

SUSTAINABILITY REPORTING IN THE FINANCIAL SECTOR

A Governmental Approach



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Foreword

Group of Friends of Paragraph 47

Given the role played, in many and diverse aspects, by the financial sector in our economies, the Group of Friends of Paragraph 47 investigated the ways and means governments, policy makers, regulators and supervisors could follow, in a consistent manner, to frame the appropriate enabling environment to ensure the contribution of this key industry to a sustainable, resilient and inclusive economy and society, primarily through its corporate sustainability reporting.

The publication of *Sustainability Reporting in the Financial Sector – A Governmental Approach*, the first report of its kind, is very timely. Indeed, it is today duly acknowledged that the private finance sector has a central role to play in the fight against climate change. One of the major outcomes of the December 2015 Paris Agreement is the up-front recognition of the role financial actors must play in “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. More generally, they are expected to make these financial flows consistent with the 2030 Agenda for Sustainable Development (Third International Conference on Financing for Development, Addis Ababa). Financial actors have also strongly committed to it as the Paris Pledge for Action illustrates. In order to have the capacity to monitor their contribution, sustainability reporting is a paramount and powerful tool both for corporate actors and policy makers. An incentive regulatory framework is essential to ensure the effectiveness of these business commitments.

The financial industry, through its lending and investment activities (whether project financing or asset management), has a major leveraging effect in fostering responsible and transparent management practices at global, national and regional scales. In this respect, financial actors have a special responsibility towards society, which should be strongly considered to form an integral part of their fiduciary duty. Since the global financial crisis in 2008 and albeit a stringent reinforcement of its regulatory environment, it is patent that the sector has not been aligned with a sustainable future. Such an alignment requires targeted and sector-relevant science-based disclosure of key material sustainability data and narrative.

Taking the advantage of its diversity, the Group of Friends of Paragraph 47 is in a unique position to provide food for thought to policy makers who wish to engage in the development of an enabling regulatory extra-financial reporting environment for the financial industry. Understanding industry dynamics through a thorough evaluation of the impact and contribution to sustainable development is vital to strengthen the outcome of public policies.

We strongly believe in the power of sharing experience. Building on the evaluation of our members' national case studies, this report aims to guide policy makers and regulators on the most suitable paths to develop a sound sustainable reporting public policy, considering country-specific and regional characteristics while bearing in mind the need for quality sustainability reporting that is relevant, comparable and auditable.

To meet this objective in a timely manner, one among the many lessons learned when working on this report is that it has become very clear that self-regulation is far from enough in the finance industry. Strong leadership is therefore required by governments who have several tools as highlighted in the various national case studies provided in this report.

Robin Edme

Chair of the Group of Friends of Paragraph 47

French Ministry of the Environment, Energy and the Sea



Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management

Finance is key to a functioning economy and society. The global financial system has changed rapidly during the past decades – and has raised a growing concern on its suitability for future generations. Money is flowing all over the world at the speed of light while labour force and production are limited in their possibilities to change places. Decisions of investors to get involved in projects scale up to the performance of economic sectors, national economies, and to impacts on a global level. Adverse effects caused by ruptures and failures in the financial system are spread extremely fast and persist over a long period. Finding political solutions to reform the system in a sustainable manner takes much longer. Even in 2016, eight years after the beginning of the 2008 crisis, it is a long way to transpose solutions in a way that strengthen the resilience of financial systems and contribute to a low-carbon, circular economy.

Aligning investment decisions and other financial services by the public and private sector with environmental, social and governance criteria will contribute to stabilizing the financial system and will be instrumental in achieving the Sustainable Development Goals. The global report of the UNEP Inquiry of 2015¹ argues that “there is now a historic opportunity to shape a financial system that can more effectively finance the development of an inclusive, green economy. This opportunity is based on a growing trend in policy innovation from central banks, financial regulators and standard setters, who are incorporating sustainability factors into the rules that govern the financial system.” The European Commission has recently announced that it will develop a comprehensive European strategy on green finance in the coming months.²

One way to identify and transpose good solutions is the exchange of approaches through peer learning mechanisms. Since 2012, the Group of Friends of Paragraph 47 has been pivotal in describing, sharing and advocating policy measures developed by the public and the private sector to promote sustainability performance and disclosure. This Financial Sector Report, illustrating the approaches of different GoF47 member countries and beyond them, provides for a “learning environment” to explore the spectrum of policy approaches contributing to a financial system that performs in a sustainable manner. The specific framework of the report and the appendix

¹ The Financial System We Need: <http://web.unep.org/inquiry/publications>

² http://ec.europa.eu/finance/capital-markets-union/docs/20160913-cmu-accelerating-reform_en.pdf

allow comparing different policy instruments and methods in a structured way. Best practice examples of GoF47 Public Financial Institutions show that governments can walk their talk by setting the framework of transparency disclosure for state-owned financial service providers.

Wolfram Tertschnig

Director

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UN Environment

Governments play a decisive role in creating an enabling environment for corporate transparency. This report, *Sustainability Reporting in the Financial Sector – A Governmental Approach*, developed by the Group of Friends of Paragraph 47 and UN Environment, responds to the need for an enhanced understanding of how policy makers can align the financial sector to sustainable development.

The 2008 financial crisis has reinforced civil society's calls for more responsible investment practices. The international community increasingly recognizes the importance of the financial sector in shaping a global economy characterised by high capital mobility across borders, and in being a crucial player to achieve sustainable development. As a decision-making tool that encourages public accountability, sustainability reporting can help stakeholders assess the allocation of capital and direct financial resources towards sustainable economic activities in an open and transparent fashion.

By focusing on governmental approaches to corporate reporting, this Report offers solutions that link and contribute to the work of UN Environment's Inquiry into the Design of a Sustainable Financial System. One of the key findings of this research is that one single sustainability reporting instrument is rarely appropriate, given the diversity of the financial industry. Instead, policy makers may need to apply a combination of instruments. The publication also points to significant challenges, starting from the lack of sectoral research. While the financial sector over time has become one of the main producers of sustainability reports, it remains difficult to evaluate their usefulness for readers. More harmonized data is clearly needed. Another key challenge points to the need for coherence in combining sustainability disclosure requirements and the numerous regulations already targeting the sector.

The way ahead may be complex, yet the benefits will by far outweigh the efforts. This report emphasizes the need for stronger collaboration between governments, the private sector, civil society and international organisations, an approach at the core of UN Environment's values. We encourage all stakeholders to join hands in order to build the financial system, and the future, that we want.

Ligia Noronha

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1. Introduction

1.1 Group of Friends of Paragraph 47

The Group of Friends of Paragraph 47 (GoF47) was created ahead of the Rio +20 United Nations Conference on Sustainable Development (UNCSD/ Rio +20) by the governments of Brazil, Denmark, France and South Africa. The GoF47's objective is to support sustainable development through sustainability reporting, transparency and disclosure, in line with Paragraph 47 of the Rio +20 Outcome Document, *The Future We Want*³.

Since 2012, the founding members have been joined by the governments of Argentina, Austria, Chile, Colombia, Norway and Switzerland. UN Environment and the Global Reporting Initiative (GRI) provide technical and coordination support to the Group in a Secretariat capacity.

The GoF47 recognises the primary role that governments play in moving society towards a sustainable model of development. Governments have the ability to apply 'soft' and 'hard' policy and legal instruments that can positively influence corporate behaviour. The GoF47 intends to bring governments and other stakeholders together to develop best practice examples of policy and regulation for promoting corporate sustainability reporting – using state-owned financial enterprises to set the example⁴.

The GoF47 believes that sustainability reporting is necessary for transparent, well-functioning market economies and for increasing the contribution of the private sector to sustainable development. It promotes the use of existing and widely used sustainability reporting principles, indicators and frameworks, with an emphasis on scaling up and including SMEs and developing countries.

The GoF47 promotes the exchange of experiences, best practice policies, continuous learning and an on-going emphasis on requirements for sustainability reporting in international negotiations. It has published several reports and conducted a number of dialogues with key stakeholder groups.

³ <http://www.un.org/en/sustainablefuture>

⁴ As expressed in the GoF47 working paper *Walking the talk: Leading by example through State-Owned Enterprise / Public Agency Reporting*: <https://www.globalreporting.org/SiteCollectionDocuments/2014/GoF47%20-%20Walking%20the%20Talk%20-%20Nov2014.pdf>

1.2 Research Methodology

1.2.1 GoF47 Framework for Policy Evaluation

The framework outlined below (the full tool is provided in Appendix 2) forms the foundation for the case studies in this report. It is directly based on the Framework for Policy Evaluation developed for the GoF47 report *Evaluating National Policies on Corporate Sustainability Reporting* (2015)⁵. As such, it takes into account the criteria for effective policy evaluation, including a policy's clarity of purpose, scope and application as well as its efficiency and effectiveness. The framework allows for a differentiated analysis of outcomes and impacts, which may not always be aligned. It can be applied to countries that have had policies in place for some time as well as to those that have adopted policies more recently:

1. POLICY EVOLUTION

- Context
- Process

2. POLICY DESIGN

- Objectives
- Applicability
- Scope and requirements
- Reporting approach
- Incentives and penalties
- References

3. POLICY MONITORING

- Interpretation and response
- Effect on reporting quantity and quality (impact)
- Effectiveness against objectives (success)

Key questions to address in each phase include:

Policy Evolution

What was the existing policy environment? Were there policies already in

⁵ <http://www.unep.org/resourceefficiency/Business/SustainableandResponsibleBusiness/CorporateSustainabilityReporting/GroupofFriendsofParagraph47/EvaluatingNationalPolicies/tabid/1060229/Default.aspx>

place related to corporate social responsibility (CSR) on which a new policy could be built? What were the national drivers and pressures for increased transparency? Which stakeholders were involved in negotiating the policy content? What were the main points of contestation and how were they resolved?

Policy Design

Is the objective of the policy clearly described? Who should apply the policy? Is the policy linked to other corporate reporting legislation? Is the policy complex and difficult to understand? Does it take a rules-based or principles-based approach? Does it define which sustainability issues to report on and how it should be done? What are the requirements for compiling and publishing the report? Is it explicit in the requirements for reporters to be in compliance? Does the policy have any built-in mechanisms to ensure compliance? Does it specify any incentives or penalties? Who verifies compliance? How is enforcement administered where there is no mandatory verification of compliance (e.g. by a third party)? Does it refer to international frameworks or regional/transnational policies?

Policy Monitoring

What has been the effect (impact) of the policy on reporting or the achievement of sustainable development policy objectives – either estimated or known through studies or research? Is the policy on track to achieve its objectives? Does the policy align with international expectations and best practices?

1.2.2 Scope of this Report

This report takes a detailed look at reporting by the financial sector. It explores the variety of laws, regulations, codes and voluntary initiatives that have driven reporting, illustrated through case studies. We recognise the differences between the terms policy, legislation and regulation, and will highlight these differences in the case studies. The framework generally uses ‘policy’ as shorthand for all three.

We also recognise that countries have taken different approaches. For instance, France and Colombia have a mandatory ‘push’ approach through legislation while countries like Brazil and South Africa follow the ‘pull’ approach adopted by stock exchanges who have incorporated reporting into their stock exchange or securities listing requirements and through adoption

of voluntary codes. We note that in countries like Switzerland, public pressure for greater transparency is a significant factor in changing behaviour. The imposition of appropriate sanctions through any mechanism is not simple.

Companies in many jurisdictions may face multiple requirements from different regulators requiring them to report on some – if not all – of the sustainability requirements. Regulators that exercise authority over the sector include financial services regulators, regulators of companies, stock exchanges as well as authorities that may impose requirements to report on various social, environmental and labour requirements. Not all of these will result in easily accessible information to stakeholders but, if available in the public domain, it could provide a significant amount of the information needed for sustainability reporting. In addition to general requirements imposed on all companies or organizations (e.g. South Africa's Black Economic Empowerment Act and Employment Equity Act or France's extra-financial reporting provision), as well as specific requirements applicable to companies within a certain segment of the financial industry (e.g. France's Monetary and Financial Code on reporting by asset management companies). Within each approach, we may also find variations in the formulation that combines elements of both.

This report will describe and compare different approaches and consider how each may – or may not – be effective in bringing about the desired outcomes. The resulting case studies will serve as important guidance for policy makers to design or improve their requirements.

1.3 Why the Focus on the Financial Sector?

As was seen in the wake of the 2008 global financial crisis, the activities of the financial sector affect individuals and businesses both nationally and globally. The financial services industry is a backbone of the real economy as it is a provider of financial capital. It is the essential piece in doing business around the globe and is potentially a key driver for achieving the transition to an inclusive, low carbon and resource efficient economy.

However, since the global financial crisis, it has become clear that the sector has not been fully aligned to a sustainable future. The current level of mobilisation of the world's financial capital is insufficient⁶ for achieving the Sustainable Development Goals and for the Paris Agreement⁷ reached at

⁶ <http://web.unep.org/inquiry>

⁷ http://unfccc.int/paris_agreement/items/9485.php

COP21⁸ to limit global warming to less than 2°C, if not 1.5°C.

Due to its lending and investment activities, the sector has the potential for major multiplier effects if it adopts and disseminates responsible and transparent practices throughout the financial capital value chain. Its decisions to fund, or not to fund, to invest or not to invest, and its views on what is too risky to insure and what risks are acceptable, send strong signals to the economy and can provoke rapid change and adaptation.

The sector encompasses a significant range of activities and of public and private money including:

- Development aid and infrastructure investments;
- The dispersion of public funds;
- Public and private retirement savings and investments;
- The deposit and use of privately held earnings and savings;
- Investments of all kinds including those in listed equities or securities;
- Corporate project finance, investment and commercial banking;
- Transactional banking;
- Mortgage and home loan finance;
- Insurance.

Sustainability reporting can be a decisive tool when transitioning to a sustainable economy. The UNEP Inquiry into the Design of a Sustainable Financial System and the World Federation of Exchanges as well as numerous other players, including front-running asset owners and managers, are calling for more targeted and sector-relevant disclosure of key sustainability data.

The needs of a sustainable future have been examined in detail in international negotiations and are set out in the 2030 Agenda for Sustainable Development, in the Sustainable Development Goals which were agreed in 2015, and in the commitment by Heads of State and Government to financing mechanisms for their effective implementation, as stated in the Addis Ababa Action Agenda (AAAA)⁹. The AAAA recognised 100 concrete actions critical to the achievement of the Sustainable Development Goals. All these initiatives recognise the instrumental role of sustainability reporting in building a sustainable future.

The GoF47 evaluated intergovernmental and national initiatives on

⁸ 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC)

⁹ Addis Ababa Action Agreement: www.un.org/esa/ffd/wp-content/.../AAAA_Outcome.pdf

sustainability reporting (SR) for the financial sector and best practice examples of sustainability disclosure by public sector financial institutions, in order to develop actionable policy recommendations for governments.

The findings and recommendations of this report will support the Member Governments of the GoF47 in providing global leadership to advance sustainability reporting in the financial sector.

TABLE 1 KEY INDUSTRIES WITHIN THE FINANCIAL SERVICES SECTOR					
	INDUSTRY	PUBLIC/ PRIVATE	KEY ACTIVITY	SOURCES OF CAPITAL	INDUSTRY SPECIFIC TRANSPARENCY INITIATIVES
BANKING	Retail Savings	Both models exist	Transactional banking and saving/credit instruments for individuals or smaller organizations	Deposits of wages, salaries, benefits, pensions	Financial sector supplements GRI, etc., or national banking associations central banks UNEP FI
	Commercial Investment	Usually privately owned (some stock exchange listed)	Transactional banking; Project finance; issue of bonds, etc., at competitive interest rates	Deposits, revenues and investments, international borrowing	Equator Principles IFC performance standards and similar. Local initiatives such as China's Green Credit Guidelines, Nigeria's Sustainable Banking Principles Basel Committee requiring risk disclosure
	Development Finance national and multinational	Usually public	Financing large scale infrastructure development and public entities such as local authorities	National taxes, sovereign wealth funds, donor funds	Self designed, modelled on IFC performance standards and reflecting national priorities

	INDUSTRY	PUBLIC/ PRIVATE	KEY ACTIVITY	SOURCES OF CAPITAL	INDUSTRY SPECIFIC TRANSPARENCY INITIATIVES
BANKING	Central Banks	Public	Control national money supply, regulate financial services and government funding	Taxes and investments	Nationally determined Basel Committee (risk modelling and reporting)
INVESTMENTS	Institutional investments Long term collective (e.g. pension funds)	Both	Investments national and international to secure future revenue for retirement or pension funding	Employee and employer contributions and revenue earned from investments – dividends, etc.	PRI AODP
	Retail investments	Largely private	Trade in stocks and shared for revenue	Private savings	---
	Stock or securities exchanges	Usually private	Market place, rules and regulations for the open trading of securities or shares in companies or instruments that meet listings requirements	Companies, institutional and retail investors	SRI indices Sustainable Stock Exchanges Initiative

	INDUSTRY	PUBLIC/ PRIVATE	KEY ACTIVITY	SOURCES OF CAPITAL	INDUSTRY SPECIFIC TRANSPARENCY INITIATIVES
INVESTMENTS	Asset Management	Both public and private	Investment analysts and specialists who manage portfolios on behalf of clients	Mainly institutional investors like government, pension funds, companies, individuals through collective product offerings	Growing number of initiatives calling on asset managers to reveal their ESG criteria, if any, and voting behaviour
INSURANCE	Long term	Largely private as many governments self-insure	Long term health and life insurance, retirement insurance and similar products	Investment of individual and or company contributions based on actuarial models	Principles for Sustainable Insurance
	Short term	Private and public	Asset insurance	Cost recovery and investment based on services provided	---

1.4 The Leadership Factor

Leadership, whether by government or other actors, such as the NGOs driving some of the voluntary codes, is critical to the success of all of these initiatives. Meaningful reporting requires either a pull or a push from government, from the market or from stakeholders. Some companies focus on compliance while others focus on reputational risks, peer or consumer pressure. A few set the pace based on internal values and beliefs. What is clear is that the frameworks

and methodologies must be relevant and targeted to ensure that the reporting leads to accountability, transparency and behaviour change where it is required.

1.5 Current State of Reporting in the Financial Sector

There is a commonly held public perception that reporting by the Financial Sector is inadequate and not adequately focused on material issues such that their primary impact is on funding or investing rather than in their operations. This has led to a significant growth in issue-specific or activity-specific reporting frameworks such as those required by Development Finance Institutions (DFIs)¹⁰ when on-lending to commercial or regional banks. Banks, as borrowers from DFIs, are confronted with numerous frameworks against which they must report and have frequently called for the harmonisation of frameworks and practices for reporting to the sources of capital and other key stakeholders in order to improve the quality of the reporting and reduce administrative costs – which get passed on to bank clients.

Issue-specific approaches to drive transparency, such as the Asset Owners Disclosure Project, or others that cover institutional investors such as the PRI transparency framework, tend to target certain parts of the financial sector – specifically long-term investors who wield the most influence in the view of the stakeholders involved in devising the systems. Many of these frameworks are voluntary and limited in what is reported. Some are focused on, for example, carbon emissions. The only real sanctions they can apply if reporting is incomplete or inadequate, is for a company not to appear in the leadership or investment ranking. In most cases companies have to opt in voluntarily or as a result of association membership, to specifically join each initiative. Few of these initiatives on their own provide a complete picture of the reporting organization's sustainability based on all material environmental, social and governance (ESG) factors.

There is little hard, independent, global data on the state of sustainability reporting by this significant sector. This report has therefore drawn statistics

¹⁰ IFC Performance Standards are the most commonly used standards for performance in key environmental and social activities and have been adopted, and sometimes adapted by many DFIs, along with the Exclusions lists, which set out those activities or sectors in which the IFC or any of the DFIs are unwilling to participate. Each DFI, including the IFC, then requires borrowing institutions to report on their performance in the use of the borrowed funds, how the appropriate performance standards have been applied, etc. Commercial banks with lines of credit with several banks can find themselves reporting in multiple formats.

<http://www.norfund.no/a-responsible-investor/environment-and-social-standards-article516-454.html>
<http://www.edfi.be/news/news/31-ifis-harmonization-initiative.html>

from a KPMG 2015 report¹¹ and from the GRI database¹² for the period 2013-2015 as a proxy. In its survey of global trends in CR reporting, KPMG reports that among the 100 companies it surveyed, 17% were classified as financial services sector companies using the International Classification Benchmark System. The next largest sector, for example, was the technology, media and telecoms sector which represented 10% of those surveyed. The GRI data reveals that financial sector companies produce a significant number of the sustainability reports in the database. However, without further research, no insights can be drawn about the quality or comprehensive nature of the reports produced as the data does not give granularity regarding the subsectors producing the reports and whether these provide information and analysis on key issues. Nor is there a comprehensive understanding that would indicate whether the number of reports simply reflects a larger sector with many more potential reporters (i.e. the industry is large) or whether there are more reporters within the industry report on sustainability issues than the comparative percentage for other sectors. Data about assurance is available in the GRI database, but does not provide a view on whether the assurance covers all indicators or not and experience indicates that in most instances it does not cover all aspects because of the cost and complexity of providing such wide-ranging experience. Nor can conclusions be drawn about whether the quantum of reports reflects comprehensive coverage of the sector. The data includes reports that use the GRI standards (G3, G3.1 and G4), reports that make reference to GRI as well as other sustainability or integrated reports, which have come to the GRI's attention. No sub-categorization is made within the financial sector, so it is not clear what percentage of the reports are produced by subsectors such as asset managers, banks or insurance companies nor what portfolio related indicators are covered. As can be seen from Figure 1, the geographic spread of reports brought to the attention of the GRI have a somewhat uneven geographic spread.

¹¹ www.kpmg.com/crreporting page 45

¹² GRI database 2 November 2015, the database is regularly updated.

FIGURE 1 SUSTAINABILITY REPORTS PER REGION

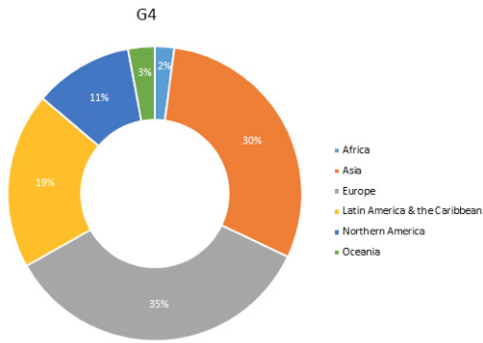


FIGURE 2 REPORTS PER SECTOR, G4 (LATEST STANDARD)

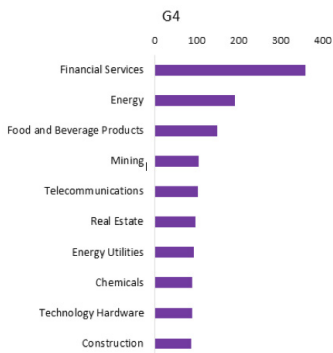


FIGURE 3 REPORTS PER SECTOR, G3/3.1 (EARLIER GUIDELINES)

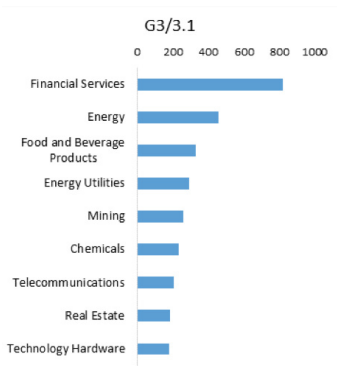
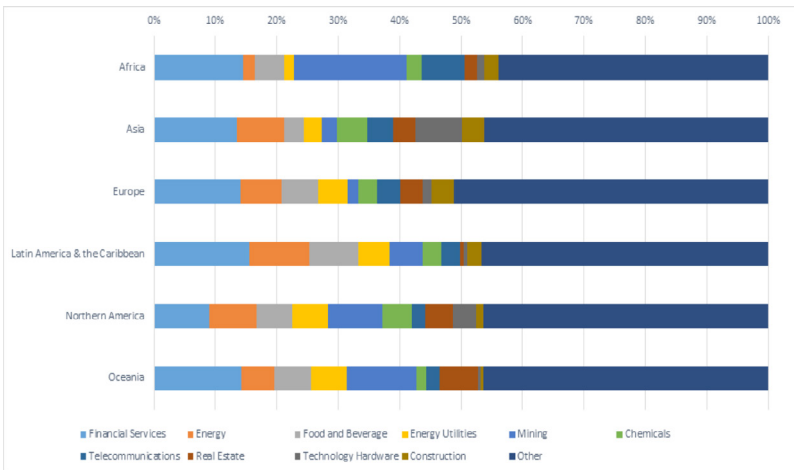


FIGURE 4 COMPARISON OF SECTOR REPRESENTATION OF GRI REPORTS



2. Findings and Recommendations

The following findings and recommendations are drawn from the analysis of national and international initiatives and policies that can be found in chapters 3, 4, and 5 of this publication, and in particular from the case studies of GoF47 countries.

