Mainstreaming Socially Responsible Investment (SRI): A role for government?

Policy recommendations from the investment community

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1 EXECUTIVE SUMMARY

This report examines the Socially Responsible Investment (SRI) industry in Australia and documents the views of finance industry members (and other stakeholders) on opportunities for government to support the growth and transformation of SRI into mainstream investment practice. It is the result of:

- a review of the Australian SRI industry and existing policy frameworks;
- a study of international policy approaches that have supported the development of SRI;
- a survey of the Australian investment industry and stakeholders.

This report forms a brief review and is a starting point for informing work like this in Australia. The report concludes with industry-supported recommendations regarding policy options to support the mainstreaming of SRI.

What is so special about SRI? The SRI sector has the potential to significantly promote environmentally and socially responsible business practice. Mainstreaming SRI - in all its forms - will be a strong motivation for business to integrate the consideration of the wider economy, the environment and communities in its strategies and operations. This is critical if, as Hawken argues, "business is the only mechanism on the planet powerful enough to produce the change necessary to reverse environmental and social degradation" (Hawken, 1993). These changes will depend in part who and what we invest in, and how we deal with our investments.

"Business is the only mechanism on the planet powerful enough to produce the changes necessary to reverse global environmental and social degradation"

Paul Hawken, Ethical Commentator

SRI is gaining recognition in the Australian financial sector as a genuine investment choice. However, at present it is considered a niche that caters to a proportionately small share of the market and constitutes too small a portion of capital to leverage its potential to promote widespread sustainable business behaviours.

Where is the opportunity for change? The opportunity exists for government to create meaningful change by removing existing impediments to SRI and providing incentives to mainstream the practice of including social, environmental, ethical and governance criteria in investment decision making.

Internationally, public policy has assisted the pace and nature of SRI growth with, for example, some estimates suggesting that by 2009, 15% of funds in the UK stock market will be subject to SRI considerations[1].

This research aims to identify potential policy options that would move SRI towards the mainstream in Australia, following the lead from effective options implemented internationally and from industry support domestically.

What we did. ISF completed a desktop review of the Australian SRI industry and the current policy and frameworks that shape it. We also reviewed international policy approaches in the area of SRI. Based on this desktop review we developed an online survey, *"Mainstreaming Socially Responsible Investment: A role for government?"*. The survey targeted those with existing knowledge in the area with the aim to identify:

- perceptions of key SRI industry drivers;
- views regarding current initiatives and public policy in the area;
- support for potential policy initiatives that could be implemented (based on successful international examples and precedents) and;
- disclosure and reporting issues.

The survey was completed by 45 finance industry professionals and stakeholders (during the survey period[2]) with a further 40 registering for notification of results. About 46% of participants were from the finance and investment sector, 35% from research or consultancy organisations, and the remaining from NGOs, private business, media and other organisations.

1.1 Summary of findings

Participants were asked whether the Financial Services Review (FSR) Act (2001) has achieved its purpose to "promote transparency, comparability, comprehensibility, and accuracy" of SRI product information. 46% of respondents were *doubtful* that the FSR had achieved this purpose, with a further 25% *strongly doubtful*.

Participants were asked what current initiatives could have the greatest potential impact on the take up of SRI, from a selection of eight initiatives. Recent changes were the most favourable with the advent of *Super Choice* being the ranked in the top 3 by 55% of respondents (33% ranked it first), *mainstream international research about SRI* ranked in the top 3 by 55% of respondents, and the *Ethical Investment Association SRI label* ranked highest by 50% of respondents.

The main section of the survey asked for the five options respondents most supported from 19 policy options internationally employed. Those most supported, in order of preference, were:

- **Financial planners asking potential customers if they were interested in SRI investing**, as a *requirement* of the initial profiling process was the most significant issue to respondents with 74% selecting this option. This option was particularly popular with finance industry respondents (85%) and private business and NGO respondents (75%). This response reflects a perceived lack of take up of the related *recommendation* within the ASIC Best Practice Guidelines for Financial Planners.
- **Mandatory sustainability reporting for the ASX200,** as it has been for publicly listed companies in France since 2001[3], ranked second, selected by 63% of respondents, evenly spread across the range of respondents (60% - 63%).
- **Applying SRI to the Australian Government Future Fund**[4], as an illustration of the government leading by example, with 53% of respondents selecting this option. Again, financial industry respondents (65%) and private business and NGO respondents (50%) were particularly favourable towards this option. The equivalent **Pension Reserve Fund** in France was legislated in 2001 with both a commitment to SRI and an explicit long-term outlook.

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[1] "Morgan Stanley research jumps onto SRI bandwagon", The Ethical Investor, 1 September, 2005 www.ethicalinvestor.com

[2] 12 September- 21 October, 2005
[3] As part of the New Economic Regulations, Law No 2001-420
[4] On 10 September 2004, the Treasurer announced that a Future Fund would be established to fund the Commonwealth's unfunded superannuation liabilities

- **All super funds offer an SRI option** as a requirement, as is currently being explored in the UK by Department for Environment Food and Rural Affairs[5], was ranked fourth, with 47% of all respondents selecting this option in their top 5. This option was particularly popular with business and NGO respondents (63%) but not so popular with finance industry professionals (25%).

Respondents were also asked about the barriers to sustainability reporting for businesses. The largest barrier identified was as *a lack of identifiable benefits for outlay* by 50% of respondents.

1.2 What next? Conclusions and future opportunities

Based on our review of the Australian SRI industry and the global policy experiences a few general conclusions can be drawn:

- **Superannuation appears structurally well positioned** to lead the mainstream uptake of more socially responsible investment; the market is large and growing, funds are well positioned to undertake customer mandated engagement and screening, long-term growth goals are core, there is strong precedence for pension led, SRI growth overseas and government can help direct this growth through APRA.
- **There is huge potential to drive change in non-profit, charity, and faith based organisations** who have investment portfolios that are not necessarily aligned with their mission or goals,
- **Government has the possibility of using existing frameworks to help influence change** and the uptake of SRI (see section 5 of this report).

The review, and the results from the survey specifically, point towards the opportunity for policy makers:

- to **investigate further the range of options available to government** to support SRI. This survey and report forms a brief review, a starting point for informing work like this in Australia that may reflect similar in-depth work completed overseas (such as that which UK Department for Environment Food and Rural Affairs is currently undertaking).
- to specifically **review those policy options with some strong industry (and stakeholder) support** as highlighted above. A set of **independent guidelines, a directory or** information for consumers regarding the different funds and forms of SRI in the market place would benefit the industry in general and would be necessary to support the first and last of these options.
- to **review the utility and effectiveness of the FSR Act** in improving SRI based information.
- to **work with business and investigate the benefits from sustainability reporting** in order to highlight the value of this process.
- to **capitalise on current initiatives** such as Super Choice and the EIA symbol and on the current strength of the Australian economy and the growing level of public and institutional concern for the issues involved.

[5] http://www.clear-profit.com/fw/defra.htm

2 THE INSTITUTE FOR SUSTAINABLE FUTURES

2.1 Who we are

The Institute for Sustainable Futures was established by the University of Technology, Sydney in 1996 as a flagship, transdisciplinary, research institute. In line with the University's vision to *Think.Change.Do*, our mission is to create change towards sustainable futures through independent, practical research and consulting based on knowledge leadership.

Reflecting the transdiciplinary nature of sustainability knowledge and practice, the Institute's researchers come from varied backgrounds, including engineering, architecture, management, economics, science, social sciences, and international and political studies. Most have worked in both government and commercial environments, so have a good appreciation of how to deliver independent and feasible solutions to suit the needs of a diverse range of clients.

The Institute has an integrated view of sustainability that actively pursues a balance of its economic, environmental and social dimensions. This means that we do not rely solely on technologies or buildings to solve environmental or social problems; rather, we recognise that political, organisational and individual behaviours and actions are a consideration in all sustainability decision-making.

We have strong ties with other sustainability researchers and professionals, academic links within UTS and to other centres of research, and maintain close ties with innovators in industry and government. These relationships enable us to access highly specialised advice and help us to maintain our position as knowledge leaders.

2.2 What we do

We create change towards sustainable futures by applying our unique mix of technical skills, sound experience and theoretical knowledge to project-based research. Our research helps people and organisations choose and shift direction toward a preferred future.

- We help governments to develop policy that supports sustainable development.
- We work with industry to create and implement sustainable strategies and operations.
- We assist community groups to articulate and support views on sustainability issues.

Since 1996, we have completed more than 170 research reports, interpreting, designing and recommending effective solutions to clients ranging from small NGOs, commercial firms and local government, to Australia's largest water corporations and international government authorities. Our researchers are frequently invited to national and international conferences, have published more than 140 papers and have conducted workshops, training sessions and forums within Australia and overseas.

We have expertise in: • sustainable water and sanitation • sustainable transport • sustainability of the built environment • energy and greenhouse • waste, materials and consumption • institutional and corporate sustainability • international development.

2.3 Disclaimer

While all due care and attention has been taken to establish the accuracy of the material published, UTS/ISF and the authors disclaim liability for any loss that may arise from any person acting in reliance upon the contents of this document.

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4 INTRODUCTION

4.1 Research and Report Overview

This report examines the Socially Responsible Investment (SRI) industry in Australia and documents the views of finance industry members (and other stakeholders) on opportunities for government to support the growth and transformation of SRI into a mainstream investment practice. It is the result of a study of international policy approaches in mainstreaming SRI, a review of the Australian situation and a survey of the Australian investment industry and stakeholders. This research forms a brief review and is a starting point for informing work like this in Australia that may reflect similar in-depth work completed overseas. The report concludes with industry-supported recommendations for actively engaging with the issues and policy options raised.

We completed a desktop review of the Australian SRI industry and the current policy and frameworks that exist around it **(Section 5).** We also reviewed international policy approaches in this area **(Section 6).** Based on the desktop reviews we developed an online survey to help answer the questions raised:

Questions raised by the desktop review	Survey designed to identify:
Many drivers and barriers to SRI growth are identified in the literature. Which are seen as having the biggest influence?.	**Perceptions of which are the key SRI industry issues**
8 current Australian initiatives were identified. Which have or are likely to support the growth and development of SRI the most?	**Views regarding current initiatives and public policy in the area;**
19 policy options supporting SRI development, which have been implemented or have precedence internationally, were identified. If considered for Australia which would get most industry support?	**Support for potential policy initiatives that could be implemented;**
Effective reporting (disclosure/transparency) is identified as a key issue to both SRI and broader corporate sustainability. What aspects need improvement and what are the barriers to doing so?	**Disclosure and reporting issues**

The survey, *"Mainstreaming Socially Responsible Investment: a role for government?",* was sent to and completed by those with some knowledge of the SRI industry in Australia and existing policy and frameworks. This is reflected in the findings **(Section 7).** We conclude with opportunities for government to help support the growth and transformation of SRI into a mainstream investment practice **(Section 8).**

4.2 What is Socially Responsible Investment?

The Social Investment Forum (SIF)[6] defines Socially Responsible Investment as the integration of "personal values and societal concerns with investment decisions…[to] consider both the **investor's financial needs** and an **investment's impact on society**."[7] An investment's impact on society is

[6] "The Social Investment Forum is a national non-profit membership association dedicated to promoting the concept and practice of Socially Responsible Investing. The Forum is made up of over 500 financial professionals and institutions. Membership is open to any organization or practitioner who wishes to participate in the socially responsible investing field." www.socailinvest.org

[7] Social Investment Forum. *What is SRI?* 2002 emphasis added

commonly determined through evaluating labor standards, environmental, governance, social and/or ethical considerations. These thematic considerations are often referred to as the SEE (social, environmental or ethical) or ESG (environmental, social, and governance) criteria.

