

Ethical CORPORATION

Special Report: November 2006

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Special Report:

Financial sector responsibility

The state of the art

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On the cover: Big financial institutions have responded positively in many ways to the sustainability agenda

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Foreword

Welcome to Ethical Corporation's special report on global finance and corporate responsibility. Written by our finance editor, Andrew Newton, and other journalists, the special report is designed to offer the reader insights into how major institutions are responding to the sustainable development agenda. Also covered are increased expectations on business transparency and the role of regulators. This is the third in a now regular series of special reports from Ethical Corporation since 2004, the first being technology and the second education. Later in 2006 Ethical Corporation will publish a further report on how technology is changing the face of corporate responsibility.

Tobias Webb

Editor, Ethical Corporation

For more information or to submit suggestions or comments, please contact editor@ethicalcorp.com

forest

Sustainable development is about optimism for the future. Managing our business for growth that is truly sustainable, that enriches our world rather than merely depleting its resources. Today we must plant the seeds that will grow into the world of tomorrow's generation.



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Reputation and financial services

Regaining trust through transparency

Managing reputational risk remains a major challenge for financial institutions, argue Shami Nissan and Phil Case of PricewaterhouseCoopers

Protecting a firm's reputation is both the most important and most challenging task facing senior executives today, according to a recent report by the Economist Intelligence Unit.

Furthermore, there is broad agreement that reputation risk has increased significantly over the last five years for several reasons, including a string of high-profile market failures as well as tightening regulatory pressure.

Despite this, companies continue to struggle to manage this asset proactively and effectively. The financial services industry is no exception and, indeed, is notable for lagging behind others in terms of strength of reputation and levels of trust it currently commands in the marketplace.

The retail banking industry, for instance, has suffered reputation damage over recent years due to a variety of issues, ranging from accusations of lending too much (encouraging over-indebtedness), refusing to sell (financial exclusion) to mis-selling.

Building trust

A growing number of financial services organisations are now paying unprecedented attention to this particular risk, as they transition to a more proactive and systematic approach to reputation risk management in order to build and safeguard a lasting reputation.

Why have financial services companies continued to struggle with this risk? There are difficulties inherent in defining and quantifying reputation risk, confusion over ownership, and a lack of tried and tested frameworks and approaches to reputation management. Moreover, financial services companies are perhaps more vulnerable due to threats arising from their own clients' reputations, as well as myriad other sources. These include compliance failures, unethical practices and failure to deliver minimum standards of service and product quality.

Compliance challenges will continue, as regulatory pressure looks set to intensify. For example, Pillar 2 of Basel II sets out requirements for demonstration of capital reserves adequacy, or management competency, to manage a range of risks, one of which is reputation. This further underlines the need for a proactive approach in order to prevent threats of non-compliance and further loss of trust.

Efforts to effectively manage reputation risk have also been hampered by definitional and management challenges. Many financial services companies have taken a disaggregated approach to reputation risk management – viewing reputation risk as a consequence of failure to manage another type of risk, and then mitigating fallout through crisis



Funding these has some investors concerned

management frameworks. Such an approach fails to take a systematic view of underlying causes of reputation risk, and is inherently reactive.

The steps required

So what does an effective reputation risk management system look like? It should take into account the following:

- **Reputation is in the eye of the stakeholder.** Stakeholder experiences and expectations determine reputation capital, and thus are the departure point for defining the constituent parts of a company's reputation. Stakeholder engagement must be proactive and must be undertaken on an ongoing basis – reputation changes dynamically.
- **Transparency is key to re-establishing trust.** Building reputation capital is not about presenting the "good news" stories but rather communicating all aspects of performance, inclusive of how and why things go awry and, critically, how the company responds in the aftermath to such an event.
- **Ownership of the issue must come from the top.** The CEO is perceived as responsible for safeguarding the company's reputation, for setting the ethical and cultural tone of the organisation, and driving the code of conduct throughout the organisation. The chief risk officer's role complements this through policing of codes and standards, prioritising risks and coordinating responses.
- **A discrete reputation risk management framework should be considered.** The framework takes a systematic and proactive approach to identifying and managing reputation risk throughout the organisation. It includes an early warning system and addresses issue management in pre-crisis phases, and may also consider the organisation's approach to risk quantification if appropriate.

A solid reputation can help a company weather a storm; in contrast, a company without such reputational equity may fare far worse when confronted with similarly challenging circumstances. Given that financial services companies are in an unforgiving market at present, those which are able to build and safeguard solid reputations greatly increase their chances of emerging unscathed and ahead of the competition. ■

Shami Nissan and Phil Case work in Sustainable Business Solutions at PricewaterhouseCoopers. See www.pwc.com/sustainability.

Stakeholder experiences and expectations determine reputation capital



Finance and CR

Beyond the tipping point

By Andrew Newton, Finance Editor

Financial institutions under systematic pressure to reform have promised greater responsibility on all fronts. Now the hard part starts

The pace at which firms in the financial sector have begun integrating stakeholder concerns into their core business activities is startling.

It is not that corporate responsibility was unknown to financial firms ten years ago. Then, major financial centres had regulations to protect the interests of market participants and consumers of financial services. For decades, employment law has tried to protect their workers from discrimination on the grounds of gender or race, and ethical funds and faith-based investors have been cutting the path towards responsible investment.

Nevertheless, financial firms embarked on the responsibility trail from a low base. Sustainable Asset Management's 2005 annual review of the Dow Jones Sustainability Index found the financial sector still below average on all generic criteria, and bottom of the heap on environmental and labour practices.

A surge in public interest in the sector's impacts over the last ten years has prompted a broadening and a deepening of responsibility approaches. The last three years in particular have transformed the responsibility landscape beyond recognition.

The earlier, piecemeal approach is evolving into a more holistic one based around stakeholder groups, overseen by specialised corporate responsibility departments integrated into the corporate governance framework.

The recognition of the sector's substantial indirect impacts has arguably placed financial firms *in loco parentis* to the rest of the globalised commercial world, propelling the addition of multiple self-regulatory and voluntary initiatives to the corpus of legal and regulatory obligations.

The pace of adoption is breathtaking: the Equator Principles launched just three years ago to bring social and environmental concerns into the heart of project finance have been adopted by over 80% of global commercial lending capacity.

Since their launch in April this year, the UN's Principles for Responsible Investment have attracted signatories representing \$5 trillion in assets under management. Since Ethical Corporation last reviewed finance sector transparency on stakeholder concerns some two years ago, the number of financial firms using the Global Reporting Initiative standards has been increasing at more than twice the rate of non-finance sector reporters.

"The change is major and accelerating," confirms Stephen Hine of the ethical investment research house EIRIS.

Payback

Such activity has been paying off in reputational terms. While the sector has received better than average press throughout the last ten years, figures

"It is easier for a bank to be sustainable than an oil company"
Jules Peck,
WWF-UK

from Covalence, a research company, show that banks have, since January 2005, received a more positive balance of press coverage than any other sector covered (see chart 1).

The change is not superficial. While non-governmental organisations and activist investors rightly demand proof of performance against these emerging standards, they also report greater access to senior executives and a greater sense of mutual understanding.

Even as structural conflicts of interests have mounted challenges to progress – most notably those in investment banking, insurance and mutual funds successfully challenged by New York attorney-general Eliot Spitzer – the sector’s natural inclination to innovate and lack of significant sunk costs has enabled it to improve faster than sectors more heavily invested in old ways of doing business. “It is easier for a bank to be sustainable than an oil company,” admits WWF’s global policy advisor Jules Peck.

Peer groups and pressure

NGOs, also, have proved innovative in getting to grips with the financial behemoths backing the world’s dirtiest – and brightest – industries, turning from virulent high profile campaigns to sensitive boardroom negotiations to hammer out some of the most effective dynamics of self-regulation yet to emerge in corporate responsibility.

Systematic campaigns have been conducted in the US and in countries across Europe. All the original Equator Principles signatories had been the targets of NGO campaigns beforehand.

And no let up seems likely. Recently, Les Amis de la Terre, an NGO, launched a broadside against French banks, giving them a two year deadline to adopt sustainable practices or else face a broad and aggressive campaign.

In 2003, a group of NGOs got together to form BankTrack, a coalition focused on commercial financial institutions. In January this year Banktrack and WWF issued “Shaping the Future of Sustainable Finance”, a report grading the efforts of 39 international financial firms on sustainability. It found none that met the majority of their criteria even at the level of policy development, let alone implementation.

HSBC’s performance was rated average by an EIRIS report in 2003, but has since pulled away to lead the pack. However the D+ rating awarded by Banktrack makes the FT award winner merely the best of a bad lot. It is a picture echoed in Covalence’s news coverage trend data (see chart 2).

French and Asian banks scored especially low in the Banktrack survey. The French result does not surprise Anne-Catherine Husson-Traore, editorial director at research house Novethic. As recently as 2001, when Novethic launched, the French financial sector showed no interest in these issues, she says.

For the real contenders, the bar is being further

Too little is being done to share with stakeholders the manner and extent of policy implementation

Chart 1. Positive spin – cumulative instances of positive news minus negative news

Source: WWF-UK’s Covalence EthiQuote, 10 sectors, indexed to 1 January 2005

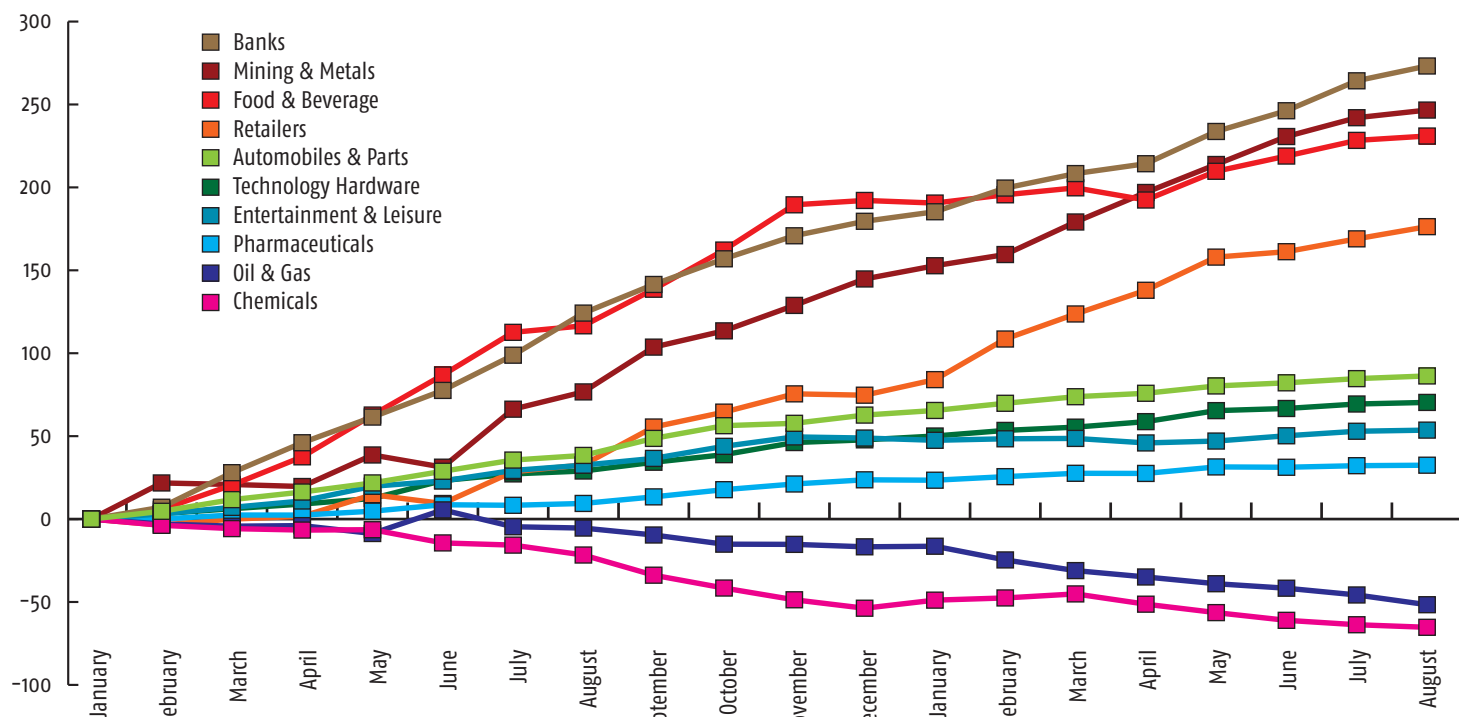
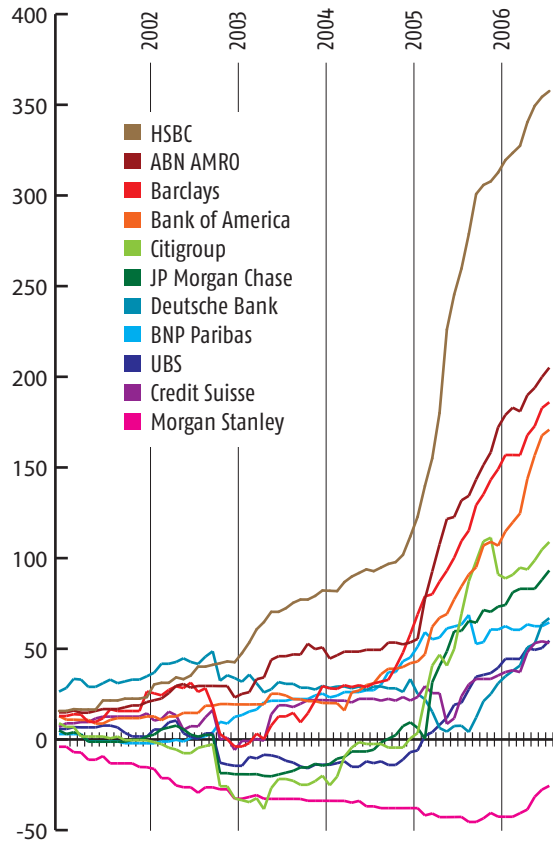


Chart 2. Ten players – cumulative instances of positive news minus negative news

Source: WWF-UK's Covalence EthiQuote, 10 banks, 2001 – 2006



raised. The Collevechio Declaration – the NGO-drafted set of sustainable banking commitments launched at Davos in January 2003 – is set to be revised over the coming year to provide a more comprehensive vision of what a sustainable bank should look like.

Since the FTSE4Good index was launched in 2001 the number of financial firms meeting its standards has dropped slightly, while the total number of firms in the index has risen by over a quarter. In the September 2005 six-monthly review of FTSE4Good constituents, half the companies deleted were financial firms that had failed to meet tougher environmental criteria.

A mountain to climb

Even without raising the bar there are large gaps in current approaches.

Most obvious is the immaturity of the sector's handling of social impacts. While F&C Asset Management's REO report has noted an increasing recognition by banks of the impact of human rights on their businesses, this year's report by WWF and Banktrack found that only one bank – Rabobank – had adopted the UN Draft Norms on Human Rights, and almost none have human rights guidelines.

Unsurprising then, that discrimination remains a problem even in financial sector workplaces.

Then there are gaps in the range of finance activities covered by emerging standards. NGOs are keen to see those policies currently developed for project finance being rolled out bank-wide.

Goldman Sachs's issue of an NGO-acclaimed environmental policy covering indirect environmental impacts last year served to underscore the absence of any such policy at fellow investment banks Merrill Lynch and Morgan Stanley. Pressure is likely to grow for policies covering social and environmental due diligence on the underwriting of securities issues.

China looms large on everybody's list of concerns. Lingering state ownership makes much of China's economy – including the banks – a tool of government policy, and that policy often places meeting China's growth-led thirst for resources above human rights and environmental concerns. Now that western banks are piling into strategic stakes in their Chinese counterparts, which standards will prevail?

The role of private finance in development is also rising up the agenda. Following the G8's debt forgiveness initiative, NGOs are investigating the nature and extent of commercial banks' exposure to developing world debt. There are concerns too about the provision of money transmission services to corrupt elites siphoning off national resource revenues and avoiding tax, about the finance of militarisation, and of projects impacting water use.

There are opportunities, too. Addressing environmental impacts includes the finance of renewable energy companies and projects – a burgeoning market. Faith-based finance, particularly Islamic finance, is mushrooming into a mainstream force, although compliance has yet to extend beyond basic prohibitions to embrace broader religious tenets.

Advances being made, however, risk being undermined by a persistent lack of transparency affecting even those who are instituting progressive policies. Too little is being done to share with stakeholders the manner and extent of policy implementation. Corporate responsibility reports are seldom verified independently. 'Don't just tell me, show me' is a recurring concern expressed by NGOs and investors.

Given that much of the progress in responsibility across the financial sector has taken place during a period of some of the most favourable economic conditions seen in years, transparency is also needed to ensure these gains are not lost once financial firms find themselves in a more testing phase of the economic cycle.

Banks carry too influential a role to be allowed to slip back into old habits. Fortunately, it will be real people within these institutions, not abstract markets, who decide which interests will prevail and how. ■

NGOs have proved innovative in getting to grips with the financial behemoths backing the world's dirtiest – and brightest – industries



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Change agents

The Pandora principle

By Andrew Newton, Finance Editor

What fuels the movement for financial institution accountability?

A report released in 2006 by WWF/BankTrack credits “outside pressures” – high profile NGO campaigns against banks – with the recent major shift in approach to responsible finance.

True, the concerted campaigning against irresponsible finance in recent years has been an important catalyst, but this does not explain why the industry itself has moved to embed change at a speed that has surprised even campaigners.