2.1. Key Findings

1. The Financial Sector is a key enabler

- i. The financial services industry is diverse and complex, encompassing several industries or subsectors, such as retail and commercial lending, development finance, insurance, long-term savings and asset management, each of which plays an important but different role in providing the services required for a successful global economy.
- ii. The breadth of the sector and the diverse understanding of “sustainability reporting” make it difficult to apply a single framework and to achieve the same level of depth in the outcomes across the sector.
- iii. Specific subsectors would therefore play somewhat different roles in promoting or delivering transparency and disclosure with the ultimate goal of promoting sustainable development.
- iv. Little evidence could be found of meaningful sanctions for poor quality reporting or failure to meet legal, regulatory or even voluntary standards set for disclosure.
- v. The regulatory focus appears to be on long-term investors, such as pension funds and asset managers, to include ESG factors into their decision-making. In addition, development financiers are required to report on their ESG considerations by their providers of capital (mostly governments individually or collectively through institutions such as the World Bank or the International Finance Corporation).
- vi. Promoting transparency and disclosure in order to achieve a more sustainable global economy will require more targeted and detailed disclosure on key issues relevant to each subsector. However, cross-industry common disclosures on a number of limited issues is possible and in many cases desirable.
- vii. The understanding of sustainable development and corporate social responsibility varies between different parts of the industry, institutions and organizations.
- viii. It is unlikely that a single approach would work in all countries and for all parts of this diverse industry but that does not negate the need

to strive towards focus and some measure of comparability to enable decision-makers to assess the success and relevance of the initiatives as part of a continual improvement process.

- ix. Both the quality and quantity of the reports require attention and there is a need for frequent independent research.
- x. The relative success of the privately driven issue specific or sub-sector specific transparency initiatives, such as the CDP and the Asset Owners Disclosure Project (AODP), points to one way to gain momentum in promoting transparency. The success of such initiatives lies in providing positive profiles for leaders and potential reputational impact for laggards. These initiatives are more successful when stakeholders such as governments, industry bodies and opinion formers encourage, promote and support their use.

2. Impacts and contributions at product and service level

- i. While some global universal financial sector companies do have an operational footprint - particularly in energy consumption related to data transfer and the footprint of their retail branches - the multiplier effect is generally created when they extend products and services into the market.
- ii. More meaningful measures and metrics are needed to provide a barometer of the impact of the financial services sector up and down the value chain. However, the complexity of these should not be underestimated.
- iii. Transparency does not fully extend to products and services across the sector nor does it fully incorporate the consequences, impacts or outcomes of financial sector practice. While a bank may provide 'green financing' for renewable energy, it may also, for example, provide traditional financing to heavy impact sectors. Asset managers may be able to account for the assets under management (AUM) which track sustainability reporting indices.

3. Common policy observations

- i. Governments seeking to institute new policy measures on disclosure about sustainability issues within the financial sector should consider involving the numerous intergovernmental departments (such as financial regulators, trade and industry departments and others involved in key aspects of sustainability such as social and environmental areas). The supervision of the sector is usually under the remit of the ministries of finance or the treasury.
- ii. International sector regulatory bodies, such as the Basel Committee have a role to play in the sector's evaluation and reporting of risk and

reporting mechanisms.

- iii. Many countries appear to have started with a mix of voluntary and mandatory approaches, and with a mix of drivers from both the public and private sectors as illustrated by the initiatives in France, Brazil and South Africa, for example (see chapter 4).
- iv. Both rules based and principles based requirements exist.
- v. Principles based and “comply or explain”¹³ requirements currently appear to enjoy greater prominence in that this is part of the GRI G4 guidelines, the International Integrated Reporting Framework and various codes and stock exchanges driving transparency. It is also an inherent part of the French law.
- vi. The financial sector as a whole is governed under complex and divergent laws and regulations as well as soft law. It typically reports via a variety of ministries and/or the treasury. Commercial banks, for example, could report to departments that deal with company legislation, credit regulators, as well as to central banks, which take their cue from national monetary policy and committees such as the Basel Committee. Commercial banks may in addition be governed under companies’ acts or codes as well as stock exchange regulations if they are listed companies. Commercial banks that borrow money internationally could also be contractually bound to comply with ESG requirements that are conditions precedent for being granted loans by multilateral banks and development finance institutions that are focused on sustainable development.

4. Limitations of transparency

- i. Transparency serves many purposes: it enables but does not necessarily lead to sustainable development.
- ii. Transparency has not always driven better performance. To be fully transparent both process and outcomes (or impact) should be reported.
- iii. The strength of many voluntary reporting frameworks, such as the CDP and the AODP, is that they are accompanied by independent critical annual analytical reviews, which are publicly available and drive both better reporting and performance improvements.

5. Voluntary initiatives can play a key role

- i. Research shows that a significant number of private sector and NGO-led initiatives are being widely used to promote issue-specific disclosure, particularly within the climate change arena.

¹³ The “Comply or Explain” principle is often also referred to as “Report or Explain” or “Apply or Explain”.

- ii. Voluntary reporting frameworks provide important market-driven motivators to the corporate sector as evidenced by the significant growth in reporting to the UN Global Compact, CDP and the growing, global use of reporting frameworks (such as the GRI's) by major corporations even where no reporting requirement has been introduced by the government. As such, they assist in building reporting skills and the development of indicators and reporting methodologies. However, they do not have the capacity to achieve the uptake of sustainability reporting at scale and across all of the key indicators on their own.
- iii. Voluntary frameworks harness the significant expertise of the non-governmental sector in building the measures and indicators most relevant to critical subsectors.
- iv. Broader coverage of the sector can be achieved by combining voluntary initiatives and market-based instruments with regulation.

6. Voluntary initiatives can serve as inspiration and provide opportunities

- i. Building on existing voluntary initiatives could provide governments with fast improvements in terms of building credible and enabling environments for disclosure and thereby harness the significant work of experts that has already been incorporated into these voluntary frameworks.
- ii. Opportunities exist for the GoF47 to coordinate engagement with voluntary initiatives to create greater alignment of goals and methodologies and advance in the harmonisation of reporting frameworks for the financial sector that meet the needs of all stakeholders. Reporting on greenhouse gas emissions could provide an entry point, as this is the environmental area that has reached the strongest level of maturity in sustainability reporting and is a key challenge ahead of us as it was unanimously recognised at COP21 and in the Paris Agreement.¹⁴

7. Reporting scope and quality

- i. During 2014-15, disclosure on a limited number of issues, such as climate change, has been driven by a variety of government and non-governmental factors and now covers significant parts of the global economy – including the financial sector. Not all aspects of sustainable development are equally covered.
- ii. Stimulating academic research into coverage and quality of transparency and sustainability reporting by the sector would be useful to

¹⁴ http://unfccc.int/paris_agreement/items/9485.php

determine whether it is below the international average.

2.2. Key Recommendations for the GoF47

1. Disseminate the lessons learned from countries which have already implemented policies for financial sector disclosure and which have undertaken analysis of the success (or lack of success) in increasing meaningful disclosure.
2. Work with the relevant stakeholders (reporting framework developers, stock exchanges, industry associations, business leaders, civil society organizations, etc.) to identify the most critical reporting needs and promote stronger alignment of guidance tools for sustainability disclosure that can be applied or adapted by countries or ministries – building on those that currently exist, including single issue voluntary frameworks.
3. Endorse the use of the GoF47 Framework for Policy Evaluation as a tool for use by countries and regulators to promote improved regulation and requirements.

2.3 Recommendations for Policy Makers

1. Secure political champions in appropriate government departments that regulate or supervise the financial services sector.
2. Establish public sector leadership and set the example by regulating the disclosures by state-owned financial sector companies to improve disclosure, governance and accountability in the disbursement of tax revenues.
3. Create, support and harness the power of public-private partnerships to drive improvement in the reporting frameworks and analytical review of results.
4. Progression from voluntary to mandatory reporting requirements should be considered once the instruments are tested and reporting systems have been built up to ensure that the reports create a pull /push effect for improved performance.
5. Reward and recognise front-runners.
6. Set longer-term goals, milestones and minimum expectations for reporting by the financial sector (or key subsectors) to move from creating a reporting requirement to ensuring that it remains current, relevant and delivers the changes in performance and behaviour that is required.
7. Consider working with the numerous private sector and NGO initiatives such as the World Federation of Stock Exchanges, the Asset Owners Disclosure Project, the Carbon Disclosure Project, the Global

Compact, the Global Reporting Initiative and the Integrated Reporting Council, etc., to build on the methodological work already undertaken for the development of fit-for-purpose reporting frameworks for the different subsectors of the financial services industry to close the gap between market-relevant information and the broader sustainability reporting guidelines.

3. Finance Sector Specific International Initiatives

3.1 Addis Ababa Action Agreement

Finance is regarded as the mainstay for achieving the new 2030 Agenda for Sustainable Development, including the 17 Sustainable Development Goals (SDGs), adopted by world leaders in New York during September 2015.

The SDGs have been developed with a holistic approach to address global priorities across all the pillars of sustainable development, including ending poverty and hunger, reducing social inequality, tackling climate change, and preserving the planet's natural resources.

More than 100 concrete measures are defined in the Addis Ababa Action Agenda (AAAA). It addresses all sources of finance, and covers cooperation on a range of issues including technology, science, innovation, trade and capacity building.

The AAAA also stresses the necessity of aligning private investment with sustainable development, coupled with public policies and regulatory frameworks that provide the appropriate incentives. The international community also agreed on a new mechanism to facilitate financing for new technologies in developing countries.¹⁵

The agreement includes:

- Technology Facilitation to improve collaboration among governments, private sector, civil society, the scientific community, United Nations entities and other stakeholders;
- A Global Infrastructure Forum to address infrastructure gaps and highlight opportunities for investment and cooperation on projects that are environmentally, socially and economically sustainable;
- New social compact and social protection systems supporting the poor and vulnerable;
- Taxing harmful substances to discourage consumption and increase revenue;

¹⁵ <http://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html>

- Promoting affordable and stable access to credit for micro, small and medium-sized enterprises, implementing a global strategy for youth employment and the International Labour Organization Global Jobs Pact by 2020;
- Achieving the goal of 0.7% of gross national income for foreign aid;
- Strengthening least developed countries through financial and technical support;
- Strengthening international cooperation in tax matters;
- Mobilizing US\$100 billion per year by 2020 to combat climate change and to phase out inefficient fossil fuel subsidies.¹⁶

The agreement acknowledges the important role of corporate sustainability reporting to reach the global objectives:

- As a means to ensure corporate transparency and accountability in support of a behavioural change towards sustainable consumption and production patterns that protect ecosystems.
- As an integral component of the sustainable corporate practices that are needed to foster well-functioning domestic and international private business and finance, along with the integration of ESG issues into core business models and impact investing.

The AAAA recognises the need for “transparent methodologies for reporting climate finance” (AAAA, paragraph 60¹⁷ of the Outcome document).

The measures emphasized in the AAAA are in line with the recommendations set by the GoF47 in its publication *Evaluating National Policies on Corporate Sustainability Reporting*. The Agenda promotes sustainable corporate practices, including integrating Environmental, Social and Governance (ESG) factors into company reporting as appropriate, to help ensure transparency and accountability. It leaves space for countries to decide on the appropriate balance of voluntary and mandatory rules¹⁸. Furthermore, it recognizes the need for transparent methodologies for climate finance reporting.

¹⁶ <http://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html>

¹⁷ http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

¹⁸ Recommendation n° 5 of Evaluating National Policies on Corporate Sustainability Reporting: “Consider a combination of mandatory and voluntary measures”.

3.2 The Inquiry into the Design of a Sustainable Financial System

The Inquiry¹⁹ was initiated by UN Environment with a mandate to explore and advance policy options to align the financial system with sustainable development, with the objective of increasing the effectiveness of mobilizing capital towards a green and inclusive economy.

In its 2015 report, *The Financial System We Need*, the Inquiry looked at the realignment the global financial system would require, following the 2008 global financial crisis, to become stable and sustainable.

The Inquiry concluded that a “quiet revolution” is already happening as policy makers and financial regulators take action to build strong and sustainable financial systems for the needs of the 21st century. The report argues that concepts such as natural wealth and the circular, green economy have moved from the margins to become the substance of economic strategies and policies for businesses and nations.

The Inquiry’s findings and proposals indicate that the financial system can be transformed to better serve the needs of sustainable development. Moreover, such a transformation is essentially a matter of public choice – one that is being made in an increasing number of countries and across a growing portion of the financial system.

Significantly, for the GoF47, the Inquiry considers aspects of financial and monetary policies and financial regulations, as well as standards, including disclosure requirements, credit ratings, listing requirements and indices.

The Inquiry also focuses on the number of different rule makers for the financial sector and their roles. They include central banks, financial regulators, finance ministries, other government departments, standards institutions, and market-based standard-setters such as stock exchanges, and key international organizations and platforms.

3.3 Financial Stability Board Task Force on Climate-related Financial Disclosures

The Financial Stability Board (FSB) coordinates the work of international

¹⁹ www.unep.org/inquiry

standard-setting bodies and national financial authorities in the elaboration of financial sector policies that strengthen financial stability through regulation and supervision, among others. It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions.²⁰

Risks related to climate change are expected to increase in the coming years and the manner in which they are managed will depend, among others, on public and private stakeholders' capacity to access high quality sustainability information.²¹ The FSB therefore received a mandate from the G20 to work with organisations from the public and private spheres to assess how annual reporting by financial institutions can integrate climate-related issues. The FSB established the Task Force on Climate-related Financial Disclosures in December 2015 with a work plan in two phases:

- **Phase I:** Determining the definition and level of ambition of efficient and effective disclosure on climate-related physical, liability and transition risks, taking into account the information needs of users of this information for investment, credit, and insurance underwriting decisions. To this end, the Task Force issued a first report in March 2016 including a set of fundamental principles of disclosure. This first deliverable presents a framework and guidance for the recommendations that will emerge from the second phase of the Task Force's work.
- **Phase II:** Elaborating recommendations and guidelines for "consistent, comparable, reliable, clear and efficient"²² voluntary corporate disclosures in the area of climate-related risks, to be delivered in a final report at the end of 2016.

Task Force members include private providers of capital, issuers, rating agencies and accounting firms.²³ Throughout its activities, the Task Force seeks to engage with a diverse range of stakeholders (including companies, public sector representatives, non-profit organisations and academia) and to conduct public consultations.

Fundamental Principles for Effective Climate-Related Disclosures

As indicated above, the first phase of the Task Force's work has determined seven fundamental principles:

²⁰ <http://www.fsb.org/about/>

²¹ <https://www.bloomberg.com/professional/blog/bloomberg-to-head-climate-risk-taskforce-to-bring-greater-transparency-for-investors/>

²² https://www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf

²³ https://www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf

1. Present relevant information;
2. Be specific and complete;
3. Be clear, balanced, and understandable;
4. Be consistent over time;
5. Be comparable among companies within a sector, industry, or portfolio;
6. Be reliable, verifiable, and objective; and
7. Be provided on a timely basis.²⁴

Terms of Reference for Phase II

In order to set out recommendations for voluntary climate-related disclosures in financial reports, the second phase of the Task Force's mandate will be based on the fundamental principles above and will focus on the financial impact of climate change on companies' businesses. Overall, good governance processes should ensure the quality of disclosures, which should be as specific and complete as possible in informing about the material impacts of climate change on the company's operations and its risk management strategy.²⁵

3.4 UNEP Finance Initiative

The UNEP Finance Initiative (UNEP FI) is a global partnership between UN Environment and the financial sector. More than 200 financial institutions, including banks, fund managers and insurance firms, work with UN Environment to understand and analyse the effects of environmental and social issues on organizations' financial performance. UNEP FI's work is conducted through commissions on banking, insurance and investment and working groups on thematic issues. UNEP FI has played a significant role in mobilizing finance for renewable energy and energy efficiency and in focusing the property development sector on green buildings thereby increasing energy efficiency and lowering carbon emissions from the commercial environment. While it does not have a unique, mandatory reporting requirement, it strongly promotes best practice disclosure relevant to the sector.

A number of initiatives have stemmed from UNEP FI, including the Principles for Responsible Investment and the Equator Principles, which is now an

²⁴ https://www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf

²⁵ https://www.fsb-tcfd.org/wp-content/uploads/2016/03/Phase_I_Report_v15.pdf

independent member-driven organization that operates on a voluntary basis.

3.5 Principles for Responsible Investment

The Principles for Responsible Investment (PRI)²⁶ were created in 2006 under the auspices of the UNEP Finance Initiative and the UN Global Compact and supported by the Government of Switzerland, amongst others. There are 1,481²⁷ signatories with more than US\$59 trillion in assets under management who have signed the six principles.

Signatories are institutional investors, who recognize a duty to act in the long-term interests of their beneficiaries and that ESG issues can affect the performance of investment portfolios.

The principles can be summarized as:

1. Incorporating ESG issues into investment analysis and decision-making processes
2. Active ownership and incorporation of ESG into ownership policies and practices
3. Seek disclosure of ESG issues by the investees
4. Promotion of the Principles within the investment industry
5. Collaboration to enhance investors' effectiveness in implementing the Principles
6. Reporting on investors' activities and progress towards implementing the Principles

In its 2015-2018 strategic plan the PRI highlights the redevelopment of its reporting framework. It currently holds 800 transparency reports on its websites. These are reports against a PRI template with a series of YES/NO and multiple-choice questions specifically related to the investment and voting processes that asset managers employ. Environmental, social and governance issues addressed under the framework deal with demographics, national resource constraints, externalities, climate change, inequality, human rights and corruption.

An opportunity exists for the GoF47 to work with the PRI in the redevelopment of its reporting framework to create greater alignment of goals and methodologies.

²⁶ www.unpri.org

²⁷ As of February 2016

3.6 Conclusion

The current focus on the financial sector through specific international initiatives, including of intergovernmental nature, provides an opportunity for policy makers to introduce or strengthen their national initiatives. This increased awareness could be used to drive transparency, disclosure and behavioural change in the sector with a view to achieving sustainable development goals and addressing key global challenges.

4. National Case Studies from GoF47 countries

4.1 Legal Requirements for Sustainability Reporting: The Colombian and French Examples

The laws analysed in this chapter were developed in very different contexts and both set a national precedent in sustainability reporting of financial institutions. In France, Article 173 of the Energy Transition for Green Growth Law²⁸ built upon the existing requirements introduced by Articles 224 and 225 of the Law on National Commitment for the Environment²⁹. Article 224 emerged from a background of several soft law instruments that promote socially responsible investment (SRI) and sustainability reporting to a minor extent, whereas, in Colombia, Article 96 of the Law 1328 of 2009 was the first legislative instrument applying to financial institutions.

COLOMBIA: A CORNERSTONE OF SUSTAINABILITY REPORTING IN LATIN AMERICA³⁰

Before 2009, disclosure of social and environmental issues was a well-established practice among a number of Colombian financial institutions, which voluntarily followed international standards, despite the absence of formal requirements. The introduction of Article 96 of Law 1328 in 2009 constituted a milestone in the development of instruments that promoted transparency in the financial sector.

Since the adoption of Law 1328³¹ of 2009, which opened up the Colombian insurance market to liberalization and in Article 96 introduced a voluntary requirement to report, two new instruments that increase disclosure of ESG

28 Law no 2015-992 of 17th August 2015

29 Law no 2010-788 of 12th July 2010

30 <http://www.unep.org/resourceefficiency/Business/SustainableandResponsibleBusiness/CorporateSustainabilityReporting/GroupofFriendsofParagraph47/PoliciesandInitiatives/PolicyUpdates>

31 ARTICLE 96. "In order to promote the adoption and voluntary development of social responsibility activities by the financial, insurance and stock market system, the programme of social balance is hereby created as a business management tool that serves to disclose the impact said activities have on the Colombian population.

To this end, the National Government, within a maximum period of six (6) months from the enactment of this law, will define how the aforementioned entities comply with the duty to report, at least once per year, on the different programmes which they implement in Colombia according to their corporate governance policies to serve the underprivileged."

aspects as a transversal approach have emerged: the Code of Best Corporate Practices of Colombia, or Country Code (*Código País*), and the Issuer Institutions Recognition IR (*Reconocimiento IR*). The Country Code compiles recommendations for best practices in corporate governance for issuers both in the real economy and the financial sector. It was established in 2014 by the financial regulator, the Financial Superintendent (*Superintendencia Financiera de Colombia*), and applies to investors, issuers, infrastructure providers and supervisors. Those entities that agree to comply with the code disclose the adoption of its recommendations through an implementation report that is available to the public. These reports must address the availability of information: “(i) Is the website of the company user-friendly, so it is easy to access information associated or related to corporate governance? (32.2)” ; “(ii) In this regard, does the website of the company include at least the following links on sustainability: corporate social responsibility (CSR) policies, relations with stakeholders and the community, environment, etc. (32.3)”.

Another instrument serving as a tool to increase transparency of financial institutions is the Issuer Institutions Recognition (IR). Awarded by the Colombian Stock Exchange (BVC – *Bolsa de Valores de Colombia*), any issuer applying for recognition has to adopt the requirements contained in the Circular of the BVC. Among other provisions, issuers are required to publish a sustainability report and make it available on the company's website³², or publish information on its CSR practices in a separate document or dedicated section of the company's website. Additionally, only those companies with the IR recognition that belong to the equity index COLEQTY can be part of the COLIR index, a unique index that highlights issuers' commitments to investor relations and sustainability disclosure³³.

FRANCE AND ITS EARLY STEPS IN PROMOTING TRANSPARENCY REQUIREMENTS

France is one of the few countries that promulgated laws promoting ESG disclosure in financial institutions in the early 2000s. Two laws requiring disclosure on a “comply or explain” basis were created in 2001:

- Law 2001-152 of 19 February on the generalization of employee savings plans; and

32 Circular Unica de Bolsa de Valores de Colombia: https://www.bvc.com.co/pps/tibco/portalbvc/Home/Regulacion/Sistemas_Administrados/Renta_Variable?com.tibco.ps.pagesvc.action=updateRenderState&rp.currentDocumentID=5d9e2b27_11de9ed172b_-2c0b7f000001&rp.revisionNumber=1&rp.attachmentPropertyName=Attachment&com.tibco.ps.pagesvc.targetPage=1f9a1c33_132040fa022_-78750a0a600b&com.tibco.ps.pagesvc.mode=resource&rp.rectPage=1f9a1c33_132040fa022_-787e0a0a600b

33 http://www.bvc.com.co/pps/tibco/portalbvc/Home/Empresas/IR/Indice_COLIR?action=dummy

- Law 2001-624 of 17 July establishing the Pension Reserve Fund (FRR).