There is a degree of confusion stemming from the interchangeable use of the terms SRI and 'ethical investment' in Australia. This is amplified perhaps by the main SRI organisation in Australia being called the *Ethical Investment Association*. For the purposes of this report, the term ethical investment will be avoided unless specifically referring to investment decisions made on religious or ethical grounds.

For the purpose of this report, we use the term SRI to describe investment that explicitly accounts for or deals with social, environmental, intergenerational and/or governance issues.

4.2.1 SRI Processes

SRI has undergone a considerable transformation in the way it approaches investment. It has arguably moved from being primarily a financial tool that passively protested against corporations profiting from armaments or tobacco through negative screening, to a more positive orientation that actively seeks to create change.

SRI is undertaken and can create change in the following ways:

a) **Negative Screening** - Investors / fund managers avoid, screen out, (or underweight) companies that are at odds with the investor's SEE criteria (and/or are against the investors 'values')
b) **Positive Screening** – Investors / fund managers select and invest in companies that display a positive contribution to specific SEE criteria or specifically to a fund's SEE benchmarks (in addition to normal financial performance requirements).

Positive screening can be divided further into "best in class" or "best of best" strategies.

"Best of best" allows the investor to maintain a 'clean' portfolio representing only those industries and companies within them that make positive contributions to society, labour, community and/or the environment, based on criteria selected by the investor.

"Best in class" strategy is one that invests in companies leading their industry in reforms towards environmental, social, labour and community standards and does not exclude industries identified as 'dirty' such as mining or logging. This strategy has two distinct advantages over the "best of best" approach. It allows for a more diversified portfolio, therefore lowering financial risk and it creates an incentive for companies to strive toward CSR independent of sector norms. Additionally, it allows investors to directly impact company behaviour in all industries through shareholder engagement (see below). It is not a licence to invest in any corporation under the guise of SRI, with the worst offenders such as uranium mining still mainly avoided.

Engagement – Different forms of shareholder advocacy can increase pressure on corporations to change their behaviour through voting, dialogue with directors and management and divestment (as a last resort). The effectiveness of engagement through dialogue tends to be limited by the proportion of capital the investor owns, and may particularly suit institutional investors.

Engagement is practiced usually as part of an overlay approach; that is 'above' or in addition to traditional financial selection.

Box 1: SRI Processes

The methodology employed by investors varies significantly across different sectors and regionally, and scope exists for government to shape the type of SRI processes employed in Australia, depending on policy implementation. Regional variations can be explained by the types of legislation applicable and sectoral ones by the outcome each SRI fund or investor is seeking.

For instance, over £17bn of UK equities invested on behalf of British charities are subject to screening; primarily negative screening. This is a direct attempt by charities to meet the requirements of the UK Trustees' Act which states that the investment portfolio of mission based organisations must reflect their philanthropic values[8] (see Part 6).

The notion of ethical investment has already undergone one paradigm shift. Early on, most ethical funds simply screened out investments to which people objected (eg. armaments, tobacco, exploiters of child labour). Gradually, some ethical finance organisations like Australian Ethical sought out investments that would make a positive contribution to society (eg. alternative energy generators, pollution control and recycling companies, firms with family friendly pro-workforce strategies). This switch in strategy, from a negative to a positive orientation, can go – and be the basis for a second big paradigm shift – the development of new transformative areas of investment.

4.3 The growth of SRI

In the past six months, three of the world's major investment houses, Mercer, Goldman Sachs and Morgan Stanley have published research that indicates SRI analysis and practice will become mainstream within the next 10 years[9]. Phillip Sutton published research that examines a potential path to a completely sustainable economy by 2030[10] largely dependent upon the evolution of SRI into Transformative Financing (TF). TF requires investment decisions to consider more than traditional screening criteria[11]. Instead, Sutton suggests that decisions should focus on making investments that gain corporate strategic leverage. For instance, if SRI becomes a significant percentage of the total investment market (ample strategic leverage), SRI would be capable of demanding responsible operation from all companies through the severe penalty of non-investment. Sutton believes that this dominant level of SRI could transform the economy and act as the driving force towards a sustainable economy. In particular, investment portfolios that support 'sustainability' industries and firms, boost capital availability in these sectors and accelerate their rate of development.

The speed at which SRI is growing indicates that with sensible and targeted uptake of opportunities for government, there is a potential for SRI to grow to mainstream. In 2001 it was estimated that only $1.3 billion was invested in SRI managed funds, only comprising approximately 1% of the Australian managed funds market[12]. Although SRI's managed funds market share is still small, the total value of SRI managed fund assets is growing substantially - by 920% between 2000 and 2004.[13]

[8] Eurosif (2003) *Socially Responsible Investment among European Institutional Investors: 2003 Report, pp 17-26* www.eurosif.org
[9] www.eia.org.au
[10] Sutton, Phillip. Greenleap: Innovating to an ecologically sustainable economy before 2030. November 2003.
[11] Screening refers to both positive and negative screening. Positive screening is the process of investing in companies that show positive contributions to the set of beliefs represented by a SRI fund. Negative screening is the process of avoiding investments that are at odds with the beliefs represented by a SRI fund.
[12] Deni Greene Consulting Services, *Socially Responsible Investment in Australia* September 2001
[13] Deni Greene Consulting Services, *Socially Responsible Investment in Australia* October 2004

5 AUSTRALIAN SRI INDUSTRY AND INFRASTRUCTURE

The Government has the opportunity to: offer incentives to institutional investors; provide education and communication programs to relevant bodies and stakeholders and develop legislation that regulates the sector directly or indirectly. These three approaches, incentives, communication and regulation, are mutually reinforcing and equally valid government vehicles for producing desired outcomes. This section outlines the type and nature of the **existing infrastructure driving SRI** in the Australian investment industry.

5.1 Existing government infrastructure driving SRI

In Australia, investment activity is currently shaped and directed by its regulatory framework more than by external stakeholder pressure. Furthermore, compared to other countries, Australian business traditionally responds to threats of punitive action more so than to incentives when it comes to changing their behaviour (Bubna-Litic, K et al, 2000). As such, the nature of government involvement has so far been typified more by compliance-based legislation than by incentives that reward positive corporate behaviour.

5.1.1 GOVERNMENT ACTION: 2005 CAMAC Inquiry

The Corporations and Market Advisory Committee (CAMAC) has recently begun consideration of the relationship between director's duties and CSR. This parliamentary inquiry follows a request from the Parliamentary Secretary to the Treasurer, the Hon Chris Pearce, for clarification of how directors' duties as listed in the Corporations Act, should be extended to include other classes of stakeholders[14].

The inquiry has been directed to answer two questions:

- Should the Corporation's act **allow** company directors to consider the interests of other stakeholders?
- Should the Corporation's act **compel** company directors to consider the interests of other stakeholders?

The findings of this inquiry (due November, 2005) will have enormous ramifications for the concept of fiduciary duty in the context of corporate institutional investment. Its outcomes could potentially redefine the relationship between the company's board of trustees or director and its shareholders. Any changes would promote growth of SRI by broadening the required considerations in corporate decision making.

By having to consider the interests of other stakeholders, management can consider SEE factors legally. It would mean that corporate decisions could be made in a greater context than the simple "sole interest" rule in favour of beneficiaries, and be made in "best interest". A focus on other stakeholders could potentially shift the outlook of business to considering long-term returns[15].

[14] Corporations and Markets Advisory Committee, C*urrent Reviews- "Reference in relation to directors' duties and corporate social responsibility"* (March 2005) http://www.camac.gov.au/CAMAC/camac.nsf/byHeadline/Whats+NewDirectors%27+duties+and+corporate+social+responsibility?openDocument
[15] *ibid*

The Treasurer's office is also keen to explore the issue of mandatory environmental reporting for some types of companies, and the role the government can play in promoting socially responsible behaviour through voluntary codes of practice[16].

5.1.2 GOVERNMENT ACTION: FSRA Regulation and ASIC Disclosure Guidelines

Recent regulatory developments relevant to the expansion of SRI include changes to disclosure laws. The Australian Securities and Investments Commission (ASIC)[17] released compulsory guidelines in December 2003 aimed at promoting industry standardisation and development. These guidelines work in tandem with the **Financial Services Reform Act 2001** (FSRA) that requires investment product providers to disclose in their Product Disclosure Statement's (PDSs) the extent environmental, ethical, social and labour standards inform or don't inform their investment decision[18]. The Act applies to superannuation products, managed investments, and investment life insurance.

The FSRA has strong potential to link sustainability and economic issues in the mind of investors. Any financial decisions that result in inadvertent selection of stocks based on SEE criteria (such as avoiding an environmentally harmful company not on environmental principal but on the threat to financial returns alone) must be disclosed under the Act.

The **ASIC guidelines**[19] take a non-prescriptive approach and neither defines what constitutes an environmental or social consideration, nor how they should be taken into account. The guidelines effectively allow product issuers to determine the "quantity, format, and accuracy of SRI disclosure" [20]. Because of this, some argue that they have failed to support the legislation's aim to promote "transparency, accuracy, comprehensibility, and comparability"[21]. This sentiment backed by findings from our survey (see Section 7).

Specific areas where there is room for improvement include c*ompliance*; and the *type of documents released.* The Parliamentary Secretary to the Treasurer has argued that the legislation is producing PDSs that are dense, lengthy and complex documents/oral scripts that undermine the purpose of the regulation.

5.1.3 GOVERNMENT ACTION: ASIC Recommendations and Communication

In May 2005, ASIC reissued its Best Practice Guidelines for financial planners, PS 175 "Licensing: Financial Product Advisors- Conduct and Disclosure". These guidelines now state that:

> *…as a matter of good practice (irrespective of any current legal requirement) providing entities should seek to ascertain whether environmental, social or ethical considerations are important to the client, and, if they are, conduct reasonable enquiries about them*[22].

[16] CAMAC, C*urrent Reviews- "Reference in relation to directors' duties and corporate social responsibility"* (March 2005) http://www.camac.gov.au/CAMAC/camac.nsf/byHeadline/Whats+NewDirectors%27+duties+and+corporate+social+responsibility?openDocument
[17] The Australian Securities and Investment Commission (ASIC) is a statutory regulator who is responsible for enforcing the Corporations Act, and protecting consumers, investors, and creditors www.asic.gov.au
[18] Corporations Act, *Part 7.9 section 1013DA*, 2001
[19] ASIC section 1013DA *Guidelines for Product Issuers*, September 2003 and Policy Statement 168: *Product Disclosure Statements (and other disclosure guidelines)* Reissued May 2005.
[20] Brown, B "Ethical Funds Fail Ethical Disclosure Requirements", *The Australian*, 06/07/2005, Page 5
[21] Corporations Act, *Part 7.9 section 1013DA*, 2001
[22] Policy Statement 175.110 www.asic.gov.au

ASIC suggests that during the 'fact find', the collection of information related to a client's ethical concerns is necessary in order to fulfill the **Know Your Client obligation**. (See box 2) [23]. This is especially important considering that many investors do not read PDSs.

