

Aligning investors with sustainable finance

A focus on the OECD



CREDITS

This report has been prepared by the PRI, UNEP FI and The Generation Foundation, and does not represent the views of the OECD or its Secretariat.

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ABOUT THIS REPORT

This report sets out recommendations for the Organisation for Economic Co-operation and Development (OECD) in order to strengthen its support for governments and regulators in aligning investment with the Paris Agreement and the UN Sustainable Development Goals (SDGs).¹ While these recommendations concern mostly workstreams under the responsibility of the Directorate for Financial and Enterprise Affairs (DAF), we acknowledge the work accomplished on the issues of sustainable development and climate change by other workstreams at the OECD, as well as the efforts in making progress on these issues through the OECD's Centre on Green Finance and Investment.

The analysis presented in this report follows an extensive research programme—*Fiduciary Duty in the 21st Century*—undertaken by the Principles for Responsible Investment (PRI), the UN Environment Finance Initiative (UNEP FI) and The Generation Foundation, which aims to clarify investors'

obligations and duties in terms of incorporating environmental, social and governance (ESG) issues into investment practice.²

Based on interviews with over 600 policy makers, investors and stakeholders in OECD member states and beyond, the programme has worked with investors and governments to publish a Global Statement on Investors' Obligations and Duties, roadmaps in 12 countries on the policy changes that are required, and research into investor obligations and duties in six Asian markets. This programme identified the integration of ESG issues into investment research and processes as a tool to enable investors to make better investment decisions and improve investment performance in a way that is consistent with their fiduciary duties.

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SUSTAINABLE INVESTING AND ESG INTEGRATION³

Responsible or sustainable investment is an approach to investing that aims to incorporate ESG factors into investment decisions, with the aim of better managing risk and generating sustainable, long-term returns. Integrating ESG factors in investment decisions refers to the process of taking account of material ESG data and information in investment research and decision-making processes. The key point is that decisions are driven by the financial rather than ethical implications of the issue in question.

Global growth in sustainable investment has been driven by:

- Recognition in the financial community that ESG factors play a material role in determining risk and return, following multiple examples of how issues such as climate change, working conditions, corruption and aggressive tax strategies can affect corporate and investment performance;
- Growing understanding that incorporating ESG factors is part of investors' fiduciary duty to their beneficiaries;
- Concern about the impact of short-termism on company performance, investment returns and market behaviour;
- Legal requirements in many jurisdictions that require investors to protect the long-term interests of their beneficiaries and to support efforts to ensure the stability of the wider financial system;
- Market pressure resulting from competitors seeking to differentiate themselves by offering responsible investment services as a competitive advantage; and
- Beneficiaries becoming increasingly active and demanding transparency about where and how their money is being invested.

1 Implementing the Paris Agreement and achieving the SDGs will require efforts across the economy, but it also creates opportunities. The present recommendations focus on the role of the finance sector, and in particular institutional investment.

2 www.fiduciaryduty21.org/

3 www.unpri.org/pri/what-is-responsible-investment

EXECUTIVE SUMMARY

The mission of the OECD is “to promote policies that will improve the economic and social well-being of people around the world”.⁴ The PRI, UNEP FI and The Generation Foundation believe that aligning the financial sector with sustainable economic development is a prerequisite for achieving such an outcome. Decisions made by fiduciaries cascade down the investment chain, affecting decision-making processes, ownership practices and, ultimately, the way in which companies are managed. Investors need to adapt their business models to support the achievement of the SDGs and the objectives of the Paris Agreement, as well as related domestic climate change goals.

There is a disconnect between the commitments of governments that have signed up to the Paris Agreement and the SDGs, and the actual strategies of financial markets, which do not fully integrate those global goals. The OECD is uniquely placed to help close this gap by strengthening the connections

between its traditional policy work on financial systems, capital markets and institutional investment with work on climate change, sustainable development, green growth and responsible business conduct. Efforts in this direction have already been made with the creation of the OECD Centre on Green Finance and investment⁵ but more is needed.

The OECD should provide clear guidance for governments to align finance and investment policy frameworks with climate objectives and sustainable development goals. At the OECD, this requires an alignment between finance and sustainability on three levels, drawing on existing OECD work:

- i. High-level policy guidance and outreach;
- ii. Inter-governmental dialogue; and
- iii. Research, data and policy analysis produced by the OECD Secretariat, its committees and the OECD Centre on Green Finance and Investment.

