POLICY BRIEFING

PRI IN PERSON POLICY SESSIONS HIGHLIGHTS

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PRI Association
Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

INTRODUCTION

PRI in Person 2023 (PiP 2023) was held at the International Convention Centre Pamir in Tokyo, Japan from 3 to 5 October 2023. PRI in Person provides a platform for PRI signatories and other investment professionals to learn, exchange and collaborate with peers from around the globe, featuring insightful discussion and debate on the latest responsible investment trends.

This year, the theme was "moving from commitments to action". As such, public policy was a prevalent topic that featured heavily across our six streams and, of course, the Sustainable Finance Policy Conference. Policy is being increasingly viewed as an important component of sustainable finance that can help enable further necessary action on sustainability outcomes.

We invited speakers representing policymakers worldwide, including the UK, France, Spain, the EU, the US, Japan, Australia, Hong Kong, and Malaysia, making the event a truly global platform for investor and policymaker dialogue. PiP 2023 also welcomed Japanese Prime Minister Fumio Kishida, who provided the keynote address, in which he announced crucial policy commitments from Japan.

In this article, we explore key highlights from a policy perspective, including announcements from policymakers as well as policy-related insights and key findings presented by a wide range of stakeholders.

ECONOMIC TRANSITION

In the plenary session on "A just economic transition; how are investors, corporates and policymakers collaborating to drive change?" panellists discussed how to ensure that key stakeholders are dedicated to implementing necessary reforms at pace. Panellists were aligned in sharing a strong sense of urgency, with Sean Kidney, CEO of the Climate Bonds Initiative, summarising that "there is no doubt now that there is a green future… The question is, who is going to be a winner and who is going to be a loser". There was also agreement on the need for a smooth transition given this urgency, with key "long-term" milestones fast approaching. This includes coherence within governments and among various ministries and agencies but also among international governments, especially at regional levels. Catherine Bolger, Board Member at State Super, added that governments must also ensure that commitments and structures that enable a just transition can "withstand the future and changes of government with regulatory teeth".

During the plenary session, PRI announced the publication of its latest policy research report: Investing for the economic transition: the case for whole-of-government policy reform. This paper argues that an effective policy approach to redress decades of market and government failures on environmental and social issues must be the responsibility of governments as a whole and needs to be executed as such. It defines what is meant by a sustainable, just economic transition, and presents a high-level framework to support governments in pursuing such a transition. It also examines how key jurisdictions are approaching the economic transition – particularly with regard to climate change – and finally explains how investors might best support governments in their efforts.

The urgency for governments to play a more proactive and comprehensive role in transforming financial markets was shared by PM Fumio Kishida, who highlighted in his keynote address that the "green transformation" is a top policy priority for Japan. He noted that "changing the industrial and social structure to shift away from fossil fuels to one that is oriented towards clean energies is a great challenge, but also an opportunity for growth", and mentioned that transition finance, including the proposed government-issued transition bonds, will be a key enabler to mobilise both public and private funds towards investments into necessary innovations and solutions.

To this end, PM Fumio Kishida also mentioned that this year, "the Financial Services Agency (FSA) of Japan will establish a 'Dialogue on Enhancing Sustainability Investment Products' as an initiative for fostering GX and ESG investment by both individual and institutional investors". Although details are yet to be released on this dialogue initiative, this announcement is a significant indication of the government's intention to ensure that investment practices enabling the economic transition reach throughout the financial market rather than being a specialised niche among a few actors.