> *[PS 122.98] The purpose of the know-your-client obligation is to ensure that securities advisers give their clients personal securities recommendations which are appropriate to the investment objectives, financial situation and particular needs of individual clients.*

Box 2: Know-your-client obligation

About 80% of investors between the ages of 25 and 39 and 72% of investors aged 40 to 59 said they would consider SRI options if given a choice[24]. Furthermore, investors are increasingly displaying concern for non-financial issues. The Australian Survey of Social Attitudes indicates that more than 60% of shareholders would sell shares in a company if it caused a major environmental problem, increasing to more than 80% if the company used child labour[25]. These figures demonstrate a type of concern that financial advisers need to identify and that trustees need to incorporate into their investment portfolios to meet growing demand.

5.1.4 OTHER MECHANISMS AVAILABLE TO GOVERNMENT

The following is a non-exhaustive list of other forms of government 'infrastructure' that could be used to promote SRI.

The Future Fund

Treasury established the Future Fund on 10th September 2004 to fund the Commonwealth's unfunded superannuation liabilities. The Australian Future Fund will be financed by budget surpluses and the proceeds of the sale of Telstra. Centrally managed investment funds are becoming an increasingly common way for governments to underwrite unfunded superannuation liabilities and provide a critical opportunity for the Government to support and promote both sustainable business and the uptake of SRI. In France, the equivalent – the Pension Reserve Fund (FRR) – is required to invest in SRI (see part 6)[26].

APRA and the Superannuation (Supervision) Act

The **Australian Prudential Regulatory Association** (APRA) oversees the prudential operation of banks, credit unions, building societies, most members of the superannuation industry and general insurance and reinsurance companies. It is responsible for releasing standards that superannuation funds must satisfy to gain a license. The burden of retaining these licenses rests with the fund trustees[27], and therefore APRA could directly stimulate SRI through changing the licensing requirements for superannuation funds.

The **Superannuation Industry (Supervision) Act** (2003) currently allows trustees to make investment decisions based on SRI principles so long as the financial interests of the beneficiaries

[23] Policy Statement 122 Section IV www.asic.gov
[24] Resnik Communications/KPMG Consulting (2000), "Money Where Your Mouth Is" Sydney
[25] The Australian Survey of Social Attitudes, 2003
[26] Department of Parliamentary Services (2005). *Research note no. 43: The Future Fund*, 4 April, 2005 www.aph.gov.au/library
[27] Council of Financial Regulators, *Annual Report*, 2002 http://www.rba.gov.au/PublicationsAndResearch/CFRAnnualReports/2002/Pdf/cfr_annual_report_2002.pdf

remain the highest priority[28]. This act does not preclude trustees from making investment decisions based on their own ethical preferences if it is in the best financial interests of fund members.

Corporation's Act: Corporations Amendment Bill

The Corporations Act constitutes the most direct way that government can regulate the financial industry. In 2005, the **Corporations Amendment Bill (no 2)** altered shareholder activism in Australia. Previously, the law required 100 shareholders' signatures to call an Extraordinary General Meeting (EGM). The reforms have changed this to 5% of the owners of issued capital.

This amendment is not a barrier to the growth of engagement based SRI. Simultaneous reforms to the **100-shareholder rule** reduced the number of shareholders needed to put a resolution forward at an Annual General Meeting (AGM) from 100 to 20. There are concerns however that this Act is disenfranchising smaller groups of vocal shareholders from engaging with their company year round[29]. Making different forms of shareholder activism simpler is a critical step in mainstreaming SRI. It is easiest to file shareholder resolutions in the US, Finland and Sweden (followed by France, Germany and Poland), and this is also where incidences of active SRI is highest[30].

Corporation's Act: Section 299(1)(f)

The above bill attempted to remove **Section 299(1)(f)** of the Corporations Act which requires companies to provide, within the annual director's report, details about the company's performance in relation to any "particular and significant environmental regulations" that apply to the company. This section has the potential to improve standardisation and thus comparability of Australian sustainability reporting. Widespread and standardised sustainability or environmental reporting has the potential to stimulate SRI by improving the accessibility and comparability of information for SRI fund managers[31]. The extent of international reporting is discussed in Section 6.3 of this report.

The current form of **Section 299(1)(f)** mimics the principles based approach of the FSRA by falling short of specifying either methodology or providing any definitions. For instance whilst the section does not specify a particular materiality threshold at which the corporation must begin reporting, most corporations assume one from the material position of the firm rather than the environment or society, and all differ markedly from each other[32]. Often environmental impacts are not reported because the fines received for breaching environmental legislation are too low to reach the self defined "materiality threshold" in the financial context of the firm. As it stands, Section 299(1)(f) does not require companies to report on breaches of general environmental laws that are not "particular" to its industry[33].

This section has potential in that smaller enterprises, which supply large corporations subject to reporting requirements in the Corporation Act, must also provide reports under the legislation[34]. Thus, any expansion of S299 (1)(f) will feed down the supply chain and encourage improved reporting and awareness of SEE issues across the spectrum of Australian business.

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[28] Charaneka, Scott (2001) *Financial merits still rule in SRI*, 22 November 2001. Accessed Online September, 2005: http://www.superreview.com.au/articles/6c/0c00816c.asp
[29] The Australian Conservation Foundation (ACF). *Submission to Treasury on Corporations Amendment Bill (No. 2) 2005.* 31 March 2005
[30] Birgden, H, Changing *the world one resolution at a time,* Presentation by Christian Centre for Socially Responsible Investment Australia (CCSRI) http://www.eia.org.au/files/LPMIQBZ6M4/Helga_Birgden.ppt#278,12,Performance
[31] RARE (2005) *Corporate Social Responsibility: Integrating a business and societal governance perspective - the RARE project's approach,* August 2005. Access report online at www.rare-eu.net
[32] ACF ibid
[33] Corporations Act, *Section 299(1)(f)*, 1999
[34] Bubna-Litic, K eds (2000) *The Thin Green Line* www.ecobusiness.com.au/Thin%20Green%20Line.pdf

Indirect Sustainability Policies

It is important not to underestimate the impact seemingly unrelated government policy can have on the finance and investment markets. In particular, trustees must consider the risk associated with government changing policy and affecting the returns of an investment. In the same way that "normative shifts" in society's perception of acceptable business behaviour can create reputational risk and reduce the value of corporations engaged in environmental degradation, the regulatory uncertainty of government policy around climate change and changes to carbon regulation means investors may be miscalculating the risks and costs of investment in heavy industry[35].

Clear environmental and social policies that outline long term changes to government regulation can promote the incorporation of SEE factors into fund management and the uptake of SRI portfolios on the basis of their improved financial merit.

Apart from the economic costs on companies of (climate change)… an even greater risk to company profitability and global competitiveness is uncertainty in policy responses as we inevitably move towards a carbon constrained economy'.

Bob Welsh, Chairman, Investor Group on Climate Change (Cited from IGCC (2005) *A Climate for Change*)

5.1.5 VOLUNTARY STANDARDS AND OTHER STAKEHOLDERS

SRI growth has been shaped equally by the guidelines and standards of numerous SRI and mainstream investment trade organisations. There is conjecture over how effective voluntary standards can be, however it is clear that standards lend a degree of legitimacy and structure to fledgling industries as well as clarifying accepted practice through rules[36].

Stakeholder Engagement

Engagement is an important issue for SRI as, through shareholder activism, SRI can represent interests of stakeholders traditionally not recognised in corporate processes.

AccountAbility released its AA1000 Assurance standards series on stakeholder engagement processes in 1999 to complement the Global Reporting Initiative (GRI) guidelines. Together the two appeal to the broad notion of how stakeholder inclusion can produce sustainable business practice. The GRI is one of the dominant guides to what Sustainability Reports should include and has created a degree of comparability between corporate reporting on economic, environmental, and social dimensions of business activities. The AA1000 then sets out how these reports should be compiled, with an emphasis on stakeholder engagement and auditing for assurance to improve business accountability and performance[37].

The most recent stage in the development of SRI relevant standards is the release of a draft of AccountAbility's new AA1000 Stakeholder Engagement Standards (AA1000SES) in September 2005. These standards formally integrate stakeholder engagement into everyday business organisation rather than as an ancillary commentary. Stakeholder engagement is a relevant issue to SRI investors on two fronts. Principally, as shareholder activists some investors engage with corporations as stakeholders themselves. Thus, the new guidelines give their actions more legitimacy and "can guide

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[35] CERES (2005) *Framing Climate Risk in Portfolio Management* June 2005 www.ceres.org/pub
[36] Baue, W (2005) "AccountAbility cooks up a new recipe with stakeholder engagement standards", *Social Funds,* 16 September www.socialfunds.com/news/print.bgi?sfArticleId=1807
[37] AccountAbility, "The AA1000 Series" www.accountability.org.uk/aa1000/default.asp

their advocacy"[38]. SRI researchers can also use the AA1000SES as a guide to measure the degree to which potential investee companies responsibly engage with stakeholders.

"Social investors exist in the space between large, influential institutional investors, and stakeholders who have been excluded previously".

***William Baue**, Social Funds*

Locally, the ASX has included stakeholder engagement as an element of its compulsory listing rules. All trading companies must disclose their adherence or otherwise to the 10 principles of the ASX 'Good Corporate Governance' Document, in their Annual Report. Principle number 10 states the company will "… establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders"[39]. If companies are disclosing non-compliance with any of the principals, they must provide a reason and the ASX200 are subject to ongoing auditing requirements of their implementation[40].

Environmental Disclosure

In addition to the GRI, numerous guidelines exist to assist companies accurately report against environmental indicators in a way that is useful to potential investors and interested stakeholders. The Department of Environment and Heritage released guidelines to environmental reporting in Australia. Any mechanism that increases the comparability, accuracy, and depth of company sustainability reporting will facilitate SRI. Non-financial reporting has predominantly been in the form of environmental assessments. Globally, 42% of non-financial reports were exclusively environmental in 2004, compared to 14% with a more holistic sustainability focus[41].

In Australia, Environmental reporting is dominated by the mining and water sectors, and a high proportion of reports produced in the Asian and Australasian region have external assurance[42].