Where the focus on “outside pressures” misses the mark is its failure to acknowledge the crucial role played by internal advocates.

Rainforest Action Network, the NGO behind a highly successful campaign against banks in the US, recognises this in pursuing what Paul West, then their communications director, termed an “outside-inside” strategy.

External campaigns help create an internal environment favourable to conscious individuals within the firm speaking up about the issues and helping develop the solutions that will embed change. Some are in a position to lead from the top while others will lead from the narrower confines of their role.

As the financial sector places ever greater emphasis on individual autonomy and personal accountability, it becomes harder to expect people to leave their values outside the door each morning. The rapid development of corporate responsibility in the sector is in the end the work of a growing

diaspora of aware individuals, both inside and outside the firm, such as those featured opposite.

Those suggesting responsible finance is just a passing fashion might do well to recall it comes down to individuals. Consciousness is not readily returned to its box.



Build those dialogue bridges

External campaigns help create an internal environment favourable to conscious individuals within the firm



Michelle Chan-Fishel

Green Investments Programme Manager, Friends of the Earth

Chan-Fishel has headed up the finance campaign at Friends of the Earth in the US for some ten years, making her one of the longest-standing voices on this issue. She has done much to build capacity on finance issues in other NGOs around the globe.

Chan-Fishel's activism was sparked at an early age by international travel and school lessons in social justice. "My economics teacher took an entire class across the border into Mexico to visit a maquiladora factory that was filled with female workers around our same age." Studying development at UCLA while the WTO was being formed provided her with a critical perspective on international economic institutions.



Jane Ambachtsheer

Global Head of Responsible Investment, Mercer Consulting

Ambachtsheer has helped turn Mercer Investment Consulting into the first and most articulate proponent of responsible investing among consultants to pension fund trustees. With management backing, Ambachtsheer launched responsible investment as a business unit. With people on the outside pushing, "you need people on the inside to develop intellectual capital," she explains.

Although armed with a Masters in international development and political economy, it was a period of years spent in Europe in the midst of a finance career that helped Ambachtsheer make the connection between sustainability and her work. The UK Pension Act had just come out, the implications of which she found "fantastically interesting".



Karina Litvack

Director, Head of Governance and Socially Responsible Investment, F&C Asset Management

Litvack heads up the largest governance and SRI team in Europe. F&C released two groundbreaking studies on the financial sector covering environmental policies (2002) and human rights policies (2004).

Litvack recalls running an anti-litter campaign as a child. "I grew up in the 1970s," she explains. Entering investment banking in the mid-1980s, Litvack made early choices not to work on deals for defence and tobacco companies. She recalls the recruitment sign-up sheets from that period at her alma mater, Columbia Business School: "No one signed up for Philip Morris. A great, sexy, treasury job."



Paul Watchman

Partner, Freshfields Bruckhaus Deringer

Watchman authored the UNEP Finance Initiative's landmark report surveying the ability and in some cases the obligations of pension fund trustees in jurisdictions across the world to consider environmental, social and governance factors in investment decision-making.

Starting out as a lawyer in the 1970s at legal clinics in Glasgow, Watchman's professional career developed at a time when the limitations of the legal process had stimulated calls for legal reform. Watchman became interested in how the law could be used to provide business with a platform to achieve improvements in standards. He says: "I was not a hippie lawyer. I was a professional footballer for a long time and played for Scottish Amateurs when I was 14."



Jon Williams

Head of Group Sustainable Development, HSBC Holdings plc

Williams took on the principal role in HSBC's newly created sustainable development team in 2005, placing him in the limelight as the senior corporate responsibility manager at what is now the world's biggest bank. He has the additional challenge of advising how HSBC can live up to its accolade as the Financial Times Sustainable Bank of the Year.

A corporate and investment banker with HSBC for 19 years, Williams returned to the UK from periods in Asia and Europe to a broad role that included environmental risk. When HSBC was challenged over Asian forestry financing, he was an obvious person to get involved. Subsequently, given the choice of a traditional risk role or focusing entirely on environmental risk, he chose the latter.

"The interest stemmed from my family. My father was head of the World Orchid Congress and grew most of the orchids at Kew. I've also seen environmental destruction first hand," he says. ■

Interview: Henry Paulson

An environmentalist at the helm

Henry Paulson, the new US Treasury Secretary, was previously head of Goldman Sachs and chairman of The Nature Conservancy, the largest conservation NGO in the world. Speaking to Ethical Corporation prior to his recent appointment, he explains here his environmentalist roots

For as long as I can remember, I've had a love of the outdoors. My enthusiasm was reinforced by my parents and by a very influential 7th grade teacher.

I was inspired by, among others, John Muir, Henry David Thoreau and Teddy Roosevelt who, memorably, said: "A nation that destroys its soils destroys itself, forests are the lungs of our land, purifying the air and giving fresh strength to our people."

In high school I read Rachel Carson's book "Silent Spring", which had a powerful effect on me. In the 1970s, I became aware of the impact that DDT, in particular, was having on birds of prey, especially bald eagles and peregrine falcons. I have had a life-long interest in these remarkable birds and served for quite some time as the chairman of The Peregrine Fund.

Later, my wife, Wendy, who is a dedicated conservationist and an inspiration to me, was instrumental in getting me involved with The Nature Conservancy where she already played an active role. It was she who introduced me to John Sawhill, who was president of The Nature Conservancy at the time. It was through him that I got involved in the Asia-Pacific Council of The Nature Conservancy. That body has engaged in some really pioneering work with the Chinese government, in particular The Yunnan Great Rivers Project.

Historical awareness

I don't think there was a single moment of enlightenment or a series of events that ... made me make the connection [between environmental impacts and decisions taken at Goldman Sachs]. I've always been concerned about environmental issues and, as a result, have always been very conscious of the impact on the environment of decisions we make.

[At Goldman Sachs] we've always been very thoughtful in our approach to projects and, in particular, to ones which affect, or have the potential to affect, the environment. And I don't think we consciously determined that something had to change. But the process of developing our environmental policy framework has been very helpful in further informing our thinking on the subject. We consulted widely and we're very grateful to the many environmental groups that took time to provide thoughtful comments on the development of our policy.

My strong belief was, and is, that we should do some of the things that we do best, by which I mean deploying our people, capital and ideas, to help find effective market-based solutions to address things like climate change, ecosystem degradation and

A nation that destroys its soils destroys itself
Teddy Roosevelt



Paulson: Sign of a greener US shift?

other critical environmental issues.

I think the firm has always tried to do the right thing. We're by no means perfect, but I think our corporate heart is in the right place. Different people had different ideas about how best to proceed, but there was no outright opposition either to the development of the policy or its implementation and, as I hope our friends in the various NGOs with whom we have consulted know, we're not in the business of paying lip service. We say and do what we mean. ■

The above is extracted from a longer interview with Henry Paulson. The complete interview is available at www.ethicalcorp.com.

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Equator Principles

A convenient truce

By Andrew Newton, Finance Editor

Equator Principles banks and their NGO critics are hammering out a global regulatory relationship with implications beyond project finance

Over three years on from the launch of the Equator Principles (EP) it is easy to understate its significance.

A report issued by ISIS in 2002 gives a snapshot of what life was like back then. The survey of ten banks highlights the inconsistent application of policies internationally, perfunctory training, and a lack of systematic performance measurement, management and reporting of project environmental impacts.

Engagement with stakeholders was limited and confrontational.

Caught off-guard by unpredictable NGO agendas, banks were exposed to reputational risk. All the original EP working group members had been targeted previously by NGO campaigns over their association with controversial financing decisions.

The legitimacy of the banks' involvement in economic development seemed in question.

Happy bankers

For the EP banks the launch of the principles has been a considerable success. Banks have reported that the greater clarity and common language has

improved efficiency and relations with clients and internally.

The EP have now been adopted by 41 institutions representing more than 80% of global private project finance capacity. Project finance advice such as that offered by Ernst & Young, PwC and KPMG is now covered.

Rachel Kyte, director of environmental and social development at IFC, concluded recently that "the EP brand has become synonymous with environmental and social risk banking".

Relationship dynamics

Not everyone is quite so sanguine. The co-operation among the banks had the effect of prompting the NGOs to become more cohesive. Twelve organisations pooled their resources and finance advocacy agendas in a new network, BankTrack.

While welcoming the EP, and particularly the revisions to the EP introduced earlier this summer, BankTrack points to continuing EP bank funding of controversial projects including Sakhalin II as evidence that the EP have not yet fulfilled their potential.

The co-operation among the banks had the effect of prompting the NGOs to become more cohesive. Twelve organisations pooled their resources



Counting social costs is now key to the Equator Principles



The Equator Principles: No paper house

BankTrack is consistently critical, for example, about the lack of accountability mechanisms built into the EP. There is no secretariat or other mechanism within the EP arrangements to ensure that there are no banks free-riding on the reputational benefits of association.

Dissatisfaction, however, is the NGOs' job.

Not so reluctant regulators

The reason that the EP has been so successful in generating legitimacy for its participants despite lacking an explicit accountability mechanism is that that role has been left implicitly to the NGOs.

Barclays' head of environmental risk policy Chris Bray once observed that the EP banks are "already regulated by the fact that they operate in the glare of NGO scrutiny." Kyte recently welcomed the fact that "You [BankTrack] and others will play your part in holding us all to account."

This is the Equator Principles-IFC-BankTrack regulatory system.

BankTrack, with the aid of its extensive global network, assesses banks on issues any other regulator would focus on: deficiencies in procedures, training, and monitoring; and specific performance issues. It also pushes for the higher standards sketched out in the NGOs' Collevchio Declaration, soon to be revisited.

In return for conferring legitimacy on EP banks through their scrutiny of performance against the principles, however, NGOs should implicitly be able to engage directly with firms and obtain whatever information they need.

Banks and NGOs alike enthuse about the more open and constructive relationship that now exists between them. Banks also value the NGOs' advice.

Transparency, however, remains an obstacle to BankTrack performing its implicit regulatory oversight function.

Although the revised EP set out a new obligation on banks to report periodically on their application of the principles, this falls far short of the level of firm and project-level transparency sought by BankTrack and responsible investors in order to assess bank compliance.

Banks assert that they lack the leverage with the client to make greater disclosure a requirement. Without that transparency, however, it seems a tall order to expect BankTrack to succeed in ensuring public confidence in self-regulation of project finance impacts.

If the Equator Principles-IFC-BankTrack system fails to deliver compliance, stakeholders will cease to use it and seek out more effective ways to regulate their relationships with financiers. One recourse being explored by NGOs is that of holding commercial banks liable for "knowingly permitting" social or environmental issues linked to finance. In certain jurisdictions, "liability may attract", confirms Paul Watchman, a partner at Freshfields Bruckhaus Deringer.

There is no reason why the Equator Principles should suffer the ignominy of being side-stepped in favour of more vigorous actions of this kind. The initiative is beginning to prove itself a steady platform for raising sustainability standards across all new institutional finance, not just project

The Equator Principles: Key facts

- The revised EP apply to all project financing with capital costs above \$10 million. This is lower than the previous threshold of \$50 million
- The revised principles apply also to project finance advisory, and to upgrades or expansions of existing projects
- EP banks report on their performance on implementing the principles annually



Can the bull be tamed without waking the bear?

finance. The principles themselves are evolving, with human rights appearing set for a more thorough treatment.

Banks need to find a way to reconcile obligations to their clients and the need for transparency in their usual innovative way. ■

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Faith-based finance

Islamic finance at the crossroads

By Andrew Newton, Finance Editor

As Islamic finance picks up speed in the global mainstream, are Islam's social and environmental concerns getting left behind?

Faith-based investment of all denominations has been enjoying a period of remarkable growth. The post-9/11 clash of civilisations rhetoric and recent oil price hikes, moreover, have combined to drive a flood of money into Islamic financial institutions in the Middle East and South-east Asia.

Although a market in retail Islamic products is emerging, much of the growth is in institutional finance markets where new ground is being broken constantly. In July, a three billion Saudi riyal (\$800 million) sukuk – the Islamic finance equivalent of a corporate bond – was issued by Saudi Basic Industries Corporation, the hydrocarbons conglomerate.

Sukuk issuance is not confined to Muslim clients: a \$200 million sukuk is to be launched by Kuwait Finance House for a Chinese company financing expansion of a power plant.

In project finance, HSBC Amanah recently advised Saudi Aramco and Sumitomo Chemical on the \$600 million Islamic facility for the Rabigh refinery and petrochemical project, the largest such Islamic facility to date. An up-tick in project finance deals is expected to help lift growth in Islamic finance overall to 25% per annum.

Spreading the profits

Islamic finance complies with the Sharia, or Islamic, law. Much attention is focused on the prohibition of gambling and of *riba*, or interest. This leads Islamic

finance innovators to construct instruments equivalent to conventional lending, investment and insurance products based on contracts that share profit and loss equitably.

There is considerable debate between Islamic scholars as to the extent to which some of these devices avoid Sharia prohibitions, impeding attempts at international standardisation of contracts.

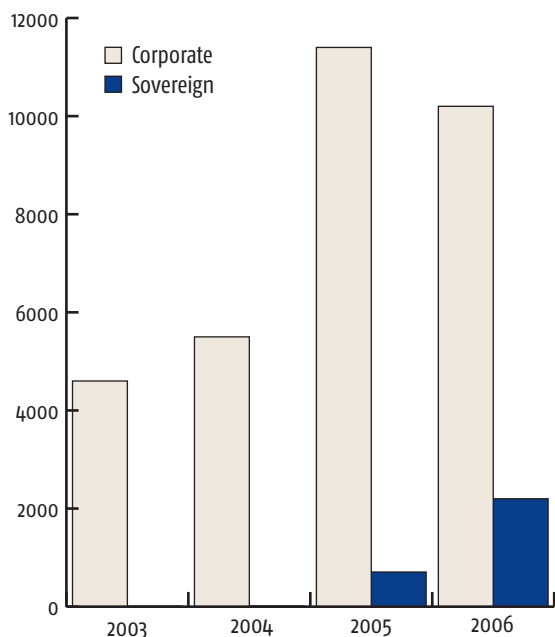
Islamic banks establish boards of Sharia scholars in order to advise on and attest to the compliance of their products with Islamic law. These scholars are in short supply, and few are banking experts. Some commentators have blamed this for the approval by Sharia boards of the more controversial Islamic banking contracts, such as *tawarruq*, a kind of personal loan.

There are also concerns that while Sharia boards are empowered to consider Sharia in the round, in practice they focus on a few narrow prohibitions and contractual concerns.

Stakeholder Islam

The Islamic faith creates an entire social order. While private property is defended, individual rights are subject to the rights of others in the community to benefit from environmental resources such as water, forests, air and sunlight. These are held in common by all members of society. If you degrade a resource,

Sukuk issuance (\$m)



*Data up to May 2006 only

Source: ISI Emerging Markets' Islamic Finance Information Service



Working for mutual benefit

Islamic finance innovators construct instruments equivalent to conventional lending, investment and insurance products based on contracts that share profit and loss equitably

you are accountable for its use and liable for its repair.

There is even a process in Islam akin to the assessment of impacts on stakeholders and the resolution of conflicts between them so as to maximise the overall public interest, known as *maslahah mursalah*. Special care is taken to prioritise the interests of the weak and vulnerable.

Islamic finance is expected to follow suit. More than one commentator has suggested that Islamic banking could establish a model by which modern banking could be re-imbued with ethical norms.

Scholars argue that banks are falling short, however.

At this year's Harvard University Forum on Islamic Finance, Rafe Haneef, the head of Islamic finance at ABN-AMRO, questioned whether Islamic legal stratagems such as *qardh* had helped give rise to a debt culture. Sharia supervisor and senior imam Abdul Kadir Barkatulla critiqued the focus on expedited transactions at the expense of Islam's qualitative concerns – such as customer relations, and the health of future generations – in keeping with the broader spirit and philosophy of the law.

Elsewhere, specific concerns have been raised about the compatibility with Islamic social concerns of entire transaction categories, such as privatisations and private sector involvement in infrastructure development.

Islam's environmental and social concerns are echoed in the Equator Principles and the UN Principles for Responsible Investment, yet no Islamic

financial institution has signed up to these instruments, leaving secular institutions to lead the way. Adapting the Equator Principles for Islamic purposes might represent a way forward that does not stretch the already overburdened Sharia board system.

Who pays the piper?

The lack of transparency even on contractual compliance matters is disquieting. Sharia board members are paid by banks to deliver fatwa (rulings based on the Sharia). Although these may be disclosed to institutional clients, Islamic finance consumers and affected communities are left to accept the ruling of umpires chosen and paid for by the other team.

Neither the Accounting and Auditing Organization for Islamic Financial Institutions nor the Islamic Finance Services Board have yet succeeded in getting Islamic financial institutions to explain how they are addressing Sharia obligations regarding environmental stewardship or social equity in their approval of finance transactions.

This includes Sharia obligations concerning the management of and accountability for the use of exhaustible natural resources.