The law on the generalization of employee savings plans aimed at the diversification of investments and the development of employee share ownership, but also at encouraging the orientation of savings towards a more inclusive (or solidarity-based) economic model. With this law, company collective investment funds should specify in their bylaws “the social, environmental and ethical considerations their asset managers must respect, *if necessary*, when buying and selling securities, as well as the exercise of rights attached to them”. The second legislation, Law 2001-624 of 17 July, encourages, if not requires (in fact, the two versions are possible given the way the law is phrased), FRR’s Management Board to regularly report its investment policy orientation to the Supervisory Board, including how social, environmental and ethical considerations are integrated in the general guidelines of the fund’s investment policy.

Nevertheless, it was not until 2003 that the first legislation increasing transparency for funds, in particular Undertakings for Collective Investment in Transferable Securities (UCITS), was passed. Article 66 of the Law on Financial Security (Law 2003-706 of August 2003) created the obligation for portfolio managers to report on how voting rights of shares held in their UCITS were exercised³⁴. This obligation has been promoted by the French Association of Financial Management (AFG). In case such voting rights were not exercised, the reasons had to be duly explained. The reporting conditions were to be set by the Financial Markets Authority (AMF) within its General Regulation. They were complemented in 2005 by its Directive N° 2005-05 on UCITS of employee savings funds in its articles 19 and 20 for SRI occupational collective investment funds including in their bylaws a provision on the asset manager’s respect of environmental, social or ethical considerations when buying or selling securities and when exercising the voting rights attached. These funds were required to include in their annual reports a detailed specification of the selection criteria used in the analysis of social, environmental or ethical issues, their evaluation method, and to inform if their asset management company had referred to specialized third-party rating agencies³⁵.

The government has not been the only stakeholder engaged in promoting transparency and reporting. The private sector also had a positive impact by developing and using a variety of labels, codes and charters. Prior to the enactment of the Law on National Commitment for the Environment, the

³⁴ corporate.findlaw.com/litigation-disputes/recent-law-on-financial-security-improves-corporate-governance-in.html

³⁵ Instruction N° 2005-05 du 25 Janvier 2005: Relative Aux OPCVM d’épargne salariale. Retrieved from www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2290&Itemid=143&lang=fr

market already introduced three labels, respectively launched in 1997, 2002 and 2009:

- The FINANSOL label for solidarity savings products;
- The Inter-Union Committee of Employee Savings (CIES) Label for employee savings funds; and
- The SRI Label of Novethic³⁶ awarded to SRI funds that systematically integrate environmental, social and governance (ESG) criteria.

Likewise, influential organizations of the financial sector were providing tools to improve disclosure and developing charters to lead by example. In particular, the AFG and the Forum for Responsible Investment (FIR) published the first edition of the AFG-FIR Transparency Code in 2010. The Code is a translation of the Eurosif Transparency Code for Retail Funds, contains guidelines for reporting on ESG investment criteria, the ESG analysis process, the evaluation and selection of the investment policy and the voting and engagement policy.

4.1.1 Colombia

Policy Evolution

The Law 1328 of 2009 made provisions for consumer protection, the multi-fund scheme for private pension funds and the implementation of the insurance free trade agreement with the United States.

The legal process in Colombia takes several steps before a law is passed and includes a provision for civil society to bring issues to the law making process if they achieve a critical number of signatures to a petition. Law 1328 is part of the Colombian financial legislation.

The inclusion of Article 96 in Law 1328 was the result of detailed research followed by consultation with experts, stakeholders, public participation and an extensive parliamentary process. This law sought to standardize the methods of implementing and reporting on CSR programmes for companies affected by Law 1328.

Policy Design

Article 96 of Law 1328 of 2009 has the objective of raising awareness of the

³⁶ Novethic is a research center for SRI and CSR.

corporate social responsibility programmes being conducted by companies from the financial and insurance sector and the securities market³⁷. It requires the creation of a social balance programme to be used as a business management tool that serves to spread the impact of CSR activities across the Colombian population.

Its implementation decree is meant to provide a standard that establishes the broad parameters for presentation and disclosure to inform the public about social balance programmes. In order to fulfil this purpose, it establishes the conditions for disclosure and the content of the reported information. The financial institution has to disclose the requested information at least once a year (during the first quarter) in a way that is clear, complete and understandable for the general audience. Dissemination must be done through the popular media such as the internet and newspapers.

The information disclosed must include at least the following details:

1. Description of the social programme(s) implemented by the entity and name of the programmes;
2. Brief description of the activities, indicating the beneficiary sectors;
3. Date of completion of the programme activities;
4. Period covered by the information.

The content reported must correspond to programmes that were ongoing during the year preceding the disclosure and/or those that were being developed at the time the report is written, those that are progressing but not yet complete and those of an ongoing nature. Moreover, financial institutions may associate with each other to undertake the disclosure requirements or resort to their partnerships or financial conglomerates.

Even though the decree does not include penalties, the Financial Superintendent has sanctioning powers when there is evidence that financial institutions are not complying with the disclosure requirements and the publication of CSR programmes.

³⁷ More specifically: credit institutions; trusts; warehouses; pension fund managers and severance; entities managing average premium funds; insurance companies; insurance cooperatives; reinsurance companies; capitalization companies; professional risk managers; insurance brokers and reinsurance; exchange brokerage companies and special financial services; central bank; representative offices of financial institutions, reinsurers and market entities abroad; stock exchanges and brokers; goods and agricultural, agro-industrial products and other 'commodities' stock exchange, their brokers and entities performing clearing and settlement of transactions carried out through them; central securities depositories; entities managing trading systems; entities managing clearing and settlement systems; counterparty risk entities; investment management companies; risk rating agencies; securitization companies; administration entities who own trading systems and forex and societies managing forex regarding clearing and liquidation.

Policy Monitoring

Although the regulation does not require the use of a particular reporting channel, financial institutions have been using sustainability reports and/or annual reports with a special section on CSR activities to communicate the information. In addition, while the policy requires disclosure of the programmes implemented to serve the poorest sectors of society, financial institutions have included in their reporting information on other programmes covering, inter alia, environmental issues and/or human rights.

Before Article 96 of Law 1328 entered into force, some financial institutions, and particularly the largest (among them NYSE listed institutions), were developing CSR programmes and presenting them in sustainability reports in order to implement the highest international standards in this field. These were mostly based on the GRI's guidelines for the Preparation of Sustainability Reports and the ISO26000 Guidance on Social Responsibility.

So far, there are no studies or concrete evidence that are able to quantify the influence of the law in increasing the rate of sustainability reporting and enhancing its quality. However, in order to establish whether financial institutions were compliant with the rule (specifically as it relates to the publication of a report), the financial authorities conducted a checklist of 204 financial institutions in 2014. These institutions included banks, finance companies, financial corporations, insurance companies, trust companies, managers of pensions and severance funds, and stock brokerage firms. The study found that 88% of the institutions published the CSR or annual report on their website and complied with the recommendations on the minimum content to be reported.

In addition, the regulator found that the law has had a positive and very effective impact in the banking sector, which had been working to establish CSR policies and to prepare their reports following the conditions prescribed. Policy establishment is supported by the creation in 2011 of the Social Sustainability Committee of Asobancaria, Colombia's banking association. The committee consists of 28 financial entities and has as main objectives the promotion of green products, eco-efficiency and ARAS (Environmental and Social Risk Analysis). In addition, Asobancaria has also set up a "Green Protocol". Sixteen Colombian banks have signed the Green Protocol, and have developed credit lines that aim to encourage and support projects with social and environmental benefits.

While the law is consistent with most international standards that financial

institutions already followed before its promulgation in 2009, there are still some aspects in which financial institutions need to progress. These relate mainly to clarity and accessibility of information to the public.

Conclusion

Laws can provide an important stimulation of better practice, particularly when supported by relevant industry associations or market forces. Good sustainability reporting is built over time as practices, systems and methodologies mature.

4.1.2 France

Policy Evolution

Article 224 of the Law on National Commitment for the Environment (Law 2010-788 dated 12 July 2010) emerged from a structured process that gathered participants of the private and public sector, as well as unions and NGO's. This article requires asset managers to disclose how they consider ESG criteria in their investment strategies (notably regarding the management of their UCITS funds).

The consultation process of the law started in July 2007 and was programmed to go through five stages. In the first stage, which consisted of a dialogue to identify and elaborate proposals, working groups composed of state representatives, local authorities, employers and employees represented through unions, and NGOs participated in workshops to discuss topics of concern and propose programmes and actions for implementation. These were later submitted for public consultation.

SRI and sustainability reporting issues were not addressed in depth in the context of the working groups. The debates focused mainly on the possibility of strengthening the sustainability reporting requirements of the Law on New Economic Regulations (*Loi NRE*)³⁸ of 2001, and on increasing the scope of targeted companies. At that time, SRI was still a niche topic and several actors did not have the expertise to contribute to the debate. However, the few comments and proposals made on SRI, such as its development through employee savings plans; the creation of promotional campaigns in favour of SRI; and a green certificate based on SRI investments volumes, were strong

³⁸ The NRE law required in its Article 116 mandatory reporting to listed companies.

enough to form the base for Commitment 204³⁹ on SRI promotion⁴⁰.

The operational committee N° 25 “Business and CSR” was in charge of discussing Commitment 204. This time, institutions specialized in CSR and SRI, and financial sector associations and federations were invited to the discussion⁴¹. The operational committee came up with two sets of proposals to promote SRI. The first set addressed SRI promotion through information campaigns and was motivated by the significant growth of the SRI market, the low promotion of SRI products by bank branches and insurance brokers, and consequently the lack of trust by individuals to invest in SRI products. It resulted in Article 53 of the secondary legislation regulating the implementation of the Law on National Commitment for the Environment (2009-967 dated 3 August 2009). Article 53 stipulates that SRI should be encouraged through incentives and information campaigns. This resulted in the creation of “The SRI Week”, an initiative of the French Responsible Investment Forum (FIR), a founding member of EUROSIF and supported by the Ministry of Environment, Energy and the Sea (*MEEM*) in 2010. The annual event attracts experts from financial institutions, associations and universities, among others, to raise public awareness about all aspects of SRI.⁴²

The second set of proposals included promoting, at the European level, the need to publish how UCITS managers integrate ESG criteria in their SRI decisions, and encouraging institutional investors to publish how they integrate ESG criteria in their investment policies⁴³. The proposals were motivated by the different voluntary laws that incentivize employee savings and the role of institutional investors in the promotion of SRI.

THE REQUIREMENTS OF ARTICLE 224

Article 224 of the Law on National Commitment for the Environment applies to asset managers and open-ended mutual funds (called SICAV in France). Although neither the article nor its secondary legislation specifically outline the objective and do not explicitly mention SRI, the objective was widely

39 “Promoting socially responsible investing through information campaigns and incentive mechanisms (such as employee savings plans in the NRE Law”, (Workstream N° 25 - Operational Committee “Business & CSR” of the Grenelle de l’environnement).

40 Construire une démocratie écologique : institutions et gouvernance, synthèse rapport Groupe 5 : <http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/074000597.pdf>

41 Some of the institutions were: CSR Observatoire, FIR AFG, French Banking Federation (FBF), French Federation of Insurance Companies (FFSA) and French Association of Private Companies (AFEP)

42 MEEM-CGDD. L’investissement socialement responsable pour orienter l’épargne vers la transition écologique. p. 2. November 2014. Retrieved from http://www.developpement-durable.gouv.fr/IMG/pdf/05_CGDD_ISR_2_p_DEF_Web.pdf

43 Chantier 25 Comité opérationnel « Entreprises et RSE », Rapport final - 21 mars 2008 : http://www.developpement-durable.gouv.fr/IMG/pdf/rapport_final_comop_25-2-2.pdf

addressed in the parliamentary debates⁴⁴.

The secondary legislation does not include a precise description of the ESG topics that must be reported.

However, the targeted entities are explicitly defined; the text sets the reporting requirements at the level of the asset management company (table 2) and their UCITS funds (first column table 3). For those UCITS that do not take account of environmental, social and governance criteria simultaneously, the asset manager must signal it in its reporting.

It is important to highlight that in France the definition of ESG integration varies from the approach of EUROSIF and other European countries. Article 224 emphasizes the simultaneous consideration of Environmental, Social and Governance aspects, whereas in other contexts the consideration of one of the three pillars suffices. In addition, the secondary legislation specifies the reporting practical modalities. Information on how the asset management company takes account of ESG issues at the company level has to be published on its website. Information on how ESG criteria are taken into account in the investment strategy of their UCITS has to be published at two levels: (i) on the company's website, for each UCITS or by UCITS category and (ii) in the annual report of each UCITS. The secondary legislation entered into force on 1st January 2012 and gave companies a timeframe of six months to publish the information on their websites.

Two aspects were not covered in the secondary legislation: codes or guidelines and compliance. While there is no reference to a particular code or guideline, the text states that companies must specify whether the information is presented following a nationally or internationally recognized code or guideline. A new version of the AFG-FIR Transparency Code was published in 2013 in alignment with the new legal disclosure requirements. The second aspect not covered by the policy is the compliance mechanism which is assumed to be enforced by the French Market Authority in line with its duties to supervise the asset management industry and to ensure that entities are compliant with regulations. There are no penalties or sanctions for non-compliance. Nevertheless, reporters could positively signal their compliance through the existing labels in the market, and the adherence to the AFG-FIR Transparency Code, which is mandatory for all SRI funds that are open to the public and managed by member companies of either AFG or FIR.

44 Assemblée Nationale. Dispositions Relatives Aux Entreprises et à la Consommation, Article 82, Prise en compte par les gérants de portefeuille de la logique du développement durable. April 2010. Retrieved from <http://www.assemblee-nationale.fr/13/rapports/r2449-tl.asp>

A PLEASING BUT IMPROVABLE OUTCOME

A small number⁴⁵ of studies have been conducted to analyse the effectiveness of Article 224 in terms of disclosure, however, no organization has progressively analysed all the requirements of the article and their impact on reporting practices. Nevertheless, assessments have concluded that there is room for improvement.

The MEEM assessed the policy in October 2013⁴⁶. The results were relatively satisfactory considering that the law's secondary legislation had entered into force only the previous year. However, the disclosure rates in annual reports were much lower than those on websites. The only requirement that showed higher disclosure rates in annual reports was the indication that the UCITS was not SRI. In this case, 15% of the sample complied in the annual report, while 0% did it on the website. The reason of such low disclosure rates was attributed to the availability of the information in electronic format. An assessment of MEEM's study is provided in the GoF⁴⁷ report *Evaluating National Policies on Corporate Sustainability Reporting*.

The objective of the law is to promote ESG integration by establishing a limited set of reporting requirements that serve as a basis to encourage asset managers to factor in ESG issues in their investment strategies and allow a common framework to better inform clients. According to the Working Group 2 of the CSR Platform - a place for dialogue to address policy implementation of CSR in France - the impact of the policy in this matter was low and the target of transparency required was difficult to identify. On one hand, the provisions applied only to asset managers, which manage around 70% of the assets from institutional investors, however, the law targeted mainly savings of retail investors, a considerably lower amount of assets under management (AUM)⁴⁷.

On the other hand, the Working Group argued that the disclosed information was of little interest for retail investors because of its complexity or lack of relevance. The Working Group provided a series of recommendations to increase the effectiveness of the law, among them the extension of the scope

45 MEEM (2013), Novethic (2013) and (AFG 2012)

46 <http://www.actu-environnement.com/media/pdf/news-25728-etude-cas-france.pdf>

47 Extends the reporting scope to insurance and reinsurance companies regulated by the Insurance Code, mutual insurers and grouping unions subject to the Mutual Code, employee-benefits unions and institutions regulated by the Code of Social Security, investment companies with variable capital, the Caisse des Depots et Consignations, supplementary pension institutions subject to the Code of Social Security, supplementary pension institution for non-permanent staff of the state and other public authorities (IRCANTEC), the public institution managing the scheme the compulsory supplementary public-service pension scheme (ERAFP) and the state insurance fund for local government workers (CNRACL)

to institutional investors, the creation of a SRI label by the government, the clarification of ESG integration and SRI in the text, and the use of a more elaborated “comply or explain” approach, among others. The Group concluded that Article 224, which was specially backed by the AFG-FIR Transparency Code and the existing labels, led to better reporting practices by asset managers. Their observations enriched the debate and eventually generated pressure for the extension of Article 224 to institutional investors.

POLICY EVOLUTION

Article 173 of the Law on Energy Transition for the Green Growth

Article 173 builds upon Article 224, the effects of which have gone beyond the increase of disclosure by portfolio managers and have opened an inter-ministerial and global debate to develop new instruments and laws to improve disclosure by financial institutions at large. The government-initiated SRI label (announced in the roadmap of the first Environmental Conference held in September 2012), the “Energy and Ecological Transition for Climate” Label⁴⁸ (TEEC) (Box a) and the Article 173 of the Law on Energy Transition for Green Growth⁴⁹, voted in August 2015, go one step further to improve transparency in the financial sector.

The rationale for expanding the scope of the law to institutional investors was a recommendation not only from the Working Group 2 of the CSR Platform, but was also proposed in the Drago-Brovelli–Molinié report (2013) and the *White Paper on Financing the Ecological Transition* (2013). It was, however, a recommendation pushed for several years by the French Responsible Investment Forum (FIR).

The first attempt to extend the reporting scope to include institutional investors was made through the Law for Growth, Activity and Equal Economic Chances. The parliamentary process started in January 2015. Its Article 40 included provisions on ESG reporting in annual reports for “authorized or regulated institutional investors”. The article made it through the first debate at the National Assembly but was later removed by the Senate Commission.

The *Law on Energy Transition for Green Growth* was adopted on 23rd July 2015 and promulgated on 6th August 2015. Article 173 complements Article L.533-22-1 of the *Monetary and Financial Code* by including provisions on

⁴⁸ The TEEC label was an outcome of the workstreams initiated by the Energy Transition Banking and Financial Conference held in June 2014

⁴⁹ Article 173. Energy Transition for Green Growth Law. Retrieved from: <http://www.assemblee-nationale.fr/14/ta/ta0575.asp>

ESG reporting for institutional investors⁵⁰ with a focus on climate change. The law requires institutional investors to disclose how they considered ESG criteria in their investment strategies as well as how they are consistent with energy and ecological transition.

POLICY DESIGN

The dynamics in the development process of Article 173 were different to those of Article 224. Institutional investors are key players in the capital allocation process and have a critical role to play in the reorientation of financial flows in a manner that is consistent with the transition. Being major clients of asset managers, it was therefore natural to envisage an extension of previous requirements. Such an extension of Article 224 to institutional investors had been requested for long by pioneering actors as well as the French SIF. As an initial step, parliamentarians consulted several experts in sustainability and climate change disclosure to draft an amendment that captured the transparency needed from institutional investors; the provisions had to be aligned with existing reporting requirements. Within the context of COP21, Article 173 came with a particular focus on climate change through elements such as the exposure of targeted entities to climate-related risks as well as an assessment of their contribution to the fight against climate change (through the use of indicative targets, reflective of the domestic and international climate objectives).

The French Treasury was in charge of drafting the secondary legislation of Article 173. A first draft of the secondary legislation together with a guidance note and a questionnaire was made available for public consultation from November 27 to December 7⁵¹.

REPORTING REQUIREMENTS

The secondary legislation of article 173 provides a flexible and non-prescriptive framework for entities to report on how they take account of ESG (notably climate) criteria.

⁵⁰ In particular, it extends the reporting scope to insurance and reinsurance companies regulated by the Insurance Code, mutual insurers and grouping unions subject to the Mutual Code, employee-benefits unions and institutions regulated by the Code of Social Security, investment companies with variable capital, the Caisse des Depots et Consignations, supplementary pension institutions subject to the Code of Social Security, supplementary pension institution for non-permanent staff of the state and other public authorities (IRCANTEC), the public institution managing the scheme the compulsory supplementary public-service pension scheme (ERAFP) and the state insurance fund for local government workers (CNRACL).

⁵¹ https://www.tresor.economie.gouv.fr/12658_consultation-sur-le-decret-d-application-du-vi-de-larticle-173-de-la-loi-relative-a-la-transition-energetique-pour-la-croissance-verte

Table 2 compares the general information on their investment policies that asset management companies must disclose, following Article 224 of the *Law on National Commitment for the Environment*, as well as the information that institutional investors and asset managers must disclose under Article 173.

TABLE 2 GENERAL REQUIREMENTS OF ARTICLE 224 AND ARTICLE 173	
ARTICLE 224	ARTICLE 173
Presentation of the general approach regarding the integration of ESG criteria in the investment and voting policy	Presentation of the general approach regarding the integration of ESG criteria in the investment & voting policy and risk management
Content, frequency and means used to inform investors about the ESG criteria integrated in their investment policy	Content, frequency and means used to inform subscribers, affiliates, contributors, beneficiaries or clients about the criteria selected to meet their ESG objectives in their investment policy and, if applicable, the risk management
List of UCITS which simultaneously consider ESG criteria and its percentage share in the total assets under management	For asset managers: list of the managed collective investment undertakings which simultaneously consider ESG criteria and its percentage share in total assets under management
Possible accession of UCITS to a charter, a code, an initiative or obtaining a label due to its consideration of ESG criteria and compliance	<p>Possible accession of the entity or of a collective investment undertaking to a charter, a code, an initiative or obtaining a label due to its consideration of ESG criteria and compliance. Brief description of the charter, code, initiative or label</p> <p>When entities have a risk management framework in place: General description of the internal procedures to identify the risks associated with ESG issues, including a general description of the risks identified and the exposure of its activities to these risks</p>

The secondary legislation establishes the general outline of the information to be disclosed regarding the consideration of ESG criteria. Article 173 takes the reporting outline introduced in Article 224 and enhances them by proposing a set of illustrative information that could be reported by targeted entities when the environmental criterion of climate change is considered. Moreover, assets managed directly by the institutional investor or through a delegated portfolio manager are both within the perimeter of the measurement.

When presenting the information, the institutional investor or the portfolio manager may make distinctions by asset class, investment portfolio, issuer, or any other relevant category, provided they indicate the reasons for this differentiation. Table 3 describes the required information on the ESG criteria integration in the investment policy.

TABLE 3 DISCLOSURE ON THE ESG INTEGRATION IMPLEMENTED BY ENTITIES IN THEIR INVESTMENT STRATEGY AS DEFINED IN THE SECONDARY LEGISLATION OF ARTICLE 173	
REQUIREMENT	CRITERIA
ESG criteria considered	Reasons for choosing these ESG criteria in particular Indication that the criteria related to the environmental objectives are part of: <ul style="list-style-type: none"> • Risks associated with climate change: <ul style="list-style-type: none"> - Physical risks - Transition risks • An assessment of the contribution to meet the international climate targets and the objectives of the energy and ecological transition.
Information used for the analysis of the ESG criteria	This can include: <ul style="list-style-type: none"> • Ratings, financial and extra-financial data; • Internal and external analysis; and • Other relevant sources

TABLE 3

DISCLOSURE ON THE ESG INTEGRATION IMPLEMENTED BY ENTITIES IN THEIR INVESTMENT STRATEGY AS DEFINED IN THE SECONDARY LEGISLATION OF ARTICLE 173 (CONT.)

REQUIREMENT	CRITERIA
<p>Methodology and results of the analysis of the ESG criteria</p>	<p>The general description of the methodology may include:</p> <ul style="list-style-type: none"> • Overall characteristics; • Details of the major underlying assumptions and their compatibility with the international goal of limiting global warming; • Explanation of the relevance of the methodology and selected parameters <p>The description of the methodologies implemented in relation to the environmental criteria described in (a) can include, when applicable:</p> <ul style="list-style-type: none"> • Consequences of extreme weather events and climate change; • Changes in the availability and price of natural resources and operations performed in line with the climate targets; • Consistency between issuer’s capital expenditures and the low-carbon strategy, in particular issuers involved in the development of fossil fuels reserves. • Any item related to the implementation by governments of the international climate target and the energy and ecological transition; • Measure of past, current or future direct or indirect GHG emissions, associated to the issuers in the investment portfolio, including: <ul style="list-style-type: none"> - The overall characteristics of the methodology, the scope of GHG and how it contributes to the risk analysis; - If the methodology provides carbon intensities, the chosen indicator must be disclosed; and, - Weights used in case of aggregation of carbon intensities; • Amount of assets invested in thematic funds, securities or infrastructure assets contributing to the energy and ecological transition, collective investment undertakings with a label, charter, or part of an initiative that contributes to achieve the international climate target and the energy and ecological transition; • Any element that allows assessing the exposure to risks associated to climate change and its contribution to reach for the international climate target of limiting global warming and the energy and ecological transition.