To achieve this, we recommend the following courses of action that should be implemented over the short and medium term:

- **OECD committees, working parties and task forces dealing with financial markets, insurance, pensions and investment topics, which fall under the responsibility of the Directorate for Financial and Enterprise Affairs (DAF), should further integrate sustainable finance and investment as a core component of their work programmes and research agendas.**
- **The OECD should convene an annual high-level dialogue among pension fund, insurance and asset management regulators, investors and other key industry stakeholders to discuss reforms and other interventions that are necessary to align financial markets with the Paris Agreement and the SDGs.**
- **The OECD should work with regulators and policy makers to further develop and scale up technical expertise on sustainable finance and regulation within its core finance work, and establish a stronger connection with the work on sustainable development and climate change led by other directorates within the OECD Secretariat.**
- **The OECD should update its existing global standards and principles to better integrate sustainability issues, and complement these instruments with new decisions, recommendations and guidance to support the role of financial markets in meeting the objectives of the Paris Agreement and the SDGs.**

By playing a federative role and promoting integrated, consistent policies, and through its whole-of-government approach, the OECD is well placed to connect decision makers in finance and investment with those in sustainable development. These recommendations, if implemented, will strengthen the OECD’s capacity to support governments in designing and implementing efficient sustainable finance strategies and regulations that will promote the advent of

a sustainable financial system. We believe that the OECD can contribute to the transformation of financial markets to achieve sustainable development outcomes and strengthen the international policy framework upholding these goals. The PRI, UNEP FI and The Generation Foundation stand ready to support the OECD in achieving these goals and implementing those recommendations.

4 See www.oecd.org/about

5 See Annex 4.

RECOMMENDATION 1

OECD committees, working parties and task forces (OECD bodies) dealing with financial markets, insurance, pensions and investment topics, which fall under the responsibility of the Directorate for Financial and Enterprise Affairs (DAF), should further integrate sustainable finance and investment as a core component of their work programmes and research agendas. To support these efforts, the OECD should set up a cross-committee, joint taskforce on sustainable finance and investment, including experts and delegates from relevant OECD bodies supported by DAF and their counterparts from other OECD bodies that address environmental and sustainable development topics. This new taskforce would determine the key areas for research and dialogue, and its work would be supported by the OECD's Centre on Green Finance and Investment.

The OECD has a number of committees and workstreams dedicated to green finance, climate change and sustainable development. While the mainstream finance and investment committees and their sub-bodies contribute to this work on an ad hoc or thematic basis, there is a need for their work on sustainable finance and investment to be scaled up and broadened, reflecting global priorities. Otherwise, sustainable finance and investment will be considered optional and separate from mainstream finance policies, despite the OECD's stated support for sustainable financial development.

For instance, at the EU level, all sustainable finance work is led by DG FISMA (the Directorate-General for Financial Stability, Financial Markets and Capital Markets Union), and not DG ENV (Environment) or DG CLIMA (Climate). Sustainable finance is therefore considered core to the financial markets strategy of the European Commission. Similarly, in the UK, the

Green Finance Taskforce is led jointly by the Treasury and the Department for Business, Energy and Industrial Strategy.

While the OECD's work is mostly structured around its thematic directorates (e.g., Finance, Environment) and the need to service its government committees, an increasing number of issues involve a cross-directorate approach. An example is sustainable finance, which involves several directorates, such as DAF and Environment. The creation in 2016 of the Centre on Green Finance and Investment was aimed at addressing this new challenge.

A stronger connection to the OECD's mission of contributing to sustainable economies should be established through the integration of specific and relevant sustainability topics and goals into the agendas of relevant OECD bodies (see Annex 1).

This research agenda could include:

- Preparing a stocktake of regulations and policy practices relevant to promoting the sustainability of finance and investment across OECD and other G20 country markets (for example, the recent guidance from the UK pensions regulator, Japan's Stewardship Code and the establishment of an EU classification system for sustainability activities);
 - Assessing ESG integration methodologies and developing instruments, models and metrics (best practices) to help institutional investors better assess risks and opportunities and make investment decisions in the best interest of their members or policyholders;
 - Updating existing roadmaps, such as the *OECD Roadmap for the Good Design of Defined Contribution Pension Plans*,⁶ by classifying ESG integration as a pension fund duty towards beneficiaries;
- Specific topics such as:
 - The impact of climate change (as well as broader environmental change such as resource depletion and biodiversity loss) on the economy and financial markets;
 - Standards and labels for sustainable financial products and underlying ESG data, as well as related financial education and consumer protection issues;
 - Incorporating sustainability into investment advice;
 - Clarifying the duties of institutional investors and asset managers;
 - Incorporating sustainability into prudential and market conduct frameworks;
 - Fostering investments in sustainable projects and investing for the SDGs; and
 - Strengthening sustainability disclosure.