Given the extent to which the growth in Islamic finance amounts to a recycling of surging oil-generated wealth into new hydrocarbon-related project finance, institutions offering Islamic finance have significant credibility challenges ahead. ■

Timeline

What happened, and when

The financial sector's path to a responsibility tipping point has been hard won on both sides

Year	Environmental and social impacts		Consumer/economic impacts	
	Business and multistakeholder initiatives	Political and legal activity	Business and multistakeholder initiatives	Political and legal activity
1986				<ul style="list-style-type: none"> UK Financial Services Act establishes statutory basis for self-regulation of investment-related services and new self-regulatory organisations with disciplinary powers.
1989				<ul style="list-style-type: none"> UK government's Jack Committee reports on the law relating to banking services standards.
1992	<ul style="list-style-type: none"> UNEP and a group of commercial banks launch the UNEP Statement by Banks on the Environment and Sustainable Development, catalysing the UNEP Banking Initiative. 		<ul style="list-style-type: none"> British Bankers Association launches first code of practice for banks to loud criticism from the National Consumer Council. 	
1995	<ul style="list-style-type: none"> UNEP launches the UNEP Statement of Environmental Commitment by the Insurance Industry. 	<ul style="list-style-type: none"> Friends of the Earth campaign against Merrill Lynch and Morgan Stanley over financial links to Three Gorges dam project in China. 		
1996	<ul style="list-style-type: none"> US Export-Import bank decides not to finance the Three Gorges dam citing inadequate environmental impact information. Tries lobbying other OECD states to accept common environmental standards. Launch of the VfU reporting indicators (internal environmental footprint). 			
1997	<ul style="list-style-type: none"> UNEP Banking Initiative becomes the UNEP Financial Institutions Initiative and issues revised Statement by Financial Institutions on the Environment & Sustainable Development. 	<ul style="list-style-type: none"> EPA report on non-disclosure of environmental risks by companies. FoE's Michelle Chan-Fishel and Julie Tanner start financial campaigning capacity building projects with other NGOs. PIRC and NGOs propose shareholder resolution demanding environmental and human rights actions from Shell. 	<ul style="list-style-type: none"> July – British Bankers Association introduces revised banking code with undertaking to name and shame banks that fail to sign up. 	<ul style="list-style-type: none"> Publication of "Wall Street – How It Works and for Whom" by Doug Henwood. UK chancellor Gordon Brown announces establishment of a new financial super-regulator bringing together regulators of seven different sectors under one roof. December – Consumers Federation of America accuses the credit card industry of irresponsible lending.
1998	<ul style="list-style-type: none"> [Following FoE campaign (see right)] ABN AMRO publishes environmental policy. 	<ul style="list-style-type: none"> FoE and National Wildlife Federation initiate Quantum Leap project to train environmental NGOs about commercial banks. FoE Netherlands campaign against ABN AMRO over finance of Freeport McMoRan mining. Corporate Sunshine Working Group 		

		<p>forms to enforce and expand SEC corporate social and environmental disclosure requirements.</p>		
<p>2000</p>	<ul style="list-style-type: none"> • EPI-Finance indicators (external environmental footprint) in 2000. • FORGE I guidelines issued covering management and reporting of environmental risks. 	<ul style="list-style-type: none"> • Campaign for Community Banking Services launches in UK to fight for local access to banking services. • Labour groups and NGOs joint campaign against PetroChina initial public offering in New York attributed with reducing success of the offering. • Ilyse Hogue joins RAN and RAN launches global finance campaign. • RAN launches campaign against Citigroup. 		<ul style="list-style-type: none"> • Ex-SEC lawyer Mercer Bullard establishes FundDemocracy.org to fight for investor rights. He publishes articles on potential market-timing abuses for TheStreet.com, later cited in Eliot Spitzer's complaint. • July – Japan's Financial Services Agency super-regulator is formed out of the merger of the Financial Supervisory Agency and the Ministry of Finance's Financial System Planning Bureau.
<p>2002</p>	<ul style="list-style-type: none"> • London Principles for sustainable finance launched during World Summit on Sustainable Development. • IFC and ABN AMRO host workshop with other lenders on social and environmental project risks. • SPI-Finance initiative's financial sector reporting guidelines on social impacts released, although only the social indicators were adopted in 2002 as yet still draft GRI sector supplement. • FORGE II guidelines issued on management and reporting of CSR. • November – socially responsible investor Real Assets filed shareholder resolutions with Canada's "big five" banks in an effort to force greater transparency on social, environmental and ethical issues in their annual reports. 	<ul style="list-style-type: none"> • West LB subject to NGO campaign over role as lead funder of Ecuador pipeline. • FoE, RAN, WWF-UK and the Berne Declaration form informal network to promote sustainable finance in the commercial sector. • South Africa's King 2 Report on corporate governance requires financial institutions to implement triple bottom line reporting. 	<ul style="list-style-type: none"> • Wall Street settlement over conflicts of interest. Total cost to the ten investment banks involved: \$1.4 billion. 	

<p>2003</p>	<ul style="list-style-type: none"> February – second meeting of bankers in the Equator Principles process, following which stakeholder consultations ensue. April – word leaks out about Equator Principles, including a draft, identifying ABN Amro, Barclays, Citibank and WestLB as adoptees. May – third meeting of bankers regarding Equator Principles in which it was decided the principles would apply across the globe rather than just to emerging markets. Barclays, as a member of the Business Leaders Initiative on Human Rights, undertakes to “road test” the UN Norms. UNEP’s Financial Institutions Initiative and Insurance Initiative merge to form the UNEP Finance Initiative. June – Official launch of Equator Principles with ten signatories. September – Senior vice-president at Bank of America quoted by San Francisco’s Contra Costa Times as saying: “We are struggling whether we should have a [corporate social responsibility] report ... We really don’t have anything that is urging us in that direction.” October – Mizuho Financial Group Inc becomes the first Japanese bank to adopt the Equator Principles. October – NGO Netwerk Vlaanderen launches campaign against Belgian banks over financial support of arms industry. November – the International Finance Corporation (IFC) announces its intention to include human rights in its sustainable development safeguard policies. 	<ul style="list-style-type: none"> A group of eight NGOs draft the Collevocchio Declaration on Financial Institutions and Sustainability. NGO campaign against financial firms for financing rainforest destruction by Indonesia’s Asia Pulp & Paper Company. March – RAN agrees ceasefire with Citigroup pending outcome of negotiations. May – more than 30 international banks and corporations are sued under the Alien Torts Claims Act (ATCA) for \$100 billion in damages for their role in supporting apartheid in South Africa. July – former senior director at Cantor Fitzgerald, the US-owned broking firm, wins almost £1m in damages for being forced from his job by the obscenity-laced bullying of his boss. October – Swiss Re announces intention to go carbon neutral. 	<ul style="list-style-type: none"> July – Barclays Bank attacks the financial services industry for irresponsible marketing and encouraging unsustainable debt levels. 	<ul style="list-style-type: none"> January – US consumer groups urge Federal Reserve to stop abusive bank overdraft charges. May – Ireland establishes new financial super-regulator, the Financial Services Regulatory Authority September – NY AG Eliot Spitzer launches investigation into late trading and market timing abuses in the US mutual fund industry. Fund Democracy publishes a Pro-Investor Blueprint for Mutual Fund Reform, elements of which are subsequently implemented.
<p>2004</p>	<ul style="list-style-type: none"> January – Citigroup and RAN reach accord on new Citigroup environmental commitments. February – funding closes on BTC pipeline. April – a leaked draft letter appears to indicate that some Equator Principles signatories are lobbying the World Bank to reject proposals in the Extractive Industries Review to stop financing oil and coal projects in developing countries. May 2004 – eleven of the banks that have adopted the Equator Principles have write a joint letter to the World Bank president, James Wolfensohn, to express their views on the Extractive 	<ul style="list-style-type: none"> January – NGOs’ Quantum Leap and Focus on Finance project is replaced by Banktrack, an NGO network focusing on the environmental accountability of commercial finance. Banktrack report attacks financing of Baku–Tbilisi–Ceyhan pipeline project. March – a group of Italian NGOs forms MancaIntesa (meaning “lacks understanding”), to coordinate a RAN-style campaign against Italian bank Banca Intesa over environmental and ethical issues. May – FoE UK commences campaign against HSBC regarding its failure to use influence through banking relationship over palm plantation 		<ul style="list-style-type: none"> August – Citigroup’s massive sale and smaller buyback minutes later of government bonds raises the hackles of competitors, regulators and European government treasuries. September – Citigroup’s private banking unit is closed by Japanese regulators for compliance problems, prompting regulators in South Korea and Taiwan to launch reviews of their own on local Citigroup operations. November – NY AG Eliot Spitzer launches investigation into conflicts of interest and corruption in the insurance sector. The Hong Kong insurance commissioner calls in the territory’s

	<p>Industries Review (EIR). Another bank sends a separate letter to Wolfensohn stating its concerns.</p> <ul style="list-style-type: none"> • May – EKF of Denmark becomes the first export credit agency to adopt the Equator Principles. • May – BBVA adopts the Equator Principles, first Spanish bank to do so. • May – European Investment Bank subscribes to Equator Principles for projects outside the EU. • June – Unibanco of Brazil becomes the first emerging market bank to adopt the Equator Principles. • July – banks meet with NGOs to discuss progress on the Equator Principles. • December – Banca Intesa withdraws from the BTC project. • December – financial institutions call for extension of IFC safeguard review period. 	<p>owner Lonsum, accused of keeping villagers away from reclaiming land that had been forcibly taken from them.</p> <ul style="list-style-type: none"> • September – responsible investor F&C and accountants KPMG issue “Banking on human rights” report. • SEC agrees to establish an Office of Global Security Risk to examine company disclosures regarding their operations in countries that might support terrorism and improve disclosure of such risks to investors. • December – HSBC announces intention to become carbon neutral. 	<p>self-regulatory organisations to ensure they are enforcing the insurance code.</p>
<p>2005</p>	<ul style="list-style-type: none"> • March – Equator Principles signatories meet with NGOs in Zurich. • July – KPMG report on sustainability reporting finds financial services sector doubled the number of reports since the previous survey in 2002. • August – BES adopts the Equator Principles, the first Portuguese financial institution to do so. • October – UNEPFI publishes a legal framework for the integration of environmental, social and governance issues into institutional investment, providing critical legal commentary to pension fund trustees. • November – Nedbank is the first African bank to adopt the Equator Principles. • December – Goldman Sachs introduces environmental policy of its own initiative. First investment bank to adopt such a policy. 	<ul style="list-style-type: none"> • United Nations commences International Year of Microcredit. • April – Credit Suisse First Boston, finds itself the target of new global protests for its decision to underwrite Shell's controversial Sakhalin II pipeline. • July – \$54 million was paid to 67 employees by Morgan Stanley in New York over discrimination and sexism at work. • August – activists to banks: behave better in the Boreal. Market activists invite bank executives to develop new best practices. • November – three female brokers who used to work at Merrill Lynch & Co have won \$2 million from the company in what their lawyers say is the largest sex-discrimination award in a National Association of Securities Dealers arbitration. 	<ul style="list-style-type: none"> • February – Citigroup CEO Charles Prince announces five point ethics plan, including group-wide ethics training and performance management.
<p>2006</p>	<ul style="list-style-type: none"> • February – IFC adopts new environmental and social standards. • May – UNEPFI and UN Global Compact launch the Principles for responsible investment with signatories representing \$4 trillion of funds under management. • July – Equator Principles are revised to reflect new IFC standards. Current signatories comprise 85% of global commercial finance capacity. • July – Shanghai Pudong Development Bank becomes first Chinese bank to issue a CSR report. 	<ul style="list-style-type: none"> • March – French NGO les Amis de la Terre challenges the French banking industry to integrate sustainability into their corporations within three years, or face heightened activism. • August – New York judge refuses to dismiss \$1.4bn claim by six female employees against Dresdner Kleinwort Wasserstein for alleged gender discrimination related to pay and equal rights. 	<ul style="list-style-type: none"> • April – UK banks threaten end to era of free current accounts. • UK banks ordered by Office of Fair Trading to reduce charges for late payments on credit cards. • Which? the consumers association launches campaign against high bank overdraft charges. • May – Japanese Financial Services Agency proposes new regulations to curb abusive practices in consumer lending. • August – UK Office of Fair Trading indicates coming crackdown on excessive overdraft penalty fees.



Chinese banks

How the other half lends

By Andrew Newton, Finance Editor

Activists and responsible investors are sounding alarm bells about Chinese banks

You cannot yet hear the crossing of swords, but activists are nevertheless preparing to rattle their sabres over Chinese banks.

“China’s banks are the big fear,” says Karina Litvack, F&C Asset Management’s head of governance and socially responsible investment. “They’re bottom feeding on those things international banks are not touching,” explains Jules Peck, global policy advisor at WWF-UK.

Critics fear that China’s state-owned banks will assume the same role in finance that China National Oil Company and its state-owned brethren have done in oil production, venturing to finance projects and corporations that western banks with their freshly-minted social and environmental policies could not touch.

Worse, it now looks like these same western banks could be helping their Chinese counterparts develop stronger capabilities to fulfil that role, and profiting from it.

As a prelude to liberalisation at the end of 2006 in line with WTO commitments, China is permitting foreign banks to take minority stakes in domestic institutions in exchange for capital injections and, crucially, knowledge transfer.

The table on p26 reveals the breathtaking extent of the response being mounted by foreign banks. But it is far from clear they are ready for the challenges they face.

Growing pains

Any financial firm that stakes its brand on high standards of conduct runs a risk when it acquires a strategic stake in another firm anywhere in the world.

China’s banks, however, present particular challenges. They need to evolve from being state-directed agencies channelling funds to state-owned enterprises, into banks mobilising savings for investment and lending. Currently, governance and risk management systems are based on that limited traditional mandate. This lies at the heart of a non-performing loans problem that official figures estimate at \$130 billion even following the injection of tens of billions of dollars into the major lenders.

Where even cash flow analysis is a rare credit risk tool, social and environmental risk assessment and management figures barely at all.

There are other challenges

Large scale restructurings continue, resulting in the shedding of tens of thousands of jobs amid employee protests.

With the closure of thousands of branches in remote locations by the state-owned ‘big four’ banks there arise concerns about financial exclusion.

Chinese insurance companies succeeded earlier in destroying consumer trust through widespread mis-selling. Now banks risk repeating the debacle in

Critics fear that China’s state-owned banks will finance projects and corporations that western banks could not touch

the dash for market share in the nascent consumer credit market (see p25).

Again, there are opportunities as well as risks. For example, China stands to become the biggest market in the world for renewable energy and energy efficiency products.

The untouchables

It is the fear of “bottom-feeding” by Chinese banks, however, that is attracting the most attention from activists at present.

China National Petroleum Corporation’s development of Sudanese oil fields is an example. The company’s activities help provide the government in Khartoum with funds that it can use to implement the genocide in Darfur. Even if western banks back away from financing CNPC, CNPC can fall back on its regular Chinese financial backers including the policy bank China Export Import Bank, and Bank of China in which a foreign consortium headed by Royal Bank of Scotland has a 10% stake.

On the domestic front, most infrastructure lending comes from Chinese banks. Violence associated with some infrastructure development projects should make any investor pause. In December 2005, for example, several villagers in Dongzhou village near Shanwei were shot by police while protesting at inadequate compensation for land seized by the government for the construction of coal and wind power plants.

So long as Chinese banks are prepared to go where others will not, emerging international standards like the Equator Principles for project finance – to which no Chinese bank has so far committed – risk being undermined.

Stark choices

As the state’s ownership begins to fragment, the source and ownership of financial services used in support of controversial activities becomes easier to identify. That associative link can only become stronger with these strategic investments, and boycotts of banks and their financing instruments will then be less of a blunt instrument.

For strategic investors whose opportunity to exit in the short term is limited, the choice appears stark. They can be associated through these substantial investments and knowledge exchange with the perpetuation of a finance sector that so far pays little attention to stakeholder interests.

Or they can be a force for positive change, associated with the development of industry-wide capabilities that recognise stakeholder interests and negotiate responses.

Most investors see benefits in engagement with Chinese banks on such issues. Rather than not invest in a country until it achieves international standards, Jon Williams, HSBC’s head of group sustainable development, says the bank takes a



Whose standards will prevail?

medium-term view, engaging over time to improve standards.

If engagement is the answer, it appears likely strategic investors will need to prove that they are transferring the capability to meet their various sustainability commitments detailed in the table, and that that engagement is working to raise standards.

Small stakes, big influence

One concern for F&C’s Litvack is that having bought their respective stakes, western banks will have “only limited influence” on management. Even the question of whether a bank has any latitude to refuse government pressure to lend on a particular transaction “presupposes there is a separation between bank, government and [Communist] Party which there is not,” according to Paul French, China analyst at Access Asia and China Editor at Ethical Corporation.

If this reflects the true limits of strategic investor influence, it throws into doubt the collective wisdom of parting with \$35 billion over the last two years for stakes in banks with major risk management failings.

The cost to China of poor bank management is very real: a bailout for Agricultural Bank of China will likely cost the equivalent of 10% of China’s foreign reserves, according to government estimates. Rather than carry such a liability, the Chinese government needs to develop a competitive and commercially driven banking sector that can mobilise domestic savings to invest in infrastructure and so help fuel sustainable growth. Elsewhere in the world, commercial banks such as these have been learning the importance of managing their social and environmental impacts.

The government has been keen to emphasise that they seek the knowledge transfer implicit in strategic investment, rather than merely financial investment. To back this up, investments are invariably accompanied by stringent co-operation agreements. ANZ’s deal with Tianjin City Commercial Bank, for example, provides for seats on the

The Chinese government needs to develop a competitive and commercially driven banking sector that can mobilise domestic savings to invest in infrastructure and so help fuel sustainable growth



Assess that social impact, say lenders

board, management positions and veto rights.

Newbridge Capital is so far the only foreign investor to have obtained management control of a Chinese bank: Shenzhen Development Bank. As SDB's single largest shareholder, Newbridge is entitled to a majority of board seats.