TABLE 3

DISCLOSURE ON THE ESG INTEGRATION IMPLEMENTED BY ENTITIES IN THEIR INVESTMENT STRATEGY AS DEFINED IN THE SECONDARY LEGISLATION OF ARTICLE 173 (CONT.)

REQUIREMENT	CRITERIA
<p>Integration of the results of the ESG analysis to the investment policy</p>	<ul style="list-style-type: none"> • Description of the changes in the investment strategy and risk management (when applicable) driven by the ESG analysis. When applicable, a description of those assets for which no ESG analysis was performed • Presentation of the engagement strategy with issuers, specifying notably the engagement policy and the voting rights. • Presentation of the engagement strategy with asset managers including a description of the engagement policy and the exercise of voting rights. <p>In addition, the information on the contribution to the international target of limiting global warming and the energy and ecological transition should be assessed based on:</p> <ul style="list-style-type: none"> • The process used to analyse the consistency of the investment policy with these objectives and its contribution. • Indicative targets set by the entity itself specifying the consistency with the international objective on climate change and the guidelines adopted by the European Union and the carbon budgets, and the French low-carbon strategy; • Actions to achieve the indicative targets including changes in investment and divestment strategies, engagement with issuers, increase in assets invested in thematic funds, securities or assets of infrastructure contributing to the energy and ecological transition, collective investment schemes with a label, charter, or an initiative; and • The position in relation to the indicative targets set for the last financial year and reasons for any deviation.

In the event the financial institution fails to provide or partially provide the information required in Tables 2 and 3, an explanation has to be given (“comply or explain” principle).

The resulting disclosure requirements capture the issues raised in the parliamentary debates. However, the initial amendment included

requirements to measure the “green share” of the portfolio, i.e. assets that induce reductions in greenhouse gas emissions. An inter-ministerial debate to identify the appropriate methodology concluded that due to the complexity of the existing approaches and the new disclosure requirements brought by Article 173, the incorporation of such provisions at such an early stage could represent a burden to institutional investors. This is now captured to a minor extent in the disclosure of the proportion of assets held in thematic funds.

COMPLIANCE MECHANISMS

As in Article 224, the secondary legislation of Article 173 explicitly reminds that the supervisory authority of each targeted entity is naturally in charge of ensuring that supervisees comply with the regulation. The market already had instruments in place signalling those financial institutions engaged in transparency and the energy transition, notably, the TEEC label. The civil society, peer pressure and international initiatives on climate change are also possible channels to encourage entities to take on this ESG reporting in a more extensive manner. Prior to the publication of the decree several institutional investors were already exploring changes to their reporting.

PUBLICATION REQUIREMENTS

Not all institutional investors have to report on the requirements of Tables 2 and 3 as the decree establishes a threshold. Some smaller entities are entitled to present only the requirements of Table 2 (if they have for each fund a total asset under management of below €500 million or if they belong to a group drawing up consolidated accounts or combined balance sheets of less than €500 million). The requirements of Table 2 have to be presented in an easily identifiable way on the website of the entity and updated annually.

Institutional investors and asset managers that are above the threshold must publish the information specified in Table 3 on the website of the entity. In the case of asset managers, the information has to be annually updated and presented by UCITS and/or AIF, or the fund category. In addition, institutional investors have to disclose the information in their annual report and asset managers in the annual report of each fund.

POLICY MONITORING

The decree enters into force for the 2016 exercise. The information to be included on the website of the entity has to be presented alongside the publication of its annual report no later than 30 June 2017.

Entities will have about a year to elaborate their first batch of reporting in accordance with the new provisions. However, the “comply and explain” approach is deemed flexible enough to allow investors to make progress in their reporting practices as they become familiar with climate metrics.

The secondary legislation has contributed to raising the awareness of the French financial sector on climate-change issues and more generally on ESG integration. As an example, the AFG has established a working group whose objective is to share experiences on climate reporting and examine suitable methodologies that could be adopted by asset managers to enable comparability across industry peer reporting⁵².

Institutional investors and asset managers are attentive to the developments around the Task Force on Climate-related Financial Disclosures. There is a strong will to adopt reporting practices that are consistent with international practices.

As indicated in the regulatory text, the Government will carry out an assessment of the implementation of the secondary legislation in 2019. In March 2016, the Ministry of Environment, Energy and the Sea, in partnership with 2° Investing Initiative⁵³, announced the launch of an Investor Climate-related Disclosures Award⁵⁴. Its objective is fourfold: identify and reward best practices in climate reporting; support entities in their implementation of climate-risk assessment methodologies; create a positive environment during the implementation process of Article’s 173 secondary legislation; and, send a signal to investors and the Parliament on the mobilization of the government on climate change. The first edition of the award ceremony took place on October 28th, 2016 under the auspices of the OECD.

52 http://videos.assemblee-nationale.fr/video.3781905_56f2b51a1bb07.application-de-la-loi-sur-la-transition-pour-la-croissance-verte-table-ronde-sur-l-article-173-23-mars-2016

53 2° Investing Initiative is a multi-stakeholder think tank working to align the financial sector investments with the 2°C climate goal.

54 <http://www.developpement-durable.gouv.fr/Segolene-Royal-mobilise-des.html>

Other provisions of Article 173...

Article 173 has set an international example in terms of reporting. In addition to its focus on institutional investors and asset managers, Article 173 also includes reporting requirements for:

1. Corporates in general, which should disclose in their annual report:
 - a. for listed companies, the financial risks related to climate change and the measures they have taken to reduce those risks (e.g. adoption of a low-carbon strategy);
 - b. for listed companies and some big unlisted ones, the consequences of climate change on the company's activities and their products or services for listed companies and some big unlisted ones.
2. The French government is to remit a report to the Parliament on the implementation of climate stress-testing methodology for the banking sector.

4.2 Legal Changes Promoting Disclosure and ESG Integration

4.2.1 South Africa's Pension Fund Amendment

Policy Evolution

South African Pension Fund regulatory amendments in 2011 have introduced a requirement to include ESG considerations and are driving disclosure, if not full sustainability reporting.

Regulation 28 was issued in terms of section 36(1)(bB) of South Africa's Pension Funds Act, which was originally promulgated in 1962. Section 36(1)(bB) provides a prudential standard that imposes asset-spreading requirements for pension funds. The latest amendment of 2011 was driven by innovation and developments in the financial market as well as the global financial crisis, which exposed pension funds to greater risk and highlighted the need to update the investment channels to allow prudent pension funds to gain the necessary information prior to investing.

The development of Regulation 28 of the Pension Funds Act benefitted from a broad multi-stakeholder consultation. Financial institutions (banks, asset

managers, investment companies etc.), the Johannesburg Stock Exchange (JSE), industry associations, the Public Investment Corporation, civil society and NGOs were called upon to discuss amendments in sustainability reporting. The National Treasury released a first draft of the regulation for public comment in February 2010. The first version of the amendment included a provision suggesting 5% of the assets to be invested in SRI assets. SRI advocates in the investment management community opposed the proposal, arguing that SRI should not be seen as a separate asset class⁵⁵. After deliberations, a second draft was released in December 2010, for another round of public comment and industry engagement. In this draft, no threshold for SRI investments was suggested. This process culminated in March 2011 with the publication of Regulation 28. During the negotiation process, the main points contested were related to the technicalities on the areas of investment, but the underlying principles of the amendment were not disputed. Some of the issues put forward included the impacts on liquidity management in a fund, and unintended impediments to investment in pro-development areas like unlisted equities.

Policy Design

Incorporating ESG Into Long-Term Investments

Regulation 28 has been influenced by local developments within the financial sector and real economy, as well as broad government objectives of financial and economic inclusion. The retirement fund regulation aims to ensure that retirement savings are invested in a prudent manner that protects the fund members. Those savings should be channelled in ways that achieve economic development and growth. The regulation intends to leverage the crucial link between retirement savings and economic growth and development as influenced by the level of savings and its allocation towards productive assets.

The policy and objective of the regulation were clearly defined through supporting policy and response documents. The Financial Services Board as regulator of pension fund organizations prescribes the format for disclosure of information setting out compliance. The format for disclosure and the thresholds per asset category (cash, commodities, etc.) are specified in Notice 3 of Regulation 28.

Regulation 28 advises retirement funds to consider ESG factors that may impact investment risk. The provisions do not impose a direct ESG

55 Louche C. and Hebb T. 2014. Critical Studies in Corporate Responsibility, Governance and Sustainability Volume 7. Socially Responsible Investment in the 21st century: Does it makes a different for society?, p.223

investing requirement on retirement funds, i.e. they do not prescribe a minimum percentage of assets to be invested using SRI strategies, but rather recommends retirement funds to consider ESG factors when making investments, specifically in assessing investment risk. Consequently, Regulation 28 introduces a binding principle for pension funds to consider ESG factors when making investments, and therefore must be reported on to prove compliance. In case of non-compliance, the pension fund may be subject to the full regulatory enforcement powers of the Financial Services Board in fulfilling its regulatory mandate.

Prior to the amendment of 2011, the pension funds regulation did not include any reference to SRI and sustainability disclosure. The changes in its requirements aim to better align the regulation of retirement funds with other government policy objectives such as socially responsible investments and economic transformation according to the national Black Economic Empowerment requirements. The key reasons for the amendments to Regulation 28 were:

- The need to update and align the definitions, asset categories and the structure of limits to those applied in the regulation of other investment funds;
- The need to include specifications on derivatives, structured products and foreign investments, which were not explicitly accommodated within Regulation 28 and exposed the framework to abuses, as certain conducts were not expressly prohibited or undermine potential risk–reward benefits if underutilised.

Prior to Regulation 28, the existing regulation was only rules-based, and led to funds flouting the spirit of the law whilst still being compliant. The revised regulation introduced an overlay of binding principles for pension funds, dealing with matters such as member protection and taking account of ESG investment risk.

Policy Monitoring

The policy and regulatory effectiveness of the regulation has not been tested yet in South Africa, since policies are typically assessed five years following implementation. However, some early signs have been observed. Practitioners believe the regulation is clear, but has been challenging for pension funds to implement on account of the massive system changes implied, and the new approach to supervision that relies on principles in addition to the pre-existing rules. One of the challenges that the principle officers of the pension funds face is that of weighing up long term ESG issues against the fiduciary

requirement to seek the best returns, which are measured in the short term.

Further research is necessary to assess the degree to which the regulation has been put into effect and the impact that it is having on investment choices made by pension funds.

Conclusion

Regulation 28 acknowledges the inner nature of investments of pension funds and promotes the application of ESG investment analysis and reporting as part of the fiduciary duty of retirement funds.

BOX B SOUTH AFRICAN PENSION FUND CHANGES

CRISA was launched in July 2011 and provides guidance on how institutional investors, including pension funds, should execute investment analyses and activities and exercise responsibility to promote sound governance such as that set out for all organizations in South Africa's King Code on Corporate Governance.

CRISA includes five key principles:

1. Incorporate sustainability considerations, including ESG, into the investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. Demonstrate the acceptance of ownership responsibilities in the investment arrangements and activities.
3. Where appropriate, consider a collaborative approach to promote acceptance and implementation of the Principles of CRISA and other codes and standards applicable to other institutional investors.
4. Recognise the circumstances and relationships that hold a potential for conflicts of interest and proactively manage these when they occur.
5. Be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

The effect of CRISA is to strengthen the implementation of the King Code, which is non-mandatory and market-based, by institutional investors. For the purposes of CRISA, all actors along the investment value chain are included – such as asset managers, fund administrators as well as pension funds. The asset owners have ultimate responsibility for the implementation of CRISA and should ensure that their mandate to service providers includes the implementation of CRISA.

4.2.2 Switzerland: Increasing Public Pressure on Governance

Switzerland is a leading global cross border wealth management and financial centre. The finance industry generates around 13% of the Swiss Confederation's GDP and employs about 10% of its working population⁵⁶. Its transparency has recently been improved and Switzerland is part of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information (MCAA). Concerns about lack of transparency in the financial sector and public concern about extremely high wages, were the drivers behind a popular initiative calling not only for limitations on the so-called "fat-cat" payouts to executives from listed companies but also for pension funds to disclose their voting records at Annual General Meetings.

Policy Evolution

The Swiss industry had been increasingly active in the use of ESG screening and the number of signatories to the voluntary PRI code is increasing. From the governance perspective, public outrage at excessive salary payouts to key players in the financial services industry – including those implicated in the 2008 global financial crisis – led to a public referendum in 2013 and a change in the constitution as well as a transitional "ordonnance" (or statute).

Policy Design

The "Against-fat-cat-salaries" or Minder initiative of March 2013 was passed when 68% of the population voted in favour of pension funds having to actively exercise their voting rights at AGMs of Swiss companies on behalf of their members, curbs on excessive payouts of "golden handshakes" and "golden parachutes" to executives of Swiss companies and banks. This was one of the highest popular referendum approval rates in Swiss history - triggering debate across Europe.

It was followed by a Swiss Federal Council transitional ordonnance (RS221.331) that became legally binding as of 2015 – Article 95 paragraph 3 of the Swiss Federal Constitution. It is applicable to Swiss Corporations whose shares are listed on a Swiss or foreign exchange. While no specific sustainability reporting is requested, compensation reports of Swiss companies are required and pension funds must publish their voting record.

On 1 April 2015, the Swiss Federal Council adopted a position paper on corporate social responsibility. One of the measures the plan foresees is the

⁵⁶ http://www.swissbanking.org/home/finanzplatz-link/facts_figures.htm

submission of a proposal on sustainability reporting by companies.

A popular initiative proposing to introduce an article on the Responsibility of Business into the Constitution is open for signature until 21 October 2016. This article would require the Confederation to take measures to strengthen respect for human rights and the environment by businesses.

Policy Monitoring

In addition to requiring AGM voting on Boards and remuneration, pension funds are obliged to vote in the interest of their policyholders and must disclose their voting behaviour. Sanctions include imprisonment of up to three years.

Conclusion

The Swiss case study highlights the power of public pressure but also that disclosure requirements do not necessarily translate into sustainability reporting, unless specifically required by policy or adoption of voluntary codes.

4.2.3 Brazilian Financial Institutions: Guidelines for Social and Environmental Policies

In April 2014, the National Monetary Council of Brazil's central bank adopted Resolution 4327/2014⁵⁷. It established guidelines for the development and implementation of corporate social and environmental policies, environmental and social risk management, governance and disclosure (Política de Responsabilidade Socioambiental – PRSA) for financial institutions and other entities authorized to operate by the Central Bank of Brazil (Banco Central do Brasil – Bacen).

While the departure point is not a requirement to produce a sustainability report, the requirement for the disclosure of key social and environmental

57 <http://www.mma.gov.br/informma/item/10097-bancos-ter%C3%A3o-que-implantar-pol%C3%ADtica-socioambiental-at%C3%A9-fevereiro-de-2015>

See also:

- http://www3.ethos.org.br/cedoc/cmn-edita-normas-sobre-politica-de-responsabilidade-socioambiental-para-instituicoes-financeiras/#.Vu_56OLhDIU
- <http://www.mondaq.com/brazil/x/311440/Financial+Services/The+Social+And+Environmental+Responsibility+Policy+Of+The+Brazilian+Financial+Institutions>
- http://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/48734/Res_4327_v1_O.pdf

information exists within the Resolution, which places direct responsibility on the directors or officers of the institution.

Each institution must adopt its own PRSA following consultation, which considers the principles of relevance and proportionality:

- *Relevance*: The degree of exposure to social and environmental risks.
- *Proportionality*: The PRSA should be compatible with the nature of the organization as well as the complexity of its activities and financial products and services.

The PRSA must direct socio-environmental activities within the businesses and in the relationships with the internal and external stakeholders, including customers and users of the products and services. The institution should encourage stakeholder participation in the PRSA process, which should include guidelines on the strategic actions related to its governance and social and environmental risk management. It must be evaluated every five years by the officers (*diretoria*) and of the board of directors (*conselho de administração*).

The PRSA covers financial conglomerates; as well as the cooperative credit system, including central cooperative credit and, when applicable, their confederations and cooperative banks.

Each institution must have a governance structure compatible with its size, the nature of its business, the complexity of the services and products, as well as with its activities, adopted processes and systems. This PRSA governance structure must provide for:

- Implementation;
- Monitoring and compliance;
- Assessment of the effectiveness of implemented actions;
- Verification of the adequacy of the social-environmental risk management; and
- Identification of any shortcomings in the implementation of the actions

The institution should establish an Advisory Committee on Social and Environmental Responsibility reporting to the board of directors or to the officers, with a mandate to monitor and evaluate the PRSA and propose improvements. The composition of this committee should be disclosed.

The social and environmental risk management of the institution must consider:

- Systems, routines and procedures to identify, evaluate, mitigate, monitor and manage the social and environmental risk in the activities and transactions of the institution;
- Creating a data registry covering effective losses due to social and environmental damage, for a minimum period of five years, including values, type, location and economic sector object of the transaction;
- Prior assessment of the potential social and environmental impacts from new forms of products and services, including in relation to the reputation's risk; and
- Procedures for adequacy of social and environmental risk management to the legal, regulatory and market changes.

When conducting transactions related to economic activities with the greatest potential to cause social and environmental damage, the institution must establish specific criteria and mechanisms of risk assessment.

The PRSA and the action plan must be approved by the officers and by the board of directors, in order to ensure integration with the other policies such as the credit, human resources management and risk management policies of the institution.

The institution must designate a director responsible for fulfilment of the PRSA; formalize the PRSA and ensure its internal and external disclosure; and maintain documentation relating to the PRSA required by the regulator, Bacen.

Pursuant to CMN Res. 4327/2014, Bacen may order the adoption of controls and procedures concerning the PRSA, establishing a deadline for its implementation.

The strategy of the Brazilian regulator was to create rules that are adaptable to the characteristics of each institution. The new regulation requires each financial institution to perform an in-depth brainstorming exercise about its activities and its business profile and from that exercise, implement its own PRSA and associated controls.

4.3 Voluntary Codes Promoting Sustainability Reporting

4.3.1 The South African Case

In South Africa, companies are required to report a number of key criteria on governance, labour issues, economic transition and other key factors under varied pieces of legislation such as the Companies Act, the Labour Relations Act and the Codes to promote the financial and economic inclusion of the population previously excluded from the formal economy by the Apartheid system. The requirement to redress past exclusions is part of a mandatory reporting requirement for all companies, including those in the financial sector, which also report to the financial authorities on the Financial Sector Code, now part of the regulatory framework. The Financial Sector Code, similar to codes adopted by other sectors, was developed in consultation with the industry and addresses the issues specific to the requirements for the transformation of the financial sector. The aim is to transform the sector so that it is more reflective of and accessible to previously excluded or disadvantaged communities.

The focus on environmental issues for the financial sector is largely driven by the voluntary adoption of codes and principles, such as the Equator Principles for project finance and related lending, the Environmental Code of the Banking Association, the PRI, the Code for Responsible Investment for South Africa (CRISA, see chapter 4.2.1, Box b) for asset managers, the Principles for Sustainable Insurance and the JSE's SRI index. Not all participants in the sector are members of these initiatives and the reporting requirements vary in comprehensiveness and quality. The Government Employees Pension Fund was one of the first signatories of the PRI.

In addition, the King Code on Corporate Governance, adopted in various iterations since 2002 and applicable to all companies including state-owned entities, makes provision for reporting on material issues beyond the legal requirements to publish annual statements of accounts.

While the King Code is technically voluntary, the Johannesburg Stock Exchange requires all companies to report their compliance with the Code or provide explanations for non compliance.

The King Code reporting requirements have been incorporated into the Johannesburg Stock Exchange's listing requirements. In previous iterations,

the Code required the publication of sustainability reports – either stand-alone reports or combined with the annual report to shareholders. In King III, this became a requirement to produce integrated reports. State-owned enterprises (SOEs), which also produce integrated reports, are subject to national reporting requirements specified by the Treasury, which exercises oversight on public expenditure and sets the requirements for management, auditing and disclosure of public funds.

One recent legislative development, which includes a requirement to report, is the adoption of Regulation 28 in the Pension Funds Act (see chapter 4.2.1).

4.3.2 Swiss Voluntary Adoption of the PRI

The government of Switzerland was an early funder of the Principles for Responsible Investment and both private and public Swiss financial institutions⁵⁸ participated in the process of its development. There are currently 65 UNPRI signatories from Switzerland (eight asset owners, 44 investment managers and 13 professional service partners).

The number of UN PRI transparency reports filed by Swiss companies has increased from at least 28 in 2013 and 2014 to 36 from 2014 to 2015. The 15 signatories that have not filed a report are only required to do so in the next year after their one-year-grace-period. The professional service partners do not file transparency reports. PRI reporting requirements are currently under review.

Eurosif reports that: “In terms of ESG integration, it seems that the Swiss asset management industry is increasingly adopting ESG integration strategies and these have thereby reached considerable importance within the Swiss market, which is characterised by a high proportion of retail investors. Seventy percent of the Swiss investors (mainly pension funds) that have signed the UNPRI make use of ESG aspects when giving external mandates.”

During 2015 and 2016, activists have focused on Swiss corporate disclosure in relation to a number of other financial issues including:

- Beneficial ownership of equities – a law with tough sanctions was enacted;
- Tax disclosure with regard to commodity trading revenue and flows; and,
- Human rights and gender, relating to the impact in developing countries of laws that protect corporate secrecy.

Swiss financial corporations are not yet obliged to produce a sustainability report.

⁵⁸ www.pri.org

“Socially Responsible Investment” (SRI) Label

Article 224 was one of the initial elements that fed the development of the first SRI label supported by the government. Created in January 2016 by the Ministry of Environment, Energy and the Sea and the Ministry of Economy and Finance, it aims to promote the visibility of SRI investments at a European level. The SRI label is awarded on the basis of six pillars:

1. Integration of the ESG criteria in the fund’s objectives;
2. Methodology of analysis and ratings of issuers;
3. Integration of ESG criteria in the portfolio construction and management;
4. ESG engagement policies with issuers;
5. Communication and transparency;
6. Positive impact on the sustainable development of the economy

The measure of the performance on ESG issues is backed by the obligation to report on at least one prescribed indicator of one of the following four areas: Environment, Social, Governance and Human Rights.

“Energy and Ecological Transition for Climate” (TEEC) Label

The “Energy and Ecological Transition for the Climate” Label (‘TEEC’ in French) was launched in December 2015, during the COP21, by the Ministry of Environment, Energy and the Sea. The label was built to meet two main objectives:

1. Mobilize more savings for the benefit of the energy transition and the fight against climate change;
2. Encourage the creation of new green investment funds (listed equity, private equity, green bonds, etc.)

In order to achieve these goals, the label is awarded on the basis of four criteria relating to portfolio construction and management:

1. Exclusions of companies/sectors (fossil fuel, nuclear energy);
2. Green share of the investments;
3. ESG controversies; and
4. Impact, by reporting on the environmental ‘footprint’.

In addition, the impact requirement is strongly guided by sustainability reporting, as the fund has to report on the mechanisms for measuring the contribution of its investments to the energy and ecological transition and to report at least one prescribed indicator of one of four reporting areas (climate change, water, natural resources and biodiversity). The Ministry of Environment, Energy and the Sea, project leader on the label management, aims at developing the TEEC label on a European scale.

