United Nations Environment Programme Finance Initiative (UNEP FI)

Australasian Operational Environmental Management and Reporting Advisory Committee

Submission to the Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into Corporate Responsibility

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Contributors

The Operational Environmental Management and Reporting Advisory Committee to the United Nations Environment Programme Finance Initiative (UNEP FI) in Australasia, welcomes the Joint Parliamentary Inquiry into Corporate Social Responsibility.

As such, a number of members of this committee have collaborated to contribute to the inquiry, in order to draw attention to the range of opinions that members have in regards to the inquiry's terms of reference.

Contributing members to this submission from the Australasian UNEP FI Operational Environmental Management and Reporting Advisory Committee are:

— Aviva Group;

— mecu Credit Union;

— National Australia Bank;

— Savings & Loans Credit Union; and

— VicSuper.

Please see appendix 1 for a complete list of members of the committee.

Background to UNEP FI

UNEP FI is a unique voluntary initiative between UNEP and around 170 banks, insurers and asset management companies worldwide.

The goal of the initiative is to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

The Finance Initiative was founded in 1992 to engage a broad range of financial institutions in a constructive dialogue on economic development, environmental protection and sustainable development.

Signatories to the UNEP FI Statement of Commitment on the Environment and Sustainable Development commit to the integration of environmental considerations into all aspects of their operations and services. There are nine Australian headquartered signatories to UNEP FI. Please see appendix 2 for full list of these.

UNEP FI in Australasia

In November 2000, EPA Victoria signed an agreement with the United Nations Environment Programme to manage and promote its Finance Initiative activities in Australasia.

EPA is doing this through a number of avenues including its four Australasian advisory committees. The committees work with the finance sector on a variety of issues including bank lending, public sustainability reporting, the role of the insurance sector in regards to sustainability, environmental management and asset management.

One such committee is the Operational Environmental Management and Reporting committee. Members include representatives from UNEP FI signatory companies.

The committees provide signatories with a forum to openly and regularly share knowledge and insights into sustainability issues that are relevant to their businesses. They allow collaboration with others working on these matters across organisations and assist them to work towards positive outcomes in relation to them. Members set the agenda for the committees and outcomes achieved depend entirely on the needs of the companies involved. This structure ensures that the committees continue to be relevant and useful to all members, especially as the area of environmental sustainability is constantly changing and developing. It is in members' interest to keep up-to-date with developments in the sustainability field and the committees allow UNEP FI signatories to do this with peers in the broader finance sector.

The Australasian group of UNEP FI signatories has strong links to the global finance sector through its direct relationship with the headquarters of UNEP FI in Geneva, Switzerland. This relationship enables Australian signatories to be kept informed about best practice internationally, both through involvement in the committee and through the regular publication of an Australasian UNEP FI newsletter, among other avenues of communication.

Achievements of UNEP FI in Australasia

Since 2000, UNEP FI signatories in Australasia have collaborated on a number of projects to further the consideration of environmental issues in business decisions. Examples include:

- A research report titled, "Risk, the environment and the role of the insurance sector";
- Organising the first New Zealand SRI Conference;
- The Carbon Disclosure Project launch;
- Submissions to the Global Reporting Initiative on the indicators in the draft GRI Financial Services Sector Supplement (Environmental Performance); and
- Submissions to ASIC and Treasury for the Financial Services Reform Act - ASIC S1013DA guidelines for product issuers.

Response to Inquiry's Terms of Reference

The following responses reflect a range of views from contributing committee members on each of the terms of reference.

a) The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.

There is a range of views amongst the committee on the extent to which organisational decision-makers have an <u>existing</u> regard for non-shareholding stakeholders. Some believe that generally there is very little evidence of these decision-makers having an existing regard for the interests of stakeholders other than shareholders, although there are some notable exceptions, while others believe that there is considerable variation in the regard that companies have for the interests of wider stakeholders. Committee members also suggest that shareholder interests generally seem to dominate decision-makers in companies, as there seems to be strong resistance from many sectors, institutions and companies to regularly report publicly on their engagement with non-shareholder stakeholders.

For further information about the regard that each contributor to this submission has for the interests of stakeholders other than shareholders, and the broader community, please read their respective annual and sustainability/corporate responsibility reports.

b) The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.

All contributing committee members agree that organisational decision-makers should have some regard for the interests of stakeholders other than shareholders, and the broader community. Some members add that this should occur where practically possible because sometimes it is not always possible to meet all interests due to legislation requirements and limits. For example, the Financial Services Reform Act requires institutions to produce hardcopies of certain documents for its customers, rather than electronic copies, which limits the ability of companies to reduce paper consumption, which is a common interest of many stakeholders.

c) The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.