5.2 The nature of the Australian investment industry

5.2.1 INSTITUTIONAL INVESTORS

This study has an institutional focus for a number of reasons. The dominance of wholesale or institutional investment in the ASX is a uniquely Australian phenomenon. The source of ASX liquidity is more concentrated than both the UK and the US where respectively, institutions hold only 49.8%[43] and 50%[44] of corporate equities, compared to 77.88% in Australia[45]. Consequently, institutional investors constitute the "most important ownership group"[46] of listed companies in Australia and as such have both economic power and lobbying power when it comes to obliging or convincing companies to address issues of corporate responsibility and sustainability. Instead of

[38] Baue, W (2005) "AccountAbility cooks up a new recipe with stakeholder engagement standards", *Social Funds,* 16 September www.socialfunds.com/news/print.bgi?sfArticleId=1807
[39] ASX Litsting Rules 4.10.3 www.asx.com.au/supervision/governance/
[40] ASX Listing Rules 12.7 www.asx.com.au/supervision/governance/
[41] ACCA (2004) *Towards Transparency: progress on global sustainability reporting 2004*, London
[42] ibid.
[43] NYSE Data Book *Holdings of corporate equities in the US by type of institution* www.nysedata.com/factbook
[44] Eurosif (2003) *Socially Responsible Investment among European Institutional Investors: 2003 Report* www.eurosif.org
[45] Data sourced from: ASX, *End of Financial Year Summary*, 2003 www.asx.com.au
[46] Sparkes, R and Cowton, C J (2004) *The maturing of Socially Responsible Investment: A Review of the developing link with Corporate Social Responsibility* Journal of Business Ethics, 13, January, 2004, Netherlands

divestment, large institutional investors can actively express dissatisfaction and positively influence the decisions of corporate executives who are obliged to take notice of their most powerful shareholders.

Institutional investors include corporations and insurance companies investing their own funds such as stock, shareholder funds, and equity; superannuation funds that are typically investing on behalf of multiple stakeholders; and other institutions such as churches, and charities.

Superannuation

Superannuation or pension funds have been the driving force of SRI in Europe and the US and are equally important when it comes to shaping the nature of investment in Australia. Australia's ageing population and compulsory superannuation requirements positions superannuation as the most influential branch of institutional investment. Australian superannuation assets more than doubled from 1995-2004 to $540bn and one projection of superannuation assets indicates this figure will reach $2280bn by 2020[47]. Superannuation funds now account for more than 30% of the market capitalisation of ASX listed companies as well as 50% of the $3.7bn invested in unlisted venture capital[48] compared to 21.5% of total equity held by US pensions[49]. One third of assets invested by default strategies are allocated to the ASX. Therefore, as superannuation funds are often the majority owners of listed companies, they could "request or…instruct" corporations to take account of social or environmental issues[50].

Consequently, superannuation funds are positioned structurally to lead the uptake of SRI. In addition, the Australian Prudential Regulatory Association (APRA) directly regulates these funds, which is responsible for determining the standards that superannuation funds have to satisfy to gain or retain a licence. In this way, APRA provides a regulatory mechanism to influence the investment strategy of billions of dollars.

[47] ASFA (2005) "ASFA Superannuation Statistics- July 2005" www.superannuation.asn.au
[48] The Association of Superannuation Funds of Australia Ltd (ASFA) "Fact Sheet #10: Impact of superannuation on the economy", January 2004 www.superannuation.asn.au
[49] NYSE Data Book "Holdings of corporate equities in the US by type of institution" www.nysedata.com/factbook
[50] Sparkes, R and Cowton, C J (2004) "The maturing of Socially Responsible Investment: A Review of the developing link with Corporate Social Responsibility" Journal of Business Ethics, 13, January, 2004, Netherlands

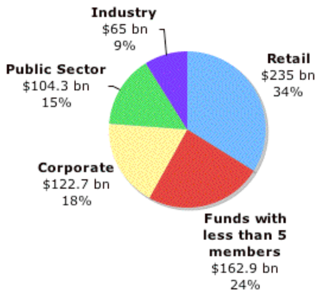

Figure 1 Overview of total assets held by superannuation funds (by fund type)[51]

Industry and public sector funds make up nearly a quarter of superfund assets (see figure 1). Given this, collective customer groups such as unions could have considerable influence over investment strategies. Unions in France and the Netherlands hold such powers and have used them to develop and adopt SRI based pension funds policies.

Superannuation funds are distinctive in that they have a much longer-term investment perspective than many other investments. Protecting the long-term value of funds with investment lives of up to 30 years or more requires some consideration of sustainability and social responsibility issues. The Mays report released in 2003 argued that superannuation trustees should be matching their risk analysis horizon to the working life of its members[52].

Non profit institutions

Compared to superannuation funds and corporations, non-profit institutions are assumed typically to have negligible assets to invest. However, the Australian non-profit sector is worth roughly $70bn, or close to 10% of the economy, and the five largest churches' combined revenue in 2004 totalled $21.7bn[53]. This sector does not pay capital gains tax on any assets.

The non-profit sector can therefore play a powerful role in the promotion of SRI in Australia. The sector already contributes disproportionately more to SRI than other institutions (see figure 2) and is traditionally vocal about issues of social justice and sustainability. In addition, these organisations are scrutinised for examples of hypocrisy by the public. There is significant potential for SRI growth given the amount of money that charities, NGOs, and churches invest, and given the obvious compulsion to invest in-line with their stated social or environmental mission or goals.

[51] ASFA (2005) "ASFA Superannuation Statistics- July 2005" www.superannuation.asn.au
[52] Mays, S (2003) "Corporate Sustainability- an Investor Perspective: The Mays Report" Pg 27. Available Online: www.deh.gov.au
[53] Ferguson, A (2005) "Charities Inc", *The Business Review Weekly*, March, Vol 27

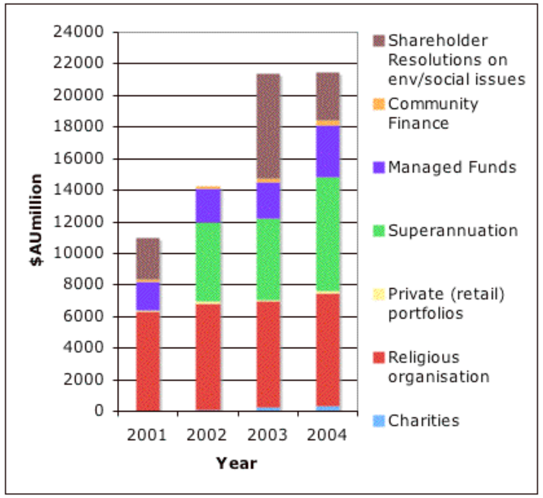

Figure 2 Australian SRI Breakdown (By source of funds) [54]

5.2.2 AUSTRALIAN BUSINESS AND FIDUCIARY DUTY

"Companies are not islands separate from the communities in which they operate…"

John McFarlane, ANZ CEO

The 2003 Mays Report catalysed CSR debate in Australia. The Report focused on the role sustainable business practice plays in reducing a corporation's overall risk profile and in creating new business opportunities[55]. John McFarlane, CEO of ANZ, argues, "Companies are not islands separate from the communities within which they operate"[56]. It is increasingly recognised that business engagement with the community, other stakeholders, and the environment is tantamount to longevity in the market.

The fiduciary duties of superannuation funds and other investor trustees include the analysis of company risk profiles. Company risk incorporates all aspects of operations that may jeopardise business growth and sustainability, including environmental and social policies. The Mays report concluded that CSR practice provides a key indicator to investors of the future performance of the company and as such is of strong interest to the investment industry[57].

[54] Data from: Deni Greene Consulting Services, *Socially Responsible Investment in Australia- 2004*, Ethical Investment Association www.eia.org.au
[55] Mays, S (2003) *Corporate Sustainability- An Investor Perspective: The Mays Report* Available Online: www.deh.gov.au
[56] McFarlane, J (2005) *Thinking outside the money box*, The Age, 2 September, 2005 Available Online: www.theage.com.au
[57] Mays, S (2003) *Corporate Sustainability- An Investor Perspective: The Mays Report* Available Online: www.deh.gov.au

The future of fiduciary duty in Australia

Fiduciary duty is both a challenge and an opportunity for the expansion of SRI. Whilst corporate directors are constrained from considering "non-financial" factors in management decisions, the uptake of CSR and SRI related corporate policies will be limited. However, there is an increasing consensus that it is now consistent with fiduciary responsibility to address climate risk[58]. The debate about interpretations on fiduciary duty is summarised by UNEP FI research[59] and the CAMAC inquiry report[60] published this month.

Fiduciary responsibility equally extends to company directors who invest shareholders' funds. Certain types of institutional investors' financial interests are tied up in the macroeconomic stability of the national economy as a whole, or the long-term state of the environment. For instance, insurance companies have a pecuniary interest in promoting industries that do not contribute to climate change, or lead to increased crime rates. Similarly, superannuation funds have a long-term investment horizon, and therefore a responsibility not to invest in sectors that are detrimental to the robust and sustainable growth of the economy (and protection of the environment).

In 2004, the Connecticut State Treasury along with other State pension funds in the US, filed a shareholder resolution with American Electric Power demanding to be informed on how the company was intending to respond to climate change related risk. In particular, the changes posed in terms of widespread pressure to reduce greenhouse gas and CO2 emissions. This example of engagement was initiated on the basis that the pension fund trustees had a fiduciary duty to maintain the long-term viability of their portfolios and AEP posed a threat to that[61]. AEP responded positively and released a report on environmental risk disclosure.

'The question that you may be asking is why should a pension fund be interested in a long-term like climate change, when many of us live or die by quarterly or yearly performance data?...There are two reasons: Firstly, we are universal owners. Secondly, we need to meet the real needs of our members and beneficiaries'.

Professor Sir Graeme Davies,
Chairman, Universities Superannuation Scheme Ltd

Portfolio mangers are required to consider risk and return. Climate change in particular is of concern to institutional investors because of the multitude of risks it presents to returns. In the long term, climate change poses litigation risks to companies that may be held accountable for diminishing the quality of life for past, present, and future generations. There is also long term physical risks of climate change and whilst their exact economic manifestations are uncertain, they will undoubtedly harm industries that depend on the physical environment and human health such as agriculture, forestry, health care, and of course insurance[62].

In the short term, the risk of future regulation regarding climate change affecting companies is very real. Regulatory risk is of particular concern to portfolios that include heavy carbon intensive industries. Arguably, many fund managers are miscalculating the risks and costs of investment by not factoring in the almost certain eventuality that these industries will attract carbon costs from new

[58] Investor Group on Climate Change (IGCC) (2005) *A climate for change: A trustee's guide to understanding and addressing climate change*
[59] Freshfields Bruckhaus Deringer (2005) *A legal framework for the integration of environmental, social and governance issues into institutional investment*, Produced for the Asset Management Working Group of the UNEP Finance Initiative, October 2005
[60] Corporations and Market Advisory Committee (2005) *Corporate Social Responsibility Discussion Paper*, November 2005 http://www.camac.gov.au
[61] Ceres (2004) *Questions and Answers for Investors on Climate Risk,* December 2004 www.ceres.org/pub
[62] Ceres (2005) *Framing Climate Risk in Portfolio Management*, 1 June 2005 www.ceres.org/pub

regulation[63]. Liabilities associated with shifts in norms extend to reputation risks from shifts in what is seen as acceptable corporate behaviour[64].