4.4 Market Instruments

4.4.1 Sustainable Responsible Investment Indices: The Brazilian and South African Cases

Legislation is by far not the only tool available to governments who wish to foster transparency in the financial sector. Many governments have joined efforts with stock exchanges to develop sustainability indices that recognize corporate leadership in sustainability matters. These indices include companies from a variety of sectors and were not specifically developed to enhance transparency of financial institutions. SRI indices provide investors with clear signals that enable them to steer their investments towards the most sustainable companies. SRI indices are therefore mechanisms that allow investors to secure the long-term viability of their investments by taking into account the sustainability performance of listed companies, which thereby rewards the most sustainable companies with enhanced visibility both towards the investor community and the general public.

4.4.1.1 BRAZIL

Accelerating Drivers for Increased Transparency

The creation of the Index for Corporate Sustainability (ISE) of Brazil's BM&FBOVESPA stock exchange in 2005 builds on the growing development of socially responsible or sustainable and responsible investment around the world since the 1970s. It was also inspired by the launch of similar stock exchange initiatives such as the Dow Jones Sustainability Index (DJSI) in 1999, the FTSE4Good of the London Stock Exchange in 2001 and the Johannesburg Stock Exchange's SRI Index in 2004. The ISE constitutes an instrument that adds to traditional financial analysis values such as sustainable development, performance comparability, socio-environmental responsibility and long-term vision and security for shareholders.

During the 1980s, Brazil saw a growth of organizations focusing on social responsibility, environmental protection and business ethics. The Brazilian Institute of Social and Economic Analyses (Ibase), established in 1981, was the first organization to monitor the performance of corporations and their role in the country's social development. Ibase launched its Model for Social Audit in 1997, which was well received by businesses and for years remained the only reference model to report on non-financial corporate activities in the country. In the 1990s, the Ethos Institute, formed by a group of executives

and entrepreneurs determined to disseminate good practices in the Brazilian corporate landscape, started working on governance and corporate social responsibility issues. Ethos, in fact, consolidated a movement stemming from Business Leaders National Understanding (PNBE, for *Pensamento Nacional das Bases Empresariais*), an organization focusing on entrepreneurial modernism and defending the re-democratization of Brazil after the end of the military regime in 1985.

The first research on SRI in Brazil was conducted by Unibanco in 2000. Banco Real created the Ethical Fund, the first SRI fund in emerging markets, a year later. This investment fund targeted bank clients interested in investing in companies committed to ethical principles. Other banks followed by launching different types of responsible funds, for example, dedicating part of the management fee (usually 50%) to social programmes, such as CEF's "*Fome Zero*" ("Zero Hunger", a government programme aiming at reducing hunger and poverty) and HSBC's "*Ação Social*" ("Social Action", social projects run by NGOs).

The actions towards the promotion of ESG topics within the Brazilian stock exchange started in 2000. The São Paulo Stock Exchange (BOVESPA which merged with the Brazilian Mercantile and Futures Exchange BM&F in 2008) introduced three listing segments in which companies can voluntarily adhere to different standards of corporate governance: The Novo Mercado (New Market) and the two Differentiated Levels of Corporate Governance (IGCX and IGCT). Although membership is voluntary, once a company is listed in a given segment, it has to adopt the mandatory standards imposed by the exchange.

Novo Mercado has played a particularly important role in encouraging companies to commit to advanced criteria for corporate governance and thus became an instrument of self-regulation, capable of impacting the adoption of best governance practices. The annual production of a sustainability report or an integrated report is not a requirement. However, since 2012 BM&FBovespa has recommended that companies produce either a sustainability or an integrated report and provide BM&FBovespa with information about where the report is available. Those who do not report must explain why they do not.

This "comply or explain" principle encourages companies to progressively adhere to the practice of providing quick access to ESG information to investors and other interested parties. By doing so, the exchange helps to reinforce this growing international trend in the capital markets.

After the launch of the New Market and Differentiated Levels of Corporate Governance, the BM&FBOVESPA stock exchange sought an alliance with Fundação Getulio Vargas' Center of Studies on Sustainability (GVces) in São Paulo. This partnership gave birth to the Corporate Sustainability Index (ISE) in 2005, a major global reference among indicators for corporate management and governance, and the only SRI index in Latin America.

In addition to these initiatives, BM&FBOVESPA has since 2012 recommended that listed companies indicate in the Reference Form (Formulário de Referência, a mandatory public information report published by its listed companies) whether they publish sustainability reports or similar documents, and how these can be accessed. Companies not publishing such documents should explain the reasons. This "comply or explain" measure (similar to that included in the JSE requirements, see next chapter 4.4.2.1), allows companies to gradually increase their rate of reporting to investors on ESG criteria and aims to provide easy access to this information.

Policy Evolution

Developing the ISE – A Broad, Multi-Stakeholder Process

The ISE was the result of a joint effort by several organizations. It was initiated by the Bovespa Operations Superintendent (Ricardo Nogueira), the creators of the Ethical Fund (ABN Amro Real SRI fund), the Brazilian Institute of Corporate Governance (IBGC), the Centre for Sustainability Studies of the Getulio Vargas Foundation (GVces) and the Ethos Institute, among others. The representatives of the Brazilian Association of Closed Pension Funds (Abrapp), the Association of Capital Markets Analysts and Investment Professionals (Apimec), the National Association of Investment Banks (Anbid), the Brazilian Institute of Social and Economic Analyses (Ibase), the Brazilian Institute of Corporate Governance (IBGC), the Ethos Institute, BM&FBOVESPA, GVces and the Ministry of the Environment organized meetings during the period September to December 2003 to discuss the sustainability index criteria.

Main Challenges

In their book *ISE – Sustainability in the Capital Market*, A. W. Marcondes and C. D. Bacarji (2010)⁵⁹ identified two main issues that were the focus of discussions during the development process of the ISE: sector exclusions and the triple bottom line.

59 "ISE – Sustainability in the Capital Market", A. W. Marcondes and C. D. Bacarji, 2010: <http://www.bmfbovespa.com.br/Indices/download/Livro-ISE.pdf>

The issue of excluding companies in controversial sectors (such as tobacco, alcoholic beverages, weapons or pornography) with negative screening practices emerged from the beginning of negotiations. The position of the representatives of Brazilian investment funds and institutional investors, taking into account experience with ethical funds, was that such enterprises should naturally be excluded from the portfolio, a stance supported by Ibase and the Ministry of the Environment.

However, the Ethos Institute argued that the index would lack legitimacy to question the rights of companies legally allowed to operate, which paid taxes and in many cases had implemented socially responsible practices. GVces also believed that it was important to encourage these companies to invest in compensatory actions to reduce the negative impacts caused by their operations. Furthermore, it was argued that the products of these companies were not the only ones causing negative impacts on society or the environment. For instance, the oil and energy industries, which are responsible for a substantial portion of greenhouse gas emissions and social and environmental impacts, remain vital for the economy.

In April 2005, ISE's Board voted on the issue and it was decided that companies would not be barred from applying. The board also determined that the index's methodology should adopt rigorous mechanisms to filter companies with products that have negative impacts.

The second major topic of discussions was the determination of the assessment criteria that the ISE would apply to companies. Initially, the emphasis was placed on social responsibility, on an equal footing as economic and financial performance. It soon became evident that a comprehensive index would also need to take into account environmental and corporate governance criteria. The concept of Triple Bottom Line, from John Elkington, including the social, environmental and economic dimensions, was thus used as a basis for developing the assessment methodology, together with the recent implementation of the *Novo Mercado*.

These negotiations defined the ISE's foundations, a performance-based assessment carried out on the basis of a questionnaire structured around four Dimensions: Economic and Financial, Corporate Governance, and Social and Environmental Responsibility. Since then the questionnaire has developed to include three additional dimensions: General, Nature of Product, and Climate Change.

Policy Design

ISE Objectives

The Index for Corporate Sustainability (ISE) is a tool for comparative analysis of the performance of companies listed on BM&FBOVESPA. It considers corporate sustainability, based on economic efficiency, environmental equilibrium, social justice and corporate governance. Its aim is to enhance public understanding of companies and groups committed to sustainability, differentiating them in terms of quality, level of commitment to sustainable development, equity, transparency and accountability, their products, as well as business performance in the economic, financial, social, environmental and climate change dimensions.

BM&FBOVESPA is responsible for the calculation and technical management of the index. As its technical partner, GVces is in charge of the development and improvement of the ISE corporate assessment methodology (reflected in the ISE questionnaire for companies) and of the coordination of the selection processes for the annual index review.

ISE is an index composed of about 40 companies selected among the issuers of the 200 most liquid shares. Participation is voluntary and the index's portfolio is reviewed on an annual basis. The methodology is based on a questionnaire built through a multi-stakeholder participatory process.

ISE's main objectives are:

- To create an investment culture compatible with the current social demands for sustainable development and to stimulate corporate responsibility;
- To build an objective tool to compare the performance of listed companies from a sustainability perspective;
- To highlight companies committed to sustainable development and provide investors with a clear differentiation, rather than an exclusive focus on short-term financial returns; and
- To encourage the launch of new SRI funds and to become a benchmark for comparing their performances.

ISE Governance Structure

The ISE is currently governed by an independent board, which is responsible for approving any changes to the rules and methodology of the index, and the admission or exclusion of companies included in the index portfolio (which is annually renewed).

TABLE 4 ISE GOVERNANCE STRUCTURES

STAKEHOLDER	INSTITUTION
Financial sector	<ul style="list-style-type: none"> • BM&FBOVESPA (Chair of the Deliberative Council) • ABRAPP – Brazilian Association of Pension Funds (<i>Associação Brasileira de Entidades Fechadas de Previdência Complementar</i>) • ANBIMA – Brazilian Association of Financial and Capital Markets Entities (<i>Associação Brasileira de Entidades dos Mercados Financeiros e de Capitais</i>) • APIMEC – Association of Capital Market Investment Analysts and Professionals (<i>Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais</i>) • IBRACON – Institute of Independent Auditors of Brazil (<i>Instituto dos Auditores Independentes do Brasil</i>)
Government	<ul style="list-style-type: none"> • MMA – Ministry of Environment (<i>Ministério do Meio Ambiente</i>)
Non-profit organizations	<ul style="list-style-type: none"> • ETHOS Institute • IBGC – Brazilian Institute of Corporate Governance (<i>Instituto Brasileiro de Governança Corporativa</i>) • GIFE – Group of Institutes, Foundations and Enterprises (<i>Grupo de Institutos, Fundações e Empresas</i>)
International Organizations	<ul style="list-style-type: none"> • UN Environment • IFC – International Finance Corporation

In addition to these institutions, ISE reviews its methodology on an annual basis through a participatory process open to companies, civil society organizations, academia, investors and other stakeholders.

Who Can Become an ISE Member?

Eligible stocks for possible selection as ISE constituents must meet the following cumulative criteria⁶⁰:

1. Being amongst the eligible stocks which, sorted in descending order by individual tradability ratio (IN) over the three previous portfolio cycles, rank in the top 200 positions;
2. Having actively traded in 50% of the trading sessions held over the three previous portfolio cycles;
3. Not constituting "penny stock"; and
4. Where a company has multiple listings, if one type of stock meets all the membership requirements, the other types of stock of that company will be accepted for membership as well, provided they rank in the group of eligible stocks which, as measured in descending order by individual tradability ratio (IN) over a period comprising the three previous portfolio cycles, collectively account for 99% of the total sum of such metric.

Each year, the companies qualified by the criteria above are invited to participate in the ISE portfolio selection process. Those willing to take part in the process must then fill in the ISE questionnaire, providing a broad amount of ESG information, which will be the basis for selection of portfolio constituents by the ISE Governance Committee (CISE).

ISE Assessment Methodology

The ISE methodology developed by the FGV Center for Sustainability Studies (GVces) is based on:

- Company performance;
- The ISE questionnaire; and
- An assessment of documents submitted by the company to substantiate the information provided.

The ISE questionnaire is structured into dimensions, criteria and indicators. The questions are currently grouped in seven dimensions, about 30 criteria and 70 indicators, totalling approximately 180 questions to be answered by

⁶⁰ For more detailed information, please refer to the Concepts and Practices Manual for BM&FBOVESPA Indices.

companies. The methodology assigns the same weight to each of the seven dimensions, which evaluate different sustainability aspects⁶¹:

TABLE 5 ISE QUESTIONNAIRE CRITERIA	
ISE QUESTIONNAIRE DIMENSIONS	
General	<ul style="list-style-type: none"> • Commitments to sustainable development • Alignment with good sustainability practices • Transparency of corporate information • Anti-corruption policies and practices
Nature of Product	<ul style="list-style-type: none"> • Personal and overall impacts of products and services provided by the company • Adoption of the precautionary principle • Availability of information for consumers
Corporate Governance	<ul style="list-style-type: none"> • Relationship between partners • Board of Directors' structure and management • Audits and oversight • Practices relating to conduct and conflict of interests
Economic and Financial	<ul style="list-style-type: none"> • Corporate policies, management, performance, and statutory compliance
Social	<ul style="list-style-type: none"> • Corporate policies, management, performance, and statutory compliance
Environmental	<ul style="list-style-type: none"> • Corporate policies, management, performance, and statutory compliance. • <i>This dimension includes sector-specific questionnaires.</i>
Climate Change	<ul style="list-style-type: none"> • Corporate policy, management, performance and level of information disclosure on the topic.

61 Alignment with good sustainability practices includes, inter alia: compensation pegged to the company's social and environmental performance and the adoption of a plan that provides a correlation between assumed risks, compensation actually paid, company's results.

The comprehensive assessment process requires companies to show satisfactory performance in every dimension of the questionnaire and to submit documents that confirm the information provided. The assessment method combines:

- Quantitative analysis: Score achieved by the company based on its questionnaire answers; and
- Qualitative analysis: Evaluation of the quality of the documentation submitted to confirm the questionnaire answers.

Requirements for the Compilation and Publication of Reporting

The information provided by companies through ISE does not constitute a report: the framework is the questionnaire itself, and for this reason, companies do not have to prepare a specific report. However, the ISE has three main approaches to contribute to public information.

In 2011, the ISE started a transparency promotion effort by including in its questionnaire a request for authorization to disclose the company's answers on the ISE website⁶². A positive response to this question is worth 15 points – higher than all other questions to further incentivise transparency. Thirty-four companies authorized disclosure of such information in the ISE's 2013/2014 portfolio.

Secondly, after participating in the selection process, companies receive a feedback report prepared by GVces. The report contains the score obtained by the company, compared to the average, maximum and minimum scores of all participants, as well as a qualitative opinion on the documents presented by the company to support its questionnaire answers. This report belongs to the company, which may choose to further disclose its content.

Finally, BM&FBOVESPA and GVces prepare and publish consolidated data and analyses based on the answers provided by participating companies.

Level of Complexity

A challenge for companies applying for ISE listing has been to clearly understand the selection criteria used in the index's methodology. The complexity of sustainability issues can lead to ambiguity and subjectivity in the interpretation of the ISE questionnaire and other sustainability tools.

The current methodology uses the same questionnaire to assess companies

62 www.isebvmf.com.br

of different economic sectors. Both the clarity of the questions and the sectoral customization are points to which the index methodology still needs to dedicate special attention.

Incentives and Penalties

As described above, companies eligible to the ISE portfolio undergo a qualitative assessment consisting in an evaluation of randomly selected documents submitted by the company to confirm the questionnaire answers (one for each section of the questionnaire). The verification is performed by GVces staff, and verified by a qualified auditing company (KPMG as of 2015).

Removal of companies from the index is the ISE's mechanism to ensure compliance with the information submitted both at the moment of submission and throughout the yearly portfolio cycle of the index.

A company shall be removed from the index's theoretical portfolio in the event that:

1. Any of the inclusion criteria (see "ISE objectives" above) is no longer met;
2. In the course of the portfolio cycle, it is designated to be under 'exceptional trading status'. In this event, the removal will be implemented from the close of the first trading day following recognition of such status; and
3. An occurrence in the course of the portfolio cycle has (in the discretion of the ISE Governance Committee) materially and adversely affected the corporate sustainability performance of the issuer. In this event, the removal will be implemented in accordance with the removal decision of the ISE Governance Committee (CISE).

Policy Monitoring

A Key Driver for Sustainable Corporate Practices

In 2010, the International Finance Corporation (IFC) evaluated⁶³ the hypothesis that sustainability corporates show superior performance and that the inclusion of a company in a sustainability index would stimulate demand for its shares and increase their price. In order to be included in the ISE, companies have to demonstrate the quality of their sustainability practices, a process that could improve the company's competitiveness and may lead to an enhanced reputation.

⁶³ BM&FBOVESPA Sustainability Index & the Responsible Practices of Brazilian Corporations, IFC, 2010: <http://bit.ly/1ipJLu7>

The IFC concluded that the ISE had a considerable impact on corporate practice among ISE listed companies and those not part of the index. In this sense, the ISE serves as a key driver for the introduction of sustainable corporate practices.

The ISE questionnaire reflects the need for compliance with legal requirements and encourages voluntary corporate sustainability practices.

Challenges in Promoting Sustainable Investment

The introduction of the ISE was followed by the creation of new SRI funds, but most of them have remained relatively small, with the market controlled by the two funds that existed before the creation of the index. In October 2010, there were 10 SRI funds in Brazil managing US\$580 million. The two largest among them, which existed prior to the ISE, managed 70% of the assets. Most of the observed market growth has resulted from value appreciation.

Considering the index's strategic objectives, it can be concluded that the creation of ISE stimulated an investment culture compatible with the SRI tendencies, and encouraged the launch of new SRI funds in the country. Companies that belong to sustainability indices are more capable of attracting socially responsible investors in Brazil or abroad, as the index is seen as an efficient and reliable market signal that a company has integrated sustainable practices.

However, the ISE has had limited success in serving as a benchmark for larger investors, who continue favouring traditional financial indices. The main obstacle to higher investor engagement is the limited evidence to support the argument that corporate sustainability is important for investors because it aims to increase long-term shareholder value by integrating long-term economic, environmental and social aspects into the business strategy.

In addition, the relatively small number (40) of ISE listed companies only provides room for partial investment diversification. Each year, the issuers of the 200 most liquid shares on the BM&FBovespa, i.e. approximately 180 companies, are invited to participate in the ISE selection process. However, the number of companies who actually participate remains between 45 and 55 each year. There is a clear need to attract more companies to participate in the selection process.

Conclusion

Financial sector companies compete at many levels, including on reputation,

which is an essential element in building trust with potential customers. Linking the power of the market to build and protect long-term value creation for the company and Brazilian society has been a useful strategy for the Brazilian stock exchanges.

4.4.1.2 SOUTH AFRICA: JOHANNESBURG STOCK EXCHANGE SRI INDEX

Policy Evolution

When the Johannesburg Stock Exchange (JSE) adopted the King II Code of Corporate Governance as part of its listing requirements in 2003, it became one of the first international exchanges to require sustainability reporting.

King II, which became a JSE listing requirement in 2003, on a “comply or explain” basis, explicitly required companies to implement the practice of sustainability reporting as a core aspect of corporate governance. While neither the Code, nor the JSE, specifically required the use of the GRI sustainability reporting framework, it became the de-facto benchmark of good sustainability reporting.⁶⁴

While the JSE listing requirements and the SRI Index function separately, a company in material breach of JSE regulation, particularly as it relates to reporting on the implementation of the King Code, would struggle to meet the requirements for the SRI Index. Neither the JSE nor the King Code requires audit or assurance of sustainability or integrated reporting, although King III strongly recommends it. However, the JSE Listing Requirements as well as the Companies Act require audit of the financial statements issued by a company.

The third version of the Code, King III, became operational in 2010 and included more specific recommendations on reporting in an integrated fashion; this version of the King Code was also incorporated by the JSE listing requirements on a “comply or explain” basis. Although King III anticipated that sustainability reporting would continue as a necessary foundation to good integrated thinking and reporting, it focused on the integration of material issues, specifically including ESG issues, alongside the financials to enable better decision making by stakeholders. King III supports the notion of sustainability reporting, but makes the case that although it used to be done in addition to financial reporting, it now should now be integrated with financial reporting.

64 <https://www.jse.co.za/content/JSERulesPoliciesandRegulationItems/Background%20and%20Criteria%202014.pdf>

The JSE launched the Socially Responsible Investment (SRI) Index in South Africa in May 2004 to identify those companies listed on the JSE that integrate the principles of the triple bottom line and good governance into their business activities. They were evaluated (but not ranked) on an annual basis against set criteria that were available on the JSE's website. While the eligible universe of companies was the All Share Index (or all listed companies), the SRI Index was initially based on voluntary participation, and attracted participation mostly by large listed companies. Automatic assessment of the TOP 40 companies was introduced in 2007 and was expanded to the TOP 100 with voluntary participation available to all other companies in 2008. Automatic assessment of the smaller companies, and, thus the full All Share Index, started in 2013. The All Share Index comprises companies representing 99% of the JSE's market capitalization, usually around 160 companies.

The SRI Index provides a broad assessment of company policies and practices against globally aligned and locally relevant corporate responsibility standards. Over the years, the index has incrementally increased the reporting requirements in terms of both depth of coverage and number of issues covered, adding material elements relevant to the country – such as indicators on HIV and AIDS issues as well as black economic empowerment and skills development – and more recently increasing the focus on reporting on greenhouse gas emissions. While the SRI Index evaluation process does not claim to be a measure of legal compliance, it has in the past excluded companies on the basis of known infringements or material breaches, for example of competition law. The SRI Index has always been seen as a facilitation vehicle to enable investors to consider non-financial risk variables in investment decisions, as such risks do carry the potential to have significant financial impacts. Overall, the SRI Index contributed to the development of responsible business practice in South Africa and beyond⁶⁵. In 2015, the SRI Index transitioned to the FTSE/JSE Responsible Investment Index Series.

Policy Design

By 2014, all companies listed in the FTSE/JSE All Share Index were eligible to be part of the SRI Index⁶⁶. The indicators covered areas of policies and management and how these should be reflected in the reporting of each ESG pillar (see Table 6). Moreover, a distinction between core and desirable indicators allowed for distinction between issues considered as minimum requirements from those that may be more aspirational. Overall, the index

⁶⁵ <https://www.jse.co.za/content/JSERulesPoliciesandRegulationItems/Background%20and%20Criteria%202014.pdf>
⁶⁶ The FTSE/JSE All Share Index has 164 constituents, whereas the SRI Index has 82 (2014).

criteria served as a guidance framework for companies to identify issues that could affect their business and stakeholders.

Since inception, the index incorporated a sector classification requiring sectors with a higher impact on the environment to report in more detail on their management of environmental impacts than those sectors with a lower impact classification. A requirement to report on climate change indicators was added in 2010. Information on senior responsibility, climate change commitments and emissions needed to be reported in order to meet this assessment.

TABLE 6 JSE SRI INDEX AREAS OF MEASUREMENT	
ENVIRONMENT	CLIMATE CHANGE
<ul style="list-style-type: none"> • Addressing all key issues • Working towards environmental sustainability 	<ul style="list-style-type: none"> • Managing and reporting on efforts to reduce carbon emissions and deal with the effects of climate change
SOCIETY	GOVERNANCE AND RELATED CONCERNS
<ul style="list-style-type: none"> • Training and Development • Employee Relations • Health and Safety • Equal Opportunities • Community Relations • Stakeholder Engagement • Black Economic Empowerment • Diversity in Workforce • HIV / AIDS 	<ul style="list-style-type: none"> • Board Practice • Ethics • Indirect Impacts • Business Value and Risk Management • Broader Economic Issues

The SRI Index was specific in the requirements for inclusion, although flexibility was allowed in some cases – e.g. the index criteria are not specific in terms of the format of publication (e.g. included in an annual report or website), as long as information is available in the public domain.

