Investors raising the bar for ESG disclosures

Blog post by Research Associate Mollie Brennan, 16 September 2016

Everyday it seems there is another responsible investment framework, or new updates to comply with. Investors have driven the creation of these frameworks – now they need to drive their consolidation.

After a yearlong consultation, the UN Principles for Responsible Investment (UN PRI) announced this week stricter integration of environmental, social and governance (ESG) reporting to be required by signatories as of March 2017. Adapting to rapid growth in both signatories and assets under management, the changes aim to raise the bar by exposing laggards and leaders of ESG disclosure.

UN PRI's announcement comes as a reminder of the growing momentum behind the responsible investment movement. Since its conception in 2006, UN PRI has rapidly become an accepted and expected level of ESG investment certification, but it is by no means the only one. Established frameworks such as the Global Reporting Initiative, Carbon Disclosure Project and UN Global Compact have exhibited similar growth in signatories, whilst the number of regulatory frameworks and networks have similarly increased in recent years. This is an important reminder that any company or investor lacking a stringent ESG framework will be quickly left behind, as ESG disclosure moves away from a compliance exercise to being at the very core of the investment process.

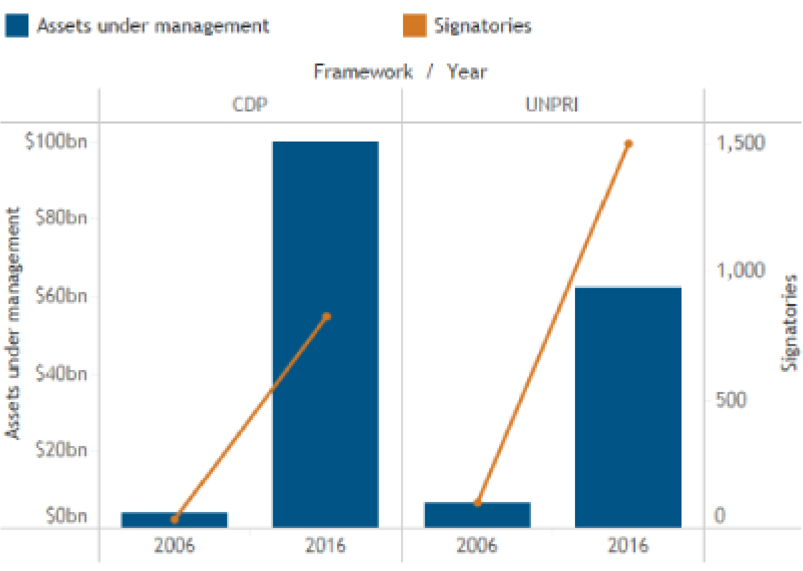

Fig: Growth in RI signatories and AUM ($bn)
Source: CDP, UN PRI, CG calculations

The last fifteen years have seen investors, rather than policymakers, drive the design of the growing number of ESG networks and frameworks, especially relating to environmental issues. Whether it be catering for a millennial propensity for values-based investing, real investment returns or simply a marketing gambit, investment is increasingly seen as a driver of environmental sustainability. Amidst claims, commitments and confusion on the transformation to a low carbon world, empirical environmental reporting will carry increasing weight. Organisations wanting to stay ahead of the curve should carefully follow the development of climate-related frameworks, such as the Financial Stability Board's new framework, expected by the end of 2016.

Amidst the glut of responsible investment frameworks, what stands out is a need for consolidation and standardisation of comparable frameworks - a role policymakers have been slow to play. In the lead up to last week's G20 summit, there was a growing sense that governments should be taking more responsibility to make the Paris agreement a reality. Though government regulation still constitutes the largest proportion of sustainability policy, regulation is widely regarded as the minimum, with policymakers advocating the use of more comprehensive voluntary frameworks.

Therefore, looking to the future, voluntary frameworks will continue to operationalise compliance requirements and go further in challenging signatories to do more. This is evident in France's recent ratification of a law on climate disclosure, which advocates adherence to the Montreal Carbon Pledge, an arm of UN PRI. What we know for sure is that responsible investment is an area where the investment community will remain a policy maker, as much as a policy taker. Being part of this conversation is arguably now a must-have for larger, global investors.

PRI's Blueprint for Responsible Investment will be published in March 2017.