Contributing committee members generally agree that the current legal framework allows for consideration of stakeholders other than shareholders, and the broader community. They agree that this framework is therefore adequate, although it neither encourages nor discourages directors from having regard for the interests of non-shareholding stakeholders.

Specific legislation in the Corporations Act 2001 (Cwlth) that supports this view includes section 299(1)(f), which requires companies to include details of breaches of environmental laws and licences in their annual reports. However, there is the opinion that this seems to be an *ex-post* approach, in that it doesn't allow investors to fully understand or price risk derived from companies and directors who fail to adequately internalise potential costs of breaches of environmental law. Hence, unless the breach is financially material, there is little incentive for analysts to price the risk into the valuation model. Meanwhile, the environmental damage has occurred and there is little ongoing incentive to redress or alter internal (company) risk management procedures (such as a formal environmental management system).

Sub-section 1013(A) to (F), which requires providers of financial products with an investment component to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in investment decision-making, is also a good start in requiring directors and decision-makers to have regard for the interests of non-shareholding stakeholders. However, it would be useful if the section could be amended to be more specific as to who it applies to and what kind of reporting is required. This could be in the form of further ASIC Policy Statements or Guidelines, rather than formal regulation.

Finally, section 181 of the Corporations Act 2001 (Cwlth), which requires directors to exercise their powers and discharge their duties in good faith in the best interests of the company and for a proper purpose, does potentially cover non-stakeholder interests, as the law does not limit what these best interests of the company might include or preclude.

The opinion also exists within the committee that the pressure to take the views of stakeholders other than shareholders into account comes from other areas, such as the media and consumers, and can be driven by things like reputation and the employer of choice status of the company.

d) Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.

There is a difference of opinion within the contributing committee members in regards to this term of reference. At one end of the spectrum, it is thought that the legal framework does not need to be revised as the industry is already heavily regulated and that regard for stakeholder interests should naturally come from organisation decision-makers if they are to ensure the sustainability of their company in the longer term. It is also thought that revisions to legislation could put additional pressure on smaller organisations from both a cost and resource perspective and also that market forces should be allowed to dictate the extent to which companies report beyond minimum reporting standards. Further regulation could also shift the focus of companies from how to best engage with stakeholders, to how best to comply with legislation. This could curb opportunities for innovation and competition in the area of corporate social responsibility.

However, it is also believed that revising or amending the legal framework to enforce some level of compliance could be the only way to see further progress on extra-financial reporting. This may however, lead to a “race to the bottom” in terms of best-practice financial reporting and limiting innovation in the area.

e) Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.

Some suggestions on the types of alternative mechanisms that could be introduced or maintained to enhance consideration of stakeholder interests include:

— a transparent publicly available rating system for corporate responsibility reports;

— public recognition of quality company reporting and excellence in stakeholder engagement, eg. a regular rating system assessing the content and quality of annual and sustainability reports;

— raising the awareness of businesses in regard to the drivers and benefits of adopting an approach to doing business which incorporates a philosophy of CSR; and

— providing guidance for businesses, or facilitating opportunities for knowledge exchange between businesses, on the development and implementation of CSR initiatives.

There is also the opinion that enhanced consideration of stakeholder interests will come through market and consumer pressure and that generally, it has been companies that have faced significant pressure from shareholders or other stakeholders who have issued sustainability reports.

f) The appropriateness of reporting requirements associated with these issues.

There is a range of opinion from the committee in regards to the appropriateness of reporting requirements. These opinions vary from a purely voluntary reporting approach to greater legislation around reporting. These opinions follow.

— There is merit in introducing triple bottom line reporting standards that are mandated by the government. As reporting expenses are a concern, minimum standards will allow companies to choose the extent to which they report.

— A basic standard of reporting across the Triple Bottom Line would ensure that all corporations are reporting on non-financial performance consistently, which would ultimately be good for consumers.

— A basic standard is encouraged, as currently companies can report in any format they like. Often those organisations with the largest marketing budgets may appear to be the most active in the field of CSR reporting. This may not necessarily be the case as many SME's may comparatively be doing just as well, only on a much smaller scale.

— A voluntary approach to reporting is supported through programs such as the Global Reporting Initiative (see further down for more information).

— It is not essential to regulate reporting standards, as it adds another layer of cost to both the government (through adequate regulation) and to companies (through compliance). If companies do not report against a voluntary standard framework such as GRI however, key stakeholders may not find the company's response credible or all encompassing, and companies may then find that market forces lead them to start to use GRI or another such framework to gain such credibility.