Specific research on sustainable finance and investment that has already been conducted by different DAF committees has pointed to the need for further examination and clarification of regulatory issues on these topics (see Annex 2). In addition, the Secretariat should include data and analysis on ESG integration in recurring flagship publications, and set sustainable finance as a key topic in thematic publications (see Annex 3).

6 www.oecd.org/finance/private-pensions/50582753.pdf.

RECOMMENDATION 2

Building on the achievements of the OECD Forum on Green Finance and Investment and other OECD events, the OECD should convene a high-level dialogue on an annual basis among pension fund, insurance and asset management regulators, investors and other key industry stakeholders, specifically to discuss reforms and other interventions that are necessary to align financial markets with the Paris Agreement and the SDGs. This dialogue should be anchored to the mainstream finance and investment community at the OECD, including the work of the OECD/G20 Task Force on Long-Term Investment. It should also be connected to the annual OECD Forum, and submitted as a key topic to the annual ministerial meeting.

The OECD is a policy forum where differing views and perspectives can be expressed and debated. Within OECD countries, a growing number of legislative and regulatory acts and proposals on ESG integration and sustainable finance and investment will be advanced over the next few years. Developing expertise on sustainable finance and investment and providing focused research on these new regulatory changes will benefit both lawmakers and market practitioners.

The OECD has already been engaged in organising international dialogue on long-term investment and green finance, supported by dedicated internal projects formalised in the organisation's work plan (see Annex 4). In addition, ad hoc events, such as the OECD Workshop on Integrating Climate Change into Institutional Investment, held in June 2018, provide a unique platform to debate best practices in sustainable finance regulation. Such dialogue should be organised on a regular basis and supported with regular research by the OECD Secretariat and its committees.

The OECD's Centre on Green Finance and Investment, created in 2016, has an important role to play as a bridge between the Environment and Finance Directorates on projects related to green and sustainable finance. The Centre should take a proactive role in supporting all DAF divisions in identifying, researching and advancing relevant policy issues, and bringing these to the Green Investment and Finance Forum⁷ and other OECD events.

The OECD should also seek to incorporate this dialogue into its key annual events: the Ministerial Meeting (attended by the ministers of finance, economics, foreign affairs, trade and other portfolios from member countries, where these ministers give the organisation its main mandates for the upcoming years), and the OECD Forum (where the role of governments in reorienting investments towards the Paris Agreement and the SDGs should feature as a prominent topic).

⁷ This annual event brings together the green finance community to help catalyse and support the transition to a green, low-emissions and climate-resilient global economy. See www.oecd.org/cgfi/forum/.

RECOMMENDATION 3

The OECD should work with regulators and policy makers to further develop and scale up technical expertise on sustainable finance and regulation within its core finance work, and establish a stronger connection with the work on sustainable development and climate change led by other directorates within the OECD Secretariat. The OECD should notably develop technical expertise and know-how on (1) investment strategies and financial instruments that integrate ESG factors, as well as models and metrics to assess the performance of different ESG investment opportunities and related risks; and (2) policy and regulatory initiatives on sustainable finance across different country contexts.

Most policy makers in OECD member countries have been actively involved in the growth in responsible investment, with some jurisdictions already taking steps to clarify the requirement to integrate ESG issues in investment decisions. Regardless of the specific legal context, investor duties of loyalty, prudence and responsibility towards the end beneficiary exist in all OECD markets and jurisdictions. This duty necessitates the consideration of all long-term

investment value drivers, which include ESG issues, in investment decision making. Supported by research and dialogue led by the Secretariat and committees, the OECD should leverage its engagement on sustainable finance and investment with regulators and policy makers through its traditional workstreams on finance and investment and its activities in connection with the work already done at other directorates on sustainable development and climate change.

Fig. 1: Recommendations for outreach with key international organisations and policy makers

