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Subject: Public Comment on the Principles for Periodic Disclosure by Listed Entities: Consultation Report

Introduction

The current financial crisis has raised a number of issues related to the financial sector and its role in the healthy fostering of a long-term, sustainable economy. Policymakers should encourage and reward long-term investing and discourage short-term, speculative bubbles. Major causes of the current financial crisis include short-termism, inadequate use of governance powers by investors, poor/unenforced regulation, misaligned compensation and/or incentive systems and a lack of transparency. Eurosif and its Member Affiliates assert that financial markets would be much better served by reliable and consistent information on Environmental, Social and Governance (ESG) issues.

Business corporations and short term investors have a natural tendency to focus on short-term profit and share price to the detriment of a broader concept of long term sustainable growth that encompasses both long-term shareowner interests, responsible business practices and the imperative of long-term business viability. The difficult, present situation offers an opportunity to adopt transformational policies that address longer-term global systemic issues that directly affect the capital markets.

Please find in the content that follows Eurosif’s comments to IOSCO consultation on the Principles for Periodic Disclosure by Listed Entities. In particular, Eurosif makes recommendations on how to develop greater transparency and accountability in the capital markets.

Mandatory ESG Reporting

Recommendation

Eurosif recommends that there is mandatory disclosure of ESG data by large listed entities.¹

As this area has already attracted significant interest from various stakeholders, Eurosif suggests exploring a number of existing initiatives (Global Reporting Initiative, the Carbon Disclosure Project, recent guidelines by the International Corporate Governance Network (ICGN)², and the current work of the Climate Disclosure Standards Board³, for instance) and use them to amend existing regulation.

ESG issues differ in relative significance from one sector to the next – a pharmaceutical company for example does not face the same ESG challenges as a utility company. While a detailed prescriptive “one size fits all” reporting approach would not work and would be overloading for companies, Eurosif believes

¹ Although the EC’s Fourth Company Law Directive defines a large company as a company with a headcount over 250, and/or a net turnover over €35 million and/or a total balance sheet over €17.5 million, Eurosif is open to discussing what would be the proper definition of large companies around ESG mandatory disclosure.

² ICGN Statement and Guidance on Non-financial Business Reporting www.icgn.org

³ The Climate Disclosure Standards Board is developing a global framework for corporate reporting on climate change, which is at a late stage of development (a draft will be launched publicly in May 2009). www.cdsb-global.org
that an approach based on principles, flexible and simple enough to work for any listed, large companies, should become mandatory.  

Eurosif supports recent work done by the ICGN which details principles under which ESG reporting should:

- Be genuinely informative and include forward-looking elements where this will enhance understanding;
- Be material, relevant and timely;
- Describe the company’s strategy, and associated risks and opportunities, and explain the board’s role in assessing and overseeing strategy and the management of risks and opportunities;
- Be accessible and appropriately integrated with other information that enables investors to obtain a whole picture of the company;
- Use key performance indicators (KPIs) that are linked to strategy and facilitate comparisons;
- Use objective metrics where they apply and evidence-based estimates where they do not;
- Be strengthened where possible by independent assurance that is carried out having regard to established disclosure standards applicable to ‘non-financial’ business reporting, such as those issued by the IASB.

Eurosif recommends that those reporting principles be included in the annual reports.

With regards to standardised key performance indicators (KPIs), Eurosif believes that most KPIs would need to be sector-specific. A number of existing initiatives have produced interesting results in terms of KPIs (see the Greenhouse Gas Protocol, the European Federation of Financial Analysts Societies - EFFAS, the non-financial performance lab by the European Alliance for CSR and the sector additions of the GRI). In particular, EFFAS developed sector-specific KPIs for a limited number of industries, as well as a methodology for defining industry-specific KPIs that any third party can use.

Making the case:

Currently, the EU Modernisation Directive states: "To the extent necessary for an understanding of the company’s development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters;"

Nevertheless, at the current time, this requirement has not been readily enforced nor have companies disclosed substantive ESG information that could help investors. Eurosif believes that policy makers should make reporting on ESG data no longer an option subject to interpretation but a requirement. It is increasingly understood that financial statements capture less than 20% of corporate risks and value creation potential, with the balance deriving from intangible factors such as human capital and resource efficiency. ESG data are relevant, material information that investors should have and increasingly want as a means to better gauge longer term risks and opportunities. It is therefore important that companies provide an overview of all major risks and detail the most important ones.