[63] Ceres (2005) *Framing Climate Risk in Portfolio Management*, 1 June 2005 www.ceres.org/pub
[64] Hawley, JP and Williams A T (2002) *Can Universal Owners be Socially Responsible Investors?*

6 SRI: THE GLOBAL EXPERIENCE

This section covers important examples of legislation, initiatives, and institutions that have boosted SRI momentum. These global precedents have been grouped based on the type of policy instrument used:

Direct Regulation

- Pension Act (1995)	UK
- Trustee Act (2000)	UK
- National Pension Funds Government Bill (2001)	Sweden
- Federal Employee Responsible Investment Act	US

Indirect Regulation

- Mandatory Sustainability reporting	France et al.
- Improving disclosure relating to shareholder proxy voting	US
- Improving disclosure relating to environmental and social risk	UK

Non-regulatory Mechanisms

- Government sponsored annual ranking of sustainability reporters/non-reporters	Germany
- Applying SRI to government investment	France
- Government portfolio for CSR	UK
- Including sustainability reporting in listing rules on national stock exchange	South Africa

These same examples of policy were tested for industry support in Australia through the survey.

6.1 Momentum all around the world

Global trends in the past five years have seen the level of SRI increase markedly in some regions; as well as interest grow in areas such as East Asia where it had not existed previously. Europe has experienced an exponential rise in SRI with 50% of financial institutions offering SRI products[65]. In particular, SRI in Europe has benefited from changes to disclosure laws that have increased transparency and helped standardisation within the industry.

6.2 Direct Regulation

The growth of SRI overseas has been initiated typically by government reforms targeting superannuation or pension funds. The following section outlines some of the key pieces of regulation that have directly stimulated SRI.

SRI changed markedly in the UK with the introduction of the Pension Act (1995) amendments and the Trustee Act, both in 2000. Both pieces of legislation target institutional investors and have contributed to remarkable growth in SRI uptake in the UK.

The **Pension Act (1995)**, amended in 2005, requires occupational pension funds to publish a Statement of Investment Principles (SIP) that discloses the extent (if at all) social, ethical, or environmental (SEE) considerations the fund incorporates in the selection and retention of investment options[66]. The amendment to this legislation has seen many trustees adopt stated SRI policies. However, unlike the subsequent Australian Financial Services Review Act (2001), and German disclosure laws (2002), the Pension Act does not require the SIP to state a method of implementation. Thus, there appears to be a significant variation between the number of pension funds who have a stated SRI policy and the number that actually implement it[67].

This discrepancy between policy and implementation could be a consequence of the way SRI is implemented. In the UK, £84.2 bn of pension equity is subject to engagement compared to £1.8 bn that use negative/positive screening techniques. In contrast, 25% of German pension funds have a stated SRI policy and, unlike the UK, use screening as the predominant method of implementation[68].

Engagement is harder to monitor than a solid screening process because of vague definitions about what it actually involves from shareholder voting to an undefined “dialogue” process. The type of legislation the government introduces can strongly influence the method used in SRI implementation. The UK government published details recently of the Company Law Reform Bill which would enable it to introduced mandatory institutional investor voting disclosure[69].

The **Trustee Act (2000)** requires that all charity trustees apply relevant SEE considerations to investment decisions to ensure the corporations in their investment portfolio are “suitable” with regard to the charity’s stated aims. This legislation has compelled UK charities to apply negative screening to £16 bn [70] or 76% of all equity subject to SRI.

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[65] ACCA (2004) *Towards Transparency: progress on global sustainability reporting 2004*, London; pg 12
[66] Eurosif, “Eurosif SRI Report 2003”
[67] Whilst only 13% of surveyed UK Pension funds reported not taking SEE considerations into account, 17% of the same group of trustees did not use any recognized SRI mechanism (i.e. screening, engagement, or proxy voting) and 32% reported using none of these mechanisms frequently. Ashridge Centre for Business and Society, “Just Pensions: A Survey of Trustees”, January 2004
[68] Eurosif, “Eurosif SRI Report 2003”
[69] http://www.dti.gov.uk/cld/clauses.htm
[70] Eurosif, “Eurosif SRI Report 2003”

The Swedish experience clearly demonstrates how the government can stimulate mainstream SRI uptake by targeting the superannuation sector. Introduced in response to strong public opinion, the Swedish **National Pension Funds Government Bill** (2001) states: "investment activities must take ethical and environmental considerations into account without relinquishing… high returns on capital"[71]. This legislation had real consequences on the €65 bn[72] invested in these funds, for example the default fund for Swedish nationals dropped 28 companies from its portfolio based on poor environmental and human rights practices. Furthermore, this legislation created competition between the other national funds, as each strongly promoted their own brand of SRI, inadvertently leading to commercial institutional investors launching SRI funds (following public interest).

The **Pension Reserve Fund** (FRR) was created by French law in 2001 with both a commitment to SRI and an explicit long-term outlook[73]. The fund was developed to finance the increased pressure on social security that government envisaged, because of a predicted short fall in private pension funds by 2020. The Funds Under Management (FUM) currently totals €600 mn and is distributed between a maximum of six SRI asset managers, each with a mandate over a minimum of €50 mn. These fund managers will be assessed over (the significantly long time frame of) five years in line with the FRR's long-term orientation. The SRI strategies are therefore designed to have long-term influence and be ambitious with such large amounts allocated to each manager. The funds will be managed according to a list of SRI principles provided by the FRR that include:

- *respect for international law and basic worker rights*

- *corporate environmental responsibility*

- *job development through better management of human resources*

-*respect for consumers and fair trade practices in local markets*[74].

Because of these multiple criteria, the FRR has encouraged "inclusive processes" of stock selection through Best in Class methods rather than processes that apply negative screening or by excluding certain economic sectors. The FRR Executive Board Member Antoine De Salins explains that this policy will significantly affect the emerging French and European SRI markets based on the size of FUM "The size of the FRR RFP, … €600 mn to start out, will help structure the SRI market, giving it the necessary liquidity it needs." [75].

In the US, the growth of SRI has also been led by pension funds. The most recent development was the **Federal Employees Responsible Investment Act**, which was introduced as a bill in early 2005. Once passed, government pension funds are compelled to offer an SRI option under the Thrift Savings Plan. In 2002, US pension funds held some 22%[76] of total market equity; providing the potential for this act to stimulate mainstream growth of SRI.

The Pension Act, Swedish Laws, and US Bill all target the investment activity of superannuation funds with the goal of increasing the volume of SRI. The UK Pension Act is closer to what exists in Australia, in that it aims to increase the transparency and clarify the legality of SRI oriented funds

[71] The Ethical Investment Research Service (EIRIS) (2003) *How responsible is your pension?* www.eiris.org/Pages/TopMenu/Public.htm
[72] Eurosif, (2004) Pension *Programme SRI Toolkit* 2003-4
[73] Department of Parliamentary Services (2005). *Research note no. 43: The Future Fund*, 4 April, 2005 www.aph.gov.au/library
[74] Fonds de reserve pour les retraites (2005) *The FRR's SRI investment strategy and SRI mandate policy*, June 2005 Available online at: www.fondsdereserve.fr/FRRs%20SRI%20investment%20strategy.PDF
[75] Baue, W (2005) *French Pension Reserve Fund commits 600 million Euros to Socially Responsible Investment* Social Funds.com, 8 July www.socialfunds.com/news/article.cgi/article1750.html
[76]NYSE Data Book, *Holdings of corporate equities in the US by type of institution"* www.nysedata.com/factbook

through disclosure. This has consequently led to an increase in SRI momentum in both countries. Although dynamic, it is generally accepted that pension funds control up to one third of the UK stock market[77], and they form the largest pool of capital in Australian economy.

6.3 Indirect Regulation - Reporting

Critics of SRI often argue that increased operating costs associated with research and monitoring makes SRI too expensive and unprofitable. Furthermore, companies are spending substantial amounts of time and money to fill out lengthy, detailed, and repetitive questionnaires about their operations for prospective SRI funds. Thus, any regulation that increases the transparency of corporate behaviour and leads to frequent auditing of corporate sustainability reports will directly benefit the SRI industry and reduce the amount of overlap from independent research.

Stakeholder demand for disclosure, particularly from SRI analysts, has increased pressure on corporations to produce reports, and likewise a higher number of published reports have facilitated the operation of SRI. This interdependent link between the occurrence of sustainability reporting, CSR and SRI was recognised in Europe where numerous laws have been passed to encourage public disclosure.

Examples of legislation and government initiatives that the Australian government could model future reporting regulation on include:

- Most recently as of July 2005, the Operating and Financial Review (OFR) has become a mandatory reporting requirement for all UK listed companies. Companies are obliged to include in their Annual Reports full disclosure of environmental, ethical, social, branding, and reputational risks associated with their operational strategies and performance.

- Environmental reporting laws have been enacted across Europe in the past decade including **France, Denmark, Netherlands, Norway and Sweden**. They are particularly comprehensive in France where from 2001 the "New Economic Regulations", Law no. 2001-420 have enforced corporate SEE disclosure for publicly quoted companies. Disclosure must include water, energy and other resource consumption, emissions, biodiversity impacts, waste management, and issues of non-compliance to pertinent laws. In **Hong Kong,** the public sector has been required to publish environmental reports by law since 1999.

- The **German** Federal Fund for the Environment sponsors an annual review of Public Environmental Reports (PERs) and exposé of non-reporters.

The success of governments to motivate business to produce timely and detailed reports has been positive. For instance, Japan does not legally require environmental disclosure apart from an act similar in scope to Australia's National Pollutant Inventory, and yet boasts the world's highest incidence of reporting. Japanese disclosure is also typically more detailed and quantitative with 75% of major corporations issuing public environment reports and 80% producing CSR reports in 2005[78]. In Japan, the government's promotion of reporting and publication of guidelines has a dramatic influence on its uptake. Similarly in Hong Kong, one of the main drivers for reporting have been large, free, government run seminars for private companies.

[77]WWF (2002) *To Whose Profit? Building a Business Case for Sustainability* www.wwf.org.au
[78]KPMG (2005) *International Survey of Corporate Responsibility Reporting*, June 2005, www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf

Despite the smaller proportion of companies, Asia and Australasia accounted for 25% of non-financial reports produced between 2001- 2003[79] demonstrating a strong and developing CSR business culture and potential for further initiatives.

The **US Securities and Exchange Commission regulation S7-36-02** serves as a useful example of indirect regulation. From January 2003, new rules forced mutual funds and investment advisers to disclose their proxy voting records. This regulation is not specific to SRI funds and builds capacity by enhancing transparency. Before S7-36-02, SRI fund managers using shareholder advocacy through proxy voting had no accountability to vote in the interests of their clients[80].

This regulation makes the process of SRI more transparent and will ultimately raise consumer confidence in the implementation of SRI processes[81]. It builds an inherent SRI capacity, in that it "provide[s] the industry with a public foundation upon which to build consumer confidence".

No such legislation currently exists in Australia; however there is an opportunity for funds to develop their own voting guidelines in line with their respective corporate governance policies.