COUNTRY/ ORGANISATION	RECOMMENDATION FOR ENGAGEMENT
IOPS ⁸	As a host for the secretariat of the International Organisation of Pension Supervisors (IOPS), the OECD should continue to support IOPS's work on promoting dialogue on ESG integration amongst pension regulators in OECD member countries through its traditional finance and investment outreach channels. The OECD should also further support IOPS in its current project of establishing guidelines on ESG factors and setting standards in terms of ESG integration in the supervision of pension fund investment and risk management, by seeking alignment with the highest standards among OECD countries.
G20 ⁹	The OECD should continue to actively contribute to the ongoing work on sustainable finance at the G20, in alignment with the contribution to the G20 sustainable finance working group. ¹⁰ This engagement should be strengthened not only through the workstream on climate sustainability and energy, but also through the financial markets workstream. ¹¹ This dialogue should be connected to the OECD/G20 Long-term Investment Project, aligning considerations on long-term investing at the OECD with sustainability and ESG integration.
EU	The OECD should continue its engagement on the European Commission's action plan on financing sustainable growth, and support a constructive dialogue on the implementation of the Commission's regulatory proposals on sustainable finance from the perspective of finance and investment. The OECD should also work with non-EU member states to share good practices from the EU's High-Level Expert Group and Technical Expert Group on Sustainable Finance processes, with a view to assessing and implementing similar reforms across all OECD members.
Non-member countries	Through its traditional, mainstream work on finance and investment, the OECD should further engage with governments active in developing sustainable finance frameworks, such as China, Brazil and South Africa, with the shared goal of strengthening cooperation on the Paris Agreement and the SDGs.

8 IOPS is an independent international standard-setting body representing those involved in the supervision of private pension arrangements. Formed in July 2004, IOPS currently has 86 members and observers representing 75 jurisdictions and territories worldwide. The major goal of IOPS is to improve the quality and effectiveness of the supervision of private pension systems throughout the world, thereby enhancing their development and operational efficiency, and allowing for the provision of a secure source of retirement income in as many countries as possible.

9 The OECD is a partner organisation to the G20, providing support to the country holding the G20 Presidency with data and policy-analytical inputs across a wide range of policy areas. Twelve of the G20 member countries are also OECD members (including the EU as a whole). OECD legal instruments may be endorsed by the G20, such as the *G20/OECD Principles of Corporate Governance*.

10 *OECD Progress Update on Approaches to Mobilising Institutional Investment for Sustainable Infrastructure: Background Paper to the G20 SFSG*, (OECD, University of Oxford) 2018 (forthcoming)

11 www.oecd.org/g20/topics/financial-markets/.

RECOMMENDATION 4

The OECD should update its existing global standards and principles, such as the Core Principles of Private Pension Regulation and the G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors, to better integrate sustainability issues – consistent with the best interests of members and beneficiaries in the case of pension funds and policyholders in the case of insurers – and complement these instruments with new decisions, recommendations and guidance with the objective of supporting the role of financial markets in the achievement of the objectives of the Paris Agreement and the SDGs.

The legal instruments and high-level principles¹² adopted by the OECD Council and G20 in the areas of finance and investment are relevant not only to governments but also to investors, both in the broad sense and, in particular, to long-term investors who can allocate patient capital. These instruments and principles are part of the international policy framework guiding markets. A non-binding legal instrument that is relevant to sustainable finance is the Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Business Conduct,¹³ adopted in 2018, which is intended to promote the consideration of potential adverse impacts by internationally active companies.¹⁴ However, key recommendations guiding long-term investment regulation, such as the Core Principles of Private Pension Regulation, do not include explicit consideration of sustainability risks and performance drivers in regulatory frameworks for pension funds.

Bearing in mind recent international agreements, such as the Paris Agreement and the SDGs, we recommend that the OECD Council updates these principles to explicitly include ESG factors and address long-term risks, as a duty of pension funds towards their beneficiaries.

Another high-level guidance, adopted jointly with the G20 in 2013—the G20/OECD High-level Principles of Long-term Investment Financing by Institutional Investors—proposes that

“[t]he governing body of an institutional investor should ensure that the institution can properly identify, measure, monitor and manage the risks associated with long-term assets as well as any long-term risks—including environmental, social and governance risks—that may affect their portfolios.” However, the related “Effective Approaches”¹⁵ do not identify common or emerging practices or emerging regulatory approaches on sustainability, a gap that the OECD could seek to fill, working with G20 countries.

The OECD and the G20 should work towards incorporating sustainability considerations into long-term investing more broadly, and explicitly align related work, such as around quality infrastructure, with the SDGs and the Paris Agreement.

In addition to these recommendations, and in parallel with related research and dialogue work led by the OECD Secretariat and relevant OECD bodies, the OECD should regularly update and, where appropriate, complement existing policy frameworks. This work should respond to evolving investor practices, regulatory approaches and understandings of investor duties, as well as to the role of financial markets in promoting sustainable economic growth, both in OECD countries and developing countries, where the investment gap relating to SDGs is the most prominent.