Such influence is not limited to smaller banks. Industrial Bank and Bank of Communications are equity accounted as associates in HSBC's latest annual report. This reflects HSBC's "significant influence" over the banks out of proportion to the sub-20% equity stake in each. Standard Chartered adopts the same treatment in relation to its 20% holding in Tianjin Bohai Bank, the new bank it co-founded earlier this year.

Green shoots

Another reason why foreign investors might reasonably expect genuine influence is the impact that economic growth is having on the environment.

China's State Environmental Protection Agency estimates that pollution cost the country 10% of its \$2.26 trillion gross domestic product in 2005. SEPA officials are also concerned that serious environmental problems are stimulating rising social unrest.

The government's 11th Five-Year Plan includes specific environment-related targets for energy efficiency, industrial water consumption efficiency and reductions in pollutant emissions.

The plan also places environmental and social constraints on the kinds of project that will receive state financing.

New rules on environmental impact assessment introduced in 2003 mandate public consultation for environmentally sensitive projects.

SEPA has stepped up its enforcement activities, and in 2005 succeeded in stopping construction of 30 power projects that had not met the legislative requirements before construction commenced. Many of the country's commercial banks are thought to have been financiers to these projects.

But the agency's impact hangs in the balance.

"Just tell the government that SEPA is stopping investment or growth and they [the agency] disappear," Paul French says. The People's Bank of China's plan to revise its basic regulatory instrument – The General Rules of Loans – to include specific environmental policy and procedural requirements for loans should at least add weight.

Anger management

The government is selective as to which other stakeholder voices it hears. Divestment campaigns and other actions by foreign NGOs appear to be ignored, and local NGOs are "only allowed to operate until they annoy the government", says French.

Even so, the Party appears conscious of the need to address the seeds of social disquiet, such as that stemming from growing rural-urban income disparities.

Consumer protests, too, appear to be permitted, and are much in evidence. In 2004, dozens of protesters participated in sit-ins and protests outside the head office of the Bank of Communications demanding return of their money on a Jinsin trust fund product promoted through the bank. In the same year, merchants launched a boycott against payment cards in protest at the level of fees they pay for accepting card payments.

Most recently, Dell Computers has discovered to its cost the power of the internet in bringing together a small army of disgruntled Chinese consumers to mount a legal challenge.

Assuming foreign strategic investors can bring the necessary influence to bear, environmentally and socially sensitive finance could become the preserve of lower-tier commercial banks and of the three state policy banks and the government treasury itself.

The political and financial risks associated with such projects would in this way come home to rest at the seat of the policy that creates them, rather than be dispersed amongst foreign strategic investors and their shareholders. ■

The Party appears conscious of the need to address the seeds of social disquiet

China: retail credit

Slaves to a consuming fashion

By Andrew Newton, Finance Editor

The rapid growth of the consumer credit sector combined with a lack of experience dealing with its risks mean that banks in China could face an irresponsible lending scandal

For many foreign investors in Chinese banks, the principal objective is to gain broad access to a barely tapped market for consumer credit including credit cards, personal loans and mortgages.

Banks in the country have traditionally targeted corporations, rather than consumers, but as income levels rise this is changing fast. Consultants McKinsey & Co expect revenue from credit cards to grow 54% a year, mortgages 20% and auto loans 25%, through to 2013. For international credit cards, this translates to between 30 million and 75 million prospective customers by the end of the decade, according to estimates by Visa International and MasterCard International.

Banks are scrambling for market share. The battle has seen banks drop annual fees, offer high credit limits and give away free gifts. China Merchants Bank led the charge some three years ago. With more than five million cards issued, CMB now claims over 30% of the existing market.

Others are catching up. Bank of Communications has issued over one million of its cards co-branded with HSBC, claiming an 8% market share. Citigroup's partnership with Shanghai Pudong Development Bank will have issued over 400,000 cards by year-end. And through an alliance launched this year, Royal Bank of Scotland and

Bank of China have already issued 450,000 cards.

This haste has some analysts unsettled. Although the Chinese government has set up a national consumer credit database, there are no credit bureaus and bank employees have not historically been trained in credit risk assessment. Insurers that had begun to offer car loan default policies have stopped after finding that banks are not screening applicants carefully. There are concerns that credit card growth may outstrip banks' risk management capabilities.

Young consumers, such as those to be targeted by Citibank and Shanghai Pudong Development Bank's new WOW card, have shown themselves particularly open to accumulating debt.

Lessons from Taiwan

Banks will need to take care not to repeat the conditions that produced a \$24.7 billion consumer credit implosion in neighbouring Taiwan. A vocal campaign supportive of "card slaves" and mounted by the Pan-purple Alliance, a collective of civil society groups, helped garner significant public support for deeply indebted borrowers.

In May, 31% of outstanding cash card loans were written off. Political pressure fed through into a proposed law that would have capped the interest rate spreads lenders could charge on card loans. There has also been pressure for personal bankruptcy legislation.

Similar legislation has helped crystallise substantial problems for UK lenders this year – including lenders behind the current credit card push in China.

GE Consumer Finance, which stands ready to invest \$100 million in Shenzhen Development Bank, explicitly recognises the risk presented by "a burgeoning population of previously unbanked individuals entering the credit market in ... developing countries."

Its Responsible Lending Standards now running in Asia, the Americas and Europe set out 30 guiding principles covering issues at every stage from product development, disclosure and underwriting through to collections and training. Each country business develops a localised set of Responsible Lending Standards subject to approval and audit.

For banks involved in the Taiwan crisis, restricting loan growth, tightening risk assessment and restricting card issuance have all helped subsequently to deal with the problem. If Chinese banks and their foreign partners are to avoid the costs – reputational and financial – experienced across the Taiwan Straits, responsible lending practices such as these need to be embedded from the outset. ■

Banks have traditionally targeted corporations, not consumers, but as income levels rise this is changing fast



The new must-have in China

Foreign investment in China

Backing the financial dragon

Corporate responsibility commitments of strategic investors in Chinese banks

Institution <i>Assets, non-performing loans (%)</i>	Strategic investors <i>(size of investment, % held)</i>	Institution <i>Assets, non-performing loans (%)</i>	Strategic investors <i>(size of investment, % held)</i>
Industrial and Commercial Bank of China⁴ \$685bn, 4.69%	Goldman Sachs ⁴ , American Express ⁹ , Allianz ^{1238bc} (Collectively \$3.8bn, 10.0%) Expected to list simultaneously in Hong Kong and Shanghai in October 2006, with a further listing under consideration for New York or London.	China Minsheng Banking Corporation \$62bn, 2%	Temasek Holdings (NA, 3.9%) IFC ¹⁴⁸ (\$23m, 1.08%) Though discussions are rumoured to have been held with potential foreign investors including National Australia Bank ²⁸ and Société Générale ¹²⁸ (\$370, 5%–10%), the bank is now understood to be delaying new foreign investment until 2007. Listed in Shanghai. Agreed private placement to institutional shareholders. Temasek Holdings rumoured likely to increase its stake.
Agricultural Bank of China \$610bn, 26%	No foreign investment at present. Reforms expected over the next two to three years, including a search for foreign strategic investors. China Life Insurance Co has declared an intention to take a stake.	Industrial Bank Co \$59bn, 2.33%	Hang Seng Bank ³⁸ (62.14% owned by HSBC ^{1234689bc}) (\$209m, 16%) Temasek Holdings (NA, 5%) IFC ¹⁴⁸ (\$52, 4%) Seeking regulatory approval for a listing in Shanghai in 2006.
Bank of China \$591bn, 4.9%	Temasek Holdings (\$1,500m, 5%) Royal Bank of Scotland ^{1238bc} (\$1,500m, 5%) Merrill Lynch ¹⁴⁹ (\$750m, 2.5%) Li Ka-shing Foundation (\$750m, 2.5%) UBS ⁹⁹ hk (\$500m, 1.6%) Asian Development Bank ⁷ (\$75m, <1%) Hong Kong IPO in May 2006 raised \$11.2 billion. A simultaneous private placement with 12 additional corporate investors including Bank of Tokyo–Mitsubishi UFJ ^{1238bc} , China Life Group, Ping An Insurance Group ⁵⁶ (19.9% owned by HSBC ^{1234689bc}) and Bank of East Asia brought in a further \$2.2 billion. The July 2006 listing in Shanghai raised \$2.5 billion.	Shanghai Pudong Development Bank \$57bn, 2.45%	Citigroup ³⁴⁸⁹ (\$70m, 4.62%, with option to increase stake to 19.9%) Listed in Shanghai. Additional listing rumoured for Hong Kong.
China Construction Bank \$472bn, 3.4%	Bank of America ¹²³⁸ (\$2,500m, 9%) Temasek Holdings (\$1,470m, 5.1%) Listed in Hong Kong. Mainland listing being considered.	China Everbright Bank \$49bn, 11%	China Everbright Group (NA, 21.4%) ADB ¹⁴ (\$20m, 1.9%) Ping An Insurance Group ⁵⁶ (19.9% owned by HSBC ^{1234689bc}) is understood to be in talks potentially with a view to taking a stake in the bank.
Bank of Communications \$161bn, 2.14%	HSBC ^{1234689bcprf} (\$2,100m, 19.9%) Listed in Hong Kong. Mainland listing expected in 2007.	Hua Xia Bank \$45bn, 3.04% (NPL figure being reviewed by regulator)	Deutsche Bank ^{128bc} (\$330m, 9.9%) Sal. Oppenheim (NA, 4.1%) Listed in Shanghai.
China CITIC Bank \$84bn, 2.51%	Barclays ^{123489hk} is reported to be in line to buy a 5% stake. Previously JPMorgan Chase & Co ¹²³⁸ had been rumoured to have sealed the deal. Other banks that have shown an interest in the 5–10% stake reportedly on offer include Credit Suisse ^{1238ghk} , BNP Paribas ^{18c} and Banco Bilbao Vizcaya Argentaria ^{1238bc} . Expected to list in Hong Kong by the end of 2006, and considering a Shanghai listing.	Guangdong Development Bank⁴ \$38bn, 25%	Citigroup ³²⁴⁸⁹ is seeking “effective control” through building a consortium with Chinese investors including China Life Insurance Co. to take a combined 80% of the bank, bidding against a consortium including Ping An Insurance Group ⁵⁶ (19.9% owned by HSBC ^{1234689bcprf}) and Société Générale ¹²⁸ .
China Merchants Bank²⁷ \$103.3bn, 2.3%	No foreign investors, although reported to be seeking strategic investors among Hong Kong billionaires. Listed in Shanghai and to be listed in Hong Kong in September 2006.	Ping An Bank \$33bn, NA	Ping An Insurance Group ⁵⁶ (19.9% owned by HSBC ^{1234689bc}) (NA, 73%) HSBC ^{1234689bcprf} (\$18m, 27%)
		Bank of Shanghai² \$30bn, 3.92%	HSBC ^{1234689bcprf} (\$64m, 8%) IFC ¹⁴⁸ (\$50m, 7%) Shanghai Commercial Bank (Hong Kong) (NA, 3%)
		Shenzhen Development Bank \$26bn, 10.29% (NPL figure being reviewed by regulator)	Newbridge Capital (NA, 17.9%) GE Consumer Finance ¹⁶ (\$100m, 7%) (pending shareholder approval of share reform plan) Lehman Brothers ⁹ is reported to be close to securing a 1% stake for an investment of \$20m to \$30m Listed in Shenzhen.

Institution <i>Assets, non-performing loans (%)</i>	Strategic investors <i>(size of investment, % held)</i>	Institution <i>Assets, non-performing loans (%)</i>	Strategic investors <i>(size of investment, % held)</i>
Bank of Beijing \$29.9bn, 4.06%	ING Group ³⁸ (\$215m, 19.9%) IFC ⁴⁸ (\$50m, 5%) A listing is planned for 2007.	Jinan City Commercial Bank \$2.8bn, 7.1%	Commonwealth Bank of Australia ¹ (\$17m, 11%, with option to expand up to 20%) Listing expected in 2007.
Shanghai Rural Commercial Bank \$14bn, NA	ANZ ²⁸ reportedly in talks for a 19.9% stake costing around \$200m, target completion December 2006.	Urumqi City Commercial Bank \$2.2bn, NA	Habib Bank is reported to be in talks to acquire 19.9% of UCCB.
Jiangsu Bank \$10bn, NA	Forming in 2006 through merger of 10 city banks in Jiangsu Province, including Suzhou City Commercial Bank.	Rizhao City Commercial Bank \$1.1bn, NA	Nanjing City Commercial Bank (19.2% owned by BNP Paribas ^{18pri} , 5% owned by IFC ⁴⁸) is reported to be buying a 20% stake for \$18.8m, which would make it the largest shareholder.
Shenzhen Commercial Bank \$9bn, NA	Ping An Insurance Group ⁵⁶ (19.9% owned by HSB ^(12345689gch)) is to buy a 89% stake for \$614 million.	Nanchong City Commercial Bank \$0.23bn, NA	German Investment and Development Bank (DEG) ¹ (\$4m, 10%) Sparkassen International Development Trust, Savings Bank Foundation for International Co-operation (\$1, 3.3%)
Tianjin Bohai Bank NA, NA	Standard Chartered ^(12345689gch) (\$128m, 20%)	Langfang City Commercial Bank⁶ NA, NA	Planning to list in 2007.
Tianjin City Commercial Bank \$9bn 7%	ANZ ²⁸ (\$112m, 20%)	Quanzhou City Commercial Bank NA, NA	Reported to be in negotiations with National Australia Bank ²⁸ .
Huishang Bank \$5.6bn, NA	Bank of Montreal ¹²³⁸ had previously been reported interested, but now Development Bank of Singapore is reported to be considering a 10%-20% stake. Pangaea Capital Management is also seeking a 5% stake.	Chongqing City Commercial Bank NA, 4.93%	Seeking foreign investors to take up to 24.9% of the bank by the end of June 2006, with a view to listing overseas by the end of 2008.
Nanjing City Commercial Bank \$5.5bn, 4.2%	BNP Paribas ^{18pri} (\$87m, 19.2%) IFC ⁴⁸ (\$27, 5%) Awaiting regulatory approval for a listing in Shanghai.	Shaoying County Rural Cooperative Bank NA, NA	American United Bank is reported to have "made a proposition".
Hangzhou City Commercial Bank \$4.8bn, 2.3%	Commonwealth Bank of Australia ¹ (\$75m; 19.9%) ADB ¹⁴ (\$30, 5%)	Tianjin Rural Cooperative Bank NA, NA	Rabobank ^(1238g) has signed a preliminary cooperation agreement, and is rumoured to be close to investing. Previously, ABN AMRO ^(12389gch) was reported to be interested in taking a stake in the bank.
Ningbo Commercial Bank \$4.6bn, 1.2%	Oversea-Chinese Banking Corp (\$71m, 12.2%) Employees own 20%	Liaoning Rural Credit Cooperative Union NA, NA	Rabobank ^(1238g) has signed an agreement to set up a joint venture bank with the cooperatives in 2007.
Dalian Bank \$4.2bn, 5%	Hoping to join forces with Scotiabank ²³ and/or National Australia Bank ²⁸ by early 2007. Listing expected in Hong Kong in 2006.		
Xi'an City Commercial Bank NA, NA	IFC ⁴⁸ (\$19.9m, 12.5%) Scotiabank ²³ (\$3, 2.5% with regulatory approval for up to 12.4%)		
United Rural Cooperative Bank of Hangzhou (formerly Hangzhou Rural Credit Cooperative Union) \$3.8bn, 1.5%	Rabobank ^(1238g) (\$21.8m, 10%) IFC ⁴⁸ (\$10.9m, 5%)		

Sources: Company websites and press reports

Key to corporate responsibility commitments:

- 1** Company has published own social and/or environmental policies
- 2** UNEP Finance Initiative signatory
- 3** Equator Principles signatory
- 4** Member of the Chinese Business Leaders Forum
- 5** Member of the Chinese Association for Corporate Social Responsibility
- 6** Member of the China Committee of Corporate Citizenship
- 7** Member of the China Business Council for Sustainable Development
- 8** Global Reporting Initiative reporter
- 9** Member of the Global Business Coalition on HIV/Aids
- gc** Member of the UN Global Compact
- hk** Hong Kong Corporate Social Responsibility Charter signatory
- pri** Asset management arm is a UN Principles for Responsible Investment signatory



Human rights

Amnesty interminable

By Andrew Newton, Finance Editor

Scrutiny of the human rights impacts of financial institutions has remained largely an activist-free zone, but for how much longer?

Sir Fred Goodwin, chief executive of Royal Bank of Scotland, was challenged last year on whether human rights issues had been a consideration when deciding to take a stake in Bank of China. He replied that these were issues for the Chinese government, adding, according to The Herald newspaper, "It's important that we don't get involved in that in China, or any other countries we do business in."

Such a threadbare policy response is not unusual. A report issued earlier this year by WWF and the private finance focused NGO coalition BankTrack found only 20% of banks surveyed had introduced a human rights policy. Only Rabobank has committed explicitly to follow the draft UN Norms for Business, and not even they disclose how they will do so.

These findings are corroborated by the results published this year of a survey undertaken by John Ruggie, the UN secretary-general's special representative on business and human rights. The survey found that only 26.6% of financial sector respondents had a set of corporate principles specifically on human rights, and only 33.3% covered human rights in operational guidance notes.

Human interest

Whilst it is up to banks to address their own impacts, NGOs can play a valuable role in raising consciousness and catalysing action.

