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Transparency Obligation Directive (ToD)

Topic
The European Parliament worked on the Transparency Obligation Directive (ToD) from November 2003 through this Spring 2004. This directive was meant to improve information for investors about publicly traded companies on regulated securities markets within the European Union. Eurosif saw the ToD as an opportunity, albeit challenging, to address sustainable, ethical and environmental (SEE) considerations in a harmonised fashion across Europe.

Key Issues
The main issues concerned quarterly reporting and disclosure in companies’ annual reporting. The goal of the Directive was to harmonise the legislation in various member countries that do in fact already provide such reporting obligation requirements. Such is the case in the UK (law passed in 2004), France (2001), Sweden (1999), Norway (1999), the Netherlands (1997), Denmark (1996/2001), Belgium (1995). Over 100 amendments were tabled from different Members of Parliament (MEPs) for the Economic and Monetary Affairs Committee (EMAC) to review.

The key issue from Eurosif’s perspective was that the initial draft of the Directive had no mention of social or environmental reporting requirements. Thus, it was Eurosif’s goal throughout the drafting of this Directive to find a means to incorporate language that would address this absence.

Our position
Eurosif’s amendment to the Directive asked for companies to report in their annual reports on the non-financial risks that their businesses face. The investment community is concerned with the availability and the legibility of social and environmental risks at the European level. Eurosif believes that clear guidance should be provided on materiality, including the general concept that the onus should be on the company to establish that something is not material. These issues have not been factored into the proposed regulation so far.

This concern is in line with the fact that a growing number of European Union member states already have legislation in place addressing the issue of SEE reporting and that this needs to be harmonised. It is also consistent with European Union objectives of environmental sustainability and social cohesion.

Eurosif submitted an initial amendment to Ieke Van Den Burg, a Dutch MEP from the Socialist Party, who edited it and tabled it as:

Article 4 (2)
(c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

Outcome
The Directive itself passed in the first reading of the European Parliament in April 2004. However, in a close vote, the EMAC voted against the proposed amendment to include SEE criteria as part of what companies have to report. This is in part due to the notion that ‘material non-financial risk’ and greater SEE transparency are relatively new concepts to many of the ministers at the European
Parliament. Additionally, the conservative parties voted against the amendment due to their fear of increasing costs for companies as well as their belief that a common definition around SEE criteria has not yet been properly established.

Over time it can be expected that SEE criteria will be gradually adopted through various means at the EU level, whether they be voluntary or statutory. Already, we are seeing disclosure of SEE issues being discussed at the EU Multi-Stakeholder Forum (see next item) as well as through the upcoming Corporate Governance codes at the EU.

EU Multi-Stakeholder Forum

**Topic**
The European Multi-Stakeholder Forum on CSR (CSR MS Forum) was officially launched on October 16th, 2002, and concluded on June 29th, 2004 with the publication of a final report. The main objective of the Forum was to improve knowledge about the relationship between CSR and sustainable development by facilitating the exchange of experience and good practices. In addition, the Forum aimed to explore the appropriateness of establishing common guiding principles for CSR practices and instruments, considering already existing EU initiatives and internationally agreed instruments.

The permanent members of the CSR MS Forum included employer representatives, trade unions, NGOs, and other stakeholders such as investors and consumers. The European Commission chaired the Forum. Other EU institutions and organisations active in CSR had observer status - observers included Eurosif. Experts and representatives of developing countries were invited to the meetings at various stages to inform the discussion. Eurosif made a presentation to the entire forum in September 2003 about European SRI trends in Transparency. The work programme was implemented by theme-based Round Tables.

**Key Issues**
The following issues were covered in the Round Table topics for the CSR MS Forum:
- Improving knowledge about CSR and facilitating the exchange of experience and good practice,
- Fostering CSR among SMEs,
- Diversity, convergence and transparency of CSR practices and tools,
- CSR Development aspects.

Each of the Round Tables met at least three times throughout the mandate of the Forum. After each wave of Round Tables, a high-level meeting was scheduled to review progress and improve the process if necessary.

For more on the reports from the Round Tables, please see:

**Our position**
Eurosif submitted a recommendation to a Core Member of the Forum on the need for investors to be more transparent around how they do or do not integrate social and environmental criteria into their fund management. We asked the following to be put into the recommendation:

"As SRI is the mirror image of CSR, and an increasingly important driver of CSR, the Forum recommends that institutional and retail investors:
- Commit to disclosing if SEE (social/environmental/ethical) criteria are used as a part of the fund’s asset management policies.
- Commit to disclosing how SEE criteria are integrated into the fund’s asset management policies
  - This could be in the form of a Statement of Investment Principles which records the investment policy of the fund and which refers to certain stipulated key issues such as SEE criteria (The UK has such a law and Italy recently announced that a similar law has just been passed by the Italian Senate and is waiting for final approval from the Lower House),
  - This could also be in the form of a short paragraph in an investor’s prospectus that addresses how SEE and/or Corporate Governance risks are being considered by the fund."