6.4 Non – Regulatory Mechanisms

6.4.1 PROMOTING SRI TO INSTITUTIONAL INVESTORS – California and the UK

In 2004, the Californian Treasurer Phil Angelides proposed the **Greenwave initiative**. Greenwave publicly challenges the two largest superannuation funds in the US (CalPERS and CalSTS) to invest $1 bn in environmentally screened portfolios and a further $500 mn in emerging environmental technologies[82]. This initiative is likely to have significant influence as CalPERS and CalSTS, who hold combined portfolio assets of $277 bn, often set behavioural precedents for other institutional investors in California and the US, so large is their market influence.

In addition to the investment challenge, Greenwave calls on the funds to demand environmental accountability and reporting, and to audit their own real estate portfolios to maximise sustainability including energy efficiency and green building standards[83]. The initiative was launched in the first half of 2005 with huge public and federal support.

Since Greenwave, the Treasurers of Maine and Vermont have made steps towards similar initiatives indicating that interest in responsible investment of public funds is steadily increasing.

The UK Government has taken a more indirect approach to promoting SRI in the context of CSR. The Department of Trade and Investment (DTI), Minister for CSR, and AccountAbility are currently studying the positive impacts CSR has on national levels of competitiveness[84]. The government is simultaneously promoting voluntary initiatives that business can incorporate, such as sustainability reporting, to improve CSR and thus serve the information needs of SRI investors.

SRI is also being promoted in the UK through government initiatives that emphasise the importance of applying holistic considerations to investment. The importance of assessing performance with a "balanced scorecard" approach rather than by shareholder value alone, was a key outcome of a UK

[79] ACCA (2004) *Towards Transparency: progress on global sustainability reporting 2004*, London
[80] Rockefeller and Company. Letter to Jonathan Katz, SEC. Re File No. S7-36-02. 5 December 2002
[81] Rockefeller and Company. Letter to Jonathan Katz, SEC. Re File No. S7-36-02. 5 December 2002
[82] The Rose Foundation, *Environmental Fiduciary Project* www.rosefdn.org/efp.html
[83] Baue, W (2004) *California Treasurer Proposes Environmental Screening for State Pension Investments* February 06 Accessed Online 21/10/05 sriadviser.com/article.mpl?sfArticleId=1336
[84] (2004) Corporate *Social Responsibility: A Government Update* www.csr.gov.uk

workshop hosted by the DTI and Forum for the Future between business, government and NGOs in May 2003[85].

To date the actions of the UK government to stimulate interest in CSR and SRI has been promising: Almost €200 bn of UK equity holdings are subject to SRI engagement as a part of the fund managers' own policies and guidelines including those funds owned by insurance companies[86].

6.4.2 OTHER COMMUNICATION AND INFORMATION MECHANISMS

Education

The European Social Investment Forum (Eurosif) has embraced education as a primary method to encourage SRI uptake. This concept is demonstrated by a number of initiatives they have undertaken this year with support from the European Commission. Among them are:

- The Eurosif SRI **2004-05 Pension Programme Toolkit**[87] is a user-friendly guide designed to assist pension fund trustees to incorporate SRI as an integrated part of their financial portfolios. By targeting pension funds, Eurosif recognises the opportunities presented by large institutional investors to mainstream SRI.
- Eurosif combined with Viego, Europe's first CSR rating agency, to publish **sector reports** outlining the key SEE risks of specific industries[88]. The reports present both a financial and a stakeholder interpretation of risk and are designed to help: "policy makers, mainstream asset managers, companies, and pension fund trustees understand risks that lie outside the realms of traditional financial analysis, but may influence investments"[89]. This initiative recognises and aims to meet a demand for information to guide SRI that is not being met by company reports.
- Sector reports have been released on the hotel and tourism industry (July 2005) and the chemicals industry (October 2005), with more to follow covering all sectors including the automobile industry due later in 2005.

The UK Social Investment Forum recently found in a survey of financial advisors that despite growing consumer interest, the know-your-client obligations and further new research countering myths about under-performance, there is reluctance to ask whether clients want ethical, environmental or social concerns to be taken into account in their investments[90].

Other Union/ Trade body guidelines

The **Johannesburg Stock Exchange (JSE)** has adopted recommendations similar to the ASX Corporate Governance principles that include sustainability reporting[91].

Insurance companies in the UK and the Netherlands have created SRI guidelines through their respective trade bodies.

Trade unions have been a strong force behind both the development and management of SRI funds in **France** and the **Netherlands**. Both major Dutch trade unions[92] are directly involved in the

[85] www.csr.gov.uk
[86] Eurosif, (2004) Pension *Programme SRI Toolkit* 2003-4
[87] Eurosif (2005) *Pension Programme SRI Toolkit 2004-2005* www.eurosif.org/pub2/lib/2004/11/pensiontk/eurosif-pension-toolkit-2004-2005.pdf
[88] Subsequently the Eurosif sector reports have been compiled by groups other than Viego, including EIRIS.
[89] Eurosif (2005) *Initiatives: Sector Reports* www.eurosif.org/pub2/2activ/initvs/index.shtml#sectrep
[90] http://www.uksif.org/Z/Z/Z/lib/2005/10/25-rr-press-IFAsurv/index.shtml
[91] ACCA (2004) *Towards Transparency: progress on global sustainability reporting 2004*, London

coordination of their 83 industrial pension funds. The unions drew up an investment code for pension funds in 1999. As a result, the two largest Dutch pension funds (amongst the 5 largest in continental Europe) adopted SRI policies in 2001. In France, a coalition in 2001 between Trade Unions and the Trade Union Alliance for Employee Savings Plans responsible for the second wave of SRI uptake[93]. Unions are also influential in the **Spanish** and **UK** SRI industry despite the lack of formal codes of practice. There is a strong social bias in the nature of union involvement with SRI criteria

[92] The FNV (Dutch Trade Union Confederation) and the CNV (Christian National Trade Union Confederation)
[93] Eurosif (2003) *Socially Responsible Investment among European Institutional Investors: 2003 Report* www.eurosif.org

7 SURVEY RESULTS

The 2005 Mercer Fearless Forecast survey found that 85% of surveyed investment managers in Australia and Asia predicted all SRI-related practices (screening, shareholder activism, etc) would become mainstream practice within 10 years[94]. The ISF online survey "Mainstreaming Socially Responsible Investment: A role for government?" was developed to help identify from Australian industry stakeholders:

- the perceived impact of current initiatives and public policy in the area;
- support for potential policy initiatives that could be taken (based on successful international examples and precedents) and;
- disclosure and reporting issues.

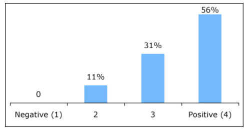
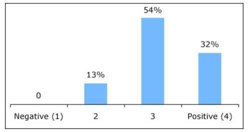
During the survey period[95], 45 finance industry professionals and stakeholders completed the survey, with a further 40 registering for notification of results. About 46% of participants were from the finance and investment sector, 35% from related research or consultancy organisations, and the remaining from NGOs, private business, media and other organisations.

7.1 Results

A series of seven questions was asked, with the following results.

7.1.1 PERCEPTION OF SRI DRIVERS

Participants were asked first about their perceptions of the drivers of SRI. We asked participants to what extent nine factors have in influencing the uptake of SRI in Australia. Respondents were asked to rate the factors on a scale of 1-4, 1 being negatively influencing uptake, 4 being positively influencing uptake.

Level of concern about sustainability and ethical issues Mean: 3.5 Standard Deviation: 0.70	
Performance of the Australian economy Mean: 32. Standard Deviation: 0.65	

[94] Mercer Investment Consulting, (2005) "SRI: What do investment managers think?" (Accessed Online 10/05: http://www.merceric.com/summary.jhtml/dynamic/idContent/1174905;jsessionid=ILQA2VYBRZTLMCTGOUGCHPQKMZ0QYI2C#mercer)
[95] 12 September- 21 October, 2005

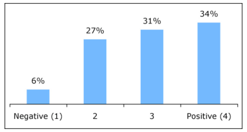
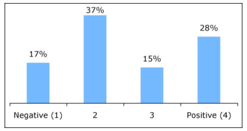
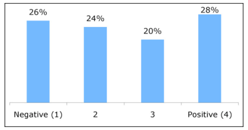
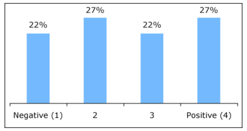
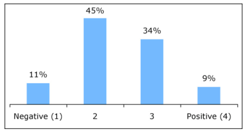
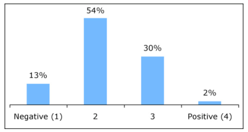
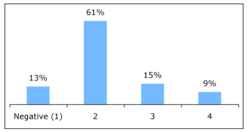
Level of Corporate Social Responsibility (CSR) interest by institutional investors Mean: 2.9 Standard Deviation: 0.95	
Level of understanding about what SRI/ethical investment means Mean: 2.6 Standard Deviation: 1.10	
Perception of SRI performance Mean: 2.5 Standard Deviation: 1.18	
General awareness of SRI as an alternative Mean: 2.5 Standard Deviation: 1.13	
Level of policy intervention by government Mean: 2.4 Standard Deviation: 0.82	
Fund Management Fees from new SRI research and management costs Mean: 2.2 Standard Deviation: 0.70	
Limit of investment options Mean: 2.2 Standard Deviation: 0.79	

Figure 3: Reponses to the question "*To what extent do the (following) factors influence the uptake of SRI in Australia (either positively or negatively)*"[96]

It appears the present climate is an opportune time with 86% of respondents believing the Australian economy's performance is positively driving SRI uptake.

[96] Number of responses for each part of the question ranged from 44-46.

7.1.2 IMPACT OF EXISTING INITIATIVES

Participants were then asked two questions regarding the change achieved (or likely to be achieved) by existing government (or other institutional) initiatives. We first asked specifically about the Financial Services Review (FSR) Act (2001) and then about a range of eight initiatives including the FSR Act.

Figure 4: Responses to the question *"Do you believe the FSR Act (2001) has achieved its purpose to 'promote transparency, comparability, comprehensibility, and accuracy' of SRI product information", Proportion of respondents (%).*[97]

With 46% of respondents *doubtful* that the FSR had achieved this purpose, and a further 25% *strongly doubtful* there seems to be opportunity to review its utility and effectiveness. We asked respondents for comments on how the legislation might be improved. Suggestions have been summarised as follows:

- Clarity regarding 'grey areas';
- Clearer format which would enable its implementation;
- Combine with changes to trustees duties, availability of CSR information about companies etc.;
- Enforcing compliance with the legislation and disclosure of non-compliance;
- Further appreciation from ASIC regarding the extent of compliance in increasing costs and complexity for practitioners;
- Awareness-raising more generally (PDSs are not often read).

[97] Number of responses, 43.

