Sustainable Finance initiative

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UNDP

SDG Impact

Re: Consultation Paper on Review of UNDP SDG Impact Practice Standards for Private Equity Funds

To United Nations Development Programme ("UNDP"):

We are writing to express our support and provide feedback on the proposed UNDP SDG Impact Practice Standards for Private Equity Funds (the "Standards") released in the online consultation (the "Consultation").

Sustainable Finance initiative (SFi)'s mission to mobilise private capital for positive impact and accelerate Asia's transition towards a sustainable finance hub by empowering people, policy, practice and product. Our vision is a world where sustainability is synonymous with finance. The initiative was incubated by RS Group and launched in June 2018. Since launch, SFi has grown an active community of private investors, providing a platform for them to Learn, Connect, and Invest.

We applaud the UNDP SDG Impact team and the proposals put forth in the Standards. Private-sector interest in the Sustainable Development Goals (the "SDGs") has grown significantly in recent times but the conversion of interest into action has been challenging. The timely and effective development of such Standards is crucial in helping the private sector to operationalize and implement the SDGs, and to promote best practice that goes beyond reporting towards embedding impact measurement and management at the heart of the investment life-cycle from the outset.

We have summarised our recommendations to further strengthen the Standards below.

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1. Standards map to existing principles and frameworks

The Standards map to existing principles and frameworks including UNPRI, IFC Operating Principles for Impact Management, UNEP FI Principles for Responsible Banking, Principles for Positive Impact Finance, and GIIN Characteristics of Impact Investors – but as far as we are aware, the Standards do not map (or reference) the most commonly used standards for assurance on non-financial information ("NFI").

The most commonly used standard for assurance on NFI is the International Standard on Assurance Engagements (ISAE) 3000 Revised, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Other standards may also be used to deal with specific matters on NFI, for example, ISAE 3410, *Assurance Engagements on Greenhouse Gas,* for assurance engagements relating to greenhouse gas statements.

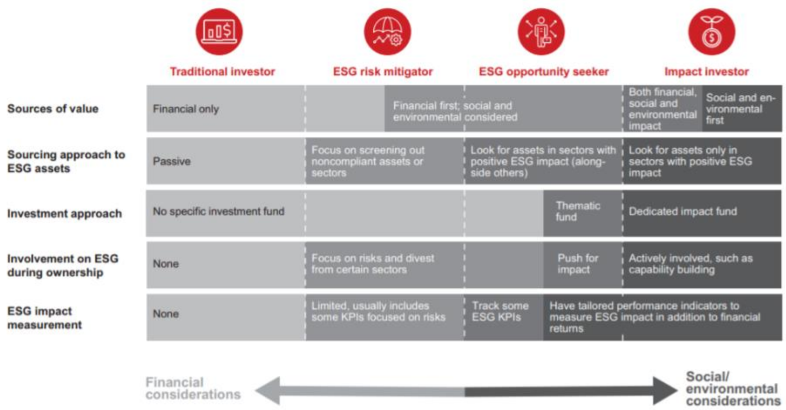
Questions to considers:

It is proposed that assurance practitioners use the UN SDG Impact Standards rather as a guideline and complete assurance against these commonly used standards such as ISAE 3000?

Recognising the array of standards on offer, identified by both technical bodies and multi-stakeholder initiatives, how will the Standards map to other frameworks, management standards, or processes and reporting standards that go beyond the *impact-specific* set of principles and framework outlined (UNPRI, IFC etc.) to broader sustainability/ESG principles?

How will the Standards sit alongside or map to Generally Accepted Accounting Principles for Sustainability (GAAPS)?

Recommendation: the Standards should go beyond *impact-only* frameworks that are mentioned in the draft and even in the formal title for the enclosed Standards (by removing *impact).* We recommend they cover sustainable finance as an entirety for PEFs, and other asset class as you move forward - otherwise there is a key risk of focusing on *impact-only* PEFs. The over-arching objective could be broader, to bring market clarity, consistency and comparability across the spectrum of *SDG-focused* PEFs – some being impact-only, thematic, ESG risk mitigation, ESG opportunity seeker etc. (see below table).



2. **Are there other frameworks or principles (other than the ones already listed) that you believe the Standards should align with?**

How will these Standards align to other frameworks that look *beyond impact* (see response in 1. Above)? How will it align to the work we see coming out of the European Commission – Action Plan on Sustainable Finance – EU Taxonomy etc.?

3. **Assurance scope against the Standards**

Section 2, Strategic Intent and Goal Setting – ***The Fund is encouraged to focus its impact goals on all substantial impacts that matter. An impact matters when the outcome (positive or negative, intended or unintended) is important to the Stakeholder(s) experiencing it.***

Within this section, it should be noted much earlier that assessment of *materiality* to stakeholders must form the basis of determining scope within assurance - materiality is referenced for the first time in Section 16.4 only. Setting this upfront will also help users understand what is meant by the phrase *"impact matters".*

4. **Who can provide the assurance? Are certifiers required to be UN-certified bodies?**

Can any of the below gain certification?