The SRI Index is recognised by companies as having spurred action on reporting and engagement in sustainability issues. The index statistics on companies meeting the requirements as well as expanded conversations between the JSE and issuers evidences this success.⁶⁷ These conversations are in the form of briefings to companies, master classes and investor days at which SRI leading companies were invited to present and respond to questions. When appropriate, conversations were held with sectors – such as

⁶⁷ <https://www.jse.co.za/content/JSEPresentationItems/2014SRIAnnualResultsPressRelease.pdf>

with the mining industry following the Marikana disaster – as well as one-on-one conversations with companies to explain their failure to meet inclusion requirements. A JSE-convened independent advisory committee for the SRI Index and a special sub-committee previously dealt with policy changes and contested issues (these have fallen away in the past year due to the switch to the FTSE/JSE Responsible Investment index, although FTSE maintains a UK-based advisory committee).

While failure to be included in the index or a low score had reputational and investor consequences for companies, it did not have an impact on its standing as a listed company.

Policy Monitoring

The JSE's reporting requirements around governance and application of the King Code principles, in combination with the SRI Index process, have been significantly influential in enhancing the quality and completeness of corporate disclosure around sustainability issues. The increase of companies included in the SRI Index is evidence of this, as well as various companies using the SRI Index as a benchmark driving reporting content.

The SRI Index has also expanded the relationships of the JSE to stakeholders such as NGOs in the ESG or corporate responsibility environment, consulting firms and monitoring groups. Moreover, at least two reporting awards were based on the SRI Index, namely the EY Excellence in Sustainability Reporting. The Nkonki Integrated Reporting award still uses the SRI Index constituency as a base for research.

The JSE announced on 3 June 2015 that it is partnering with FTSE Russell to further advance the promotion of ESG disclosure by listed companies. This new offering will replace the pioneering SRI Index, which has been the JSE's flagship sustainability product since 2004. The new offering will build on the achievements of the SRI Index and the strides of corporates, while enabling expanded opportunities for investors to integrate ESG issues into investments. Moreover, the JSE's collaboration with FTSE Russell from 2015 will significantly expand the scope for creation of financial products based on ESG criteria. The new index series was launched in October 2015 with the 2016 results expected in the second half of the year.

Conclusion

The JSE has demonstrated that with incremental change over a period of

time, it is possible to build a reporting culture within corporations, including the financial sector. The linking of the JSE's SRI Index and the King Code on Corporate Governance was a key factor in the rapid uptake of this practice. Research will be required over time to determine if sustainability reporting practices continue.

4.4.2 Labels and Awards: The Austrian Case

Before the rise of CSR in the late 1990s, a general understanding of corporate responsibility was incorporated in Austria through the dissemination of environmental reporting schemes and, particularly, the *Sozialpartnerschaft*, the Austrian Cooperative partnership between government, business, labour and other partners. Despite the relative early steps in transparency, more profound CSR approaches and transparent sustainability reporting developed slowly. This is also true for the Austrian financial industry, which has had a narrowly defined understanding of sustainability, focusing mainly on employee relations, corporate citizenship and office ecology. The social and ecological impact of financial products and the associated monetary stocks and flows has largely not been reported.

The improvement of the societal discourse on CSR development in the political system and the *Austrian Strategy for Sustainable Development* (NSTRAT) have more systematically formalized and institutionalized the topic since 2002. The NSTRAT was the starting point of a comprehensive multi-stakeholder approach to address, establish and institutionalize sustainability at the political level. The publication emphasizes transparency as an important factor for various fields. NSTRAT's documentation contains various precise objectives for improvement of sustainability reporting both in general and in the financial markets. Specifically, in the financial sector, the strategy included the promotion of "Ethical-Ecological Investments"⁶⁸, including a mandatory declaration of pension funds and an environmental impact assessment for federal sureties issued by the Austrian Control Bank.

The explicit inclusion of the financial sector was an important part of the frameworks and instruments that later came into existence, such as the *Sustainable Development Strategy of the Federal and State Governments* (ÖSTRAT). Created in 2010, the ÖSTRAT is the first sustainable development strategy addressing both the national and regional level in Austria. It follows

⁶⁸ See Project "Ethical-Ecological Investments" by the Federal Ministry of Agriculture, Forestry, Environment and WaterManagement, carried out by ÖGUT: "The aim of the project is to support and consolidate the market for ethical-ecological investments in Austria. This is to be achieved with increased public relations and information work, a revival of supply and demand, and by changing the framework conditions (e.g. mandatory declaration of pension funds with regard to their investment criteria). Activities to enhance the quality of the market are also planned." (ÖSTRAT, 2002, Annex p.21)

the work advanced by the NSTRAT by building up on its objectives and policy principles. The associated Working Programme (ÖSTRAT, 2011a) includes a chapter on “Corporate Social Responsibility” and the relevance of financial and capital markets.

Both the NSTRAT and the ÖSTRAT include a clear indication of the mechanisms that should be developed for the promotion of issues related to sustainable development. The NSTRAT states: “The principle of motivation instead of punishment must become the guiding principle for the relationship between enterprises and the administration”. This has been repeatedly accentuated in the ÖSTRAT. In consequence, incentive-orientated programmes have been emphasized in Austria and two legislative frameworks of particular interest for the financial sector came into existence:

- The *Austrian Commercial Code* requires large capital companies to include into the management summary “information about employee and environmental issues”.
- The 1990 *Pension Fund Act* was amended in 2005 and now requires that pension funds report on “ethical, ecological and/or social criteria” if they applied.

Other legal frameworks for the financial sector, such as the *Austrian Banking Act*, the *Federal Act on Investment Funds*, the *Stock Corporation Act* or the *Consumer Credit Act* have not incorporated relevant criteria for sustainability transparency apart from Gender Policies and Corporate Governance.

The Role of the Public Sector

The public sector has a significant role in the promotion of sustainability reporting in Austria. This is further stated in NSTRAT and more profoundly in the *National Action Plan on CSR* (NAP CSR), where public institutions, state and parastatal corporations are encouraged to take a pioneering role in promoting both sustainability reporting and socially responsible investment.

The first draft on the NAP CSR was published in 2013. It constituted a joint effort between the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management (BMLFUW) and the Ministry of Economy. The NAP CSR is based on the renewed EU strategy 2011-2014 for Corporate Social Responsibility⁶⁹. One of the objectives of the field of action 3 “Promotion of CSR through incentives” targets the financial market: “Incentives through SRI”. Under this objective, four targets are highlighted

⁶⁹ COM/2011/0681 Communication from the Commission to the European parliament, the council, the European economic and social committee of the regions – A renewed EU strategy 2011-14 for Corporate Social Responsibility.

and reviewed:

1. Implementation of an expert group for an SRI Codex (including quality and transparency standards);
2. Promotion of SRI through the active use of governance tools (e.g. subsidies) with orientation to international standards;
3. Promotion of the Austrian Ecolabel;
4. Integration of SRI criteria and standards in the Pension Fund Act

Contrary to most EU member states, the NAP CSR in Austria is still under review. The most important recent development is the transposition of the EU guideline on non-financial reporting.

BMLFUW initiated or supported various other projects to increase the sustainability performance and transparency in the financial sector. The passive government support and leadership added to the lack of a demanding legislative framework and wide-ranging incentives have influenced various stakeholders of the financial industry to play a crucial part in initiating and designing instruments to increase the importance of corporate sustainability. Informal structures and networks have been of relevance to establish CSR and reporting in the sector. Some of the projects that have been developed are:

- *Plattform Grünes Geld ("Green Money" Platform)*: A website initiated by the BMLFUW and the Austrian Society for Environment and Technology (ÖGUT) that provides information on "green money". The project is part of NSTRAT.
- *VÖNIX Sustainability Index*: Composed of the leading Austrian companies listed on the Vienna Stock Exchange in terms of sustainability. Its partners are the Vienna Stock Exchange, VBV Vorsorgekasse and rfu sustainability research consulting.
- *Austrian Conference of Catholic Bishops' Ethical Investment Guidelines*: Published in 2011, the guidelines include ethical considerations and particularly exclusion criteria for shares, bonds, investment funds, hedge funds and real estate.

In addition, the industry-specific standards formed one of the most important drivers for increased quality and quantity of sustainability reporting. The most utilized are the GRI's Financial Services Sector Disclosure guidance, the Principles for Responsible Investment, the IFC's Environmental and Social Performance Standards, the Equator Principles and the EUROSIF standards.

Pension Fund Act

A 2005 amendment to the 1990 Pension Fund Act requires pension funds to report on “ethical, ecological and/or social criteria”. During the parliamentary debate of the amendment, there was consensus on paragraph 25a, which specifies the need to include SRI reporting, as proposed in ÖSTRAT.

The funds must declare their investment policy principles for every investment and risk-sharing group. The declaration must include the ethical, ecological and/or social criteria for the selection of potential assets. The provisions do not include specific requirements on the issues that should be reported.

Pension funds still only apply SRI methodologies to a small extent. There is a big gap in terms of sustainability reporting between the pension funds and the severance pay funds. The pension funds argue that their customers, mostly organizations, do not ask for SRI information and the topic is therefore hardly on the agenda. While it is mandatory for severance pay funds to address these issues, it remains voluntary for the pension funds. Various experts claim that this difference influenced the success of the introduction of the SRI.

Voluntary Instruments Promoting Disclosure

The two main instruments promoting SRI and sustainability reporting are: the Austrian Ecolabel for Financial Products (UZ49) and the ÖGUT Sustainability Certification. They mainly cover three types of funds, described below:

- Investment Funds: The Association of Austrian Investment Companies (VÖIG in German) lists 24 management companies with more than 2000 investment funds. In 2014, the AUM amounted to €163bn of which approximately one tenth are managed for pension funds.
- Pension Funds: The 14 pension funds, consisting of 113 investment and risk associations (VRG – *Veranlagungs- und Risikogemeinschaften*) had €20,2bn AUM in 2015 of which 95% were allocated in investment funds. The seven multi-company pension funds represent 90% hereof.
- New Severance Payment Funds: There are nine funds in the market. In 2014, these institutions reported €7,3bn AUM.

All instruments account for €174bn AUM, a small amount compared to the financial sector size which quadruples the Austrian GDP (€428bn AUM)⁷⁰, but that could represent an excellent contribution to the SRI markets with

70 International Monetary Fund. 2013. Austria: Financial Sector Stability Assessment

accounted for €19,7bn AUM in 2013⁷¹.

4.4.2.1 AUSTRIAN ECOLABEL FOR FINANCIAL PRODUCTS (UZ49)

Policy Evolution

The Austrian Ecolabel, founded in 1990, aims to supply the customer with necessary information for environmentally sound products. The Ecolabel for Sustainable Financial Products (UZ49) was published in 2004 and last reviewed in 2012. The BMLFUW is the carrier organization in charge and the Austrian consumer advocacy group (VKI - *Verein für KonsumentInneninformation*) is responsible for its administration.

An expert committee is responsible for the development of guidelines. Chaired by the VKI, the body has representatives of various stakeholder groups such as governmental representatives, social partners (employee and employer representatives), NGOs (environmental and consumer advocacy) and experts from the concerned areas (SRI experts and representatives of investment funds).

Policy Design

The Ecolabel (UZ49) can be awarded only to investment funds. Its guideline mentions as potentially positive impacts: the improvement of reporting, better funding and a higher image on potential investment products. The General Statute of the Austrian Ecolabel subsumes three central purposes, including the importance of providing consumers with information on (comparatively) environmental products and the promotion of market-driven change towards more environmentally friendly products and services.

The guideline is based on three pillars:

1. Selection criteria;
2. Quality of analytical process; and
3. Transparency

The transparency pillar refers to the EUROSIF-Standard whereof investment criteria, research process and selection, and implementation are expressed explicitly. The documentation highlights selected categories of the EUROSIF-Standard and includes an annex with a list of questions, including questions to

71 Eurosif. European SRI Study 2014.

define the transparency requirement for the user. It uses terms and concepts well known in ethical investment. A short glossary describes the few technical terms.

The transparency requirements are obligatory in any case and cannot be compensated through higher ratings in the other two pillars. The guideline of the Ecolabel does not specify a particular reporting format required for meeting the transparency requirements. Despite this, the label follows EUROSIF and its requirements in practice.

In order to obtain the label the financial institution is required to hand in comprehensive documentation on the respective financial product. An external auditor evaluates the documents along a structured process. If the fund does not fulfil the transparency guidelines, conditions for improvement are imposed. If the investment fund does not react, the label would be withdrawn although this has not happened. Approximately half of the new applicants receive stipulations on transparency in order to obtain the label.

Policy Monitoring

The Austrian Ecolabel for Financial Products has shown an increase in the number of participants in recent years, particularly from 2009 onwards. In October 2014, 43 funds had labelled products that managed €2,4bn, which accounts for 1,5% of the Austrian AUM. This indicates that the impact of the instrument on the whole industry is still very limited and there is space for progress.

A high application of the EUROSIF standard has been observed with approximately 90% of the certified funds applying this standard. Moreover, roughly half of the new companies applying for the label introduce this standard to comply with the certification process. Hence, a direct impact on transparency is visible. For the purpose of this report, only the public communications of the certified funds were screened.

Furthermore, the Austrian Federal Chamber for Employees analysed the publicly available information on 10 Austrian sustainable investment funds. Apart from the different definitions of sustainability in general and varied implementation in the way social and ecological criteria are applied, the study found a lack of transparency. The superficial definition of applied criteria and lacking reasoning for the ethical inclusion of the financially most important assets were criticized. Information on the evaluation process (e.g. rating agencies) and the recurring actualization were considered insufficient.

4.4.2.2 ÖGUT SUSTAINABILITY CERTIFICATION

Policy Evolution

The Austrian Society for Environment and Technology (ÖGÜT), founded in 1985, is an environmental think-tank with around 80 members from various fields (ministries, public authorities, private industry and enterprises, environmental NGOs). Since 2004, the ÖGUT tests and certifies severance pay funds according to their SRI practices.

Since the New Severance Pay Funds were based on employee funds, the labour union had an interest to allocate the funds in a sustainable way. Representatives of the union participated in the funds' committee and were, therefore, able to exercise more influence to emphasize this topic. The ÖGUT, which already had a working group on sustainable investment in place, conducted a survey to analyse the reality of how far the severance pay funds had implemented SRI. As a consequence, one of the funds (BAWAG/Allianz) suggested institutionalising the process to give it an official character (label/certification). Following this recommendation, the "Green Money" working group formed a small group of experts, which has been responsible for the sustainability assessment.

The certification process includes a hearing with the severance pay funds, where feedback is given in both directions. Initially, members of the union participated in the jury as well. The role of ÖGUT changed in time from being the organizer to being responsible for the whole certification process. The BMLFUW has provided financial means and awards the severance pay funds with the certificates, but was not an initiator.

Policy Design

ÖGUT supports the severance pay funds and pension funds in communicating their leading role in SRI to institutional investors and the public. It was initially focused on severance pay funds and was later extended to pension funds.

The assessment covers three areas:

1. Principles and processes;
2. Portfolio;
3. Transparency, communication and engagement

The screened funds have to provide the ÖGUT with documentation on their

SRI-approach and implementation. The certification includes the aspects on publicly available information, but there are no defined criteria. Moreover, an eligible fund has to include a short statement on the yearly account sheet for the customers.

The labelling process promotes SRI in general, and the impact on transparency is therefore rather indirect, as companies implementing SRI also publish information as a consequence. The documentation of ÖGUT states that transparency for the customer and the public has to be ensured but this is not further defined. However, at least one major document with information on the investment policy has to be publicly available.

Moreover, the label guidelines include a mechanism to enable continuous improvements. Following the certification process the funds receive a list of recommendations, which also includes issues on transparency. If a company does not react repeatedly on these recommendations, a negative impact on the rating is possible. In addition, depending on the availability of resources, the ÖGUT publishes a summary report on the certification of all funds at irregular intervals.

Policy Monitoring

Many experts share the view that the ÖGUT Sustainability Certification has been one of the most important driving factors for the dissemination of SRI in Austria. In terms of the market reach, the scheme has proven very effective. In 2015, eight out of nine severance pay funds (roughly 90% of the assets under management in this sector) participated in the certification process.

The effect in the sub-sector is clearly visible compared to other sectors, most importantly the pension funds. There is an interesting correlation between the severance pay funds' performance and the quality of the SRI policy.

FIGURE 5 ÖGUT SUSTAINABILITY SCORES

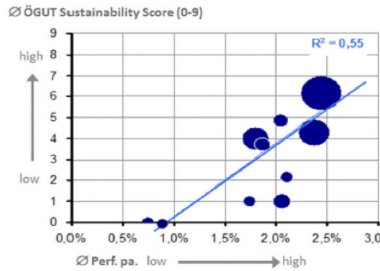


Figure xy: Correlation between Sustainability and Economic Performance of Severance Pay Funds (own calculation)

Despite lacking specific requirements for transparency, the instrument contributed indirectly to sustainability reporting. The certification process successfully introduced investment policy, a core topic of sustainability in the financial sector. Due to the process of certification, companies of the sector had to familiarise themselves with and understand the effects of including sustainability topics in their investment policy to further document their SRI policy. In consequence, a common requirement to report was established and today every severance pay fund reports on this issue.

There is no specific evaluation of the financial industry in Austria. For the purpose of this publication, *rfu sustainability research consulting* analysed the current reporting status of the largest financial institutions in Austria. Apart from the general existence of a sustainability report, the application of the initiatives under scrutiny was evaluated. The findings in subsectors of interest are presented in the following table:



TABLE 7

AUSTRIAN COMPARISON OF REPORTING BETWEEN INVESTMENT FUNDS, SEVERANCE PAY FUNDS, PENSION FUNDS

INVESTMENT FUNDS	SEVERANCE PAY FUNDS	PENSION FUNDS
<p>Correlation between market share and transparency on SRI:</p> <p>The five biggest management companies (≈2/3 of market share) address SRI systematically and provide information on their approaches. The smaller the companies are the less information is publicly available.</p> <p>As of June 2015, only 44 of approximately 2000 investment funds existing in the market have been certified according to EUROSIF (2%).</p>	<p>The reporting shows the sector's efforts towards sustainability and its SRI leading role.</p> <p>All websites have a section on sustainability and its relation to the investment policy.</p> <p>The majority of management reports include information on non-financial performance. A reference to the ÖGUT certification is always present.</p> <p>Three of the nine severance pay funds publish a sustainability report or an integrated report, two of which are GRI-compliant.</p>	<p>The sustainability reporting of all 14 pension funds hardly provides any relevant information and cannot compete with the severance pay funds in terms of depth and breadth.</p> <p>Only three of the seven multi-company pension funds address sustainability on their website, all of which are organizationally linked to the three severance pay funds that are SRI-frontrunners in the ÖGUT-certification.</p>

Conclusion

The Ecolabel and the ÖGUT have certainly signalled the reporting practices of the three smallest financial subsectors⁷² in Austria. However, the response towards disclosure and transparency, including the use of international frameworks, varies across groups. That is partially due to the view each sector has towards the consideration of ESG criteria. A clear understanding of the importance of ESG disclosure in the financial sector as a whole is key to accelerating the reporting dynamics of the sector.

⁷² Based on assets under management

5. Case Studies from Around the World

5.1 Public Sector Reporting in the UK

The HM Treasury⁷³ in the United Kingdom issues minimum reporting requirements for all central government bodies, including departments, non-ministerial departments, non-departmental public bodies and any other organization required to produce annual financial reports. It is no longer a requirement to produce a stand-alone document but reporting organizations can still do so if they wish. In its March 2016 guidance document, the HM Treasury sets minimum reporting requirements, including: overall strategy for sustainability, GHG emissions (Scope 1, Scope 2 and Scope 3), waste minimisation and management, finite resource consumption, biodiversity action planning and sustainable procurement. Guidance includes detail on boundaries, materiality, offsets, and use of external sources. Listed companies are required to produce Directors and Strategic Reports under the Companies Act of 2006. In terms of the 2013 Regulations, quoted companies must report their annual GHG emissions in the Directors' report

At the end of March 2016, the Task Force on Climate-Related Financial Disclosures (see chapter 3.3) presented to the UK Financial Stability Board a report that sets out the scope and high-level objectives and fundamental principles of disclosure with a view to providing an enduring disclosure framework. A final report scheduled for the end of 2016 will set out "specific recommendations and guidelines for voluntary disclosure by identifying practices to improve consistency, accessibility, clarity and usefulness of climate-related financial reporting."

5.2 Indian Reserve Bank Takes Action

The Reserve Bank of India has been issuing circulars and guidance on the Role of Banks in Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting since 2007. Over the years, a series of actions aimed at increasing uptake and awareness within the banks has taken place, including the launch of the S&P ESG India Index in 2008; the release of

⁷³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/279330/PU1632_Sustainability_Reporting_Guidance.pdf

national voluntary guidelines on the responsibilities of businesses in 2011; the launch of the S&P BSE Carbonex; the 2013 launch of the MSCI ESG India Index. In 2013, the Companies Act was amended to require that 2% of profits be spent on CSR. In 2015, renewable energy was included under priority sector lending and the India Banking Association issued guidelines on responsible banking. Exim Bank of India issues a five-year US\$500 million green bond and YES Bank issued the first INR-denominated green bond. In 2016, the Securities Exchange Board of India (SEBI) made disclosure compulsory for the Top 100 listed entities (by market capitalisation) – using a reporting framework based on closed questions ('yes/no'), with no answers requiring explanation. SEBI proposed new norms for the issuance and listing of green bonds.

Research has indicated that an increasing number of financial institutions are issuing sustainability reports or have disclosure on corporate responsibility. A very small proportion of these use existing frameworks such as the GRI, CDP and UNGC.

5.3 Banking on Change in Nigeria, Bangladesh and China

In 2012, the Nigerian and Bangladeshi authorities issued green banking or sustainable banking guidelines. The Chinese Central Bank issued implementation regulations for the Green Credit Guidelines it had introduced in 2006. All three address the connection between financial sector activities and sustainable development, and formulate guidelines for sustainable banking policies, strategies, practices, products and services. While reporting is part of these principles and guidelines, it is not the primary focus. The Centre for International Governance Innovation issued a 2015 review⁷⁴ of impact of these approaches and concluded that: "While compliance in Nigeria is high, with 90% of the Nigerian banks complying, it is lower in Bangladesh and in China (30 to 60%)."

The paper concludes that, firstly, the mandatory guidelines have an impact on the sustainability performance of banks. In all three cases, sustainability performance increased after the introduction of the guidelines. Secondly, the inclusion of the banking sector into the development of financial sustainability regulations increases the success of the regulation. Thirdly, activities to support the implementation of financial sustainability guidelines

74 https://www.cigionline.org/sites/default/files/cigi_paper_no77_web.pdf

and supervising the compliance with the guidelines are crucial for the success of financial sector sustainability regulations. Fourthly, financial sector sustainability regulations have a positive impact on the financial sector's financial performance, stability and sustainability performance. It is the authors' view that further research will be needed over time.

BOX D AUSTRIAN SUSTAINABILITY REPORTING AWARD (ASRA)

The Austrian Sustainability Reporting Award (ASRA), awarded by the Austrian Chamber of Chartered Public Accountants and Tax Consultants and organized by a cooperation of different stakeholders is a voluntary scheme to award Austrian organizations (independently of the industry, the type of organization and their size) that have shown a remarkable performance in sustainability reporting. Its goal is to support and increase quality and quantity of sustainability reports. The ASRA applies a rating methodology to evaluate the quality of sustainability reports.

By contrast to the ÖGUT certification and the Ecolabel (UZ49), the main focus is on transparency. In four meta-topics, 21 criteria are rated along a score evaluation. In order to evaluate the quality of the reporting and the underlying process, four different levels of achievement have been defined for each indicator:

1. Vision, Strategy, Materiality

- a. Strategy
- b. Vision
- c. Performance
- d. Targets
- e. Integration of stakeholders
- f. Materiality
- g. Completeness

2. Principles of Reporting

- a. Balanced reporting
- b. Comparability
- c. Accurateness
- d. Actuality
- e. Clearness
- f. Reliability and verifiability

3. Internal Processes

- a. Organization and management
- b. Governance
- c. Supply chain / value chain
- d. Programme development

4. Internal Pocesess

- a. Trend
- b. Targets
- c. Ambitiousness and innovative capacity
- d. Compliance classification according to GRI / IIRC

Sustainability reports or integrated reports can be handed in. There are no further mandatory requirements in this regard (e.g. third party certification). In a two-stage process, the submitted reports are evaluated quantitatively and later discussed qualitatively in the jury.