12 See Annex 5. Around 450 OECD legal instruments have been developed since the creation of the organisation, including decisions, recommendations, declarations and international agreements. These instruments reflect areas of agreement between OECD countries on certain policy spheres of international cooperation, and may extend beyond OECD membership. With the exception of OECD decisions and agreements, OECD instruments are not legally binding, but they do represent the political will of member countries. See legalinstruments.oecd.org/en/.

13 legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0443.

14 The OECD clarified how institutional investors can carry out due diligence in relation to responsible business conduct in its *OECD Guidelines for Multinational Enterprises*. See OECD (2017) [Responsible business conduct for institutional investors](https://www.oecd.org/daf/fin/private-pensions/G20-OECD-Report-Effective-Approaches-LTI-Financing-Sept-2014.pdf).

15 www.oecd.org/daf/fin/private-pensions/G20-OECD-Report-Effective-Approaches-LTI-Financing-Sept-2014.pdf.

ANNEX 1

Selection of DAF committees, working parties and other workstreams relevant to work on sustainable finance and investment

COMMITTEE ¹⁶ (DATE CREATED)	MISSION/MANDATE AS STATED IN THE OECD WEBSITE	PROPOSED ADDITIONAL FOCUS ON ESG, CLIMATE AND SUSTAINABILITY ISSUES
Committee on Financial Markets (CMF) 1969	Promote efficient, open, stable and sound financial systems, based on high levels of transparency, confidence and integrity, so as to contribute to sustainable and inclusive growth	Impact of climate change on financial markets Role of financial markets (including capital markets and banks) in supporting the transition to a low-carbon economy, including in mobilising green finance Analysing regulatory trends and policies in relation to the incorporation of sustainability
Task Force on Financial Consumer Protection 2011	Study developments in financial consumer protection systems and techniques Contribute to related policy analysis and recommendations Contribute to the work on financial consumer protection initiated at the G20 Seoul Summit Cooperate and coordinate on these issues with other relevant OECD bodies and international organisations	Financial consumer protection issues in relation to standards and labelling for green financial products Incorporating sustainability into investment advice
International Network on Financial Education	Provide a policy forum for governments to exchange views and experience on financial education	Financial education and sustainable/green investments and products.
Insurance and Private Pensions Committee (IPPC) 1961	Promote efficient, open and sound market-oriented insurance and private pensions systems, based on high levels of transparency, confidence and integrity, while respecting the recognised social objectives of these systems	Mainstreaming sustainability into risk management Practical implementation of ESG integration by institutional investment and related governance issues, including clarification of institutional investors' and asset managers' duties Analysing regulatory trends and policies in relation to the incorporation of sustainability.
Working Party on Private Pensions 1998	Survey and monitor private pension systems in OECD member countries, and analyse related policy and technical issues Formulate appropriate policy conclusions and/or recommendations on the different approaches to the regulation and supervision of private pension systems	Same as above Analysing regulatory trends and policies (e.g., recent guidance from the UK pensions regulator) Updating existing roadmaps such as the OECD Roadmap for the Good Design of Defined Contribution Pension Plans. ¹⁷

16 See oecdgroups.oecd.org/Bodies/ListByDirectorateView.aspx. All the committees listed are related to the Financial and Enterprise Affairs Directorate.

17 www.oecd.org/finance/private-pensions/50582753.pdf.

<p>OECD/G20 Task Force on Long-Term Investment (joint body under CFM and IPPC)</p> <p>2013</p>	<p>Monitor and study market developments in the institutional investor sector and in long-term financing</p> <p>Support the work of the two committees on the contribution of institutional investors to growth and development and on long-term financing issues</p> <p>Contribute to related policy analysis and recommendations</p> <p>Contribute to related initiatives in other forums, including the G20, Asia-Pacific Economic Cooperation, and the Financial Stability Board</p> <p>Cooperate and coordinate on these issues with other relevant OECD bodies and international organisations</p> <p>Consult with other relevant stakeholders</p>	<p>Role of institutional investors, banks and other sources of finance in fostering investments in sustainable projects</p> <p>Relevance of policy frameworks and environments, and role of risk-mitigation tools</p> <p>Financing investments to achieve the SDGs, including green and sustainable infrastructure</p> <p>National strategies on green and sustainable investment (extending earlier G20 work on national investment strategies)¹⁸</p>
<p>Investment Committee</p> <p>2004</p>	<p>Promote investments to boost growth and sustainable development worldwide through international cooperation and policy reform</p>	<p>Review of investment policy frameworks and national investment strategies</p> <p>Analysis of regulatory trends (e.g. establishing an EU classification system for sustainability activities)</p>
<p>Working Party and Global Forum on Responsible Business Conduct</p> <p>2013</p>	<p>Assist the Investment Committee in implementing Section I of the Declaration on International Investment and Multinational Enterprises with respect to its responsibilities in relation to the OECD Guidelines for Multinational Enterprises.</p>	<p>Analysis of regulatory trends (e.g. establishing an EU classification system for sustainability activities)</p> <p>Review of non-financial disclosure regimes</p> <p>Clarifying institutional investors' and asset managers' duties regarding responsible business conduct (RBC).</p> <p>Fostering investments in sustainable projects and investing for the SDGs</p> <p>Strengthening sustainability disclosure</p>
<p>Corporate Governance Committee</p> <p>2000</p>	<p>Contribute to economic efficiency, sustainable growth and financial stability by improving corporate governance policies and supporting good corporate practices, in members and partners</p>	<p>Support efforts to promote implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)</p>

