Financial Reform for a Sustainable Recovery: NGO and Responsible Investor Priorities

Briefing for Rt Hon Stephen Timms MP
Financial Secretary to HM Treasury

A sustainable recovery must be underpinned by financial reform that serves the long-term interests of the real economy, society and the environment by enabling long-term responsible investment approaches. Government, civil society and investors need to work together to achieve this aim. A common agenda is emerging between leading responsible investors and leading NGOs about priorities.

Key Barriers to Sustainable Investment	UK Priorities	International / G20 Priorities
Issue 1: Responsible ownership and investment demand from significant asset owners, including occupational pension funds. Lack of demand manifested by today's investment management agreements. Detailed barriers include perception of fiduciary responsibility, "herd" instinct, skills, time and resources.	Regulation to require pension fund disclosure of how responsible investment policies are implemented (ie. of key aspects of investment management agreements); similar provisions for other major asset owners.	A similar approach adopted by G20 countries, with an initial focus on developed countries, eg. at G20 November financial ministers meeting. Others have already followed UK lead in requiring RI policy disclosure.
Issue 2: Responsible ownership and investment leadership by public sector asset owners.	Require (a) all significant public sector asset owners to sign and implement the UN-backed Principles for Responsible Investment (PRI) or equivalent commitment (b) transparency on PRI implementation by publishing an annual report.	A similar approach adopted by G20 countries.
Issue 3: Transparency and conflicts of interest in the investment supply chain. Issues include but go beyond those related directly to remuneration and financial incentive packages.	Better investment management agreements by asset owners (Issue 1); Require investment manager transparency using reserved powers in Companies Act; Improved remuneration and incentive schemes; Regulation to address conflicts of interest; Corporate transparency to avoid information access conflicts (Issue 4).	Financial Stability Board to address these issues, building on the Financial Stability Forum principles for sound compensation practices endorsed by the G20 London communiqué.
Issue 4: Corporate transparency on ESG issues. Lack impedes effective assessment by investors and NGOs of relative performance and externalities; it facilitates conflicts of interest by controlling access to information.	UK leadership on ESG transparency standards, *potentially including appropriate country-by-country reporting,* eg. via IASB and UN-led work on listing rules; *Separate investor vote on enhanced business review and/or forward-looking sustainability strategy.*	Support from G20 countries for IASB (as part of high quality global accounting standards) and listing rules to address corporate transparency on ESG issues, including from US and EU. This builds on the support for corporate responsibility in the G20 London communiqué.
Issue 5: Incentives to leverage private investment to build sustainable economy and maintain London leadership as green finance centre. Limited incentives for London to develop leadership capacity. Limited promotion of London's "green" role.	Carbon-related regulation to drive positive financial innovation; Promotional activities as in Bischoff report and by Lord Mayor to include "Centre for Sustainable Finance" focus.	Carbon-related regulation by G20 countries and internationally to drive attractive investment opportunities and positive financial innovation by the UK Finance Sector.

V2. Last updated: Penny Shepherd, 5 June 09