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**Partners for Financial Stability (PFS) Program**  
**[www.pfsprogram.org](http://www.pfsprogram.org)**

**Panel 1**  
**International Standards of Disclosure**

**Transparency and Disclosure:  
Foundation for  
Good Governance and Investments**  
**Kyiv, Ukraine**  
**January 24, 2007**

## **Agenda**

**Disclosure: A Timetable of Development of Disclosure Regimes**

**Which Factors Influence the Development of International Standards of Disclosure?**

**Environmental, Social and Governance (ESG) Criteria**

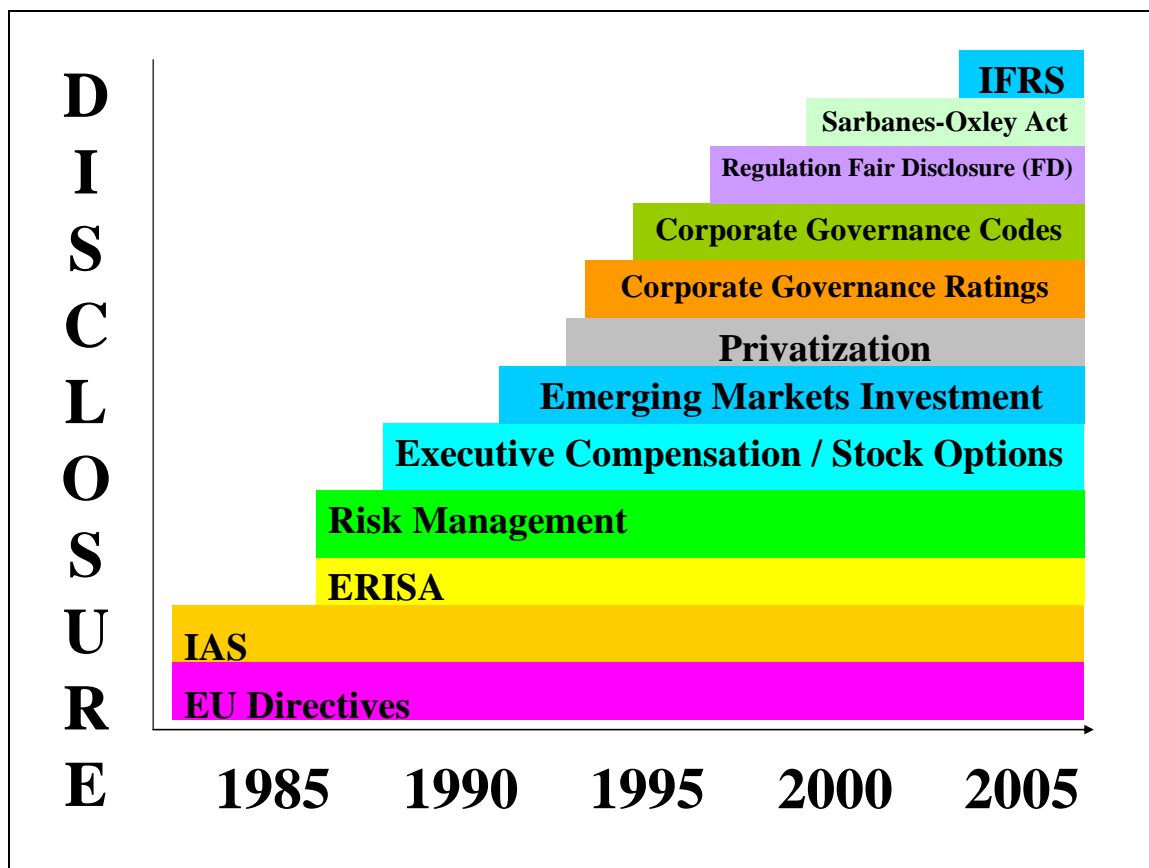
**International Standards of Disclosure: Corporate Reporting**