Outcome

Due to the variety of viewpoints within the group, the Forum has agreed a recommendation to the EC that addresses CSR at a high level. Specifically, the Forum has recommended concentrating on the following themes in order to promote CSR:

- Raising awareness and improving knowledge on CSR;
- Developing the capacities and competences to help mainstream CSR;
- Ensuring an enabling environment for CSR.

Raising awareness –
- Stakeholders, as well as national and international public authorities need to help make key CSR principles and texts more understandable and accessible in order to better implement them,
- Stakeholders should work together to elaborate user’s guides for practical information on relevant CSR tools, and present them in an understandable way to companies,
- There is a need for more qualitative research on CSR practices and their impact, i.e. their effectiveness in improving the social, economic and environmental impact of business.

Developing capacities -
- Companies and stakeholders need to develop more opportunities to learn about CSR policies,
- There is a demand to increase availability of practical information and develop exchanges between purchasers and suppliers to help build sustainable supply chain management,
- Those working on CSR need to be trained in how to understand SEE impacts of their company.

Ensuring an enabling environment –
- EU institutions and governments should increase their efforts towards a more co-ordinated CSR policy approach, and public authorities need to ensure that the proper legal framework is in place,
- A clear commitment from company management towards transparency and clear communications on CSR is essential,
- EU institutions and governments should be consistent across policy areas, taking a lead in moving towards the goal of sustainable development, both within Europe and at a global level, in particular through appropriate trade and development policies and international agreements, thereby setting a context for CSR.
- The industry must receive better information and an improved understanding of the criteria used by SRI investors.

On the behalf of NGOs, the Social Platform issued a call for action simultaneously with the release of the final report, calling players to turn words into deeds. Many participants now expect the EU to create a regulatory framework for CSR in Europe; the extent of which remains to be defined.

Following the final meeting on June 29th, the Commission has declared that it will assess progress made in relation to its 2002 CSR strategy, drawing in particular on the Forum report, with a view to adopting a new communication on CSR by the end of 2004.

The Forum invites the Commission together with stakeholders, to convene an initial shared review in two years time of progress to be made in relation to the Forum’s recommendations, and of the trends, developments and innovations in CSR.
### European Parliamentary Pension Forum (EPPF)

**Topic**
The "European Parliamentary Pensions Forum" (EPPF) is intended to facilitate and strengthen the exchange of information on pensions and related developments, in the broadest sense, between representatives of the pension/financial world and other stakeholders, on the one hand, and members of the European Parliament on the other.

This Forum was launched on November 12, 2003 and has met three times so far, with meetings planned on a quarterly basis. The EPPF is intended to run indefinitely and is managed by a Steering Committee (SC). The committee sets out a yearly work plan, can establish working groups and decides on the membership and organisation of meetings. The SC comprises between 4 and 8 members and is ideally composed of an equal number of MEPs and representatives of the major professional associations. MEPs are evenly spread over political groups and those parliamentary committees that are involved in pension related issues.

The objective of the EPPF is to: (1) provide information to Members of the European Parliament who are interested in pensions and related developments; (2) offer a forum for dialogue between Parliament and the industry; (3) develop the common knowledge of the Forum, in order to spread factual information relating to pensions, through documents, meetings, fact-finding visits and other activities; and (4) promote and secure sustainable pensions (i.e. ensuring that pension systems will always be in a position to pay out their pensions) by constantly following the issue at European Parliament level.

More information can be found at [http://www.eppensionforum.org/home.html](http://www.eppensionforum.org/home.html).

**Key Issues (SRI)**
Since the end of the 1990s, the EU has increasingly paid attention to the sustainability and quality of pensions. Under the Belgian presidency, the foundations were laid for the ‘open co-ordination method’, which is intended to encourage member states to learn from each other. Although the EU’s role in relation to the sustainability of pensions is more like that of a ‘coach’, its role can be expected to strengthen in the times ahead. The informal Varese Council on 11 July 2003 confirmed that trend by pointing to the necessity to set common targets and to promote a European strategy based on the open co-ordination method.

**Our position**
Eurosif actively participates in EPPF meetings in order to help promote the idea of integrating SRI into pension systems’ investment strategies. We aim to share knowledge in order to advance an informed debate on pension policy in the European Parliament.

**Outcome**
Through its presence at EPPF, Eurosif will be able to provide its members with a long-term view and expertise on possible regulatory changes in the Pension Industry in Europe. Additionally, Eurosif will be in an ideal position to voice the concerns of the SRI community at a political level and on an informal basis. It will facilitate the introduction of SRI early on in the regulatory process within the EU.