The ASRA has been one of various important driving factors for the increasing transparency and quality of Austrian sustainability reports. It allows deducing best practice example of the industry, such as VBV Vorsorgekasse and OeKB, who have won awards in several years. Furthermore, RZB Group was honoured for their recent improvements.

6. Best Practice Examples of GoF47 Public Financial Institutions

6.1 ERAFP (France)

The French Public Service Supplementary Pension Scheme, ERAFP⁷⁵, was created by the French pension reform law of 21 August 2003. It manages the retirement benefits of civil servants from the French government and local authorities through a fully funded scheme. ERAFP is one of the few pension funds that manages 100% of its €23 billion of assets on a socially responsible basis.

The ERAFP board approved an SRI policy at the inception of the fund in 2005. Since then, more detailed rating frameworks have been adapted to the specific requirements of the different asset classes in which it invests. In 2012, shareholder engagement guidelines were adopted, followed by a climate change strategy.

ERAFP's policy is consistent with its long-term investment horizon. It has designed an ESG reporting standard as it did not find a reporting standard suitable for asset owners. A best in class approach for 40 ESG criteria is used to assess the compliance of each issuer. It is linked to the UN principles, the OECD Guidelines for Multinational Enterprises and the International Labour Organization (ILO) conventions.

ERAFP views its screening processes as essential to ensuring it can provide 'reasonable assurance' that it will be able to deliver on the promises it makes with every contribution it receives from the French civil servants. The fund follows prudent asset-liability management and solvency frameworks. It uses a low discount rate to allow it to keep expected returns realistic, and therefore to make steadier allocation decisions in times of turmoil.

ERAFP considers it a fiduciary duty to integrate the analysis of all factors, including ESG issues that may affect the value of their assets. Their annual report contains financial and non-financial performance and explains the impact of ESG issues on the financial performance. Its reporting audience is its beneficiaries, the investment community and regulatory bodies.

75 www.erafp.fr

ERAFP's key challenge is the development of the right methodology to assess the climate change impact indicators. It currently provides information on the carbon footprint of the equity portfolio and it is working on the methodology of sovereign bonds and real estate. The carbon intensity of its portfolio is 19% lower than the benchmark index, the MSCI ACWI (All Country World Index).

In 2014, ERAFP worked with the French asset manager Amundi on a methodology to reduce the carbon footprint of a portfolio of €750 million managed under an index-based mandate. An additional filter on the carbon intensity is applied: 5% of the most polluting companies globally and 20% of the most polluting of each sector are excluded from the portfolio.

ERAFP's policy objectives are in line with Article 173 of the Law on Energy Transition and Green Growth (see chapter 4.1.2) and as such, its efforts are focused more on incentives to meet SRI requirements rather than being compliance driven. As a member of the Institutional Investors Group on Climate Change and signatory to the PRI and other initiatives on climate change, ERAFP takes part in engagement initiatives towards regulatory authorities.

6.2 Caisse des Dépôts (France)

The Caisse des Dépôts Group is defined under French Law on the Modernisation of the Economy as a public sector long-term investor serving general interest and the economic development of the country. It is focused on innovation and sustainable growth.

The group invests in development projects in France, to catalyse further private sector finance. In addition, it manages a significant portfolio of financial assets and subsidiaries.

Caisse des Dépôts is a member of the UN PRI, the Montreal Carbon Pledge, CDP, UNEP FI and the UN Global Compact. It has 100% of its assets managed in-house in accordance with an ESG policy. Although not within the formal scope of the Law on National Commitment for the Environment, it decided in 2012 to comply voluntarily, revamping its sustainability reporting to meet all of the legal requirements, the GRI indicators, PRI reporting and the indicators requested by ratings agencies. Since 2014, it has included a voting record in its sustainability report.

The company has consulted with sustainability experts, ESG brokers, the ORSE (a French study centre on CSR) and the Institut RSE (Institute for Corporate Social Responsibility) to ensure that their indicators are in line with

group policies and can be used for internal strategic planning and project development as well as external reporting.

Internally, the group's sustainability reporting informs its strategic decisions. Externally, the aim is to enhance accountability. The report targets several audiences and feedback is sought, most recently using a web-based survey. This provides information for its materiality map and underlying indicators. The availability and quality of data are problems for non-listed subsidiaries and SMEs. A further challenge is that of presenting the data in a way that is user friendly while providing the relevant detail for a large group with varied activities.

Caisse des Dépôts has commitments to diminish the carbon footprint of its equity portfolio by 20% by 2020. The main enabler is enhanced shareholder policy and includes engagement, dialogue and follow-up on issuers' performance. The group has to comply with Article 173 of the Law on Energy Transition for Green Growth and its progress will be reported in their annual reports.

A week before COP21, Caisse de Dépôts announced its commitment to diminish 20% of the carbon footprint of its equity portfolios by 2020. The main enabler is its enhanced shareholder policy, which consists of engagement, dialogue and follow-up of issues' performance. The group has to comply with Article 173 of the Law on Energy Transition for Green Growth and this commitment is part of the actions taken to support the international and national climate goals. Progress will be reflected in the group's annual reporting. The group is currently mapping all these themes and indicators relevant for compliance with Article 173. It is undergoing analysis to identify methodological gaps and prioritizing the roll out of additional indicators to reduce double reporting burdens or indicators that are not useful.

6.3 FINDETER (Colombia)

FINDETER (*Financiera de Desarrollo Territorial*), is a public development bank accessing funds provided by the French Development Agency (AFD) and a technical cooperation programme which accesses European Union funds. It also works with the Latin American Investment Facility (LAIF). A further €5m partnership between FINDETER and the Inter-American Development Bank (IDB) aims to support and structure priority local development projects.

FINDETER's role is to provide strategic, financial and technical support to Colombian local authorities by strengthening their financial structures. It

therefore indirectly finances green and inclusive municipal urban policies, which have the following objectives:

- Providing access to water and sanitation for the poorest communities, support responsible water management and improve urban sanitation;
- Strengthening the household waste collection sector;
- Supporting the development of eco-friendly urban transport;
- Supporting initiatives to open up difficult neighbourhoods and for the balanced development of urban territories;
- Financing social housing development programmes;
- Producing renewable energy;
- Helping to strengthen the financial situation of municipalities

Public reporting on its performance and future outlook is a requirement of its legal and statutory status as well as of its funders. It has produced a Sustainable Development report annually for several years with increasing focus on GRI reporting standards.

Decree 4167 of November 2011 created a change in the bank's legal structure. From 2012 it focused on projects fundamental to the company's vision of being the Development Bank for the Country's Infrastructure and the 2012-2014 Strategic Plan.

The board of directors adopted a significant decision regarding the reorganization of the bank and the addition of new skills in the areas of technical assistance, project structuring as well as social and environmental responsibility. Corporate governance was strengthened through the incorporation of a Code of Ethics into the administrative policies, and the reinforcement of human resources policies that develop employee competencies, skills and aptitudes.

After incorporating its new commercial strategy, Findeter's disbursements reached \$2.32 billion in 2012, of which 90% was used to bolster the national government in areas such as transport, energy development, drinkable water, basic sanitation, construction, housing, health and education.

Findeter also deepened its regional presence by applying its credit resources to 107 municipalities in 26 departments through 1,469 operations. Commercial management has been oriented towards the financing of projects which contribute to improving the competitiveness of the various regions in areas such as: departmental road plans, mass transport systems,

the construction and extension of oil pipelines, the transport and distribution of gas for home use, the construction and improvement of water supply and sewerage networks, social housing and improvements to infrastructure for education and health, among others.

Findeter has made a strong contribution to the development of a programme for 100,000 homes, to technical consultancy in the identification and formulation of social housing projects, which was given to close to 800 local leaders and over 2,500 people. Technical assistance has been provided for work contracts and auditing to 38 projects, to the value of \$390 billion, benefiting almost 3 million Colombians. Findeter has become a significant partner in the delivery of sustainable development and its easily accessible sustainability report is a major factor in its transparency and accountability requirements.

6.4 South African State-Owned Financial Institutions

State-owned South African companies are governed by the Public Finance Management Act, the Municipal Finance and Management Act as well as the Companies Act.

Financial sector state-owned entities, including lending and investment organizations such as the Industrial Development Corporation (IDC), the Development Bank of South Africa (DBSA), the Land Bank, the Public Investment Corporation (PIC) and the Government Employees Pension Fund (GEPF) are also subject to additional legislation. The GEPF is a signatory to the UN-supported Principles for Responsible Investment (PRI) and the Code for Responsible Investment in South Africa (CRISA).

State-owned companies are required to deliver comprehensive audited annual reports to the relevant minister. The reporting requirements do not specify the production of a sustainability report, but cover many of the same elements in addition to comprehensive financial and governance content.

The Companies Act requires companies to have a social and ethics committee in place that must, amongst other responsibilities, monitor the company's activities with regard to the UN Global Compact principles, the OECD recommendations on corruption, the Employment Equity Act and the Broad-Based Black Economic Empowerment Act.

Therefore, although there is no specific regulatory or legal requirement to

produce an annual sustainability report, all of the key state-owned financial sector companies do produce significant, readily available integrated reports as envisaged by the voluntary King Code on Corporate Governance. These reports also meet most of the key expectations of financial sector sustainability reports. The integrated annual reports include material ESG issues as well as a requirement to report on the outcomes of their activities. The IDC also publishes a GRI index.

The Public Investment Corporation, the principal vehicle for government investments, including those on behalf of the GEPPF, is a signatory to the PRI, the UN Global Compact and CRISA. It has recently voluntarily engaged with the CDP (previously the Carbon Disclosure Project).

The PIC publishes, for example, its proxy voting record in relation to its major listed investments as well as the reasons for its voting decisions. This is a commitment under CRISA, rather than a specific regulatory requirement.

The PIC has assets of R1.81 trillion (around US\$119 billion) under management. It is a major investor in South Africa and uses its equity stake to promote the diversity transformation of the management and ownership demographics of companies as well as promoting and investing in small business and infrastructure development.

6.5 Conclusion

Governments can demonstrate leadership by regulating the transparency disclosures of state-owned financial services providers. These disclosures also improve accountability and governance by the State in the disbursement of tax-payers' money.

7. Other Voluntary Disclosure Initiatives

The number of voluntary codes requiring disclosure of key performance information and details of underlying processes and methodologies, has increased significantly in recent years, both in terms of the number of codes and their rapid adoption. Where they exist and cover critical areas of interest, they may be effective forerunners of policy and regulation. They are devised by scientifically and technologically knowledgeable groups who seek to make reporting easier and relevant. The involvement of multiple stakeholders in their elaboration processes tends to add credibility and ensure uptake. In addition, their methods of promptly disclosing key findings and trends ensures relevance and an ability to update the requirements on a regular basis. Typically, however, these are underfunded and collaboration might work for both the NGOs that drive them and the governments wishing to promote material disclosure.

7.1 CDP

The CDP works with market forces (including shareholders, customers and governments) to improve the management of environmental risk through the measurement and disclosure of environmental information. It has successfully encouraged disclosure by thousands of companies and cities worldwide and it makes information available for business, investment and policy decision-making. It engages 822 institutional investors holding US \$95 trillion of assets.⁷⁶

The CDP claims to hold “the largest collection globally of self-reported climate change, water and forest-risk data”⁷⁷. It aims to enable stakeholders, such as companies, investors and cities, enhance risk mitigation and make investment decisions that advance sustainable development. Other projects address issues such as forests, water disclosure and supply chain environmental risk.

Many view the CDP as a pre-requisite for change but not necessarily a driver

⁷⁶ www.cdp.net
<http://www.cdp.net/en-US/Pages/about-Us.aspx>

⁷⁷ www.cdp.net
<http://www.cdp.net/en-US/Pages/about-Us.aspx>

of change. There is no question that disclosure of corporate carbon emissions has increased significantly in quality and quantity since the CDP's inception. Questions remain, however, about whether the disclosure is leading to change and how much reliance can be placed on self-reported data.

7.2 Asset Owners Disclosure Project (AODP)

The objective of the Asset Owners Disclosure Project⁷⁸ is to protect long-term investment, such as retirement savings, from the risks associated with climate change⁷⁹ by improving disclosure and industry best practice. The AODP is currently only focused on climate change and the potential risks faced by pension funds if they do not take climate change risk into account when providing for the long term financial needs of pension holders in a rapidly changing world. One thousand of the world's largest pension funds presently manage an excess of US\$52 trillion, however, the amount invested in low-carbon assets is of less than 2% of this figure.⁸⁰

The AODP enables stakeholders, members and the public to differentiate between asset owners, such as pension funds, who are managing the long-term risks in their portfolios that are associated with climate change, and those who are not. To that end, it measures how asset owners are managing the challenge in terms of rapidity and effectiveness and drives a better management of climate change-related risks in their investment portfolios.

The principle underpinning the AODP is that it is an asset owner's core business to prove that it has assessed a risk and then decided to mitigate it or carry it. This is particularly important as the funds provide for the long-term future of millions of people through their pension savings. The AODP requires asset owners to disclose how they mitigate that risk through the four portfolio mitigation options of avoidance, insurance, diversification and hedging. In addition, they have a responsibility to demonstrate the impacts of mitigation and the potential repercussions in case the risk manifests itself. The AODP's experience is that disclosure frequently highlights that risk is not being managed. The impact of the AODP has been positive with many asset owners switching their capital to cleaner investments in order to mitigate climate change risk. The AODP seeks input into its annual analysis from the relevant asset owners but where none is provided, the pension fund is assessed on publically available information.

78 www.aodproject.net

79 <http://aodproject.net/about-us/our-objectives/>

80 DB Climate Change Advisors, January 2010

7.3 Equator Principles

The Equator Principles (EP) is a risk management framework for financial institutions to identify, evaluate and manage social and environmental risk in projects⁸¹. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. Signatories are required to disclose application information.

The EP apply globally, to all industry sectors and to four financial products, above certain thresholds:

1. Project Finance Advisory Services;
2. Project Finance;
3. Project-Related Corporate Loans; and
4. Bridge Loans

To date, 84 Equator Principles Financial Institutions (EPFIs) in 35 countries have embraced the EP. Together, they account for more than 70% of international project finance debt in emerging economies⁸².

EPFIs apply the EP to their internal policies in the environmental and social areas, as well as in their standards and procedures for financing projects. They also commit to reporting on EP implementation. Projects that are not EP compliant will not receive financing or corporate loans by EPFIs.

EPFIs also apply the EP to an existing project in cases where its expansion or upgrading may cause considerable social and environmental risks and impacts, or significantly modify the nature or intensity of an existing impact.

One of the EP successes is in agreeing the IFC Performance Standards as a common framework for adjudicating risk and performance. This overcomes the challenge of operating in multiple jurisdictions where legislation is not always current or fully implemented. EP banks are able to negotiate with other parties participating in the large and complex deals that typically fall within the definitions to use the IFC Performance Standards.

81 www.equator-principles.com

82 <http://www.equator-principles.com/index.php/members-reporting>

7.4 World Federation of Exchanges (WFE)

In a November 2015 announcement, the WFE⁸³ released its guidance to member exchanges on the incorporation of disclosure around 34 key performance indicators. These include energy consumption, water management, CEO pay ratios, gender diversity, human rights, child and forced labour, temporary worker rates, corruption and anti-bribery, tax transparency and other issues. WFE offered exchanges guidance on rolling out enhanced sustainability disclosure and a means of meeting commitments to the UN's Sustainable Stock Exchanges initiative⁸⁴.

The WFE represents 64 public stock, futures and options exchanges as well as Central Clearing Parties (CCPs). These cover over 44,000 companies – representing a US\$64 trillion market capitalization and a trading value of US\$76 trillion list on WFE exchanges – equivalent to more than 75% of the global GDP. The guidance is provided for voluntary adoption by exchanges or for adaptation to local market conditions.

7.5 Global Reporting Initiative (GRI)

The GRI⁸⁵ was the pioneer in developing general sustainability reporting guidelines and sector specific supplements and guidance. It remains the most widely used framework. Its modus operandi includes significant stakeholder consultation that encompasses business, governments, academia and civil society and experts. The GRI maintains a significant database of sustainability reports.

7.6 Conclusion

Significant experience and expertise in developing indicators and process assessments exists within NGOs and private sector-led voluntary initiatives. By working with these initiatives, policy makers can build on and improve transparency and disclosure around key sustainability issues. Further, regular research of the outcomes resulting from these voluntary initiatives can assist policy makers in identifying and targeting gaps that currently exist.

83 <http://www.world-exchanges.org>

84 <http://www.sseinitiative.org>

85 <http://globalreporting.org>

8. List of Abbreviations

ABBREVIATION	MEANING
€	Symbol for Euro, the Currency of the European Union
AAAA	Addis Ababa Action Agenda
Abrapp	Brazilian Association of Closed Pension Funds
AFA	French Insurance Association
AFEP	French Association of Private Companies
AFG	French Association of Financial Management
Anpid	National Association of Investment Banks
AODP	Asset Owners Disclosure Project
Apimec	Association of Capital Markets Analysts and Investment Professionals
ARAS	Environmental and Social Risk Assessment (Colombia)
ASRA	Austrian Sustainability Reporting Awards
AUM	Assets Under Management
BAWAG/Alliance	Bank für Arbeit und Wirtschaft (Austria's 4th largest bank)
BBBEE	Broad-Based Black Economic Empowerment
BM&BOVESPA	Brazilian Stock Exchange
BMLFUW	Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management
BVC	Colombia Stock Exchange
CCP's	Central Clearing Parties
CDP	Previous acronym for Carbon Disclosure Project. The organization is now simply CDP.
CIES	Employee Savings Label
CISE	ISE Governance Committee (Brazil)

ABBREVIATION	MEANING
COLEQTY	Colombia Equity Index
COLIR	Colombian Index for Investor Relations and Sustainability Disclosure
COP21	21st Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC)
CRISA	Code for Responsible Investment in South Africa
CSR	Corporate Social Responsibility
DFIs	Development Finance Institutions
EP	Equator Principles
EPFI	Equator Principles Financial Institutions – signatories to the EP principles
ERAPF	French Public Service Supplementary Pension Scheme
ESG	Environmental Social Governance
EUROSIF	European Sustainable Investment Forum
FBF	French Banking Federation
FGV	Getulio Vargas Foundation (Brazil)
FFSA	French Federation of Insurance Companies
FIR	Forum for Responsible Investment, also known as French SIF (Social Investment Forum)
GoF47	Group of Friends of Paragraph 47
GRI	Global Reporting Initiative
GRI G3, G3.1, G4	Versions of the Global Reporting Initiative's guidelines
GVces	Getulio Vargas' Centre of Studies on Sustainability
Ibase	Brazilian Institute of Social And Economic Analysis
IBGC	Brazilian Institute of Corporate Governance

ABBREVIATION	MEANING
IFC	International Finance Corporation: private sector arm of the World Bank
IIRC	International Integrated Reporting Council
ILO	International Labour Organization
Institut RSE	Institute for Corporate Social Responsibility
IR	Integrated Reporting
ISE	Corporate Sustainability Index (Brazilian SRI Index)
ISO 26000	International Standards Organization guidance standard on Corporate Social Responsibility
JSE SRI Index	Johannesburg Stock Exchange Socially Responsible Investment Index
Label ISR	French SRI Label
Loi NRE	French Law on New Economic Regulations
MEDEF	French Business Confederation
MEEM	French Ministry of Environment, Energy and the Sea
NAP CSR	National Action Plan on Corporate Social Responsibility
NSTRAT	Austrian Strategy for Sustainable Development
NYSE	New York Stock Exchange
OeKB	Austrian Central Securities Depository
ÖGUT	Austrian Society for Environment and Technology
ORSE	Observatory for Corporate Social Responsibility
ÖSTRAT	Austrian Federal and State Governments' Sustainable Development Strategy
PNBE	Pensamento Nacional das Bases Empresariais (Brazilian association for entrepreneurial modernism and the re-democratisation of Brazil)
PRI	Principles for Responsible Investment

ABBREVIATION	MEANING
rfu	Reinhard Friesenbichler Consulting
Rio+20	United Nations Conference on Sustainable Development (held in Rio de Janeiro in 2012 on the 20th anniversary of the 1992 Earth Summit)
SDGs	Sustainable Development Goals
SMEs	Small and Medium Sized Enterprises
SR	Sustainability Reports/Reporting
SRI	Socially Responsible Investment
TEEC	Energy and Ecological Transition for Climate Label
UCITS	Undertakings for Collective Investment in Transferable Securities
UNEP	United Nations Environment Programme / UN Environment
UNGC	United Nations Global Compact
US\$	Symbol for United States Dollars
VBV Vorsorgekasse	Austrian Provident Fund
VKI	Austrian Association for Consumer Information
VÖIG	Association of Austrian Investment Companies
VÖNIX	Vienna Stock Exchange Sustainability Index
VRG	Austrian Association of Investment and Risk Analysts
WFE	World Federation of Exchanges

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A.1. Comparison of Approaches in GoF47 countries

COUNTRY	POLICY	APPLIES TO	POLICY OBJECTIVES	REPORTING SPECS.
AUSTRIA	ÖSTRAT / NSTRAT	All Austrian organizations independent of industry, size or type	CSR National Action Plan addresses the issue of "Transparency and Credibility" as one of its five fields of activities and includes targets on SRI.	Voluntary
	Austrian Commercial Code	Credit institutions and insurance companies; Large companies (≥ €20 million total assets, €40 million total sales or 250 employees)	– Not explicit – §243(5) and 267(2) include requirements for non-financial reporting; environmental and employee information which must be included in the management summary.	–Mandatory –Compliance is ensured through the auditing of corporate accounts.
	ÖGUT sustainability certifications	Severance Pay Funds and Pension Funds	Support the severance pay funds and pension funds to communicate their leading role in SRI to institutional investors and the public.	Voluntary
	ÖGUT Responsible Investment Standard	Asset Management Companies	Black list of problematic companies and nations applied to all assets of a company	Voluntary

MULTI STAKEHOLDER CONSULTATION	CHARACTERISTICS	POLICY EFFECT(S)
22 social partners and civil servants from various ministries, public and academics participated.	<p>In terms of reporting it makes reference to the GRI framework. In terms of SRI it makes references to UNPRI, EUROSIF and the Austrian Ecolabel for Financial Products.</p>	<ul style="list-style-type: none"> – Marginal and rather ineffective in terms of sustainability reporting as no system has been adapted systematically by companies. – The objectives set for SRI have not been put into practice.
–Active lobbying for a more precise definition of §243 which did not succeed due to the opposition of economic representatives	<ul style="list-style-type: none"> – No specific list of indicators but there is a reference to the EU recommendations which includes a number of examples. <ul style="list-style-type: none"> – The publication of environmental and employee information is limited to related economic material issues leaving on a side materials for SD. 	<ul style="list-style-type: none"> – Not a wide implementation in the financial sector. <ul style="list-style-type: none"> – There are gaps in quality, quantity and materiality of the reports.
ÖGUT, experts, financial service provider, consultants, ministry, labor union, Austrian consumers association and the sciences.	<ul style="list-style-type: none"> – The assessment covers three areas: (a) principles and processes (b) portfolio (c) transparency, communication, engagement, documentation on SRI approach and implementation. – Makes references to the Austrian Ecolabel for financial products. 	<ul style="list-style-type: none"> – One of the most important driving factors of SRI in Austria: In 2015, eight out of nine severance pay funds participated in the certification process. – Indirect impact on transparency.
ÖGUT, consultants and the financial service.	<p>First divestment standard in Austria with a potential broad effect, since the scope covers all financial assets of a company. However, due to its recent implementation, no conclusion can be drawn at the moment.</p>	<p>It is too early to tell as the standard was only implemented in 2015. It is however hoped that the instrument would be an important component for moving towards more sustainable capital markets.</p>

COUNTRY	POLICY	APPLIES TO	POLICY OBJECTIVES	REPORTING SPECS.
AUSTRIA	Pension Fund Act	Pension funds (Voluntary) except Severance pay funds (Mandatory) and personal pension schemes	<ul style="list-style-type: none"> – Not explicit – Report on ethical, ecologic and/or social criteria 	<ul style="list-style-type: none"> – Mandatory – Set of indicators not specified
	Austrian Ecolabel (UZ 49)	Investment funds	Provide customers with comparable information and promote a market change towards environmentally friendly products and services.	<ul style="list-style-type: none"> – Voluntary – The reporting form is not specified, but its guidelines contain information on the transparency requirements. – External auditors evaluate the document.
	Austrian Sustainability Reporting Award (ASRA)	Private sector, government sector, public sector and NGOs	Support and increase quality and quantity of sustainability reports.	Voluntary

MULTI STAKEHOLDER CONSULTATION	CHARACTERISTICS	POLICY EFFECT(S)
<ul style="list-style-type: none"> – SRI actors such as ÖGUT were part of the consultation of the text. – SRI actors lobbied for a voluntary passage on SRI in the early stages of the “New Severance Payment Act”. This was not implemented due to low interest among Parliamentarians. However, the amendment of the Pension Fund Act, developed around the same time, included a requirement for SRI reporting. 	<p>Low implementation of the SRI methodology was partly due to a low demand.</p>	<p>There is a big gap in the quality of information and sustainability reporting between the pension funds and severance pay funds. Pension funds do not achieve in their reporting the same depth and breadth as severance pay funds. Of the 14 pension funds, the seven corporate pension funds report very little relevant information. Only three of the remaining seven multi-company pension funds address sustainability on their websites. Unsurprisingly, the VBV-Pensionskasse AG, Valida Pension AG and Bonus Pensionkasse AG are organizationally linked to the three severance pay funds that are SRI-frontrunners in the ÖGUT certification.</p>
<p>Experts, auditors of funds, financial service provider, ÖGUT, economic chambers and NGOs</p>	<ul style="list-style-type: none"> – Three pillars: selection criteria, quality of analytical process and transparency. – The transparency criteria is mandatory and cannot be compensated through higher ratings in the other two pillars. <ul style="list-style-type: none"> – Its documentation refers explicitly to the EUROSIF-Standard categories and the Arista Quality Standard. 	<ul style="list-style-type: none"> – 90% of the certified funds apply the EUROSIF standard and nearly half of the new companies applying for the label introduce it. – Constant increase in the number of funds.
<p>Safeguarded through the partner that jointly support the ASRA and through the members of the jury</p>	<ul style="list-style-type: none"> – To evaluate the quality of reporting and its underlying process it defines four meta-topics with 21 criteria. These are: (1) vision, strategy and materiality (2) internal process (3) reporting principles (4) performance – Makes reference to GRI and the IIRC. 	<ul style="list-style-type: none"> – Important driving factor for increased transparency and quality in the Austrian sustainability reports. – It has the most detailed approach to transparency compared to the other instruments that were analysed.