**International Standards of Disclosure: Investors' Use of Corporate Disclosures**

**Responsible Investing**

**Case in Point**

**About the PFS Program**



## Which Factors Influence the Development of International Standards of Disclosure?

### Regulatory Requirements for Listed Companies

Disclosure Requirements of National Law

EU – IFRS required for listed companies’ consolidated financial statements

EU - Lisbon Strategy (competitiveness and sustainable development)

Kyoto Accord – Emissions Trading

ISO

### Self-Regulatory Pressures on Listed Companies

Corporate Governance Codes – Every Major Stock Exchange

Global Reporting Initiative

### Self-Regulatory Pressures on Banks

Equator Principles – IFC Initiative – 2003

## **Which Factors Influence the Development of International Standards of Disclosure?**

### **Market Pressures on Listed Companies**

**Institutional Investors – Portfolio Selection**

**Rating Agencies**

**Risk Management**

**Scrutiny of Executive Compensation and Mergers/Acquisitions**

### **Market Rewards for Listed Companies**

**Growth of Targeted Socially Responsible Investment (SRI)**

**June 2005 – 375 SRI Funds in Europe with EURO 24.1 billion Assets Under Management (AUM)**

**FTSE4Good Index**

**Relationship between Corporate Governance and Brand Value**

## **Which Factors Influence the Development of International Standards of Disclosure?**

### **Responsible Investment**

**US – ERISA - Public pension funds are required to vote the shares they own**

**UK – recommendations of NAPF / ABI**

**France / Germany – recommendations for public pension funds**

**Enhanced Analytics Initiative**

**UN Principles of Responsible Investment**

## **Environmental, Social and Governance (ESG) Criteria**

**Over the past five years, the financial industry has adopted the acronym ESG (Environmental, Social and Governance) as the standard terminology for the group of non-financial data that investors increasingly evaluate as part of their comprehensive investment review.**

**Which ESG data do Ukrainian listed companies provide to regulators, potential investors, shareholders and stakeholders?**

## **International Standards of Disclosure: Corporate Reporting**

***‘More than half’ of big companies reveal social policies***

***Financial Times, Wednesday, June 15, 2005***

**“More than half of the world’s biggest companies reveal details of their environmental and social performance, according to a KPMG survey that provides fresh evidence of business leaders’ support for corporate social responsibility.**

**The survey, published every three years, found that CSR reports for 2005 now cover a much wider range of issues, and that many companies also provide CSR information in their annual financial reports.**

**Fifty-two percent of the top 250 companies in the Fortune 500 list published separate reports on corporate social responsibility, up from 45 percent three years ago.**

**George Molenkamp, chairman of KPMG’s sustainability services, said the growth of CSR reporting had proved the skeptics wrong. “When we started observing these issues, many people argued this was just a fashion that would disappear as soon as the economic situation got worse. But the economic situation deteriorated, and still more and more companies are doing this.”**

**International Standards of Disclosure:  
Investors’ Use of Corporate Disclosures**

## **Relationship between Effective Corporate Governance and Share Price – Emerging Markets - 2001**

**Credit Lyonnais Securities Asia (CLSA) Emerging Markets study – 2001**

**The study analyzes 495 companies in 25 emerging markets around the world.**

**“In many markets, companies with good corporate governance have outperformed their indices in recent years and move to valuation premia, “explained Amar Gill, Head of CLSA Emerging Markets in Kuala Lumpur and author of the report. "Our research shows that companies with governance are also those with high ROE (return on equity) and the largest value creators on an EVA (Economic Value Added) analysis.”**

**For more information, please read an article on [www.socialfunds.com](http://www.socialfunds.com) about the survey. The URL is <http://www.socialfunds.com/news/article.cgi?sfArticleId=592>**

## **CalPERS Announcement - February 20, 2002**

**In February 2002, the California Public Employees’ Retirement System (CalPERS) – one of the largest public pension funds in the US, announced that it was selling its investments in several Southeast Asian emerging markets and reallocating its portfolio based on specific**