But, where have the human rights NGOs been? Most of the pressure on human rights issues has come from environment-focused NGOs sweeping up human rights into their ongoing critique of project finance.

Only Netwerk Vlaanderen, a Belgian NGO promoting sustainable investment, has conducted a sustained campaign against commercial finance institutions. Their campaign, "My Money. Clear Conscience?", has targeted Belgian bank groups over investments in the arms industry since 2003, and more recently over investments in companies that commit serious human rights violations. The campaign has produced some notable changes in bank policies.

By contrast, Amnesty International has focused its arms strategy on urging governments to introduce a global arms treaty and tighter controls on arms exports.

Below the radar

Amnesty UK's Peter Frankental blames the current lack of attention to the finance sector on limited resources, a view echoed in BankTrack's 2005 annual report.

Integrating human rights into objectively measurable impact assessments has also proved a challenge, though Frankental believes that attempts at codification such as the Global Reporting Initia-

Much of the human rights campaigning against financial firms has been undertaken by environmental NGOs alongside their activism against the environmental impacts of project finance

tive and the Global Compact have helped define business' obligations in more concrete terms.

The most detailed of these codification attempts were the draft UN Human Rights Norms for Business. When these were kicked into John Ruggie's newly established court, however, the follow through from the human rights NGO community in general was muted.

This was surprising given Amnesty's role in the introduction of the Voluntary Principles for Security and Human Rights used today by many energy and extractive industry companies.

That initiative clearly recognised that the spheres of influence of the new transnational economic powers created by globalisation bring new and actionable corporate responsibilities and new opportunities to create de facto human rights safe havens within the territory of abusive regimes and societies.

That understanding, however, does not appear to have permeated Amnesty International's broader campaigning strategy.

The role of corporations is treated on their website within a separate campaign headed "economic globalisation", viewed as a destabilising influence that may, principally through privatisation, result in degradation of human rights. Only in AI's introduction to the UN Norms are corporations identified as an additional category of international actors that could play a role across a variety of campaigning issues and contexts.

Given this struggle to engage with the role of business in general, it is hardly surprising that human rights NGOs have barely begun to address the indirect impacts of financial institutions.

Joining the dots

This may be about to change. Frankental offers that there will be "closer connections" between Amnesty and BankTrack, a priority confirmed in the latter's 2005 report. Amnesty's 'economic globalisation' campaign has received a shot in the arm thanks to the furore over internet company complicity in China's internet censorship. Activist investors including F&C and Insight Investment have also indicated their intention to engage banks on social impacts.

Specific issues on activist agendas include:

- adoption of human rights policies based on the draft UN Norms;
- getting banks involved in the Extractive Industries Transparency Initiative in order to address the role of banks in helping corrupt regimes steal a nation's wealth;
- the sector's impacts in conflict-prone, conflict and post-conflict zones;
- G8-style forgiveness of developing country debt;
- the financial sector's response to the HIV/Aids crisis;
- the elimination of human rights exclusions in project finance host country agreements.



Withholding investment can help here

While notable initiatives such as the Financial Coalition Against Child Pornography and the revised Equator Principles extend the consideration of social impacts into new areas, progress remains patchy. The convergence of activist forces now underway leaves just a short window for a major institution to demonstrate leadership on human rights. ■



People policies are increasingly important for big banks

Given the struggle to engage with the role of business in general, it is hardly surprising that human rights NGOs have barely begun to address the indirect impacts of financial institutions



Diversity

Extracting the male from a malefaction

By Andrew Newton, Finance Editor

Employees are arguing financial firms still don't value diversity. Superficial policies and training are unlikely to convince them – or courts – otherwise

It is Deutsche Bank's turn on the discrimination merry-go-round. In August the US Equal Employment Opportunity Commission (EEOC) issued the firm's New York office with a letter of determination finding "reasonable cause" to believe that Deutsche Bank had subjected senior salesperson Leigh Short "and a class of similarly situated female employees on the Asian and Australian sales desks" to sex discrimination. The letter invites Deutsche to negotiate a settlement or face an EEOC suit. Deutsche has denied the allegations.

The most noteworthy feature of the case is its completely unexceptional nature. It blends in seamlessly with a procession of discrimination actions originating from major banks since actionable employment equality legislation emerged in the 1960s. "You don't have to be a rabid left winger to see this is going to keep me in work for a long time to come," observes Jeff Liddle, partner at Liddle & Robinson, a firm representing plaintiffs in several discrimination cases.

The cases paint a picture of a sector that only values the diversity of outlook afforded by a concentration of young, aggressive, white, straight males. It is an impression confirmed by the statistics: there is a gender-based pay differential of 44% in UK financial services – the worst of all sectors – according to the Equal Opportunities Commission.

And while women represent 48% of all workers

in the US, they occupy just 37% of all jobs in the securities industry and just 20% of executive management posts.

Lost in the detail

Seeking to understand why the finance sector's gender diversity is so dire, Louise Roth, assistant professor of Sociology at the University of Arizona, interviewed 76 men and women on Wall Street at the height of the bull market. In a new book, Roth describes how the highly variable pay structure facilitates a subtler form of gender discrimination than could be perpetrated against those on hourly rates on a factory floor.

Insiders defend the system as promoting the survival of the fittest, but Leigh Short is alleged to have been a top producer at Deutsche who was subsequently undermined, suggesting that fitness is being determined by something other than market forces.

Roth argues that individuals are promoted or held back based on a "masculine conception of competition that ignores success factors at which women excel." The profession "values male qualities like shooting from the hip," says Roth, "while women sit back to make a more educated assessment".

Unconscious biases of managers, co-workers and clients influence performance appraisals and pay, but also the tools such as business leads, referral business and sales support on which an individual's

The highly variable pay structure facilitates a subtler form of gender discrimination than could be perpetrated against those on hourly rates on a factory floor

productivity depends. A particular concern is the opaque and subjective manner in which clients are allocated between team members, a factor in Short's case against Deutsche Bank.

Seeking tangible outcomes

Compared to other sectors, "resistance to change is notable" in finance, notes Elizabeth Grossman, EEOC's New York regional attorney. Part of the problem is that even attention grabbing settlements such as the \$54 million secured by Grossman in 2004 against Morgan Stanley are insignificant to the banks agreeing them.

This is why EEOC and class action lawyers now push for settlement terms comprising initiatives, such as training and monitoring, that combat discrimination as well as seeking restitution for clients.

"Policies and procedures make fairness," asserts Grossman. But not the standard equal employment opportunity policies that firms have implemented in the past. Now, she explains, they should define what it takes to get a particular bonus, to get hired, to get a raise. Lawyers negotiating with Morgan Stanley over a new class action suit have heralded a package of "meaningful, novel and far-reaching" reforms.

While Roth is unimpressed by the diversity policies and programmes she has seen, she acknowledges that

initiatives that overhaul pay and promotion practices to deal with subtler discriminatory issues could bring real change. New procedures could include algorithms for the equitable allocation of accounts, removing subjectivity by linking allocations to measurable qualities like experience, and the number and type of clients with whom the individual has worked.

Another positive move would be to scrutinise differences in performance evaluations of men and women in the same job and get the appraiser to justify differences in treatment. This is part of the solution favoured by the UK's Equal Opportunities Commission, too, in its submission to the Discrimination Law Review.

What is clear is that financial firms have entered a war zone. This summer's Morgan Stanley case was instigated under the National Council of Women's Organizations' Women on Wall Street campaign. The campaign was launched in 2004 to provide a catalyst and rallying call for new class actions.

Discrimination and retaliation claims arising in many financial centres have extended beyond gender into areas such as race, sexual preference and identity, workplace bullying and, increasingly, age discrimination. It may indeed take something more "meaningful, novel and far-reaching" than deep pockets to weather the assault. ■

Unconscious biases of managers, co-workers and clients influence performance appraisals and pay

Selling Women Short: Gender and Money on Wall Street, by Louise Marie Roth, is published by Princeton University Press. See www.pupress.princeton.edu/.

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Financial supervision

Rain check regulation

By Andrew Newton, Finance Editor

Can big, complex, innovative financial groups be effectively regulated?

In June 2001, in the wake of the dotcom bust, New York attorney general Eliot Spitzer launched an investigation into how Wall Street firms conduct and publish investment research.

More than five years and three Spitzer-led investigations later and there is much talk of structural change across the financial sector.

Stock analyst research has been separated off from investment banking. Research quality – evidenced by an increase in “sell” ratings – is reported to have improved on both sides of the Atlantic. Coverage, however, of mid-cap companies has thinned and subtle intimidation of analysts by companies they cover is said to be continuing.

New SEC rules are being introduced to curb “market timing” abuses on mutual funds, though implementation is expected to be delayed, and heated debate continues regarding SEC proposals to require fund boards to have independent chairs.

While major insurance brokers have ended contingent commission arrangements that motivated a bid-rigging scandal in the commercial insurance industry, buyers themselves have been reviewing brokers’ placement processes for evidence of fraud or conflicts.

Each Spitzer investigation has resulted in fines and restitution, and in some cases, criminal convictions.

Consumer research published this summer by

Mintel, a research group, found that pension firms, investment managers, financial advisers and insurance companies have taken their places among the least trusted professions in Britain, echoing similar research undertaken in the US on behalf of retirement product provider TIAA-CREF in 2004.

Spitzer is running for governor of New York state in the November elections. The industry could be forgiven for wanting to chalk his legacy up to experience and move on. Conflicts, however, look likely to give rise to further serious problems.

The big ugly

The first problem is continued consolidation in the corporate and investment banking sector. Few firms can be confident they have cracked the managerial challenges of such scale and complexity, writes McKinsey’s London-based Director Charles Roxburgh in a recent *The McKinsey Quarterly*, before concluding, “it is far from clear that scale is an advantage”.

The drive for consolidation also brings greater scope for conflicts of interest. The fact that investment banks and retail brokerages are permitted to reside under the same business roof made the analyst research scandal possible. The repeal of the 70-year old provisions of the Glass-Steagal by the Gramm-Leach-Bliley Act 1999, however, has permitted commercial banks to affiliate with entities

The first problem is continued consolidation in the corporate and investment banking sector. Few firms can be confident they have cracked the managerial challenges of such scale and complexity

engaged in securities activities and insurance companies, opening up further vistas for conflicts.

As diverse firms find themselves with roles on both sides of transactions, “companies will find a way to monetise that”, notes Mercer Bullard, president of Fund Democracy, the advocacy group for mutual fund investors.

Complexity is breeding further conflicts all the time. The UK’s Financial Services Authority is particularly concerned about conflicts associated with investment banks buying and selling on their own account (“proprietary trading”). Clients may be made insiders on a forthcoming proprietary trade. A firm may provide fee-based advice on a transaction in which it intends to make a potentially much more lucrative investment on its own account, a particular problem in private equity transactions.

Clients will judge whether firms have placed their own interests above the clients’ own.

Captured

The Spitzer investigations revealed a second problem: a lack of regulatory will to tackle seriously ingrained conflicts of interest. US regulators were already aware of the analyst independence issue and of some of the games played by mutual fund managers for the benefit of preferred clients at the expense of long-term investors, yet had done nothing to address them.

On the insurance side, regulation has since 1945 resided with the US states rather than federal regulators. The result has been a wide variation in regulatory standards and approaches and a race to the bottom prompted by competition between regulators. Laxity has been compounded by what is reported to be an employment revolving door between regulators and big insurance companies.

At the national level, there is a concern that some banks have become too big to fail. William Seidman, a former chairman of the Federal Deposit Insurance Corporation, remarked last year that business complexity and scale made some banks “extremely difficult to supervise and nearly impossible to take over if they fail”.

Citigroup CEO Charles Prince recognised his firm had become a “quasi-public institution”. Very apt, given that as one former SEC investigator and special US attorney put it: “Any prosecutor who wants to go after a very large financial institution is probably going to have to talk to the Federal Reserve first.”

Super-sized regulators

Dealing with scale and complexity is leading to something of a regulatory arms race, with governments around the globe following the British lead in creating a financial super-regulator, the divisions of which reflect the complexity of their financial conglomerate charges. Calls for federalisation of insurance regulation in the US are part of this trend.

Such approaches reduce the scope for regulatory arbitrage, but the inertia of the SEC in relation to embedded conflicts of interests demonstrates that they are no panacea. Just because the regulated should have no choice of regulator, stakeholders should not be denied access to independent overseers. Spitzer’s policy entrepreneurialism provided a reminder of “the importance of having diverse regulators report to diverse constituencies,” says Bullard.

The constitutional importance of Spitzer’s role in investigating conflicts in the sector is underscored by the extent of finance sector contributions to and lobbying of the political machinery that holds the SEC’s purse strings (see Lobbying grenades at democracy, page 42). Upticks in political contributions and lobbying spend accompany every debate about the industry, from the implementation of Basel II capital adequacy and risk requirements, to mutual fund regulation in the light of the scandal, and now to hedge fund regulation.

Innovating the intangible

A third problem undermining regulatory oversight is the pace of innovation in products and services that even at their most basic are intangible and opaque. Retail consumers were unlikely to discover that mutual fund companies were permitting privileged clients to trade after the 4pm fund valuation point. While regulators and politicians wring their hands over the growth of hedge funds and credit derivatives, they can only guess the true extent and location of related risks in the global financial system.

Growing complexity and speed can leave regulators caught off guard, chasing scalps after a problem has come to light rather than helping to prevent it, leading industry groups to complain of regulation by enforcement.

Whilst independence is paramount for a regulator overseeing issues that are reasonably clear cut, such as those identified in the Spitzer investigations, for new issues of a more complex nature the over-riding goal may become to understand the risks and to use regulatory muscle to prompt financial professionals to ask the right questions. Rather than keeping a distance, this may mean developing a relationship of proximity to the regulated, the course taken by the UK’s FSA in relation to hedge fund regulation.

This is fine where risks are concentrated. Increasingly, however, risks are disaggregated among the multitude of decisions taken by increasingly autonomous individuals firm-wide.

As reliance is placed increasingly on individuals to identify and manage emerging conflicts of interest, the strongest control response available to management may be a corporate culture that encourages all individuals simply to question. Like Spitzer did. ■

The constitutional importance of Spitzer’s role in investigating conflicts in the sector is underscored by the extent of finance sector contributions to and lobbying of the political machinery that holds the SEC’s purse strings



Equator Principles

A point of principle

By Tobias Webb, Editor, and John Russell, Deputy Editor

Citigroup's head of global community affairs says the revised Equator Principles will strengthen the impetus to clean up project finance

Citigroup was one of ten financial institutions to sign the original Equator Principles – a set of social and environmental standards covering project finance – launched in June 2003.

And the bank was actively involved in creating the revised principles, launched this July and signed by 41 financial institutions.

As signatories, Equator Principles Financial Institutions (EPFIs) agree to incorporate social and environmental concerns into their internal credit risk procedures, and require borrowers to observe standards relating to, for instance, working conditions and biodiversity and conservation, as a condition for lending.

The process of revising the initial principles took around five months, in the wake of changes to the International Finance Corporation's environmental and social Safeguard Policies, which had formed the basis of the original Equator Principles.

Citigroup's head of global community affairs, Pamela Flaherty, welcomes the outcome. Revising the principles has been "very productive", she says, and has resulted in "a great commitment to the Equator Principles and their implementation" from international banks, 85% of which have now signed the guidelines.

The revision process has further highlighted recent changes within the financial services sector, as banks and NGOs become more willing to work

together to minimise the social and environmental impacts of large infrastructure projects.

But relations between the company and its critics have not always been cordial. Citigroup was the target of a prolonged campaign from environmental campaigners Rainforest Action Network, which claimed that the bank was contributing to deforestation through its financing of logging.

RAN dropped its campaign in 2004. Now Citigroup is on much better terms with its stakeholders.

There is "a degree of trust and a very positive relationship," says Flaherty. Citigroup's latest corporate citizenship report prints an endorsement from the Shareholder's Dialogue Group, a self-assembled group of socially responsible investment funds, which includes F&C Asset Management and the investment programme at Friends of the Earth US.

This willingness of banks and their critics to work together comes from a realisation of mutual interest. But it does not mean that these relationships are without their tensions.

How codes become laws

Flaherty disagrees with campaigners who say that a set of voluntary principles will not be strong enough to make banks enforce non-financial standards. The level of interest and expectation surrounding the principles means that its signatories will be called to account, she says.

Equator Principles Financial Institutions do not have to publish information on their risk assessments of specific projects

When banks commit to the Equator Principles, says Flaherty, “they’re not voluntary internally at all”. And as soon as a bank starts incorporating these principles into contracts with clients, these voluntary guidelines become legal requirements.

But critics think that the principles still do not go far enough on disclosure. The revised principles require Equator Principles Financial Institutions (EPFIs) to report the number of deals approved and their level of risk, for which there are three categories.

But banks do not have to publish information on their risk assessments of specific projects. The reason, they claim, is that the release of social and environmental details would compromise the commercial confidentiality of individual projects and clients.

Flaherty says that, at the moment, there is not a tremendous amount of pressure amongst EPFIs themselves to single out members who are failing to maintain standards.

“Everyone now is still in a learning mode,” she



Flaherty: happy to work closely with stakeholders

says. “The emphasis right now is on giving people time to train, implement on the ground and report out.”

The nature of large infrastructure projects means that they can take years to come to fruition, says Flaherty. This means that it will take time for the principles to become fully embedded.

Far enough?

Some campaigners would like to see the Equator Principles extended to cover other types of finance. But Flaherty feels that such moves could weaken the current guidelines.