Source: www.oecd.org/. Recommendations based on recent regulatory developments, such as the EU Sustainable Finance Action Plan.

18 See [Highlights, Volume 1](#), and [Volume 2](#).

ANNEX 2

Examples of finance and investment publications and their analysis of ESG issues

Below are examples of publications on sustainable finance and investment that recommend further research and analysis of ESG integration, which the OECD could build upon to strengthen DAF's technical expertise and inform subsequent policy recommendations.

TITLE (LEAD DIRECTORATE)	ANALYSIS OF ESG INTEGRATION AND EXCERPTS RELATED TO ESG	REPORT RECOMMENDATIONS TO BE FOLLOWED UP INCLUDE:
<p><i>Investment governance and the integration of environmental, social and governance factors</i>¹⁹</p> <p>OECD, 2017 (DAF)</p>	<p>The paper presents the findings of an international stocktaking of the regulatory frameworks that apply to institutional investment in different jurisdictions and how these frameworks are interpreted by institutional investors in terms of their ability or responsibility to integrate ESG factors into their governance processes</p>	<p>“Regulatory frameworks are not in themselves obstacles to ESG integration, however institutional investors may benefit from greater clarity about the role of ESG integration in prudent investment governance. [...] Further analysis of the ESG investment models being used by the industry might therefore be beneficial to assess how they contribute to the prudential and behavioural standards required of institutional investors.” (p. 44)</p>
<p><i>Investing in Climate, Investing in Growth</i>²⁰</p> <p>OECD, 2017 (Led by ENV and Sherpa office, with inputs from DAF and other directorates)</p>	<p>Features an excerpt from the study above entitled “Integrating ESG factors into the governance of institutional investment,” including a box on “Some countries have clarified the role of ESG in regulatory frameworks” (p. 298).</p> <p>Conclusions include:</p> <p>“Understanding ESG issues and the potential impact of ESG factors on their investment strategy and the broader operating environment can be part of governance for institutional investors; in this context, climate change factors are increasingly being included in ESG investment practices.”</p> <p>“Risk-based controls generally do not explicitly refer to ESG or climate change factors. The focus is on solvency: pension funds and insurance companies are expected to identify, measure, and manage long-term risks and these are understood by both regulators and investors to be financial risks.”</p>	<p>“Policy makers could clarify that prudent investors may consider ESG criteria and climate change risk factors as part of their investment decision making, especially investors with long-term liabilities and investment horizons.”</p>

19 www.oecd.org/finance/Investment-Governance-Integration-ESG-Factors.pdf.

20 www.oecd.org/env/investing-in-climate-investing-in-growth-9789264273528-en.htm.

<p><i>Financing Climate Futures: Rethinking Infrastructure</i></p> <p>OECD, 2018 (ENV with inputs from DAF and other directorates)</p>	<p>This report lays out an agenda to enable societies around the world to undertake the kind of systemic actions that the transformation towards a low-emission, resilient future will require. It highlights 6 transformative areas and 20 actions that are key to aligning financial flows with climate and development goals in the areas of planning, innovation, public budgeting, financial systems, development finance and cities, including:</p> <p>“Reset the financial system in line with long-term climate risks and opportunities, by fixing biased incentives, capability gaps and inadequate climate risk disclosure and pricing that are hindering the allocation of finance to low-emission, resilient infrastructure.”</p>	<p>“There is an increasing momentum for change in the financial system, with a growing number of private and public sustainable finance initiatives. Government can help drive the systemic change needed by encouraging the integration of climate impacts into investment decisions and strategies, the disclosure of climate related risks and opportunities in financial markets, and rethinking financial supervision in light of climate imperatives.”</p>
<p><i>Responsible Business Conduct for Institutional Investors</i>²¹</p> <p>OECD, 2017 (DAF)</p>	<p>This paper, formally approved by the 48 government adherents to the OECD Investment Declaration, identifies and draws on existing ESG integration practices of investors as a starting point for due diligence for responsible business conduct, and identifies where current practices can be strengthened to better address external environmental and social risks.</p>	<p>“The OECD Guidelines’ expectation that investors undertake RBC risk-based due diligence can be implemented through existing risk management frameworks, provided they are also targeted towards RBC risks and not just towards risks to the investor itself, or its investee companies [...] While ESG criteria are often used for the purpose of identifying financial risk, these processes could be built upon to take into account RBC risks.”</p>
<p><i>Defining and measuring green investments: implications for institutional investors’ asset allocations</i>²²</p> <p>OECD, 2012 (ENV and DAF)</p>	<p>This working paper reviews concepts and definitions related to green investments used in the marketplace.</p>	<p>“The definition and measurement of green investments is an evolving topic which clearly deserves further analysis. The OECD hopes to create a dialogue between the institutional investor community and financial regulators to develop further understanding on this and broader long-term investing and green growth issues.” (p. 39)</p>