### **C O U N T R Y F A C T O R S (50%)**

**POLITICAL STABILITY**

**TRANSPARENCY**

**PRODUCTIVE LABOR PRACTICES**

**and**

### **M A R K E T F A C T O R S (50%)**

**MARKET LIQUIDITY AND VOLATILITY**

**MARKET REGULATION / LEGAL SYSTEM / INVESTOR PROTECTION**

**CAPITAL MARKET OPENNESS**

**SETTLEMENT PROFICIENCY**

**TRANSACTION COSTS**

## CalPERS Announcement - February 20, 2002

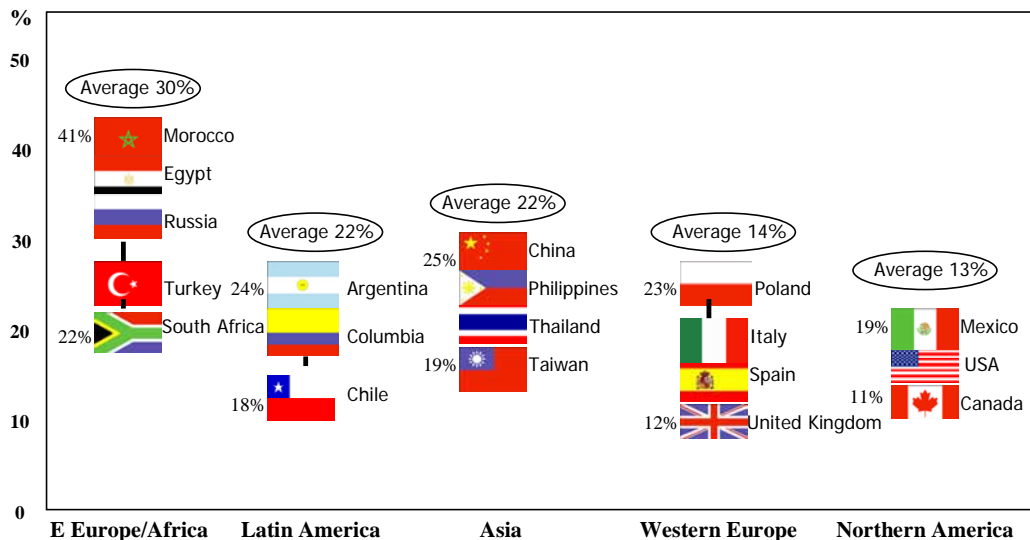
"We now have in place a blueprint to examine which emerging markets can support institutional investment," said Michael Flaherman, Chair of CalPERS Investment Committee. "It is a screen and an important entry point for investments into our portfolio that will help to protect our pensioners assets in the emerging markets."

Based on its new review process, CalPERS will begin taking a public equity position in Poland and Hungary, while eliminating its public equity investment position in Indonesia, Malaysia, the Philippines and Thailand.

The following are the emerging markets that CalPERS will allow its managers to invest in: Argentina, Brazil, Chile, Czech Republic, Hungary, Israel, Mexico, Peru, Poland, South Africa, South Korea, Taiwan and Turkey.

<http://www.calpers.ca.gov/whatsnew/press/2002/0220a.htm>

### The Average Premium Investors Would Be Willing to Pay for Good Governance Differs by Country and Region



Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

## Relationship between Effective Corporate Governance and Share Price – United States - 2004

GovernanceMetrics International analyzes the S&P 500 and the Russell 1000 indices semi-annually on approximately 500 corporate governance variables. Each company is then rated from 1 to 10, with 10 being the best score. The company publishes a list of the highest rated companies twice a year

The 18 companies that received the highest rating on February 28, 2004 were up 2.5% in early September 2004 versus a 2.5% decline in the S&P 500 during that time period.