The strength of the Equator Principles, she says, is that they are “very specific”, with a narrow focus on project finance – a type of finance where banks covenant with clients, and therefore can exert a strong influence over their conduct.

A key revision to the principles, she says, is the inclusion of project finance advisory requirements – from the banks’ advisors who assess projects as they are being designed. Now banks must make clients aware of the principles, and ask clients to explain how they plan to meet them, before they apply for funding.

Extending the principles to cover project finance advisory is significant because it means that their standards become part of project finance at a much earlier stage in the process – at the project planning stage.

The revised principles apply to projects with capital costs of \$10 million or over, down from the original \$50 million, and will also cover upgrades and extensions to existing projects.

Social awkwardness?

The revised principles also require banks to pay greater attention to the concerns of the communities in which projects take place.

The new Equator Principles put social and environmental issues on an equal footing – in accordance with the IFC standards – which include: community health, safety and security; land acquisition and involuntary resettlement; and indigenous people.

Under the revised guidelines, banks must ensure that borrowers consult with local communities and put effective grievance mechanisms in place.

Citigroup is one of several EPFIs to have financed the Baku-Tbilisi-Ceyhan (BTC) pipeline – which is now transporting oil from the Caspian Sea to the Mediterranean.

The \$4 billion project showed how difficult it can be to address the social impacts of large infrastructure projects, such as the resettlement of local people and their compensation.

In Turkey, 300 villages were cleared during the building of the pipeline. Compensating villagers involved negotiating complex local laws – one piece of land was owned by 800 different people – and the fact that 70% of affected land owners had no legal right to compensation.

BP managed to compensate all land owners, but still there were disputes over what villagers were entitled to – for example, whether corn compensation was to be calculated at cost or market value, and over three years or just one.

These disputes show how messy project finance can be on the ground. The Equator Principles provide a secure framework for banks like Citigroup to exert their influence. But as the new guidelines continue to raise the bar on the social side of project finance, implementing the principles will not be an easy task. ■

Flaherty disagrees with campaigners who say that a set of voluntary principles will not be strong enough to make banks enforce non-financial standards



Long-term savings

In the public interest

By John Russell, Deputy Editor

Public pension funds are well placed to advance responsible investment. But they could do more to ensure that fund managers are putting principles into practice

In 2002 a mural painted on a single Kentucky Fried Chicken outlet in Northern Ireland nearly cost the fast food chain \$100 million.

The reason: US public pension funds with assets invested in KFC threatened to sell their stock unless the mural, which was in breach of the anti-sectarian MacBride Principles, was removed.

Four years on, the New York City Employees Retirement System (NYCERS) – one of the public funds to threaten a boycott – claims that it has forced 80% of US companies investing in Northern Ireland to adopt the principles.

Public pension funds – which manage state assets or the entitlements of workers in the public sector – are starting to demand that companies act responsibly. And as the case of KFC shows, they are putting companies under more scrutiny.

New principles

But responsible investment is still not mainstream.

Putting an exact figure on responsible investments is difficult, but experts suggest they make up around 10% of the US market and 5-10% in the UK.

A major breakthrough came last year, when US law firm Freshfields judged that investors have a duty to consider long-term interests and non-financial issues. This blasted the conventional wisdom, of Anglo-Saxon markets in particular, that an investor's sole duty is to maximise share returns.

Now the legal framework for considering non-financial issues is secure, institutional investors are taking an interest.

Public pension funds were among the 40 asset managers to sign the UN-led Principles of Responsible Investment, launched in May this year, which encourage the use of social, environmental and governance criteria in mainstream investing.

US aggression

Approaches to responsible investment vary across the world.

For US and UK pension funds, responsible investment does not mean blacklisting certain companies, but engaging with them on governance and corporate responsibility – something the UN principles make clear.

In parts of Europe, such as Holland and Scandinavia, public funds tend to take an explicitly ethical stance.

In western Europe pension funds are moving towards the engagement model pioneered in the UK. But socially responsible investments are still relatively small.

Pension funds in the US tend to be more aggressive. There the law encourages investor activism by making it easier for shareholders to file resolutions.

In the US, resolutions can be filed by a single shareholder. To file a resolution in the UK requires

Types of responsible investment

- Negative screening:**
 Funds blacklist allegedly “unethical” industries – such as alcohol, tobacco and gambling – and companies with dubious CSR performance. Popular with retail funds, but not with institutional investors
- Positive screening:**
 Funds target progressive industries, such as green technologies
- Investor integration:**
 Funds start to incorporate environmental, social and governance (ESG) criteria into their investment analysis
- Engagement/activism:**
 Funds use a combination of formal rights and informal influence to change corporate behaviour and strategy



Doubling up, pension funds are getting active

100 shareholders, or at least 5% of the voting power of the company, to come together.

Patrick Doherty, director of corporate responsibility at NYCERS, says US-style resolutions are “very effective”. He explains: “They very rarely win but the idea is to focus the attention of corporate management on the problem.”

NYCERS is making good use of this tactic. It now files around 80 shareholder resolutions relating to corporate responsibility a year, and a further 30 relating to corporate governance.

Gap in the market

Across the world all pension funds – commercial and public – face the same problem: an accountability gap between trustees and fund managers. Most trustees co-sign principles of responsible investment with their fund managers. But many do not ensure these principles are put into practice.

“There is a systematic problem that fund managers are not held to account,” says Rory Sullivan, director of Insight Investment, the asset management arm of HBOS.

The UK typifies this accountability gap. Under UK law, pension funds must show they are asking fund managers to address non-financial matters.

But they have no obligation to show how they ensure their policies are implemented.

To improve accountability, Sullivan says UK pension funds should start incorporating non-financial criteria, with key performance indicators, into investment management agreements.

At the moment, fund managers must report on returns on investment. But they have no obligation to provide information on how they are addressing non-financial issues, such as the questions asked of

companies on their social and environmental performance.

There are notable exceptions: the UK Environment Agency, the London Pension Fund Authority and the Universities Superannuation Scheme, to name a few.

USS – the UK’s third-largest pension fund, with around £22 billion in assets and over 200,000 beneficiaries – is unusual because it has asset managers in house. According to David Russell, the fund’s senior adviser for responsible investment, this makes it easier to oversee the incorporation of non-financial issues into investment decisions.

A unique position?

Public pension funds are well placed to spearhead responsible investment.

One reason is personnel. Public fund trustees are usually publicly elected officials, who are inclined to take an interest in non-financial issues.

Peter Scales, chief executive of the London Pension Fund Authority, which administers the pension schemes of local authority workers in the UK capital, says political concerns mean trustees “tend to have a direct interest in ethical investment”.

But political interest is a double-edged sword.

For example: when CalPERS decided to divest from Indonesia, Malaysia, the Philippines and Thailand in 2002, the move prompted analysts and the countries themselves to accuse the fund of acting irresponsibly.

Greater scrutiny

Another reason public funds can encourage responsible investment is that they do not have the same conflicts of interest as commercial funds. Experts say commercial funds share an unspoken understanding not to encourage investor activism.

Companies have no interest in paying their pension fund managers to agitate. If such action were to become commonplace, boards would find themselves under much greater scrutiny.

For this reason, says Sullivan, commercial funds are “reluctant to empower” fund managers.

This raises the question of whether engagement is the best way of promoting responsible investment. The advantage is that companies might be more inclined to listen to trusted fund managers. The disadvantage is that fund managers may be too cosy with companies to ask awkward questions.

What is clear is that some public pension funds are starting to rise to the challenge. ■

Responsible investment around the world

- In Norway, the government-owned oil fund recently announced that it would sell its \$400 million share in Wal-Mart. The \$245 billion fund said it was concerned about the US retailer’s record on human rights.
- In France, the French Reserve Fund (Fonds de Réserve pour les Retraites) announced last year that it would commit €600 million of assets in socially responsible investment funds over the next five years.
- In the US, CalPERS and CalSTRS between them are committing \$1 billion to green technology.
- NYCERS, which has assets of \$100 billion, is currently pressurising Fortune 500 companies to stop workplace discrimination on the grounds of sexual orientation.
- Tiaa Cref, which manages the pension plans of many US academics and doctors, with combined assets of \$380 billion, this year launched a Social and Community Investing department.

Useful links:

www.nycers.org
www.unpri.org/principles/
www.fairpensions.org.uk



Hedge funds and private equity

Trading down corporate responsibility

By Ben Schiller

Critics of hedge funds say they exacerbate the problems of stock price volatility and “short-termism”, while campaigners also fear the effects private equity firms may have on corporate responsibility

If every era of the stock market has its boo boys, today’s bogeymen are hedge funds. From relative obscurity a few years ago, the hedge fund industry has become prominent and powerful, now accounting for big slices of trading on the world’s main stock exchanges.

That success has spawned new financial centres in Connecticut and London, and the industry now attracts some of the best and brightest financiers of their generation.

But, to many, hedge funds have a dark side.

As their influence has grown, hedge funds have come under attack from regulators, pension funds, analysts, and businesses complaining about “short-termism”, a lack of transparency, and extreme volatility in stock prices.

In a speech last year, John Sunderland, president of the Confederation of British Industry, blamed hedge funds for many of the markets’ ills. He said business leaders are having to justify their decision-making to investors who care little for companies’ underlying performance; that hedge funds have failed to abide by the standards of transparency expected in the corporate sector; and that hedge funds have been responsible for what he called “sensational” research produced by sell-side financial analysts. Shareholders, he said, should be share-owners – “someone whose interest in the success and prospects of the company lasts more

than three weeks”.

The speech led to a widespread debate in the media. A Financial Times editorial said business leaders would have “quietly cheered” Sunderland’s remarks – a comment that was backed up when a number of executives came forward.

But others sought to defend hedge funds on the grounds that not all of them behave in the same way and that, in providing liquidity, they are helpful for the market as a whole. Defenders of hedge funds tend to say that they have been unfairly caricatured and that much of the criticism results from people misunderstanding what they actually do.

Hedge funds account for a relatively minor portion of assets under management, they say. And the stereotype of the “hedgie” – brash, flash, cunning and self-serving – belies an industry that has matured into a diverse, heterogeneous collection of investors, many of whom never “short” stocks, and often behave more like typical fund managers.

Shorting

There are now at least 8,000 hedge funds, mostly in the US and UK. The big difference from the past is that the industry is now funded not only by a few wealthy individuals – such as Saudi sheikhs and Texas oil-men – but also by many mainstream

Up to 50% of all trades on the London Stock Exchange are conducted by hedge funds

Villains or angels?

- Hedge funds are growing in size and power, buoyed by institutional money.
- Not all funds fit the mould of destructive wheeler-dealers but some raise concerns about stock price fluctuations, transparency, and short-termism.
- Critics of the industry are demanding greater transparency and regulation.
- Private equity firms have benefited from short-termism, snapping up companies that want to escape public markets.
- The jury is still out on what private equity means for corporate responsibility, but the indications from some companies are not promising.

Four times as many of the world's top chief executives were sacked last year as were sacked ten years earlier

sources as well.

About half of the \$1.1 trillion under management comes from institutions, including venerable US pension groups such as CalPERS and even some university endowment funds and central banks. Some would like to see retail investors, who have been excluded from hedge funds in the past, given their chance too. Forecasts project the hedge fund industry to grow by about 300% over the next five years.

Though they control only about 5% of total global assets, the influence of hedge funds is widely felt because they tend to trade much more frequently than other types of investor (one estimate says up to 50% of all trades on the London Stock Exchange are conducted by hedge funds) and because they borrow heavily against their assets to increase their stakes.

What concerns company executives is that frequent trading causes wild price fluctuations. Some hedge funds will “short” stocks at the slightest sign of deterioration in performance, however temporary, causing price movements that are out of all proportion to a company’s prospects, they say. (Short-selling is the practice of borrowing shares with a promise to give them back at a later time. The trader sells them when the share price is high and buys them back – to fulfil the promise – after the price falls, thus making a profit from a fall in share price.)

Some major companies have seen their share prices fall by 30% in a single week after hedge funds have gone after them.

Executives argue too that investment banks, which generate commissions from trading, are aiding hedge funds. “The brokers are looking across the market and seeing who are the groups that are most likely to play. There has been an increasing interest in dealing with hedge funds,” says Arthur Probert, an associate at the think-tank Tomorrow’s Company and co-author of a 2004 study on the UK investment climate.

Hardly helping their reputation, hedge funds have also been accused of trying to deliberately force down prices. In the US, the chief executive of Overstock.com, Patrick Byrne, says hedge funds conspired with research firms to produce negative reports about his company. In another case, a US hedge fund allegedly started a letter-writing campaign aimed at triggering an SEC investigation into a company it had invested in (there was indeed an SEC investigation).

There have been other abuses too. The Financial Services Authority, the UK markets regulator, recently levied a £1.5 million fine against GLG Partners, one of London’s leading hedge funds, accusing it, and one of its staff, of “improper” trading. French regulators have also investigated GLG and its co-founder Pierre Lagrange for alleged insider dealing.



Transparency of asset ownership is moving high up business agendas

Such incidents have added weight to calls for greater regulation of the industry and have been a boon for critics who complain about transparency. One of the main charges is of double standards: while activist hedge funds decry companies on corporate governance grounds, they are hardly leaders themselves. Many are based off-shore and most fail to disclose their levels of pay or provide detailed descriptions of their activities. In fact, hedge funds tend to take pride in their secretive, outsider status.

Particularly controversial is hedge funds’ use of “contracts for difference” – derivatives that allow investors to bet on a change in stock price (avoiding stamp duty) without owning the underlying shares. Up to 40% of trading on the London Stock Exchange now relates to such contracts.

The problem for companies is that they do not know who owns their shares – particularly alarming when in the midst of a takeover battle, or when targeted by funds seeking changes to management or strategy.

Secret “stake-building” was a contentious issue when the London-based Children’s Investment Fund blocked Deutsche Börse’s bid to buy the London Stock Exchange in late 2004. At the time, the investment fund said Deutsche Börse was overpaying for the LSE, but academics have since contended that TCI had also taken a secret short position in LSE shares – providing an alternative explanation for its activism. Such alleged double-dealing alarms those who say that underhand manoeuvring during takeover battles is becoming more important than the merits of the deals themselves.

Not thinking ahead

Many think the rise of hedge funds has deepened the problem of “short-termism”. Certainly the average stock ownership period has fallen during recent years, from an average of two years in 1998, to 14.6 months in 2000 and just 9.4 months now.

With fund managers turning up the heat on executives, the penalties on those managers who fail

Defenders of hedge funds tend to say that they have been unfairly caricatured and that much of the criticism results from people misunderstanding what they actually do



Hedge funds: capitalism on the edge, or out of control?

to deliver strong returns are stiffening. According to consultants Booz Allen Hamilton, four times as many of the world's top chief executives were sacked last year as were sacked ten years earlier.

The past year has seen a slew of studies warning of the dangers of short-term attitudes, with many blaming hedge funds, at least partly, for the extreme pressures on executives. In the US, business groups such as the Conference Board, and Business Roundtable, and CFA Centre for Financial Market Integrity have all recently published reports saying that an obsession with short-term earnings is hurting companies' ability to create long-term value and hindering efforts to strengthen corporate governance.

The Roundtable study recommended ending quarterly "earnings guidance" – an idea seconded by consultants McKinsey and by companies such as Pfizer and Cable & Wireless.

Unions have also been adding their voice to the debate. In March, the TUC, representing UK unions, published a report titled "Investment Chains: addressing corporate and investor short-termism", arguing that short-termism was hurting the British economy, its businesses and its workers, and was one reason why investment by British companies lagged well behind that in France, Germany and the US.

The argument is echoed by Don Young, a veteran UK executive and author of the 2004 book "Having their cake: how the City and big bosses are consuming UK businesses".

Evidence suggests that short-term pressures on executives limit investment in all kinds of areas. In a survey last year of 400 senior US executives by the Journal of Accounting and Economics, four-fifths of respondents said they would cut spending on research and development, advertising, maintenance, and hiring to meet their quarterly targets. Corporate responsibility campaigners argue that

ethics also get left to one side when companies are pressured to hit their numbers.

Workers are one group that suffer, says Tom Powdrill, the TUC's senior policy officer. One example is when companies, under pressure from fund managers, seek mergers or acquisitions. Powdrill says the history of mergers proves that they often fail to increase long-term value but frequently lead to large-scale job cuts.

Hedge funds are said to be prime movers behind the spate of recent takeover activity in Europe and the US. Investment bankers say that by building large positions in companies that are likely takeover targets, hedge funds become loud voices in favour of deals taking place. So-called "merger arbitrage" was the second most lucrative strategy followed by hedge funds in the second quarter of 2006, according to figures from Morgan Stanley.

Self-defeating

All in all, the increasing power of hedge funds is a source of worry when considering long-term value creation and corporate ethics. That said, the amount of money pouring into hedge funds is likely to have a limiting factor on some of the more questionable activities. Already some of the buccaneering spirit of the old days has given way to more conventional investing as mainstream money has moved in.

It is hard to believe that regulators will not seek to tighten rules relating to hedge funds – for instance, concerning secret stake-building, and the funds' own disclosure requirements.

More significantly, the volume of recent noise about short-termism indicates that a range of market participants are waking up to the dangers of one of group of investors having so much say over how markets, and companies, are run.

In the end, the danger for markets is that if companies see too many downsides to being publicly quoted, they will seek capital elsewhere, as some are already doing by going private. If that trend continues, it would have consequences for hedge funds as well as everyone else.