External: audit professional, corporate social responsibility (CSR) specialist, consultancy, civil society organisation opinion leaders/advisory panel?

5. **What is the final output of assurance against the Standards?**

Understanding that funds that satisfy at least 80% of the tests at each of the Partially meets, and Meets levels of attainment for Standards 1-17 and (100% of the tests for Standard 18) and agree to an improvement plan to address key opportunities for improvement will be eligible for positive certification against the Standards – will the output from certifiers equate to an assurance statement or a written conclusion? Will the certifier be required to supply a Report plus a Management Letter to the PEF Board setting out the findings and recommendations for improvement?

6. **Criteria**

Perhaps it might be clearer to the market if the Standards are referred to as SDG Impact Practice Criteria – i.e. a set of criteria/framework against which certified bodies can conduct independent assurance against? The assurance provider is then evaluating the PEFs subject matter against the UNDP SDG Impact Criteria. Calling it UNDP SDG Impact Assurance Standards might lead to confusion. If this is being framed as a standard (similar is a way to SASB/GRI for sustainability reporting), is there any process for it to be approved by the IAASB International Framework for Assurance Engagements – so it is deemed *suitable* under their Standards too (here, suitability refers if the framework/criteria is relevant, complete, reliable, neutral and understandable?

7. **What type of Assurance will be issued?**

For example, Assurance may cover different focus areas in the Private Equity Fund:

- Limited – Fund level
- Reasonable – Portfolio/Investee level

Are the Standards setting out to capture the entirety of the PEFs impact, if so, this would imply reasonable level of assurance is required.

Limited-scope assurance will be useful for stakeholders interested in specific issues at fund level versus issues of concern at portfolio/investee level. This is where the material issues of concern to stakeholders "what matters" will be key in defining the scope. This will also be important as it will determine the *risk basis* developed by the assurance practitioner. For a limited assurance engagement, the practitioner will collect less evidence than for a reasonable assurance engagement but sufficient for a negative form of expression of the practitioner's conclusion. The practitioner achieves this ordinarily by performing different or fewer tests than those required for reasonable assurance or using smaller sample sizes for the tests performed.

8. **Perhaps include documentation of challenges the fund managers faced when raising capital both from impact and impact-agnostic investors and how they overcame this challenge.**
    a. Demonstrating financial track record
    b. Investor is concerned about exit options / liquidity
    c. Demonstrating impact track record
    d. Demonstrating viable pipeline of investments
    e. Investor does not believe its target returns will be achieved
    f. Investment size being sought by investor is too small
    g. Investment size being sought by investor is too large
    h. Investor believes there is too little focus on impact performance management
    i. Investor believes the risk of impact investing to be too great
    j. Fund lacks sector or geographic specialization
    k. Investor believes there is too much focus on impact performance management

9. **Certification framework**
   - What is your view of the proposed approach to certification (i.e. "does not meet", "partially meets" and "meets" levels of attainment, positive certification at the "partially meets" and "meets" levels of attainment when 80% of the tests are satisfied, if an agreed improvement plan is put in place to address key opportunities for improvement?)

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Levels of attainment

- Are the levels of attainment clearly defined and evidence-able?

- Does the "partially meets" level of attainment strikes the right balance between being sufficiently robust on the one hand and accessible on the other?

A) Noting the Certification scoring approach outlined in the Certification Framework – will there be a weighting approach applied to the various Standards 1-18?

B) Will the SDG Logo attainment score be tiered in nature? For example, will there be more requirements on PEFs of 5-10m USD versus 1bn USD size funds? Will the Standards scoring apply consistently to PEFs that aim for market-rate and below-market rates of return? Are PEFs such as TPG, KKR, Bain Capital, Bamboo Capital Partners, Leapfrog Investments all assessed on the same scoring method despite different fund sizes? How do we avoid smaller PEFs not being marginalized in the process – given larger funds can afford to build sophisticated in-house measurement approaches and systems and also independent assurance costs – will there be a capacity-building fund available to PEFs of smaller size?

C) Noting that Standard 18 is mandatory (100% score required) – perhaps a mechanism can be in place so smaller-start-ups funds are not marginalized from the outset? Or perhaps you can include a pre-readiness step in Standard 18? Pre-assurance assessments are offered by most assurance providers and can help the organisation prepare for assurance. From the perspective of the assurance provider, the assessment creates an opportunity to understand the subject matter in more detail, including the associated assurance risks. If assurance is not possible, management and the board can set out a plan for getting their house in order. This report will not be available to any third party and it is for the sole use of the organisation's management.

10. What other resources and guidance would you find useful for us to include?

Overall, we recommend including diagrams/infographics of the process and framework to help simplify the information and shorten the text level.

Including an example SDG-certified PEF would be very beneficial – a mock example of a PEF that meets the Standard versus one that did not meet.

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We look forward to continuing the dialogue with you on the Standards and to welcoming you at the ADM Capital Foundation, HK Green Finance Association and SFi event this coming January 8th.

Yours Sincerely,

Sustainable Finance Initiative (SFi)

26/F, BEA Harbour View Centre 56 Gloucester Road. Wanchai, Hong Kong