INTEGRATING SUSTAINABILITY IMPACTS

In keeping with the theme of PRI in Person 2023 “Moving from Commitments to Action”, the importance of investors taking active initiative to shape sustainability outcomes was shared throughout the event. A key focal point for everyone was “A Legal Framework for Impact” (LFI), a joint flagship project of PRI, the UN Environment Programme Finance Initiative (UNEP FI), and the Generation Foundation. The project seeks to identify and overcome barriers to a financial system consistent with international sustainability outcome goals, such as the Paris Agreement and the UN Sustainable Development Goals (SDGs). The project’s bedrock output, commissioned by the project group and authored by Freshfields Bruckhaus Deringer, is a 2021 paper that provides a legal analysis of the degree to which investors are currently permitted or required to pursue positive sustainability outcomes and explores potential barriers and solutions. The project also aims to embed the report’s findings into policy and investment practice across five key jurisdictions: the UK, Europe, Australia, Canada and Japan.

The PRI in Person 2023 lead sponsor, Nippon Life Insurance Company’s President Shimizu, critically noted in his keynote that “managing ESG risks alone is no longer sufficient in fulfilling our responsibilities” and that “we investors are being asked to take action to create sustainability outcomes in the real world”. He summarised this shift in mindset as a transition from “future takers” to “future makers”, arguing that investors can already proactively contribute to shaping outcomes linked to global goals by leveraging capital allocation, stewardship and engagement with policymakers.

At the “Investor duties and sustainability goals” session, Satoshi Ikeda, Chief Sustainable Finance Officer of the FSA, noted the importance of the LFI project and its “investing for sustainability impact (IFSI)” framework for policymakers to begin to holistically consider how to embed sustainability outcomes across financial policies. He also pointed out that the government’s role is to support and guide investors without being prescriptive about what to do or what topics to focus on. To this end, the Draft Basic Guidelines on Impact Investing and the proposed impact consortium will be critical tools and platforms that encourage investors to take voluntary action on sustainability impacts.

PM Fumio Kishida also mentioned the “support of startups dedicated to addressing social challenges” and the “strengthening of the functioning of finance that encourages sustainability outcomes” as two of the four policy priorities he introduced in his keynote address. He noted that “impact investment” is a key approach for investors to “address social and environmental challenges and fosters specific technologies and business-model innovations that contribute to tackling the challenges”. He also highlighted the importance of the proposed impact consortium in enabling such investments among diverse global stakeholders in Japanese financial markets – the consortium will convene broad stakeholders and provide a platform to discuss how better to integrate sustainability impacts across the market. He added that increasing the number of Japanese signatories to the PRI is also highly meaningful and that the PRI enables asset managers and owners to engage in dialogues with companies and promote growth and sustainability outcomes. He made an important announcement that “seven representative public pension funds, worth of 90 trillion yen, or $600 billion in AUM, will start preparations for newly becoming signatories”, which is an important step towards mobilising pension funds and the broader financial sector to shape sustainability outcomes in Japan.

COLLABORATIVE ACTION: DISPELLING REGULATORY CONCERNS AND IMPROVING POLICY-LEVEL SUPPORT

To achieve sustainability outcomes aligned with economic transition objectives, investors must have the capability to meaningfully impact the behaviour of investees, policymakers and other third parties. Collaborative initiatives among investors are an important tool with many benefits in this area, including cost-effectiveness and enhanced prospects for influencing investees. The session “Collaborative engagement as an investor tool: understanding and navigating the current regulatory environment” explored potential concerns in the regulatory landscape regarding collaborative action, with a particular focus on antitrust concerns. The session featured a presentation by Denise Hearn, Senior Fellow at the Columbia Center on Sustainable Investment, on her latest publication, “Antitrust and Sustainability: A

Landscape Analysis". While she argued that "antitrust law and competition policy are critical foundations for fair markets", she also maintained that "they shouldn't be feared, but rather embraced as complementary tools for advancing better outcomes for workers and for the environment". She went on to detail examples from the US that demonstrate how these foundations are forming the basis of anti-ESG attacks. However, she emphasised that these attacks are based largely on misconceptions and are driven by intentions to weaponise them. She importantly referred to the implications for investors, especially when collaborative initiatives are being criticised based on such arguments. She noted that "climate alliances themselves do not tend to comport any sort of anti-competitive behaviour", dispelling any investor concerns.