— As regulation is slow to change, further reporting regulation may create a barrier to the ability of corporations to respond to and report on their operations in the context of changing societal expectations and needs. Voluntary reporting allows corporations to be more responsive to the needs of their stakeholders.

g) Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

There is a view within the committee that any legislation introduced into Australia must be Australian-business specific and so a great deal of care and consultation would be required before any adoption of policy or legislation from other countries could occur. However, there is also the belief that the Australian legislative environment currently provides an adequate framework for companies to consider broader stakeholder interests and so any approaches used in other countries is not required in Australia.

Further Comments

In addition to the points made in regards to the terms of reference, the committee would also like to comment on the benefits of non-financial public reporting.

Non-financial Public Reporting

The disclosure of a company's social and environmental impact and how this relates to its financial performance is continuing to increase. Investors and other financial stakeholders are requesting detailed information on the performance of companies beyond their financial bottom-line, so that assessment of the companies' future operational risks and opportunities can be based on the complete performance and outlook of the company.

Companies are increasingly producing sustainability reports to detail this information publicly. Ideally, reports provide information that can be compared easily between companies both within and between sectors.

To this end, UNEP FI signatories in Australasia support the development and use of a common framework, which all companies can use to report their non-financial data.

The use of such a model, in particular the Global Reporting Initiative (GRI) Guidelines, can provide investors with confidence that companies that use GRI have at least gone through the process of thinking about their own impacts in relation to the social, environmental and economic indicators as outlined in the GRI. GRI also enables consistency and comparability in reporting.

Global Reporting Initiative

The GRI is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products and services.

The Australasian UNEP FI Operational Environmental Management and Reporting committee believes there is a need for consensus on a global framework for non-financial reporting, which will encourage best practice and relevance in reporting. It agrees that the GRI offers the best path to building this consensus. A number of UNEP FI signatories in Australasia already use the Guidelines to report their performance either in an informal manner or "in accordance" with the Guidelines, as the table below shows.

Company	GRI used	"In Accordance" with GRI
Insurance Australia Group	✓	
mecu	✓	
National Australia Bank	✓	
VicSuper	✓	✓
Westpac Banking Corporation	✓	✓

Some of the benefits of publicly reporting and of doing so in a consistent way can be highlighted from both a company and stakeholder perspective. They include reducing "questionnaire fatigue" on companies, providing stakeholders with confidence that data presented is based on internationally recognised criteria for sustainability reporting, enabling companies to examine their businesses holistically and assisting companies to effectively assess and manage the issues addressed under the GRI.

Over time, the GRI Guidelines have emerged as the leading tool to use for public sustainability reporting by companies reporting their impacts. UNEP FI supports them and is in the process of co-convening with GRI an Australian specific working group to finalize a GRI Financial Services Sector Supplement (Environmental Performance) for the International Finance Sector. This document (already available and being used in draft form) aims to build upon and synthesise existing work on environmental performance indicators for the financial sector. It uses a globally applicable indicator set to address the environmental impacts of financial sector products and services in the retail, corporate and commercial banking, insurance and asset management sectors.

The draft GRI Financial Services Sector Supplement (Environmental Performance) is currently going through a piloting process with international financial institutions.

The full GRI Guidelines are still being refined and GRI is committed to a process of continuous improvement. The third iteration of the guidelines is currently in draft form and open for comment. It is due for release in late 2006 and is aiming to be better aligned with a company's internal management processes, have greater depth and clarity on reporting expectations and increase the comparability of reports that use the guidelines.

Section 299(1)f of Corporations Act

As part of this submission, the committee wishes to state its support of the retention and strengthened implementation of section 299(1)f of the *Corporations Act.* The primary aim of this section is to ensure that directors of Australian corporations report on the company's performance in regards to Federal and State or Territory environmental legislation.

It is important that this requirement is retained. Promoting its implementation and widening the scope of the statement required under the section to encompass a wider set of environmental and social indicators is a possibility. Such indicators could even be based on the GRI Guidelines.

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Appendix 1

Company and Organisational representation on the Australasian UNEP FI Operational Environmental Management and Reporting Advisory Committee

AMP

ANZ Banking Group

Aviva Group

Department of Environment and Heritage

EPA Victoria

Insurance Australia Group

mecu

National Australia Bank

Savings & Loans Credit Union

VicSuper

Westpac

Observers:

Hunter Hall Investment Management

Medibank Private

St George

Zurich

Appendix 2

Australian Headquartered UNEP FI Signatories

ANZ Banking Group

Insurance Australia Group

mecu

Medibank Private

National Australia Bank

QBE

Savings & Loans Credit Union

VicSuper

Westpac