The availability of ESG data tracking the sustainability performance of companies could have a beneficial effect on corporate, investment and market performance. Should investors conclude that companies with thoughtful long-term management of ESG issues are better-run companies, a sort of virtuous circle can be imagined: in this scenario, investors would reward stock prices where sustainability

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4 A principles-based reporting approach provides a conceptual basis to follow instead of a list of detailed rules. Under a principles-based approach, one starts with laying out the key objectives of good reporting in the subject area and then provides guidance explaining the objective and relating it to some common examples.

5 Developed by the World Business Council for Sustainable Development (WBCSD) and the World Resource Institute (WRI). www.ghgprotocol.org

6 EFFAS “KPIs for ESG: A Guideline for the integration of ESG into financial analysis and corporate valuation”
is integrated, and companies would respond by further improving their sustainability performance. Accordingly, a fixation on meeting quarterly earnings estimates and other short-term measures would give way to longer-term thinking as a broader sustainable business agenda is recognised and rewarded by investors. The mandatory disclosure of ESG information by publicly listed, large companies would go a long way towards the creation of a competitive and sustainable economy.

Without such mandatory disclosure, investors will continue to lack the means of assessing substantial numbers of material factors as they arise. Incomplete data makes for inefficient markets and a lack of transparency leads to unstable financial systems. **Investors require reliable, comparable data on a broad range of potential risks and opportunities.** A purely voluntary disclosure scheme does not guarantee significant, relevant and comparable data from all issuers: information is often provided selectively and very often, with the absence of common standards, the information cannot be compared with other companies, or over time. In addition, adopting a harmonised framework will ease the “questionnaire fatigue” companies sometimes complain about when they receive multiple and diverging information requests from ESG analysts.

Currently, regulators and stock exchanges in numerous jurisdictions around the world – including France (loi NRE, article 116), Brazil, Malaysia, South Africa, Sweden and very recently Denmark – have mandated or encouraged the disclosure of such data. In the United States, mandatory disclosure is currently being promoted by investors to the Obama administration and the US Environmental Protection Agency has now proposed a draft mandatory greenhouse gas reporting rule for US corporate facilities.

This note has been developed as a part of Eurosif’s aims to encourage disclosure, transparency and responsible ownership, and to promote the integration of social, environmental and governance issues into financial services. It does not necessarily reflect the views of all of its Member Affiliates.

Yours sincerely,

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9 See [http://www.epa.gov/climatechange/emissions/ghgrulemaking.html](http://www.epa.gov/climatechange/emissions/ghgrulemaking.html)
APPENDIX

About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to address sustainability through the financial markets. Eurosif works as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif’s Member Affiliates are drawn from leading pension funds, asset managers, NGO’s, trade unions, academic institutes and research providers, together representing assets totalling over €1 trillion. Eurosif’s work includes a focus across asset classes - equity and fixed income markets, microfinance, renewable energy, property, private equity and hedge funds - all centred around the industry trends and future legislation affecting this space. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector. For the full list of Eurosif Member Affiliates, please see www.eurosif.org.

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment (SRI, see below for definition of SRI and its market size in Europe) and Corporate Governance in the EU financial services sector, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament. Therefore, this note is mainly driven from and by the interest and expertise of our membership.

Sustainable and Responsible Investment Definition

Eurosif continues to use the term "SRI" as the most readily acknowledged expression for this field and defines SRI as follows:

SRI, a generic term covering ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues.

To do so, different approaches exists:

• Best-In-Class approach: Selection of the best companies in their sector with regard to sustainable development.
• Thematic approach: Selection of the best companies according to a specific sustainable development theme (renewable energies, water, job creation, etc.).
• Norms-Based approach: Selection of companies according to their observance of the main international treaties/conventions (e.g. ILO).
• Exclusion approach: Exclusion of companies involved in controversial activities or issues (alcohol, gambling, animal testing, etc.).
• Engagement: this includes proxy voting, collaborative engagement, direct private dialogue with companies, and public engagement. Engagement is often considered as an extra overlay to other SRI approaches or traditional management.
• Microfinance approach: financing Microfinance institutions (bonds or equity) favoring economic empowerment.

Market Size

Eurosif recently published the latest Sustainable and Responsible Investment (SRI) figures and trends in its “European SRI Study 2008”. This unique study highlights the scale of European SRI as well as European and National trends across thirteen countries, including Spain. Based on a survey of asset managers and self-managed asset owners, we found that total SRI assets under management (AuMs) have reached €2.7 trillion as of December 31, 2007 and represent as much as 17.5% of the asset management industry in Europe. This corresponds to a remarkable growth of 102% since December 31, 2005.