The session also invited Akira Matsui, Deputy Director at the Japan FSA, who provided a critical policymaker perspective to the conversation. He introduced the FSA's latest work on reviewing competition-related rules that have been potentially prohibiting many investors from widely implementing collaborative action. He provided an important explanation of the context behind these revisions, in which the FSA took the initiative to reform corporate governance and stewardship in Japan through codes intended to support corporate–investor engagement. The goal of these reforms was to achieve sustainable corporate growth, including collaborative action as an explicit approach. While investors and companies welcomed this guidance, they have also voiced concerns about the extensive shareholder reporting rules that make it difficult to meaningfully and constructively engage with companies. As Akira mentioned, listening to investors and practitioners on how policy can support their actions in pursuit of their duties and mandates is key to successful policies.

POLICY ENGAGEMENT

For investors to contribute to the economic transition and achieve relevant sustainability outcomes through tools such as collaborative engagement, policymaker support is becoming increasingly important. There is a growing recognition among investors of their responsibility to engage not only with investees but also policymakers. They recognise that government policy and regulatory developments are critical in addressing systemic risk affecting corporate activities and, consequently, investors' returns. Indeed, the analysis in our flagship project, A Legal Framework for Impact, lists policy engagement as one of the critical ways in which investors can target sustainability outcomes through their activities. The PRI in a Changing World signatory consultation also found that most signatories "are broadly supportive of the PRI's role in policy engagement, and would welcome continuing at the same level or increasing policy activity".

The plenary session on "The policy landscape in Asia and beyond: how can investors support alignment?" featured policymakers and standard-setters calling for increased investor engagement. Hiroshi Komori, Board Member of the International Sustainability Standards Board (ISSB), called on broad stakeholders to respond to the ISSB's public consultations as they prepare for future workplans beyond the S1 and S2 Standards and continue to engage with them. Jessica Robinson, Minister-Counsellor (Economic) & Senior Treasury Representative of Australian Embassy Tokyo, also argued for the importance of policy engagement by investors, explaining that "the role of investors is critical to making sure that the policies and the regulatory frameworks that we're developing are implementable and achieve the societal goals that we're setting". She added that positive comments are also welcome, as they are a much-needed morale boost.

One model case of policy engagement was the roundtable with the Japanese government, which was held as a side event on 6 October. The Ministry of Economy, Trade and Industry, the Ministry of the Environment, the FSA, and approximately 20 international and Japanese investors participated in the roundtable. Participants collaboratively called on the Japanese government to provide a more credible, transparent, and progress-manageable transition roadmap/strategy, constructively pointing out areas of Japan's green transformation (GX) policies that require further clarity and explanation. The government responded by outlining key outputs in preparation that would provide more visibility for investors on how real economy policies under its GX plans will support transition finance policies. This roundtable was also an excellent opportunity for investors to see the policy coherence within the government, as investors were able to engage with policymakers from different sections simultaneously.

GLOBAL POLICY ALIGNMENT

While policy measures are desired and welcome, in an increasingly globalised economy, policy alignment across regions and jurisdictions is an operational imperative. Global alignment also crucially contributes to addressing sustainability-related system-level risks that in many cases do not respect borders. The plenary session on “The policy landscape in Asia and beyond: how can investors support alignment?” also featured an important discussion on how to understand today’s regulatory fragmentation on sustainable finance and how to initiate action to address this issue. Tajinder Singh, Deputy Secretary General at IOSCO and Hideki Takada, Director for Strategy Development at the FSA both mentioned the importance of engagement and dialogue among policymakers. Tajinder highlighted the crucial role played by the IOSCO in this context, emphasising its contribution to addressing the alphabet soup of reporting standards through its engagement with the IFRS Foundation. He also mentioned its ongoing work to develop common frameworks and requirements that can be adopted at the jurisdictional level – as it has done with ESG ratings and data providers and which it will do with ESG assurance standards next year. Hideki also iterated his appreciation for the IOSCO’s function as a platform where policymakers can convene and added that the FSA is proactively participating in many other initiatives from which policymakers can learn while sharing successes with other governments.