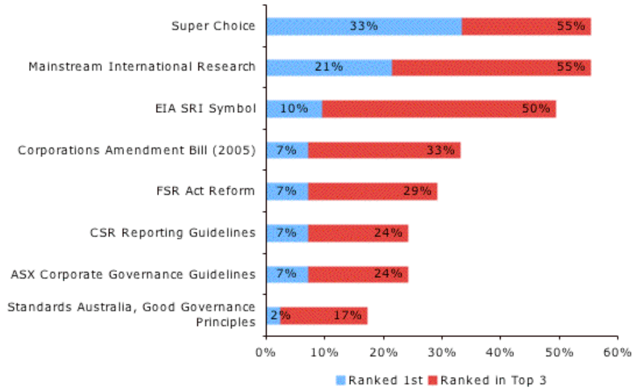


Figure 5: Responses to the question *"Please rank the (following) initiatives in terms of their actual or potential impact on SRI take up. Rank from 1 to 8 (1 having the most impact, 8 the least impact)", Proportion of respondents (%).*[98]

It appears that recent initiatives were seen as the most favourable with the advent of *Super Choice* being the ranked in the top 3 by 55% of respondents (33% ranked it first), *mainstream international research about SRI* ranked in the top 3 by 55% of respondents, and the *Ethical Investment Association SRI label* ranked highest by 50% of respondents.

7.1.3 POTENTIAL ROLE OF GOVERNMENT: Future initiatives

The main section of the survey provided respondents with 19 policy options that have been employed internationally and asked for the five options they most supported. The results are shown in figure 6.

[98] Number of responses, 42.

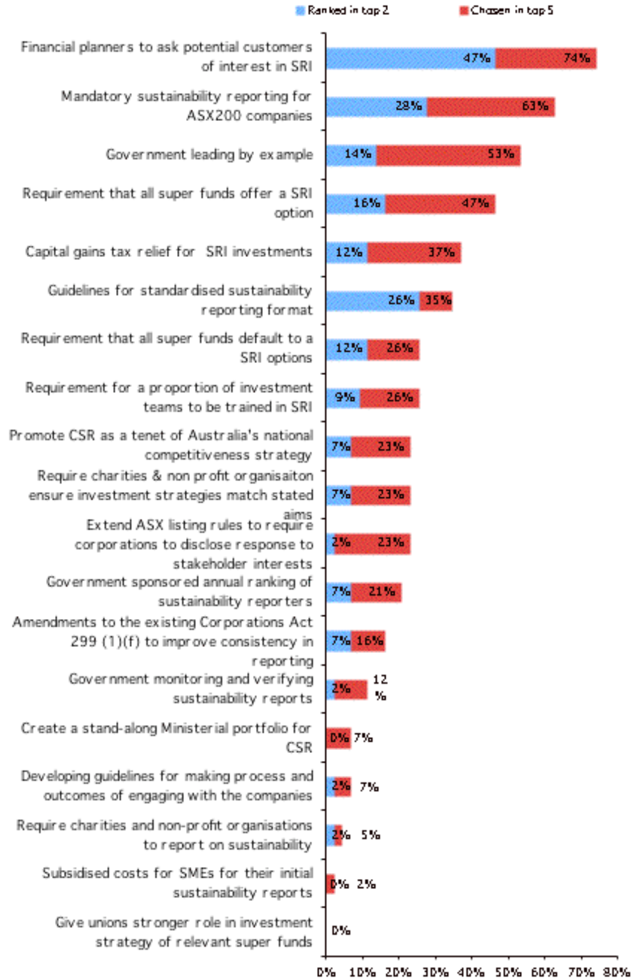


Figure 6: Responses to the question *"Please select and rank five of the following 19 actions in terms of your level of support (all have international precedence). Select and rank from 1 to 5 (1 being the action you most support)"*[99]

[99] Number of responses, 43.

Financial planners asking potential customers if they were interested in SRI investing, as a requirement of the initial profiling process was the most significant issue to respondents with 74% selecting this option. This option was particularly popular with finance industry respondents (85%) and private business and NGO respondents (75%). This response reflects a lack of recognition for the ASIC Best Practice Guidelines for Financial Planners stating that financial service providers should inquire as to "whether environmental, social, or ethical considerations are important to the client and if they are conduct reasonable inquiries about them.[100]" Research indicates that 80% of investors between the ages of 25 and 39 and 72% of investors aged 40 to 59 said they would consider screened SRI investments if given a choice (Resnik Communications/KPMG Consulting, 2000).

Mandatory sustainability reporting for the ASX200, as it has been for publicly listed companies in France since 2001[101], ranked second, selected by 63% of respondents, evenly spread across the range of respondents (60% - 63%).

Applying SRI to the Australian Government Future Fund[102], as an illustration of the government leading by example, with 53% of respondents selecting this option. Again, financial industry respondents (65%) and private business and NGO respondents (50%) were particularly favourable towards this option. The equivalent **Pension Reserve Fund** in France was legislated in 2001 with a commitment to SRI and an explicit long-term outlook.

All super funds offer an SRI option as a requirement, as is currently being explored in the UK by Department for Environment Food and Rural Affairs[103], was ranked fourth, with 47% of all respondents selecting this option in their top 5. This option was particularly popular with business and NGO respondents (63%) but not so popular with finance industry professionals (25%).

We also asked for other suggestions. Responses included:

- Revise corporate directors' and trustees' duties to incorporate social/environmental considerations;
- Create a certification process for Australian standard on CSR
- Include SRI-related education in financial planning qualifications.
- Good Reputation Index style annual reports done by an independent evaluation panel
- A major public awareness raising campaign about Sustainability and SRI investment…promotion through the financial services industry.
- Legislated carbon targets for all companies.
- Requiring fund managers to offer SRI funds or screening for sustainability via stronger disclosure requirements in PDSs.

[100] PS 175.110 www.asic.gov.au
[101] As part of the New Economic Regulations, Law No 2001-420
[102] On 10 September 2004, the Treasurer announced that a Future Fund would be established to fund the Commonwealth's unfunded superannuation liabilities
[103] http://www.clear-profit.com/fw/defra.htm

We were also interested in participants view on moving towards a focus on long-term shareholder returns.

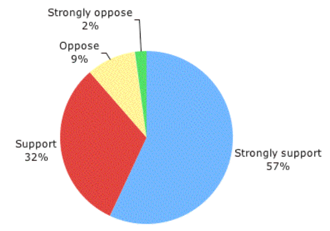


Figure 7: Responses to the question *"Are you in favour of encouraging investors to commit to longer term investment", Proportion of respondents (%).* [104]

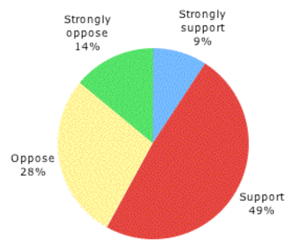


Figure 8: Responses to the question "Are you in favour of higher dividends for long-term shareholders", *Proportion of respondents (%).*

Investigations into other potential mechanisms to encourage a long-term focus would seem to be supported.

[104] Number of responses, 42.

7.1.4 DISCLOSURE AND REPORTING ISSUES

Respondents were also asked about the improvements required and the barriers to better sustainability reporting for businesses.

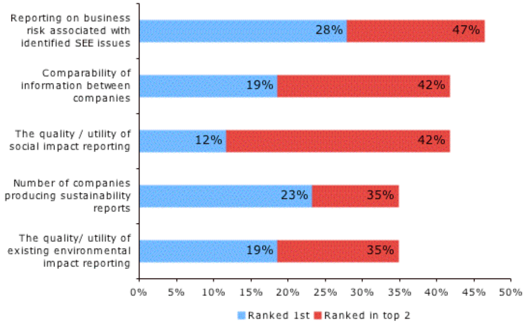


Figure 9: Responses to the question *"Please rank (these) aspects of reporting based on the level of improvement needed. Rank from 1 to 5 (1 needing the most improvement, 5 needing the least improvement)"*[105]

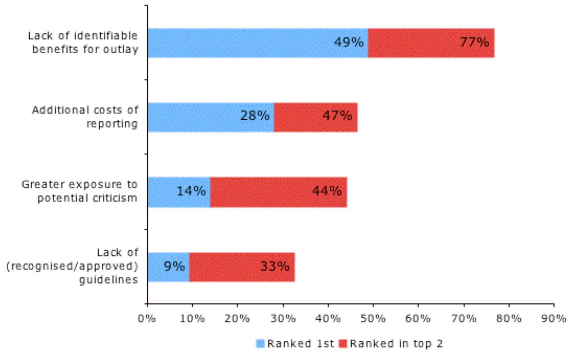


Figure 10: Responses to the question *"Please rank the (following) barriers for companies in sustainability reporting. Rank from 1 to 4 (1 being the greatest barrier)."*[106]

The largest barrier identified was as *a lack of identifiable benefits for outlay* by 50% of respondents. The presence of the *Global Reporting Initiative and similar guidelines* appear well accepted with 38% of respondents rating a lack of recognised guidelines as the lowest barrier.

[105] Number of responses, 44.
[106] Number of responses, 44.

8 CONCLUSIONS: WHAT NEXT?

From the review of the Australian investment situation and global policy experiences a few general conclusions can be drawn:

- **Superannuation appears to be well positioned structurally** to lead in the mainstream uptake of more socially responsible investment.
  - The super-fund market is large, growing and holds a significant proportion of investments in Australia.
  - Super-funds are well positioned to undertake both engagement and screening and to get the mandate to do so from a well-defined and relatively stable customer base.
  - By their nature, both the customers and the funds have long-term goals for growth.
  - There is also strong precedence for pension-led SRI growth overseas.
  - Government is in a position, through APRA, to help direct this growth.
- **There is huge potential to drive change in non-profit, charity, and faith based organisations** that have investment portfolios not necessarily aligned with organisational mission or goals. These sectors are a relatively large part of the Australian market. They have some incentive to align their mission and investments from an ethical viewpoint and this incentive is likely to increase if their investments are made more publicly transparent.
- **Government has the possibility of using existing frameworks to help influence change** and the uptake of SRI (see section 5 of this report). In many cases, there is no need for further regulation.

The report and the survey results specifically also point towards the opportunity for policy makers:

- to **further investigate the range of options available to government** to support SRI. This survey and report forms a brief review and, is a starting point for informing work like this in Australia, reflecting similar in-depth work completed overseas (such as that which UK Department for Environment Food and Rural Affairs is currently undertaking).
- to specifically **review those policy options with some strong industry (and stakeholder) support** that included:
  - *requiring Financial planners asking potential customers if they were interested in SRI investing as a requirement of the initial profiling process*
  - *making sustainability reporting mandatory for the ASX200*
  - *leading by example and, for example apply SEE criteria to the Australian Government Future Fund*
  - *expanding SRI in super funds by requiring all super funds to offer an SRI option (or defaulting to an SRI investment fund).*

  ***Independent guidelines or information for consumers regarding the different funds and forms of SRI in the market place** would benefit the industry in general and would be necessary to support the first and last of these options. This would help to ensure that investors have the information necessary to make the best decisions for their needs.*

- to **review the utility and effectiveness of the FSR Act** in improving SRI based information, with 46% of respondents *doubtful* that the FSR had achieved this purpose, and a further 25% *strongly doubtful*.
- to **work with business and investigate the benefits from sustainability reporting** in order to highlight the value of this process.
- to **capitalise on current initiatives** such as Super Choice and the EIA symbol and on the current strength of the Australian economy and the growing level of public and institutional concern for the issues involved.

