

Standards

Good Morning, Mr. Chief Risk Officer

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Isn't it funny how quickly the business environment can change? For years we don't see change happening and then – bang! – the rules of the game are different and once-accepted business practices are perceived as controversial.

Less than 15 years ago it was common practice for European companies to pay bribes when doing business abroad. As such payments were essential to certain types of business transaction, they were widely accepted and completely legal. New international standards and national legislation mean that such payments are now illegal.

Some change occurs virtually overnight. As a Swiss citizen, I was stunned by how quickly the rules for Swiss private banking were transformed. In March 2008 our Federal Councilor in charge of the Department of Finance reassured us that banking confidentiality was here to stay. Only a year later

the same man revealed that the Swiss authorities would now support judicial cooperation in cases of simple tax evasion (they have always cooperated in cases of tax fraud). Once more, these changes were a result of reinforced international standards.

The importance of international standards can suddenly gain unexpected momentum if the level of controversy reaches a tipping point. The pressure grows and grows until the financial sector's remuneration models are no longer accepted and the banks' capital requirements are toughened up.

Environmental standards are reaching the tipping point

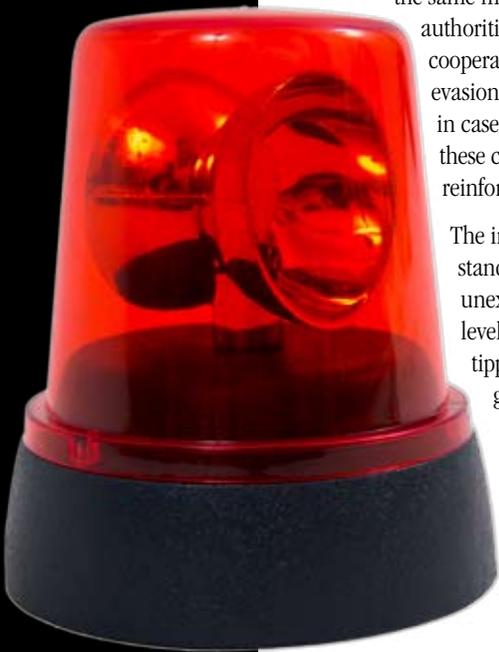
The concept of tipping points was used by the journalist Malcolm Gladwell to describe “mysterious” sociological changes. Once the tipping point – “the moment of critical mass, the threshold, the boiling point” – is reached, views change sweepingly. *Time* magazine writer Bryan Walsh described tipping points as “the levels at which the momentum for change becomes unstoppable”.

Today, in the financial sector the Equator Principles and the Environmental and Social Standards of the World Bank Group provide a benchmark for the banks' financing and advisory activities.

However, most international standards define rules not for banks, but for their clients and prospects. For financial institutions, the mushrooming of international standards that clients should comply with is difficult to manage. More and more organizations feel entitled to define the rules that companies active in controversial sectors or difficult business environments should adhere to.

So far, complying with these standards has been voluntary, for clients as well as banks. But don't fool yourself – sooner or later these standards will become rules and they will shape good business practices. Even today, they provide benchmarks against which a company's management of environmental and social issues is measured.

The principles of the UN Global Compact may be considered easy to live with. As they are high-level principles, many companies believe that there is no need to ensure compliance. But standards can change, new requirements are added, existing requirements tightened, and general principles



How many sustainable bankers will it take to keep the planet green?

The answer surely is “the more the better”. That is why UNEP FI considers training to be central to achieving its mission: the mainstreaming of sustainable finance best practice.

UNEP FI's training activities began in 2005 with a workshop in Buenos Aires, Argentina. Just four years later, UNEP FI, in collaboration with its partners InWENT and the INCAE Business School, now offers a comprehensive Training Programme in Environmental and Social Risk Analysis (ESRA).

The training programme, which has served close to 1,000 risk managers and analysts across the world to date, includes three

are supplemented by technical guidelines. Some standards are strengthened by external reporting requirements, others by mechanisms that require independent reviews. We have seen this happening step by step with the Equator Principles as their scope was expanded.

Let's take the OECD's Guidelines for Multinational Enterprises as another example. You might believe that adhering to them is voluntary. Indeed, companies are under no legal obligation to comply. Yet OECD member states have also established National Contact Points that will initiate an investigation if people affected by a company file a complaint. The National Contact Points must also submit summary reports to OECD headquarters in Paris. Awareness of the relevant international environment and human rights standards is therefore more than just a nice-to-have.

Tomorrow Is Only a Day Away

Our risk radar tool RepRisk recorded 368 banks and 104 insurance companies criticized by the media or pressure groups in the context of environmental and social issues. Many of these institutions have been criticized for business relationships with controversial companies – companies that allegedly violate international standards.