Source: GovernanceMetrics International and “Investors Reward Good Housekeeping,” by Jon D. Markman, Columnist MSN Money, Thursday, September 9, 2004

### Two US-based Corporate Governance Rating Services

	Governance-Metrics International	Institutional Shareholder Services
Number of metrics/data points	600-plus	51
Can companies being rated review data?	Yes	Yes
Categories rated	Board accountability	Board structure & composition
	Financial disclosure & internal controls	Charter & bylaw provisions
	Shareholder rights	Laws of the state of incorporation
	Executive compensation	Executive & director compensation
	Market for control	Qualitative factors including financial performance
	Ownership base & potential dilution	D&O stock ownership
	Reputational and socially responsible investing (SRI) issues	Director Education
Rating type	1 to 10	Percentile rankings
Key component of calculation	“Asymmetric geometric scoring”	Basing rankings on market cap and industry group
Web site	<a href="http://www.governancemetrics.com">www.governancemetrics.com</a>	<a href="http://www.isscgq.com">www.isscgq.com</a>

## **Mercer Investment Consulting**

<http://www.merceric.com/>

In late 2004, Mercer Investment Consulting (IC) conducted its annual Fearless Forecast survey. 195 investment fund managers in Asia, Australia, Canada, Europe and the US were interviewed.

“The survey asked managers the following question:

**In what time frame, if any, do you believe the following investment practices will become a common component of mainstream investment processes and strategies?”**

- 1. Active ownership (shareholder engagement/activism, proxy voting);**
- 2. Positive or negative screening for social and/or environmental factors; and**
- 3. The integration of social and/or environmental corporate performance indicators.**

**Results:**

**Almost 80% predicted that active ownership will be a mainstream practice within 5 years (89% in 10 years);**

**Almost 40% predict that positive or negative screening will be mainstream within 5 years (65% in 10 years); and**

**37% predict that the incorporation of social and/or environmental (SE) corporate performance indicators will become mainstream within 5 years (73% in 10 years).”**

## **Enhanced Analytics Initiative**

<http://www.enhanced-analytics.com/>

### **What is the Enhanced Analytics Initiative (EAI)?**

**Promoting better research for better investments decisions**

**Asset managers and asset owners with AUM totaling over EURO 380 billion who actively support better sell-side research on extra-financial issues.**

### **Why have we launched EAI?**

**Meeting the needs of long-term investors**

**Sustainable development, corporate governance and other intangible aspects of corporate performance are important value drivers for long-term investors.**

# **Responsible Investing**

## ***The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing*** **June 2004**

**This summary report is based on eleven sector reports commissioned by the United National Environmental Program (UNEP) Finance Initiative Asset Management Working Group and completed by brokerage house analysts. Industry sectors covered by the brokerage research included: aviation; clothing; electronics; oil and gas; insurance; pharmaceuticals; and utilities.**

**The 12 financial institutions involved (from Brazil, Canada, the EU, Japan, Norway, South Africa and the US) represent US\$1.6 trillion assets under management.**

**To read the summary report and individual sector reports, please visit <http://unepfi.net/stocks>**

# **Green, Social and Ethical Funds in Europe 2005**

**Sixth annual survey**

**conducted by Avanzi SRI Research and SiRi Company**

**Published October 2005**

**Data as of June 30, 2005**

**Assets under management - EURO 24.1 billion.**

**Assets under management grew 26% since June 30, 2004.**

**The number of funds in Europe grew by 6% since June 30, 2004. There are now 375 SRI funds on the market.**

**UK, Sweden France and Belgium account for 63.7% of the funds (a slight decrease in concentration, from 64.4% on June 30, 2004.) France remains the most dynamic retail market for the second year in a row.**

**Trends - higher than average growth of SRI assets vis-à-vis “traditional” funds; net inflows into SRI funds; launch of new SRI products or redesign of existing “traditional” products.**

**The sixth survey “Green, social and ethical funds in Europe 2005” is available at [http://www.avanzi-sri.org/pdf/complete\\_report\\_2005\\_final.pdf](http://www.avanzi-sri.org/pdf/complete_report_2005_final.pdf)**