COUNTRY	POLICY	APPLIES TO	POLICY OBJECTIVES	REPORTING SPECS.
BRAZIL	Corporate Sustainability Index (ISE)	Top 40 of the issuers of the 200 most liquid shares on BM&BOVESPA that fulfil the eligibility criteria	<ul style="list-style-type: none"> – Build an objective tool to compare the performance of listed companies, highlighting those committed to SD and differentiate them for investors with other interests, such as short-term financial return. – Encourage the launch of new SRI funds, becoming a benchmark for their performance comparison. 	<ul style="list-style-type: none"> – Voluntary – Sustainability performance assessment through a questionnaire structured on seven dimensions: General, Nature of Product, Climate Change, Economic-Financial, Corporate Governance, and Social and Environmental responsibility
COLOMBIA	Article 96 of Law 1328 of 2009	Financial and insurance system, and the security market	<ul style="list-style-type: none"> – Promote the adoption and development of voluntary social responsibility activities. – Create a tool to disclose the impact of CSR activities. 	<ul style="list-style-type: none"> – Mandatory – Principles-based – Establishes periodicity, form and disclosure channels

MULTI STAKEHOLDER CONSULTATION	CHARACTERISTICS	POLICY EFFECT(S)
<ul style="list-style-type: none"> – Joint effort of Bovespa Operations Superintendent, the creators of Ethical fund (ABN Amro Real SRI fund), the Brazilian Institute of Corporate Governance, the Center for Sustainability Studies of the Getulio Vargas Foundation and the Ethos Institute, among others. – The most debated topics were sector exclusions and the triple bottom line (Social, Environmental and Economic dimensions). 	<ul style="list-style-type: none"> – The questionnaire makes references to national and international standards and initiatives (e.g. Brazilian Central Bank resolution on S&E policies, the protocol verde, GRI and CDP). – The ISE methodology is based on company performance, a basic questionnaire, and an assessment of documents submitted to support the information provided. – The questionnaire includes a question about an authorization to disclose the company's answers on the ISE website, which is worth 15 points, having the highest score among all. – There is difficulty in using the same questionnaire to assess companies of different economic sectors. 	<ul style="list-style-type: none"> – It serves as a reference guide for initiating sustainability practices as well as for their continuous improvement even for companies that were never part of the index. – Following the introduction of the ISE, there was a rapid shift to the creation of new SRI funds, but most of them have remained relatively small. – Limited success in serving as a benchmark for larger investors, as it has a relatively small number of member companies.
<p>Consultation with experts and the public in the drafting of the bill,</p>	<ul style="list-style-type: none"> – The use of sustainability reports to comply with the law is common and not limited to its requirements. Environmental, social and human rights issues are reported. – A survey of 204 companies showed that 88% complied with the requirements. 	<p>Positive and effective impact on the way institutions have been working to establish CSR policies and prepare their reports.</p>

COUNTRY	POLICY	APPLIES TO	POLICY OBJECTIVES	REPORTING SPECS,
FRANCE	Article 224 of the Law N° 2010-788 of 12 July 2010 and Article 173	Portfolio managers	<ul style="list-style-type: none"> – Promote Sustainable Responsible Investment via employee savings. – Requires reporting of the ESG criteria in the investment policy and reporting of SRI UCITS. 	<ul style="list-style-type: none"> – Mandatory – Principles-based – Guidance Material is provided by the Forum for Responsible Investment (FIR). – Requires reporting in the annual report and in the company’s website.
	Article 173 of the Law N° 2015-992 of 17 August 2015 on Energy Transition for the Green Growth	Institutional Investors	<ul style="list-style-type: none"> – Greater transparency and contribution to climate change. – Extend the scope of Article 224 to institutional investors. – Reporting of indirect emissions and stress tests. 	<ul style="list-style-type: none"> – Mandatory – Principles-based
SOUTH AFRICA	SRI index	Issuers Companies listed on the JSE and in the FTSE Russell/JSE All share index	<ul style="list-style-type: none"> – Provide a tool for a broad holistic assessment of company policies and practices, identifying those that integrate the principles of the triple bottom line and good governance in their business activities. – Serve as a facilitation vehicle for responsible investment and contribute to the development of responsible business practices. 	<ul style="list-style-type: none"> – Voluntary – Specific indicators subject to “apply or explain”. – Integrated reporting. – Guidance Material is provided by JSE. – Third party verification is encouraged through the kings code.

MULTI STAKEHOLDER CONSULTATION	CHARACTERISTICS	POLICY EFFECT(S)
<ul style="list-style-type: none"> – Extensive process including state, employers and employers (unions) representatives, local authorities and NGOs. – Working groups, operational committees and a public consultation. 	<p>The policy does not have any built-in compliance mechanisms and there are no penalties or sanctions associated in case of non-compliance.</p>	<p>The policy was evaluated one year after entering into force. The disclosure rate was satisfactory but showed that there was room for improvement which led to Article 173.</p>
<p>N/A</p>	<ul style="list-style-type: none"> – First legislation in the world requiring reporting the portfolio's indirect emissions. – It integrates climate risks in the financial risks. 	<p>Not implemented yet.</p>
<p>Participants of the JSE</p>	<ul style="list-style-type: none"> – The index includes specific reporting requirements in terms of the content and quantity of indicators. It varies across sectors depending on its "impact classification". – JSE and FTSE Russell are partners in improving the index ESG indicators. This new version contains specific references to various initiatives such as the UN Global Compact, the UN Principles for Responsible Investment, various sector-specific initiatives and the UN Business Principles on Human Rights. 	<ul style="list-style-type: none"> – SRI index is used as reporting benchmark in some companies. – Two reporting awards are based on the SRI index. – New stakeholder groups such as NGOs, consulting groups and others are becoming more interested in ESG topics.

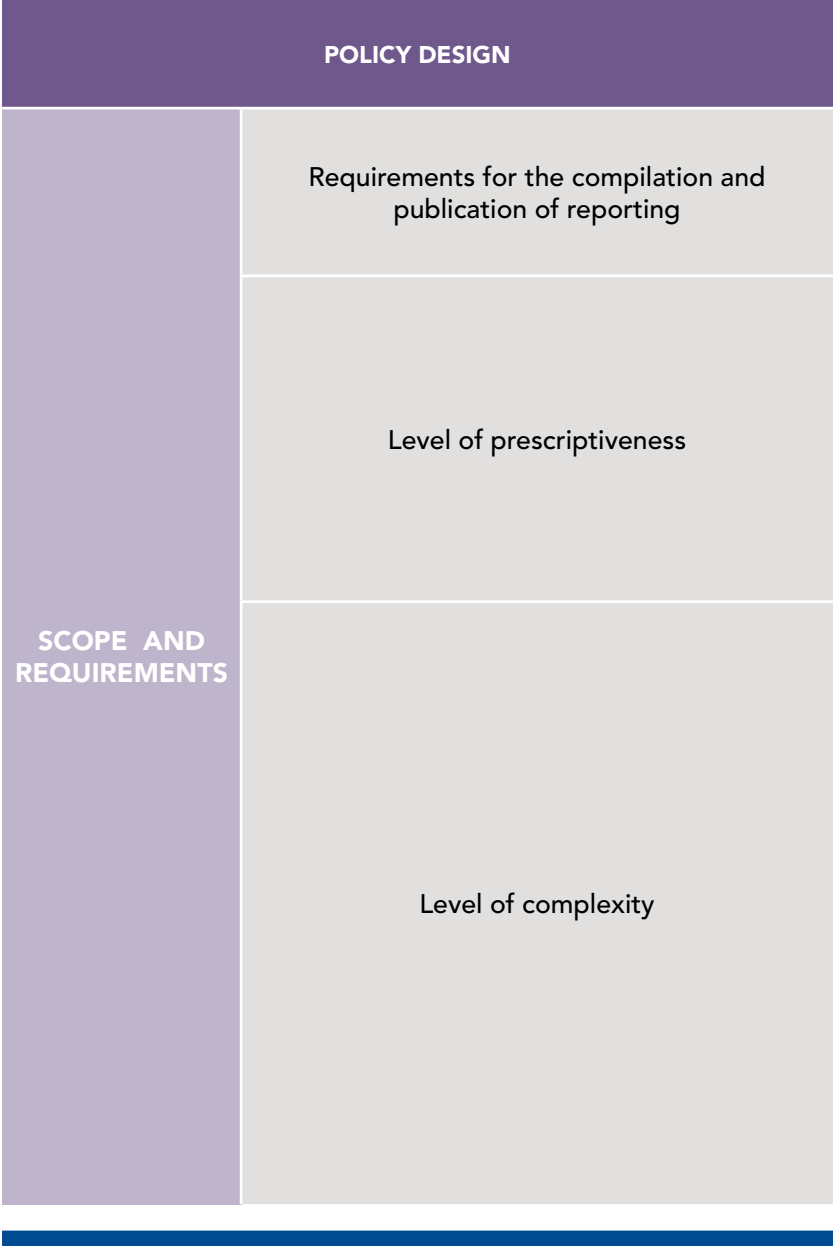
A.2. Tool for Policy Evaluation

POLICY EVOLUTION	
CONTEXT	Existing policy environment, ie. other supporting CSR policy requirements
	National drivers and pressures for increased transparency
PROCESS	Main stakeholders involved in consultation
	Negotiation of policy content (main points contested, how resolved)
OTHER REVELANT INPUTS	---
REFERENCES	---

GUIDANCE	POSSIBLE SOURCES
<p>Describe the national background of trends and debates from which the reporting policy emerged. Out-line the CSR-related policies in place that existed before the development / implementation of the reporting policy. If the policy has been adopted relatively recently or is currently being developed, describe the current context. If the policy has been in place for several years, describe the historical context. Include policies run by other regulatory institutions.</p>	<ul style="list-style-type: none"> - GRI's 'Carrots and Sticks' publication - Government websites - Other national CSR websites - Google search for academic studies, surveys and other research
<p>List as bullet points the key participants and their main position(s) on proposed legislation (on aspects or as a whole).</p>	<ul style="list-style-type: none"> - Google search for Government websites - Other national CSR websites
<p>Describe briefly the main issues debated during the policy's development e.g. in parliament or through public consultation. You may include the scope, application, terminology, expected costs, enforcement mechanisms etc. Who was advocating? Was a compromise reached between key stakeholders?</p>	<ul style="list-style-type: none"> - Google search for written submissions to policy-makers - Google search for academic studies, surveys and other research
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POLICY DESIGN	
OBJECTIVES	Clarity of need for policy and its goal
APPLICABILITY	Who does the policy apply to?
	Link to other corporate reporting legislations (if any)
SCOPE AND REQUIREMENTS	Scope of defined issues to be reported on

GUIDANCE	POSSIBLE SOURCES	
<p>Does the policy text or related documents clearly describe why the policy is needed and its objectives?</p>	<p>– Policy text and related guidance documents issued by the responsible ministry or any other authoritative source (e.g. business association or chamber of commerce).</p>	
<p>List the stated scope of intended subjects or financial institutions, including any thresholds for inclusion (e.g. number of employees, revenues, listed companies, institutional investors, portfolio managers).</p>		
<p>Does the policy text cross-reference any other reporting legislation, e.g. annual financial or environmental reporting requirements? If so, does this have an impact on the policy's applicability? Consider e.g. if the threshold for being subjected to the sustainability reporting legislation is defined by other legislation, or whether it was created to specifically regulate sustainability reporting in the financial sector.</p>		
<p>List the stated scope of subject matters to be addressed in the reporting (qualitatively and/or quantitatively). Is the scope defined in precise and unambiguous terms or is it general and potentially vague? Does it contain specific disclosure requirements for certain financial products/services? Consider for instance how detailed the compliance of the ESG criteria must be in investment decisions. The focus here is 'what must reporters report on and how they should report' – the specified scope could for example be a broad sustainability policy or it could be specific ESG/CSR topics that is compiled following an international framework (SASB, GRI).</p>		



GUIDANCE	POSSIBLE SOURCES
<p>Describe any requirements (contained in the policy or in related guidance) for how a reporter must/should compile their account and how it must be published</p>	<p>– Policy text and related guidance documents issued by the responsible ministry or any other au-thoritative source (e.g. business association or chamber of commerce).</p>
<p>Comment on the level of prescriptiveness of the legislation, i.e. to what extent does the text specify exactly the conditions for compliance and how this should be achieved. The focus here is ‘what does the policy explicitly require reporters to do to be in compliance, beyond addressing any defined sustainability topics’. This could for instance be prescriptions on where the information must be published, its duration, the period and format.</p>	
<p>Comment on the level of complexity of the legislation, i.e. to what extent does the text provide clear, short and simple instructions or guidance. Consider if it is complex because it is amending or repealing previous legislations. Consider if the volume and/ or quality of the text is a barrier to the user’s experience of the legislation – e.g. consider if there is extensive use of legal and technical terms (potentially leading to a perception of disproportionate complexity). Consider if the text introduces poorly-defined, rarely-used or similar-looking concepts. Consider if the text contains long sentences and sections that can complicate its comprehension, including if the text first contains a rule and then a lengthy list of exceptions or special circumstances. Consider if there are cross-references to other reporting legislation that may increase complexity for the reader.</p>	

POLICY DESIGN	
REPORTING APPROACH	Rules-based or principles-based (i.e. comply or explain)
INCENTIVES AND PENALTIES	Compliance mechanisms and verification
REFERENCES	International frameworks
	Regional and/or transnational policies
	National policies
OTHER RELEVANT INPUT	---
REFERENCES	---

GUIDANCE	POSSIBLE SOURCES
<p>Does the text comprise a set of detailed prescriptive rules, or does it present more high-level, broadly stated principles to define the standards reporters must respect for the overall elaboration of the report?</p>	<p>– Policy text and related guidance documents issued by the responsible ministry or any other authoritative source (e.g. business association or chamber of commerce).</p> <p>– Other related policies, if relevant.</p>
<p>Does the policy have any built-in mechanisms to ensure compliance? Describe any incentives as well as any penalties or sanctions for non-compliance. (e.g. possibility of being removed from an index).</p>	
<p>Does the legislation and/or any accompanying guidance make reference to international frameworks for sustainability / CSR, e.g. UN Global Compact, GRI, OECD etc.? The reference may be explicit or implicit, and it may be in the actual policy or in related guidance.</p>	
<p>Does the legislation and/or any accompanying guidance make reference to any regional and/or transnational policy or directive? The reference may be explicit or implicit, and it may be in the actual policy or in related guidance.</p>	
<p>Does the legislation and/or any accompanying guidance make reference to any national policy or instrument relating to sustainability / CSR / corporate governance / environmental / health and safety / corruption etc.?</p>	
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POLICY MONITORING

**INTERPRETATION
AND RESPONSE**

Reporters' responses in annual reporting
(minimum compliance vs comprehensive)

**EFFECT (IMPACT)
OF POLICY ON
REPORTING**

What has been the effect (impact) of policy
on reporting?

GUIDANCE	POSSIBLE SOURCES
<p>Collect evidence from different sources about how reporters have responded in practice e.g. contact local auditors or consultants who may have reviewed many reports and ask for their assessment.</p>	<ul style="list-style-type: none"> – Websites (government, ministerial etc.) – Local auditors
<p>Describe the overall effect (estimated or known through concrete evidence) of the policy on sustainability reporting. For countries where the policy is relatively recent, focus on interpretation and compliance. For countries where the policy has been in place for several years, focus on beyond-compliance reporting and evidence of integration into corporate management. For illustrative purposes, consider:</p> <ul style="list-style-type: none"> – whether there is evidence of modified reporting practices and content in accordance with policy requirements – whether reported information appears to be used for corporate management decisions (e.g. investment/divestment decisions, improved human resources management, improved natural resources use, improved relationships to local communities, etc) – whether reported information appears to be used by external stakeholders (e.g. regulator, rating agencies, investees, consumer associations, etc) <ul style="list-style-type: none"> – whether additional external stakeholders have developed as a result of the introduction of said policy (monitoring groups/ watchdogs, rating agencies, consulting firms, specialized software companies, NGOs, etc) – indirect effects (development of awards, indexes, labels, additional voluntary initiatives, etc) – whether it opened the debate for initiatives applying to specific types of financial institutions/services – whether there is an increase in the range of financial products including ESG criteria <ul style="list-style-type: none"> – whether the policy has inspired other regulatory institutions to adopt ESG reporting policies 	<ul style="list-style-type: none"> – Government websites – Other national CSR websites or authoritative sources (e.g. business association or chamber of commerce) – Google search for academic studies, surveys and other research

POLICY MONITORING	
AMBITION AND REALISM OF POLICY (SUCCESS)	Assess the policy against its objectives (internal effectiveness)
	Assess the policy against international expectations / practice / norms (external)
OTHER RELEVANT INPUT	---
REFERENCES	---

GUIDANCE	POSSIBLE SOURCES
<p>Evaluate the overall ambition and success of the policy. Consider whether there is sufficient evidence to identify causality between the policy and the described impact. Consider if the policy has had any unintended effects (both positive and negative). For illustrative purposes, consider for example:</p> <ul style="list-style-type: none"> – whether the number of reporting financial institutions has increased after policy implementation (if applicable to the said policy's objectives) – whether the quality and/or quantity of reported information has increased (if applicable to the said policy's objectives) – whether external stakeholders can confirm increased transparency by reporting financial institutions 	<ul style="list-style-type: none"> – Government websites – Other national CSR websites or authoritative sources (e.g. business association or chamber of commerce) – Google search for academic studies, surveys and other research
<p>Evaluate the policy in the context of international good practice. Considering the responses given above:</p> <ul style="list-style-type: none"> – How would you summarise the extent to which the policy lives up to the international 'good practice' policy elements outline in this framework? – How closely does this policy align with international developments and current expectations around sustainability reporting in the financial sector? <ul style="list-style-type: none"> – Where a policy is not yet fully formulated or implemented, does it show promise of alignment with international good practice? 	

About the Economy Division of UN Environment

Set up in 1975, three years after UN Environment began, the Economy Division provides solutions to decision-makers and helps change the business environment by offering platforms for multi-stakeholder dialogue and cooperation, innovative policy options, pilot projects and creative market mechanisms to improve the quality of the environment and the well-being of citizens.

Within UN Environment, the Economy Division has the mandate of delivering on environmental sustainability through technology, industry and economic policy by addressing environmental issues at global and regional levels, providing leadership and encouraging partnerships, and by informing and enabling nations and people to improve their quality of life without compromising that of future generations.

The Division plays a leading role in three of UN Environment's seven strategic priorities, namely in climate change, chemicals and waste, and resource efficiency.

The Office of the Director, located in Paris, coordinates activities through:

- > The **Chemicals and Waste Branch** (Geneva, Paris and Osaka), which catalyses global actions to bring about the sound management of chemicals, the improvement of chemical safety and the management of waste.
 - > The **International Environmental Technology Centre** - IETC (Osaka) promotes the collection and dissemination of knowledge on Environmentally Sound Technologies with a focus on waste management. The broad objective is to enhance the understanding of converting waste into a resource and thus reduce impacts on human health and the environment (land, water and air).
 - > **OzonAction** (Paris) supports the phase-out of ozone depleting substances in developing countries and countries with economies in transition to ensure implementation of the Montreal Protocol.
- > The **Economy and Trade Branch** (Geneva), which helps countries to integrate environmental considerations into economic and trade policies, and works with the finance sector to incorporate sustainable development policies. This branch is also charged with producing green economy reports.
- > The **Energy, Climate, and Technology** (Paris, Nairobi, and Copenhagen), which fosters energy and transport policies for sustainable development and encourages investment in renewable energy and energy efficiency.
- > **The Sustainable Lifestyles, Cities and Industry Branch** (Paris), which delivers support to the shift to sustainable consumption and production patterns as a core contribution to sustainable development.

The Economy Division works with many partners (other UN agencies and programmes, international organizations, governments, non-governmental organizations, business, industry, the media and the public) to raise awareness, improve the transfer of knowledge and information, foster technological cooperation and implement international conventions and agreements.

For more information,
see www.unep.org/dtie



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This publication builds upon the work developed by the GoF47 for Evaluating Public Policies in Corporate Sustainability Reporting, with a specific focus on the financial sector. It provides an overview of international (mainly intergovernmental) initiatives in the field of financial sector transparency, before moving to the description and evaluation of public policies and other initiatives on sustainability reporting in the financial sector in 7 GoF47 countries (Austria, Brazil, Colombia, France, Norway, South Africa, Switzerland), illustrated by best practice examples of collaboration between government and financial institutions. Building on the analysis, it provides recommendations to policy-makers to enhance financial sector transparency, thus directly contributing to the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development, and the SDGs.