By end of September 2009, RepRisk had captured criticism of 698 oil and gas companies, 931 mining companies, and more than 9,500 other companies from all industry sectors. We see that the number of controversies related to environmental and social issues, not to mention their intensity, is greater than ever.

Those who believe that nothing is changing will be haunted by the implications of these standards and their consequences. I'm not a futurist, but one thing you can bet on is that, more and more, we are reaching the tipping point at which environmental and social standards will not only present reputational risks, but also become a compliance issue for your risk management department.

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components: a one-day Introductory Training Workshop (ITW), a one-and-a-half day Advanced Training Workshop (ATW) and a three-week Interactive Online Course. Both the workshops and the online course include a clever mix of theory, peer-to-peer illustrations and practical exercises.

However training at UNEP FI doesn't stop at Environmental and Social Risk Management. An online course on the Risks and Opportunities of Climate Change for the Financial Sector has been available since 2007, providing a thorough introduction to impacts of climate change on the financial system.

Finally, because "walking the talk" has always been the best policy, UNEP FI launched a new

A shining beacon continued from page 10

exclusively on "pure" financial considerations. Rather it may be a sign of confusion arising from a deep financial crisis. In a financial crisis confusion and inconsistency in approach are manifested by violent swings from hyperactivity to "rabbit in the headlights" paralysis in decision-making. This is typical of institutions faced with threats on many levels and, if so, will be a keynote to the behaviour of politicians and bankers and the other victims of the credit crunch crisis.

CONCLUSIONS

After credit crunch there should be no going back for banks and pension funds to business as usual. Transparency and accountability, sustainable finance and long-term planning, active ownership and ESG are here to stay. UNEP FI should be congratulated for promoting these values. It was UNEP FI which provided the intellectual and policy building blocks for a new more sustainable approach to investment and impetus to reform. It took a long time for governments and businesses to accept that climate change is anthropogenic. It took even longer for them to appreciate that intervention is required to mitigate and adapt to the challenges of climate change. It has also taken some time for the investment markets to understand the purpose of fiduciary duties is enabling investment, rather than restricting green investment, that fiduciary duties are organic rather than fossilized and that fiduciary process driven rather than presenting insurmountable obstacles to ethical investment and sensible investment decision-making. Equally, the relevance of ESG was resisted – perhaps correctly in the dark ages when there was little or no information available about ESG impacts on business and investment – initially by Friedman and later by others as half-baked misplaced philanthropy. However, the information and analytical tools are now in place to make ESG relevant to investment decision-making. EIRIS surveys point to ESG being an important investment consideration.¹⁷

For that too UNEP FI should take a bow.

1 UNEP Financial Initiative, Freshfields, Bruckhaus Deringer, A legal framework for the integration of environmental, social and governance issues into institutional investment (October 2005)
 2 Ibid.
 3 UNEP Financial Initiative, Fiduciary responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment (July 2009)
 4 EIRIS, The value of environmental, social and governance factors for foundation investments (May,2009)
 5 UNEP Financial Initiative, Principles of Financial Investment (2006) and PRI Reports on Progress (2007 – 2009)
 6 Supra. Parts II and III. IFC, Sustainable Investing in Emerging Markets: Unscathed by Financial Crisis (2009), Mercer Consulting, Gaining Ground: Integrating Environmental, Social and Governance (ESG) Factors into Investment Processes in Emerging Markets (2009)
 7 Ibid., Part I
 8 Achim Steiner, Foreword from the United Nations Environment Programme, Fiduciary Responsibility (July,2009) p. 5
 9 Adair Turner, Baron Turner of Ecchinswell, Mansion House Speech, 22 September, 2009.
 10 OECD stated that private pension funds in OECD countries had lost nearly 20 per cent of their asset value, equivalent to US\$5 trillion.
 11 PRI Reports on Progress (2007 -2009)
 12 Achim Steiner, supra.
 13 Figures for UK and USA?
 14 US Government makes loans to car manufacturers subject to conditions requiring the production of low carbon emitting vehicles.
 15 Jess McCabe, 'Back to business as usual', Environmental Finance (June,2009);
 16 'Penny Shepherd, 'Responsible investment: No more business as usual', Ethical Corporation (2009)
 17 EIRIS, supra,

online course – on Corporate Ecoefficiency for Financial Institutions – in collaboration with the Ecobanking Project in 2009. This course offers sustainability managers and administrators a four-week "learning by doing" experience, taking them all the way from green buildings to supply chain management.

So, what's better than a bank with practitioners who know how to implement sustainability?

Simple.

Many banks with many practitioners who know how to implement sustainability.