**Source: The Global SRI Reporter – Number 26, October 2005 - [www.siricompany.com](http://www.siricompany.com)**

## **U.N. Principles of Responsible Investment**

**International Funds Worth \$4 Trillion Now Endorse UN Principles for Responsible Investment – United Nations Global Compact – May 1, 2006**

**“...The six overarching Principles, which are voluntary, are underpinned by a set of 35 possible actions that institutional investors and asset managers can take to integrate environmental, social and corporate governance (ESG) considerations into their investment activities. These actions relate to a variety of issues, including investment decision-making, active ownership, transparency, collaboration and gaining wider support for these practices from the whole financial services industry...”**

**<http://www.csrwire.com/article.cgi/5534.html>**

## **“New Eurosif SRI Study reveals a European SRI Market valued at €1 trillion”**

**Published September 2006**

“This unique study highlights the scale and progress of European Socially Responsible Investment (SRI) across nine countries (Austria, Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom).

Based on a survey of funds under management, the report reveals that the Broad European SRI market is now estimated to be up to €1 trillion and representing as much as 10-15% of the total European funds under management. This represents a 36% growth since December 31, 2002. SRI is growing in many countries and is particularly booming in Spain and Austria.

Eurosif's Executive Director Matt Christensen states: ‘Readers of the Study will find a European SRI market that has considerably changed since 2003, when we last published our report. Across Europe, there are signs of robust SRI strategies, increased mandates from institutional players and the growing involvement of more traditional financial services providers. The one constant in the field is that European SRI continues to be an area of diversity and innovation.’”

[http://www.eurosif.org/content/download/584/3563/version/1/file/008\\_eurosif-sri-study-2006.pdf](http://www.eurosif.org/content/download/584/3563/version/1/file/008_eurosif-sri-study-2006.pdf)

## **Case in Point**

## **Standard Life Investments**

**<http://www.standardlifeinvestments.com>**

**Established 175 years ago**

**5 million customers worldwide**

**Assets Under Management (AUM) - GBP 86.6 billion (2004)**

**Operations in UK (home office), Canada, Hong Kong, Ireland and US as well as representative offices in China and Korea.**

### **Investment Philosophy**

**“.. research-intensive and built around Focus On Change - early identification of changes in the key drivers affecting markets and the factors likely to cause a shift in the investment environment.”**

## **Standard Life Investments**

**<http://www.standardlifeinvestments.com>**

### **Socially Responsible Investment Statement of Principles and Policy**

**“... Because we take our responsibility as a shareholder seriously, we seek to use our influence to encourage the achievement of best practice standards of environmental and social management at the companies in which we invest with a view to protecting and enhancing the value of the investments held on our behalf by our customers.”**

### **Socially Responsible Investment Guidelines**

**In general, we expect companies to meet internationally recognized standards or industry best practice standards, whichever is higher.**

**Analysis of company policies in four categories:**

**Environmental Responsibility**

**Employee Relations**

**Human Rights and International Operations**

**Corporate Citizenship and Business Ethics**

## **About the Partners for Financial Stability (PFS) Program**

**The United States Agency for International Development (USAID) established the Partners for Financial Stability (PFS) Program in 1999 as a public-private partnership to help complete reforms necessary to create sound, private and well-functioning financial sectors in the eight Central and Eastern Europe (CEE) countries that have since joined the European Union. In 2005, the geographical focus of the program shifted to Southeast Europe (SEE).**

**East-West Management Institute (EWMI), a New York-based not-for-profit organization, is currently the primary implementing partner.**

**The PFS Program is mandated to fill remaining gaps in the institutional development of the financial sector in SEE countries through regional integration and cooperation, selective technical assistance programs and the practical application of lessons learned in neighboring countries. The substantive areas covered under the PFS Program are: accounting, auditing, banking, capital markets, insurance and pension reform. For more information, please visit the PFS Program website at <http://www.pfsprogram.org>.**