Source: www.oecd.org/.

21 mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.

22 www.oecd.org/environment/WP_24_Defining_and_Measuring_Green_Investments.pdf.

ANNEX 3

A selection of recurring finance and investment publications, and recommendations for greater focus on ESG issues

Below are examples of recurring financial publications that do not take into account, or provide incomplete analysis of, developments around sustainable finance and investment.

TITLE	OBJECTIVE	RECOMMENDATIONS INCLUDE:
<i>Pension Markets in Focus</i> ²³	Reviewing 85 countries, this annual publication assesses the amount of assets in funded and private pension plans, describes the way these assets are invested, and looks at how investments have performed, both in the past year and over the past decade.	Include information on fund allocation to green and sustainable investments, and on relevant regulatory trends.
<i>Annual Survey of Large Pension Funds and Public Pension Reserve Funds</i> ²⁴	Covering 43 countries, the survey monitors and compares the investment behaviour, asset levels and performances of the largest institutional investors in each region or country covered, and analyses in greater depth the general trends observed at a national level.	Integrate questions on green and sustainable investing throughout the questionnaire, and not only as a separate category.
<i>Annual Survey of Investment Regulation of Pension Funds</i>	The survey questionnaire covers all types of pension plans financed via pension funds. The information collected concerns all forms of quantitative portfolio restrictions applied to pension funds at different legal levels (law, regulation, guidelines, etc.).	Integrate questions on ESG and sustainable investment regulations.
<i>OECD Business and Finance Outlook</i> ²⁵	This report presents annual data and analysis on trends that might affect tomorrow's world of business, finance and investment.	This flagship publication takes a thematic approach. We propose that the next edition adopts sustainable finance as its theme.

Source: www.oecd.org. All the publications are by the Financial and Enterprise Affairs Directorate.

23 www.oecd.org/finance/private-pensions/pensionmarketsinfocus.htm.

24 www.oecd.org/finance/private-pensions/survey-large-pension-funds.htm.

25 www.oecd-ilibrary.org/finance-and-investment/oecd-business-and-finance-outlook-2017_9789264274891-en.