When Kohlberg Kravis Roberts bought out food and tobacco conglomerate RJR Nabisco in 1988, it would have been hard to imagine that the \$31.4 billion takeover – still the largest buyout by a private investor – would be surpassed. But with private equity firms now going after larger and larger companies, some commentators speculate that the record could soon be broken. Among the companies said to be "in play", according to a recent article in Business Week magazine, are Vivendi, Time Warner, Deutsche Telekom, and Unilever.

In the past year, dozens of well-known names, including Hertz, Tommy Hilfiger, and Dutch information group VNU have been taken into private hands. Others, including cable group NTL, Vodafone and Trinity Mirror (owner of the UK's Mirror newspaper) are thought to be possible



Private equity: reflecting modern values

targets for private equity investors.

Up to the end of the second quarter this year, European private equity firms had completed €77 billion worth of deals. Worldwide, the private equity industry is thought to have about \$300 billion in cash, which could amount to \$1 trillion in spending power if firms borrow against their capital, according to Ernst & Young.

Private equity vs transparency

The question is what the worldwide movement to private ownership might mean for corporate responsibility. The worry among campaigners is that going private will reduce companies' visibility and accountability, causing a steady run-down of resources set aside for corporate responsibility efforts.

"When you have something in private equity you don't have the public visibility about corporate responsibility activities in the same way as with public companies," says Arthur Probert from Tomorrow's Company. "It is reasonable to wonder exactly what happens next, because the private equity houses are not particularly open about their views on corporate responsibility."

One sector already causing concern is retailing. This May, Somerfield Stores, a mid-ranking UK grocer, pulled out of the Ethical Trading Initiative after being bought out by private equity group Apex Partners and other investors, and delisted from the LSE. In leaving the alliance, which includes most of the major UK retailers as well as non-governmental organisations and unions, Somerfield said it needed to reconsider its "short- and medium-term business priorities" and refocus its marketing strategy (new slogan: "giving you what you want").

Other retailers, such as Debenhams, have also recently gone private, but it is too early to say what effect their new status might have. News that private equity firms are circling GAP – no stranger to controversy – has worried campaigners in the US.

Corporate responsibility was also an issue when Phillip Green, the UK retail entrepreneur who owns both Arcadia and BHS, wanted to buy Marks & Spencer in 2004. Comments were published in the Financial Times saying Green's capture of M&S would put its strong corporate responsibility credentials at risk.

Green is well known for squeezing his suppliers and has been criticised by anti-sweatshop groups such as Labour Behind the Label. This April, he was exposed in the Observer to be using factories in Cambodia where workers were treated harshly and unions were outlawed.

BITC says it is now talking internally about how to approach private equity firms and companies that have been taken private.

Buy, strip, flip

The main criticism of private equity firms is that, after buying out companies, they load them with debt, take out the cash, and then sell on the emaciated carcass a few years later. In Germany, private equity firms have famously been described as locusts for their asset-stripping activities.

Other critics say private equity firms, like hedge funds, operate in secret nether worlds, providing scant information about their activities and resisting all attempts by regulators for greater public scrutiny.

However, Peter Linthwaite, chief executive of the British Venture Capital Association, which represents private equity firms, says the image does not fit the reality.

First, he says, private equity firms are accountable to their own shareholders, such as pension funds. Second, they have no interest in destroying the reputation of a company they would like to sell on at a later date. "By being on the boards, by being far more closely involved in the company than a shareholder in a public company, they are intimately involved in these issues," he says.

Senia Rapisarda, head of the private equity institute of the London Business School, says there has been a marked shift in attitudes towards corporate responsibility in the industry in recent times.

Private equity managers say they are the very opposite of hedge funds, in the sense that they relieve pressure on management to deliver regular returns to shareholders. Some executives, including Richard Laphorne, chairman of embattled UK telecoms group Cable & Wireless, have cited the short-termism of the public markets as reason to take cover as a private outfit.

The long-term question is whether private equity is really the antidote to the problems of stock markets, or whether private stewardship of companies will simply put back efforts to encourage greater corporate accountability and transparency.

Certainly private equity firms would do well to start talking more frankly about their activities and start thinking about their responsibilities as owners. ■

The problem for companies is that they do not know who owns their shares

Private equity managers say they are the very opposite of hedge funds, in the sense that they relieve pressure on management to deliver regular returns to shareholders

Lobbying grenades at democracy

By Andrew Newton, Finance Editor

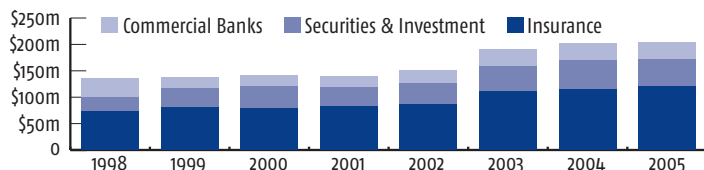
Transparency is overdue on financial firms' political contributions and lobbying

Financial firms have as much right as any other stakeholder to represent their views to regulators. The process is public and consumers and market counterparties have the opportunity to respond. When firms go by the back door to influence the legislators who hold regulators' purse strings, however, that needs justification.

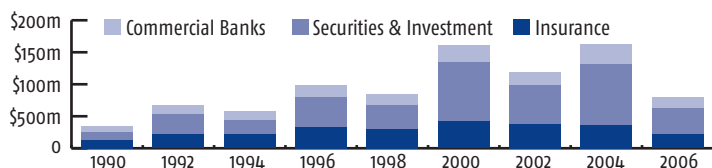
Corporations are prohibited from making contributions in connection with US federal elections, but may set up Political Action Committees (PACs) and cover the administration and fundraising costs of these. According to figures compiled by the Center for Responsive Politics (CRP) from Federal Election Commission data, individuals and PACs connected to commercial banks, insurance companies, and securities and investment firms contributed a total of \$162,171,913 to US political candidates and parties in the 2004 election cycle, and \$80,480,337 so far in the 2006 cycle.

Figures compiled by CRP from semi-annual lobbying disclosure reports filed with the Secretary of the Senate's Office of Public

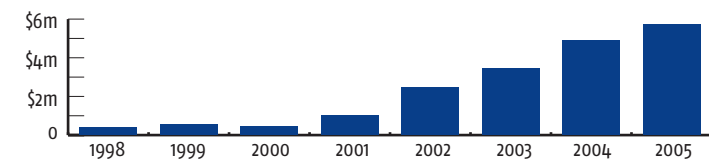
Annual lobbying spend by financial firms



Political contributions by PACs and individuals connected with financial firms



Financial Services Roundtable lobbying spend



Source: Center for Responsive Politics. 2006 figures are based on part-year data.



Recent influence scandals continue to dog both business and politics

Records show financial firms spent a total of \$203,004,446 on lobbying in 2005. American International Group alone spent \$8,496,000.

If firms were transparent about what agenda they were pushing and how, that would help quell allegations that financial institutions and their senior executives are skewing democratic institutions and processes towards the interests of those wielding financial power. Political influence buying, however, is a neglected area in corporate responsibility reports.

In the 2006 election cycle, for example, Citigroup made political contributions of \$1,639,141 and lobbying expenditure of \$3,420,000, making it the most active influencer among commercial banks. While Citigroup sets out a broad policy statement on political giving, there is no detail on the agenda being pursued by such giving or by its lobbying spending. This is particularly worrying given that Citigroup's progenitors pulled off the biggest lobbying coup in US financial history by bringing about the repeal of the Glass-Steagall Act to permit banks to be affiliated with insurance companies.

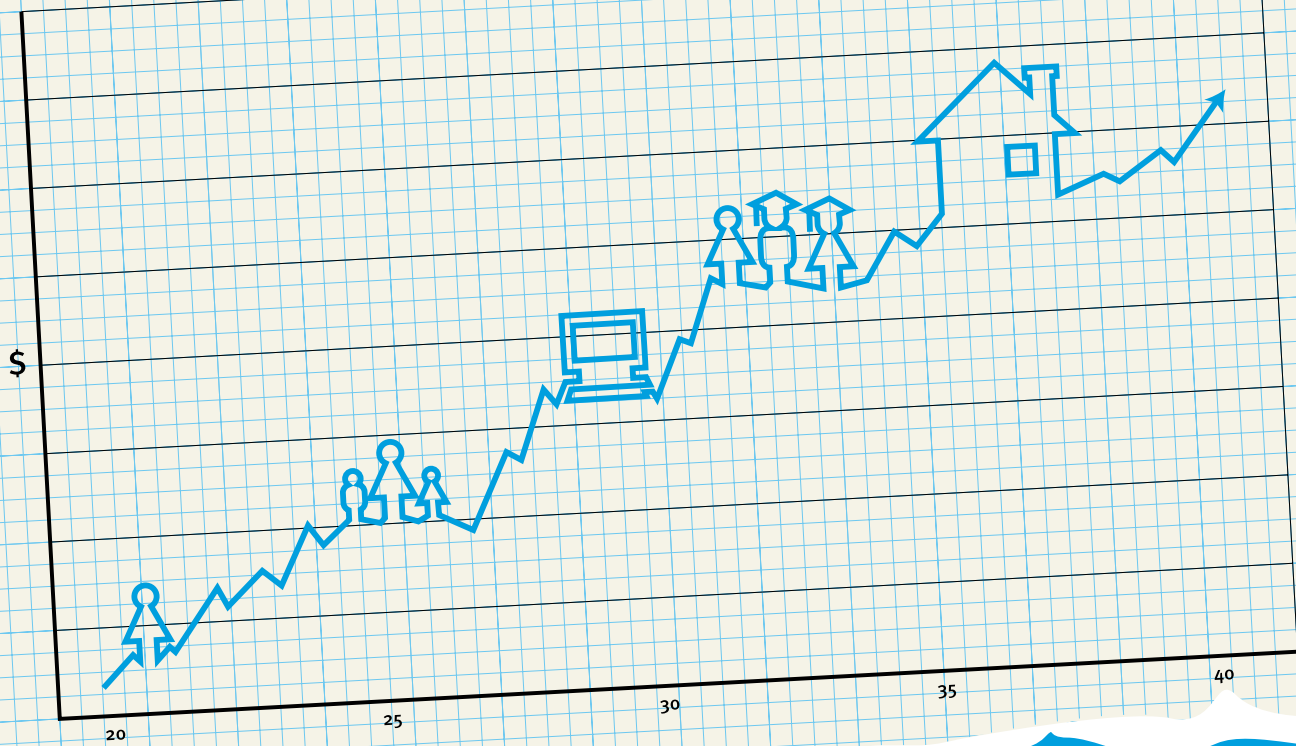
Among UK firms, HSBC states that in keeping with its long-standing policy it made no political contributions in 2005. HSBC, however, has inherited what is now the HSBC North America Political Action Committee (H-PAC) following its purchase of Household International. H-PAC has contributed \$1,833,526 to federal election campaigns and other PACs during the 2006 election cycle. Next year's corporate responsibility report ought to explain whether HSBC Bank USA's contributions to the congressional campaign of David Yassky, a New York City councilman, represents a change of policy or just a control lapse.

HSBC and others also need to account for political contributions channelled through trade groups. HSBC is a member of the Financial Services Roundtable, a group that includes Citigroup and Barclays among its members. The Roundtable pushes an agenda that includes a policy attacking "excessive regulation" and spent \$5,700,000 on lobbying in 2005 and \$258,678 on political contributions in the 2006 cycle.

Legislators were lobbied on issues including the recapitalisation of banks by bank directors – a proposed guard against excessive risk taking by bank boards that is supported by the FDIC – and against rules that would make mutual fund boards more independent.

HSBC asserts that they do not generally lobby politicians or legislatures, other than in the US where it is considered essential "in order to manage business risk." HSBC Bank USA spent \$2,320,000 on such risk management in 2005, helping legislators "to frame laws that are fair to consumers, society at large, and the finance industry."

Transparency might help consumers and society decide whether their views on fairness were being adequately represented. ■



Creating the habit of a lifetime

Julie was like many other Australians on low incomes.

Making ends meet was a week-to-week challenge, with little or no chance to build her savings. Planning for future education costs was not possible, let alone putting money away for the occasional special treat for her family.

But that has changed. Julie is now a regular saver and was even able to afford the photographer she had dreamed of for her wedding this year. Her son has also learnt from his mum's experience and is now saving for a motorbike.

Julie believes she has created a savings habit to last her lifetime as a participant in ANZ's Saver Plus program.



Saver Plus

According to ANZ's Australian Financial Literacy Survey (2005) 11% of adults said there was "no point in trying to save as there's never enough money". The Saver Plus program is one way the bank is helping people to break free from this mindset.

Saver Plus is a financial literacy and matched savings program developed to help qualifying Australian families on low incomes set and achieve a savings goal, and establish a long-term savings habit. This is achieved by:

- providing financial education training;
- offering personal coaching support; and
- matching every dollar saved with an additional \$1 (up to \$1,000) towards education costs for participants' children or their own vocational education.

Saver Plus was developed by ANZ in partnership with the Brotherhood of St Laurence, and has since been extended to other community partners. Between 2003–2005 more than 660 families were rewarded with matched savings totalling \$1.1 million by ANZ. The program aims to reach up to 5,400 families by 2009.

Independent research by RMIT University shows that 71 per cent of participants have continued to save the same amount or more, 12 months after completing Saver Plus.

At ANZ we are good with money – a skill we can share to make a real difference to the wellbeing of individuals, families and communities...just ask Julie.

NO

£20 million of finance to oil and gas sector declined.

Fossil fuels such as oil, gas and coal, are the primary agents of climate change. The Bank declines involvement in their extraction and processing.

Sometimes it's our business to say No

The Co-operative Bank's Ethical Policy is based on the ethical concerns of its customers. It directs which businesses we will and will not provide services to.

During 2005, the Bank turned away some 30 businesses whose activities were in conflict with our customers' ethical concerns. As a result, income worth some £10 million was forgone by the Bank.

At the same time, we directed significant monies to businesses whose activities were supportive of our customers' ethical priorities.

We have committed to regularly review our Policy, and would like to invite you to suggest any issues that you think should be considered for inclusion in our Policy.

Have your say

I think you should consider the following issues in your Ethical Policy:

- 1 _____
- 2 _____
- 3 _____

Name _____

Address _____

Postcode _____

Please let us know if you are a Co-operative customer:

Co-op Bank	<input type="checkbox"/>	CIS	<input type="checkbox"/>
Co-operative	<input type="checkbox"/>	N/A	<input type="checkbox"/>

Return your comments to: The Co-operative Bank p.l.c., Ethical Policy Unit, Corporate Affairs, FREEPOST NWW 8564A, MANCHESTER, M4 9HA.

Have your say ethics@co-operativebank.co.uk

Ethical CORPORATION CONFERENCES

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Strategy and Management for Global Ethical Banking

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*A two-day conference focusing on cutting-edge
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- **Find out:** what are the leading global banking strategies in sustainable finance?
- **Hear explanations:** what do we mean by the Sustainable Bank?
- **Discover how far sustainable finance should go:** what are the boundaries?
- **Customer demand:** what do customers want from their banks on ethics?
- **The regulatory landscape:** hear about the risks of non-compliance
- **NGO views and strategies:** what's coming up on the agenda?

Cutting-edge agenda inside, check out the programme now!

Sustainable finance has never had it so good. Now that recognition of the key role of financial institutions in stable and sustainable development has come, here's the tricky part: implementation, and opportunity recognition. This leading-edge conference will show you the way forward on these difficult, but essential issues. A glance at the programme overleaf will show you that.

So why ethical and sustainable finance, and why a conference now?

The Financial Times recent awards for sustainable banks in 2006 show how these issues have gone properly mainstream. Bank strategies are front page news, and their misfortunes are too, as many recent stories illustrate. As banks go truly global, many for the first time, they are entering a whole new world of trust, risk – and opportunity – that must be well managed. This conference will enable YOU to

Places are limited, don't miss out on your chance to attend, register today!

Other issues covered at this event, which has limited numbers of attendees to maximise networking will include:

- Responsibility for indirect impacts on human rights
- The UN Principles for Responsible Investment – How can they be mainstreamed – is this happening?
- Mutual funds – ensuring investor interests are safeguarded through good fund governance
- Divestment campaigns – what value do they really have?
- Obstacles to work place equality in the City and on Wall Street and how to address them
- Emerging NGO visions of sustainable banking
- Tackling HIV / Aids
- Financial inclusion and microfinance
- Financing renewable energy
- Ethics in consumer finance in emerging markets
- The Carbon Foot printing of investment funds

navigate your way forward. With best practice case studies, in-depth, off the record discussions and packed with networking time, it's not just the sustainable finance event of the year – it's the only serious conference you should consider attending.

Consider this: The newly revised **Equator Principles** now represent some 85% of global project finance, and that percentage is going up almost daily. If you are a big company who uses project finance, as most do, you'll want to register for this conference today to hear how the new 2006 Principles AND the **International Finance Corporation's** lending strategies will change the way you do business tomorrow.

How banks can manage profit and sustainability will be addressed early on by **Jon Williams**, a leading thinker and practitioner who is also **Head of Group Sustainable Development** at financial behemoth **HSBC Holdings**. Jon will take attendees through his vision of the state – and future changes – in global banking governance. This is a session and insights you can't afford to miss if you work and want to progress, in a serious financial institution or large company.

Then, the **Sustainable Finance Summit** brings together not just one but two top financial institutions on the same panel session to talk through their views on one of the trickiest management issues to raise its head in recent years – stakeholder engagement. You'll hear from **Garry Hoffman**, **Group Vice Chairman at Barclays**, and **Chris Smith**, **Head of Sustainability at Standard Chartered**, for their views on how stakeholder engagement has changed the way banks view the world forever.