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10 APPENDICES

10.1 Glossary

AA1000SES	AccountAbility's Stakeholder Engagement Standards
ASX200	Top 200 companies in the Australian Stock Exchange
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investment Commission
CalSTS	Californian State Teachers' Retirement System
CalPERS	Californian Public Employees' Retirement System
CAMAC	Corporations and Market Advisory Committee
CSR	Corporate Social Responsibility
DEH	Department of Environment and Heritage
DTI	UK Department of Trade and Investment
EuroSIF	European Social Investment Forum
FSRA	Financial Services Review Act (2001)
GRI	Global Reporting Initiative
ISF	Institute for Sustainable Futures
OFR	Operating and Financial Review (2005)
PER	Public Environmental Reporting
SEE	Social, Environmental, Ethical
SME	Small and Medium Enterprises
SRI	Socially Responsible Investment
TBL	Triple Bottom Line
UNEP FI	United Nations Environment Program Finance Initiative

10.2 The online survey

The survey tool entitled "2005: Mainstreaming Socially Responsible Investment" can be accessed online at: http://surveys.uts.edu.au/surveys/sri/index.cfm

SRI – *Public Image*

In this section we're interested in your current perceptions of SRI

1. To what extent do the following factors influence the uptake of SRI in Australia (either positively or negatively) *[rate from 1 to 4, 1 being negative, 4 being positive]*:
   a. performance of the Australian economy
   b. fund management fees from new SEE research and management costs
   c. perception of SRI performance
   d. level of understanding about what SRI/ethical investment means
   e. level of concern about sustainability and ethical issues
   f. level of policy intervention by government
   g. general awareness of SRI as an alternative
   h. level of Corporate Social Responsibility (CSR) interest by institutional investors
   i. limit of investment options[i]
   j. Other ______________________________?

SRI – *Specific Initiatives (by Government and other institutions)*

In this section we want to learn about what change (if any) has followed specific initiatives in the investment industry

2. Do you believe the Financial Services Review (FSR) Act (2001)[ii] has achieved its purpose to "promote transparency, comparability, comprehensibility, and accuracy"[iii] of SRI product information? *[Rank from 1 to 4, 1 strongly doubt, 4 strongly believe]*
   a. Could the legislation be improved? ____

3. Please rank the following initiatives in terms of their potential impact on SRI take up. Rank from 1 to 8 (1 having the most impact, and 8 the least impact):
   a. FSR Act (2001) reform
   b. ASX Corporate Governance guidelines
   c. CSR reporting guidelines (e.g. DEH[iv] Guide to Environmental Reporting)
   d. Ethical Investment Association SRI Symbol
   e. Super choice
   f. Mainstream international research regarding SRI (Mercer, KPMG etc.)
   g. Standards Australia, Good Governance Principles, AS8000 (2003)

   h. Corporations Amendment Bill (2005) (leading to greater shareholder activism)

4. Please **select and rank five (5)** of the following 19 actions in terms of your level of support (all have international precedence- see notes). Select and rank from 1 to 5, 1 being the action you most support.
   a. As part of the initial profiling process, a **requirement** to ask potential customers if they are interested in investing in SRI[v]
   b. A requirement for a proportion of investment teams to be trained in SRI[vi]
   c. A government sponsored annual ranking of sustainability reporters and listing of non-reporters[vii]
   d. Guidelines for a standardised sustainability reporting format that includes disclosure relating to environmental and social risks[viii]
   e. Subsidised costs for SMEs[ix] for their initial sustainability report[x]
   f. Mandatory sustainability reporting for ASX200 companies[xi]
   g. Government leading by example e.g. applying SRI to the Future Fund[xii]
   h. Government monitoring and verifying of sustainability reports (as a quasi assurance overseer)[xiii]
   i. Require charities and non-profit organisations with gross revenue over $5million to report on sustainability issues
   j. Require charities and non-profit organisations with a gross revenue over $5million to ensure investment strategies are appropriate with regard to the charity's stated aims[xiv]
   k. Amendments to the existing Corporations Act 299 (1)(f) to improve consistency in reporting[xv]
   l. Capital gains tax relief for SRI investments[xvi]
   m. A requirement that **all** superannuation funds **offer** a SRI option[xvii]
   n. A requirement that **all** superannuation funds **default** to a SRI option
   o. Giving unions a stronger role in influencing the investment strategy of their relevant industry superannuation funds[xviii]
   p. Creating a stand-alone Ministerial portfolio for CSR[xix]
   q. Promoting Corporate Social Responsibility as a tenet of Australia's national competitiveness strategy[xx]
   r. Extending the ASX listing rules to require corporations to disclose how they respond to stakeholder interests
   s. Developing guidelines for making process and outcomes of engaging with the companies invested in transparent[xxi]

t. Other ____?

SRI – *promoting long-term thinking for shareholder value*

In this section we're interested in how to move towards a focus on long-term shareholder returns

5. Are you in favour of[xxii] *[Rank from 1 to 4, 1 strongly oppose, 4 strongly support]*:

   a. Encouraging investors to commit to longer term investment?

   b. Higher dividends for long-term shareholders?

   c. Greater voting rights for long-term shareholders?

   d. Assessing investment fund manager performance against longer term benchmarks[xxiii]?

   e. Encouraging ratings agencies to use longer benchmark periods (ie move away from 1,3 & 6 month periods)?

   f. Reporting absolute as opposed to relative perfomance

SRI - *Disclosure and Reporting Issues*

In this section we want to identify barriers to better reporting

6. Please rank these aspects of reporting based on the level of improvement needed. Rank from 1 to 5 (1 needing the most improvement and 5 needing the least improvement):

   a. the number of companies producing sustainability reports

   b. the quality/utility of existing environmental impact reporting

   c. the quality/utility of social impact reporting

   d. reporting on business risk associated with identified SEE issues

   e. comparability of information between companies

7. Rank the following barriers for companies in sustainability reporting (Rank from 1 to 4 (1 being the biggest barrier):

   a. Additional costs of reporting

   b. Lack of (recognised / approved) guidelines

   c. Lack of identifiable benefits for outlay

   d. Greater exposure to potential criticism

   e. Other __________________________________?

[i] For example, there is a reduced capital pool after screening out options; and the limited size of the ASX

[ii] Financial Services Review Act

[iii] Corporations Act, *Part 7.9 section 1013DA*, 2001

[iv] Department of Environment and Heritage

[v] The ASIC Best Practice Guidelines for Financial Planners state that financial service providers should inquire as to "whether environmental, social, or ethical considerations are important to the client and if they are conduct reasonable inquiries about them." (PS 175.110 www.asic.gov.au).About 80% of investors between the ages of 25 and 39 and 72% of investors aged 40 to 59 said they would consider screened SRI investments if given a choice (Resnik Communications/KPMG Consulting (2000), "Money Where Your Mouth Is" Sydney.

[vi]IFC's Sustainable Financial Market Facility operates Competitive Business Advantage workshops that train institutional investors in environmentally and socially sustainable investment opportunities and developing non-financial risk management systems. 200 financial institutions participate annually. www.ifc.org

[vii]The German Federal Fund for the Environment sponsors an annual review of PERs and expose of non-reporters

[viii] As of 1 July 2005, UK companies must disclose environmental issues as they relate to risk (as well as any social and ethical risks) in the Annual Report.

[ix] Small and medium enterprises

[x] Whilst SMEs recognise the benefits of sustainability reporting in terms of reducing operating costs and meeting supply chain requirements, many feel that the initial costs are unaffordable and "should be (partly) met… by the government " (Bubna-Litic, K & de Leeuw L, "Adding the Green Advantage- Survey of Australian SMEs, " 1999)

[xi]SEE reporting has been mandatory for publicly quoted companies in France since 2001 as part of the "New Economic Regulations", Law no 2001-420. Whilst many European countries have reporting laws, France's are by far the most extensive and require disclosure of biodiversity impacts, water, energy, and resource use, waste management etc

[xii] In France the equivalent Pension Reserve Fund (FPR) is required to invest in SRI. Centrally managed investment funds are an increasingly common way for governments to underwrite unfunded superannuation liabilities. The Australian Future Fund will be financed from budget surpluses

[xiii] 52.5% of respondents to a global survey on stakeholder attitudes to CSR reporting believe that external verification of reports is the most crucial aspect to increasing their credibility (Accounting for Good: The Global Stakeholder Report 2005, September 2005, Pleon Kohtes Klewes GmbH)

[xiv] The UK passed the Trustee Act in 2000 and now requires that all charity trustees apply relevant SEE considerations to make sure investment decisions are "suitable" with regard to the charity's stated aims. Charities predominantly practice negative screening to meet this requirement. Eurosif, "Eurosif SRI Report 2003"

[xv] (e.g. inserting a materiality threshold to reporting or making more explicit to whom it applies)

[xvi] The 2002, UK Budget included a Community Tax Credit aimed at attracting capital to disadvantaged neighbourhoods. Capital Gains Tax relief on SRI works on the same principle i.e. private or institutional investment that benefits society should be subsidised by taxation rewards

[xvii] As of January 1, 2002, the Swedish National Pension Funds Government Bill states: "Investment activities shall take ethical and environmental considerations into account without lowering the overall objective of a high return" This legislation was introduced in response to strong public opinion. www.sricompass.org/trends. In the US, the Federal Employees Responsible Investment Act (introduced as a bill in 2005) will force government pension funds to offer a socially responsibility investment option under the Thrift Savings Plan. Similarly, the Californian Treasury launched the Greenwave initiative in 2004 which amongst other policies challenges the two largest superannuation funds in the US (CalPERS and CalSTS) to invest $1billion in environmentally screened portfolios and a further $500million in emerging environmental technologies.

[xviii] As in France and Netherlands where trade unions have been a strong force behind both the development and management of SRI funds. Both Dutch trade unions are directly involved in the coordination of their 83 industrial pension funds. The unions drew up an investment code for pension funds in 1999. Unions are also influential in the Spanish and UK SRI industry despite the lack of formal codes of practice. (Socially Responsible Investment among European Institutional Investors www.eurosif.org)

[xix] As in the UK where the minister for CSR, Malcolm Wicks, works closely with the UK Department of Trade and Investment (DTI) www.csr.gov.uk

[xx] The DTI and AccountAbility are currently studying the impacts of CSR on national levels of competitiveness ("Corporate Social Responsibility: A Government Update" www.csr.gov.uk and www.dti.gov.uk/sustainability/sus/exec.pdf)

[xxi] Globally, 57% of the top 1600 companies mention auxiliary stakeholders in their CSR reports, and whilst 32% encourage feedback from them, only 8% actually respond to stakeholder feedback to show how their concerns are being considered (KPMG International Survey of Corporate Responsibility Reporting, June 2005, www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf)

[xxii] Taken from Adam, F and Gribben, C (2004) "Will UK Pension Funds become more responsible: A survey of trustees", Just Pensions, Ashridge Centre for Business and Sustainability, January 2004