ANNEX 4

OECD platforms and projects relevant to sustainable finance and investment

PROJECT	CURRENT FOCUS IN RELATION TO SUSTAINABLE FINANCE AND INVESTMENT
<p>Centre on Green Finance and Investment</p> <p>Directorate for Financial and Enterprise Affairs, Environment Directorate, Development Cooperation Directorate, Centre for Entrepreneurship, SMEs, Regions and Cities</p> <p>Launched in 2016</p>	<p>The centre's mission is to help catalyse and support the transition to a green, low-emissions and climate-resilient economy through the development of effective policies, institutions and instruments for green finance and investment. The centre's activity is structured around the issuance of publications and its annual forum.</p> <p>The centre organises the annual Forum on Green Investment and Finance that has been bringing together, since 2014, the world's green finance community, including institutional investors, asset managers, ministries of finance and central banks, financial regulators, commercial and investment banks, international climate funds, multilateral development banks, green investment banks, corporations, civil society and the philanthropic sector.</p> <p>The centre's work includes outreach and engagement to provide key stakeholders with the appropriate reference frameworks with regards to green finance and investments. It helps disseminate OECD publications, such as <i>Access to Private Finance for Green Investments</i> (2018), <i>Mobilising Bond Markets for a Low-Carbon Transition</i> (2017), <i>Green Investment Banks</i> (2016), <i>Overcoming Barriers to International Investment in Clean Energy</i> (2015) etc.</p>
<p>OECD Project on Long-Term Investment²⁶</p> <p>Directorate for Financial and Enterprise Affairs</p> <p>Launched in 2012</p>	<p>This project aims to facilitate long-term investment by institutional investors, such as pension funds, insurance companies and sovereign wealth funds, addressing both potential regulatory obstacles and market failures.</p> <p>As part of this project, several publications have been released over the years that address sustainable finance issues, with a specific focus on low-carbon infrastructure investments, including:</p> <ul style="list-style-type: none"> • <i>The G20/OECD High-level Principles on Long-term Investment Financing by Institutional Investors</i> (2013) and related effective approaches (2014, 2015) • <i>The G20/OECD Policy Note on Pension Fund Financing for Green Infrastructure and Initiatives</i> (2012) • <i>The Role of Institutional Investors in Financing Clean Energy</i> (2012) • <i>The Role of Pension Funds in Financing Green Growth Initiatives</i> (2011) <p>Although certain workshops within this project have included issues related to ESG, the overall focus of the project is not sustainable investment and sustainable development.</p>
<p>OECD project on Responsible Business Conduct for the Financial Sector</p> <p>Directorate for Financial and Enterprise Affairs, Investment Division, Responsible Business Conduct Unit</p> <p>Launched 2015</p>	<p>This project aims to develop widely supported approaches to how financial services providers should carry out due diligence to identify and respond to environmental and social risks associated with their clients and investments. The project is supported by a multi-stakeholder advisory group representing the PRI as well as leading institutional investors and banks. Publications issued as part of this project include:</p> <ul style="list-style-type: none"> • <i>Responsible Business Conduct for Institutional Investors: Key Considerations for Carrying Out Due Diligence</i> (2017) • <i>Due Diligence for Responsible Business Conduct in Corporate Lending and Securities Underwriting</i> (2018)
<p>Private Finance for Sustainable Development (PF4SD)</p> <p>Development Cooperation Directorate</p>	<p>Achieving the SDGs will require placing impact at the heart of development finance initiatives. This implies better measuring and monitoring of end-results and thus impact of blended finance, green finance, and social impact investment, and the effectiveness of private sector engagement through development co-operation.</p>

Source: www.oecd.org/.

26 www.oecd.org/daf/fin/private-pensions/institutionalinvestorsandlong-terminvestment.htm.

ANNEX 5

Examples of legal instruments relevant to sustainable finance and investment

Below are examples of legal instruments of the OECD that are of relevance to sustainable finance and investment.

TITLE	DATE OF ADOPTION
Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Business Conduct	30/05/2018
Recommendation of the Council on the Policy Framework for Investment	13/05/2015
Recommendation of the Council on High-Level Principles on Financial Consumer Protection	17/07/2012
Recommendation of the Council on a Policy Framework for Effective and Efficient Financial Regulation	26/11/2009
Recommendation of the Council on Good Practices for Financial Education relating to Private Pensions	28/03/2008
Decision of the Council on the OECD Guidelines for Multinational Enterprises	27/06/2000
Recommendation of the Council Core Principles of Private Pension Regulation	2009, revised on 27/09/2016
Recommendation on Environmental Information	03/04/1998

Source: legalinstruments.oecd.org/en/

ABOUT THE PROJECT PARTNERS

ABOUT THE PRI

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 issues and to support signatories in integrating these issues into investment and ownership decisions. The six Principles were developed by investors and are supported by the UN. They have more than 2,000 signatories from over 50 countries representing US\$80 trillion of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system. For more information, see www.unpri.org

ABOUT THE GENERATION FOUNDATION

The Generation Foundation (the 'Foundation') was part of the original vision of Generation Investment Management LLP ('Generation') since the firm was founded in 2004. The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Its strategy in pursuit of this vision is to mobilise asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism. To accelerate the transition to a more sustainable form of capitalism, the Foundation primarily uses a partnership model to collaborate with individuals, organisations and institutions across sectors and geographies and provides catalytic capital when appropriate. In addition, the Foundation publishes in-house research, and gives select grants related to the field of Sustainable Capitalism. All of the activities of the Foundation, a not-for-profit entity, are funded by a distribution of Generation's annual profits. For more information, see www.genfound.org

ABOUT UNEP FI

The United Nations Environment Finance Initiative (UNEP FI) is a unique global partnership between United Nations Environment and the global financial sector founded in 1992. UNEP FI works closely with over 230 financial institutions who have signed the UNEP FI Statements as well as a range of partner organisations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. For more information, see www.unepfi.org

DISCLAIMERS

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