessing this. We recommend that investors specify under which scenario quantitative estimates have been made, and which alternative scenarios have been considered (as well as the underlying assumptions). Investors could also include an estimate of loss given default in the credit risk assessment.

5) **Reporting on progress (9°).** We welcome the inclusion of information tracking the implementation of the Paris Agreement alignment strategy, particularly the reference to short, mid and long-term objectives**.** This should ensure that investor transition plans are time-bound and linked to concrete actions, at both strategic and operational levels.