Jessica also provided an Australian perspective, setting the scene by mentioning that “our income is heavily dependent on foreign investment, so we need to create an attractive investment environment”. She explained that a framework to support investment is necessary, and the government is working on implementing a sustainable finance taxonomy, hopefully by the end of the year. Like Japan, Australia is exploring options to introduce green sovereign bonds in relation to the taxonomy, accompanied by mandated climate reporting. She also mentioned the importance of aligning Australia's taxonomy as closely as possible with global regulations to encourage foreign investment. In the quick poll during the session, most participants agreed that policy reform is necessary to support investors on the path towards economic transition.

EMERGING FRONTIER: NATURE POLICY

We are facing a planetary crisis of climate change, biodiversity loss and pollution, which presents physical, transitional and systemic risks that investors likely have a duty to manage. The net-zero transition is now more urgent than ever if we are to stabilise maximum warming at 1.5°C by 2100. Limiting global warming is also important for halting and reversing biodiversity loss. The plenary session on “Climate and nature: where are we now, and what action can investors take?” reviewed the current state of the net-zero emissions transition, including the latest scientific understanding of delayed action, the forces driving shifts in the energy system and the increasing imperative to reduce emissions and build climate resilience through the conservation and restoration of nature.

Jim Skea, Chair of the Intergovernmental Panel on Climate Change (IPCC), introduced key findings from the latest IPCC report, noting that “the latest report said that it was more likely than not that we would reach 1.5 degrees of warming by the early 2030s and that it would be very likely that we would exceed 1.5 degrees if we do not take ambitious action”. He warned that global warming reaching 2 degrees poses significant risks to nature issues including biodiversity, water supply and food systems. Offering an asset owner perspective, Jan Rasmussen, Head of ESG and Sustainability at Pension Danmark, highlighted the importance of policy action to ensure investors can deliver on their sustainability goals, saying that “if policy action is not improved, I think it’s very much in the balance if we can keep on working with existing climate targets”.

During this session, the new collaborative stewardship initiative Spring was launched to address nature issues, focusing on policy engagement and engagement with corporations. Throughout the plenary, investors increasingly understood that biodiversity loss is a systemic issue with direct and indirect effects across the entire economic and financial systems, and that the initiative’s objective is for investors to contribute to the goal of halting and reversing biodiversity loss by 2030. PRI is developing an approach to nature policy that will support this initiative by proposing policy analysis and recommendations to fill the gap in nature policy in key markets and at a multilateral level.

LOOKING FORWARD

PiP 2023 particularly highlighted the pressing urgency of the economic transition and the positive momentum that is already accelerating commitments to a Paris-aligned global economy. Investors and policymakers alike agreed that economic progress – and the financial returns it generates – relies on the stability and resilience of natural and social systems, and while these are under threat, so is present and future economic growth. For decades, policymakers and market practitioners have been increasingly trying to protect the environment and address extreme economic inequality through various approaches and strategies. Despite these efforts, macro-level indicators of environmental and social sustainability continue to move in the wrong direction.

To that end, policy was a common thread throughout all PiP 2023 discussions. The transition to a sustainable and equitable economy that benefits natural and social systems has become an increasingly urgent policy objective in many countries and within international forums. Such a transition aims to shift economic activity from that which exploits and irreversibly degrades the environment to that which the Earth's natural systems can support sustainably. It also aims to ensure social cohesion by reducing extreme inequality, upholding human rights and protecting vulnerable people and communities from the impacts of transition.

Alongside signatories, PRI will continue to engage in policy work that leverages the power of policy to enable financial markets to transition from commitment to action.