But this isn't some high fallutin' academic conversation. Oh no. They'll be discussing how engaging with both customers, clients, regulators and campaign groups has opened up a broader new world of investment and

management strategies for big banks. With a primary ongoing conference theme of pragmatic approaches, this is an opportunity you won't want to miss. But places are **limited**, so register today to ensure your place.

And these sessions are only the start. Following on, you'll hear from, network with, and talk off the record to, leading thinkers and practitioners across the banking and finance spectrums. Just check out the programme opposite to see what we mean.

You'll also be hearing about how social issues have become strategic in global finance. With the International Finance Corporation and many others now focusing much more on thinking about social impacts of project lending, your organisation will increasingly need to understand these tricky issues...you'll hear from industry experts on just how best practice works. Among those speakers will be:

F&C Investments, Karina Litvack, Director, Head of Governance & Socially Responsible Investment

The Co-operative Bank, Barry Clavin, Ethical Policies Manager

Barclays, Helen Wade, Associate Director, PFI & Structured Project Finance

Standard Chartered, Chris Smith, Head of Sustainability,

Wall Street Journal, Matthew Kaminski, Editor, Editorial Page

Canadian Imperial Bank of Commerce (CIBC), Pat Hayles, Member of the Board

John Plender, **Financial Times** Columnist and author of *All You Need To Know About Ethics And Finance*

Standard Chartered Capital Markets, Ann Grant, Vice Chairman

FTSE, Will Oulton, Strategic Advisor

Barclays, Peter Kelly, Head of Financial Inclusion
...and many more!

And that's not all... Every attendee will get a **FREE** copy of Ethical Corporation's 15,000 word special report on Sustainable Finance in 2006. This 40 page publication, written and edited by our Finance Editor Andrew Newton and other expert contributors, will give you a perfect framework for further thinking and the latest insights into best practice.

Places are limited, register now – call +44 (0) 20 7375 7575

The Sustainable Finance Summit 2006

Strategy and Management for Global Ethical Banking

Exhibition and sponsorship opportunities

Want to do business with the leading Banks and Financial Institutions? The Ethical Corporation Sustainable Finance summit gives you all this... and more!

Throughout the summit a select number of leading solution providers will have the opportunity to discuss and advise on their latest products, solutions and services to a targeted finance-focused audience.

You'll have every chance to talk with the clients and prospects you want to do business with and kick start your sales. All under one roof and all in just two days – saving you both time and money!

If you have a product or service that would benefit from extra exposure, please contact Ethical Corporation today and we'll detail the opportunities available.

Contact us now as exhibition places are strictly limited and will be allocated on a first come, first served basis and are already booking fast! Call: +44 (0) 20 7375 7188 or 1 800 814 3459 x 310 (US) to speak to Andrew Bold. Email: Andrew.Bold@ethicalcorp.com

Great reasons to attend!

- The Ethical Corporation Sustainable Finance Summit brings together the biggest names in global ethical banking. Industry experts from companies operating in Europe and world-wide will share their wealth of experience, knowledge and passion with you and ensure that you understand how you can deliver big opportunities from your operations.
- We'll only be talking Sustainable Finance – on a big scale.
- The Ethical Corporation Sustainable Finance Summit is the only specific event addressing the opportunities for big institutions that exist in the European region.
- Driven by experts, this is your opportunity to listen to, network with and learn from the best on how to navigate your way around the challenges the industry faces.

Over 12 hours of networking!

The numerous networking opportunities throughout the two days provides you with a perfect opportunity to network with the biggest players in the Sustainable Finance industry and meet with those that face the same complex challenges as you. Furthermore, the summit exhibition allows you to meet with many experts all under one roof, saving you time, resources and money.

Get the full briefing!

Where do opportunities exist for you world-wide? And how do you function within the boundaries of expectations? Nowhere else gives you the answers to these questions and more. The Ethical Corporation Sustainable Finance Summit has the major players from every vertical within the industry ensuring your business gets the best, most timely and detailed roadmap to finance success.

Independent forums

The Ethical Corporation Sustainable Finance Summit is an independent event. We're not here to sell you a particular idea, piece of research or vendor solution.

We are here to make sure you receive a well-balanced, innovative and informative briefing to enable you to make the best decisions for your business.

Bring your team and receive discounted tickets!

Come along to the event with your team and make substantial savings on your ticket prices. Not only will you receive an expert briefing but your team will also take away best practice tips that stretch right across your business, enabling you to steal the march on your competition. Call +44 (0) 207 375 7575 now!

Great feedback from past attendees!

These are just some of the positive reviews we have received for Ethical Corporation Summits;

'I greatly enjoyed the conference...'

'A tremendously valuable event...'

'Very interesting and well prepared event...'

5 QUICK & EASY WAYS TO REGISTER

CALL Ethical Corporation on **+44 (0) 20 7375 7575**

FAX This form to **+44 (0) 20 7375 7576**

EMAIL The Ethical Corporation Registration Team on **register@ethicalcorp.com**

MAIL This form to **Ethical Corporation, 7–9 Fashion Street, London, E1 6PX, U.K.**

ONLINE Go to **www.ethicalcorp.com/finance** and submit your details for instant confirmation of your place

Keynote speech

Banking on sustainability: how financial institutions can manage profit and sustainability

Most public companies are facing – or will soon face – the challenge of maximising profits in a world increasingly focused on maintaining social and environmental capital. In some markets, this is compounded by changing regulatory frameworks relating to environmental protection, and major shifts in public perception of corporate roles in society. The companies best positioned to tackle this challenge have already moved beyond a compliance mindset to take an active role in identifying the business opportunities from sustainable development. Hear how this leading international bank is building a culture focused on profit and sustainable development.

- The changing role of the financial sector in sustainable development, including the drivers of change
- How to link core business strategy to sustainability
- Key issues in improving environmental and social performance

HSBC Holdings plc

Jon Williams, Head of Group Sustainable Development

HSBC Holdings plc is the Financial Times' *Sustainable Bank of the Year 2006*. It also recently topped the Banks and Diversified Financials sector in the Carbon Disclosure Project 4 *Climate Leadership Index*.

Panel

Opening up: banks and stakeholder relations

Corporate governance in the financial sector has been extended to incorporate notions of stakeholder governance over the last five years. But how profound is that change? In this session you'll hear from a leading executive on:

- Beyond regulators, the emerging models of stakeholder engagement for banks
- What has Barclays learned in recent years about effective stakeholder relations?
- Have these engagements improved their risk radar and returns opportunities?

Barclays

Garry Hoffman, Group Vice Chairman

Standard Chartered

Chris Smith, Head of Sustainability

Moderated by:

Ethical Corporation

Andrew Newton, Finance Editor

Speech

Can the current financial system deliver the necessary change?

Michael is going to explore some of the charges against the current financial system's ability to provide sustainable finance. With a focus on climate change issues, Michael intends to explore:

- Some of the technical and structural issues surrounding long-term investment in sustainable financial projects
- The deeper societal problems he feels are actually at the core of the need for change
- Initiatives underway to see how financial services can better support longer-term sustainable investment

Z/Yen Limited

Professor Michael Mainelli, Executive Chairman
Mercers' School Memorial Professor of Commerce
at Gresham College

Speech

A non-executive director's view of sustainability in the financial industry

Is corporate governance the missing link in financial sector sustainability strategy? How does this complex and emerging issue impact the way boards view risk, strategy and decision-making? In this presentation, Pat Hayles will address:

- Where do sustainability issues intersect with the Director's role?
- The key drivers that put environmental and social sustainability on the agenda for boards of directors. What should a good non-exec be doing in response?

Canadian Imperial Bank of Commerce (CIBC)

Pat Hayles, Member of the Board

Who should attend?**Directors, Heads and Managers of:**

Risk	Public Affairs
Corporate Responsibility	Government Affairs
Sustainability	Communications
Sustainable Development	External Affairs
Overseas Expansion	Investor Relations
Inclusion and Diversity	Business Development
Project Finance	

TRACK ONE

Mainstreaming ESG factors into investment management

The UN Principles for Responsible Investment – How can they be mainstreamed – what do investee companies view as best practice engagement on ESG issues?

ABN AMRO Asset Management

David Morrow, Global SRI Products Specialist

GES Investment

John Howchin,
VP International Operations

UBS Investment Bank

Julie Hudson, Managing Director, Head of Socially Responsible Investment Equity Research

Mutual funds – ensuring investor interests are safeguarded through good fund governance

The role of independent directors and trustees. What are the current issues investor groups are concerned about, and what are the opportunities for improvement? What does engaged best practice look like, who is doing it, how and why?

F&C Investments

Karina Litvack, Director, Head of Governance & Socially Responsible Investment

Henderson Global Investors

Mark Campanale, Head, SRI Business Development

TRACK TWO

Equator Principles II: the challenges of implementation

The corporate perspective: are the Equator Principles impacting corporate performance? The new performance standards: how do you judge non-compliance? Move over BankTrack: are western NGOs shut out from the debate? Extractives industry finance: is it compatible with broad community support?

ABN AMRO

Richard Burrett, Managing Director, Sustainable Development, Wholesale Clients

Wall Street Journal

Matthew Kaminski, Editor, Editorial Page

ICMM

Kathryn McPhail, Principal

Moderated by:

Sustainable Finance

Leo Johnson, Co-Founder

Divestment campaigns – what value do they really have?

Recent high profile campaigns have been all over the media. What impact do they really have on the countries they are supposed to affect via corporate proxies? What are the issues here, positive and negative, around such campaigns and where are they headed when it comes to countries such as Sudan and others?

FTSE

Will Oulton, Strategic Advisor

KLD Analytics

Peter Kinder, President

Keynote address

Finance and leadership: how to tackle the big ethics issues

If European finance can learn much from the Americans, as institutions go global values and value must become better aligned. In this presentation leading commentator John Plender will address:

- Can European banks and institutions learn about ethics from the US, and vice versa?
- Values come from the top down, why leadership is vital
- What does that mean in practice, how do the best finance bosses act, and why?
- What are the likely implications of better leadership for emerging markets and financial stability?

John Plender, **Financial Times** Columnist and author of *All You Need To Know About Ethics And Finance*

Keynote

What do consumers want from responsible banks?

The Co-Operative Group has in recent years become a leading UK expert on trends in ethical buying. In this session, they will reveal their latest findings from 2006 research and discuss in detail:

- The latest UK ethical consumption research – what does it mean for the finance sector?
- What are the impacts for growth of ethical finance?
- What can ethical finance providers – and others – learn from other ethical consumer markets?

The Co-operative Group,
Barry Clavin, Ethical Policies Manager

Panel

Emerging NGO visions of sustainable banking

NGO campaigning against the finance sector has been extremely successful. Where is their agenda for change heading next? What does a sustainable bank look like? What is the likely shape of Collevocchio 2? What concerns are being expressed about developing country indebtedness to private financial institutions following the G8 debt write-off plan?

BankTrack

Johan Frijns, Co-ordinator

WWF-UK

James Leaton, Senior Policy Adviser

SmartLogik Action Group

Justin Jones, Founder

Netwerk Vlaanderen vzw

Christophe Scheire, Researcher and Campaigner

Why you can't afford to miss this conference**PROVEN SUCCESS**

- Over 2000 of your peers have attended
- Over 5 years of Ethical Corporation conferences

SENIOR EXECUTIVE PARTICIPATION

Attracting senior strategic decision makers with top-level speakers, closed discussion forums, interactive roundtables, knowledge-sharing panel sessions, in-depth workshops and superb networking

TOP LEVEL STRATEGIC COVERAGE

of all the major issues in the biggest European and US markets

OUTSTANDING NETWORKING

- Over 200 delegates will register for the 2006 event!
- New for 2006 –Speed-networking sessions!

Case Study

Financial inclusion and microfinance

Emerging trends for financing the bottom of the pyramid – how should approaches differ between emerging and mature economies?

Barclays

Peter Kelly, Head of Financial Inclusion

Case Study

How financial firms can tackle HIV / Aids

In Africa, Asia and elsewhere, financial institutions as major employers have a role to play in curbing the spread of the disease. Find out here how leading banks are taking a cutting edge approach to tackling the issue – and what the results are.

Standard Chartered Capital Markets

Ann Grant, Vice Chairman

Panel

Financing renewable energy

Currently undergoing a boom, is the financing of renewable energy technologies a case of the market coming to the rescue of the planet, or a noisy deviation from the real work that needs to be done on diverting finance away from greenhouse gas producing power generation and other dirty industries?

Barclays

Helen Wade, Associate Director, PFI & Structured Project Finance

Innovest

Andy White, Strategic Value Advisors, MD, Global Head of Research

Jupiter Asset Management

Emma Howard Boyd, Head of SRI & Governance

TRACK ONE

Equator principles as a de facto emerging platform for responsibility in primary markets

Beyond project finance, to what extent are the Equator Principles being used for corporate debt syndication, new issues of debt and equity instruments, and venture capital? What are the issues in transferring the EP in this way? What are the logical limits of this extension of the framework? Do the project finance principles issued recently by European development banks represent a challenge or an unhelpful diversion from the EP?

Ergon Associates

Stuart Bell, Policy Director

TRACK TWO

The carbon foot printing of investment funds

This session will discuss current forms of accreditation and evolving standards of practice: What does certification within SRI & CSR look like? Having been ranked recently, are funds set to improve performance, and what are the barriers to change and opportunities?

Economie

Brian Spence, Founder

CONFERENCE ENDS

5 QUICK & EASY WAYS TO REGISTER

- CALL** Ethical Corporation on +44 (0) 20 7375 7575
- FAX** This form to +44 (0) 20 7375 7576
- EMAIL** The Ethical Corporation Registration Team
on register@ethicalcorp.com
- MAIL** This form to Ethical Corporation,
7–9 Fashion Street, London, E1 6PX, U.K.
- ONLINE** Go to www.ethicalcorp.com/finance and submit your details for instant confirmation of your place

3 SIMPLE STEPS TO REGISTER NOW!

1. Your Choice of Registration Package

Prices for Companies (See www.ethicalcorp.com/finance/prices.shtml)				
Register by...	2-Day Pass	Save	1-Day Pass	Save
27th October	£995 +VAT	£300	£645 +VAT	£150
10th November	£1195 +VAT	£100	£695 +VAT	£100
Full Price	£1295 +VAT		£795 +VAT	

Prices for Non-Profit Organisations				
Register by...	2-Day Pass	Save	1-Day Pass	Save
27th October	£495 +VAT	£300	£245 +VAT	£150
10th November	£695 +VAT	£100	£295 +VAT	£100
Full Price	£795 +VAT		£395 +VAT	

Dates and Venue

November 28–29 2006, Regent's Park Marriott Hotel, London.
(further details provided when you register)

Hotel Discounts

Why not extend your stay in London? We have negotiated a special room rate at the Regent's Park Marriot. Reservation and price details will be sent to you when you register.

Group discounts

Buy 3 passes and get the 4th one free! When you purchase 3 full price tickets! Please note that this offer is not in conjunction with any other offer.

Cancellation Policy

Places are transferable without any charge. Cancellations before 27th October 2006 incur an administrative charge of 25%. If you cancel your registration after 10th November 2006 we will be obliged to charge the full fee. Please note – you must notify Ethical Corporation in writing of a cancellation, or we will be obliged to charge the full fee. The organisers reserve the right to make changes to the programme without notice. All prices displayed are exclusive of VAT unless otherwise stated but, vat will be charged, where applicable, at the prevailing rate on the invoice date and the relevant details will appear on the invoice. Please see terms & conditions on www.ethicalcorp.com/finance for more details about prices.

2. Delegate Details

Please photocopy this form for multiple registrations

Mr / Mrs / Ms / Dr (please specify):

First name:

Last name:

Company:.....

Position/Title:

Telephone:

Fax:

Email:

Address:

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Postcode:

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Choose one of the following payment options:

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Signature:

NB: Full payment must be received before the event

Ethical CORPORATION CONFERENCES

The Sustainable Finance Summit

Strategy and Management for Global Ethical Banking

28th and 29th November 2006 • Regent's Park Marriott Hotel • London

*A two-day conference focusing on cutting-edge
strategy and management for sustainable finance*

Key issues you'll hear about at this conference:

- **Reaching outside the home market:** sustainability and growth
- **Learn how to turn stakeholder engagement into business opportunity**
- **Customers and churn:** better sustainability communication = more loyalty
- **Engaging clients on sustainability issues:** what works, what doesn't?
- **Why ethical strategies improve employee motivation and ease of recruitment**

Expert speakers from:



Supporting partners:



Speakers confirmed so far (many more to be added):

Barclays, Garry Hoffman, Group Vice Chairman

Standard Chartered Capital Markets, Ann Grant, Vice Chairman

HSBC Holdings, Jon Williams, Head of Group Sustainable Development

F&C Investments, Karina Litvack, Director, Head of Governance & Socially Responsible Investment

The Co-operative Bank, Barry Clavin, Ethical Policies Manager

Barclays, Helen Wade, Associate Director, PFI & Structured Project Finance

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UBS Investment Bank, Julie Hudson, Managing Director, Head of Socially Responsible Investment Equity Research

ABN AMRO, David Morrow, Global SRI Products Specialist

ABN AMRO, Richard Burrett, Managing Director, Sustainable Development, Wholesale Clients

Wall Street Journal, Editor, Editorial Page, Matthew Kaminski

Canadian Imperial Bank of Commerce (CIBC), Pat Hayles, Member of the Board