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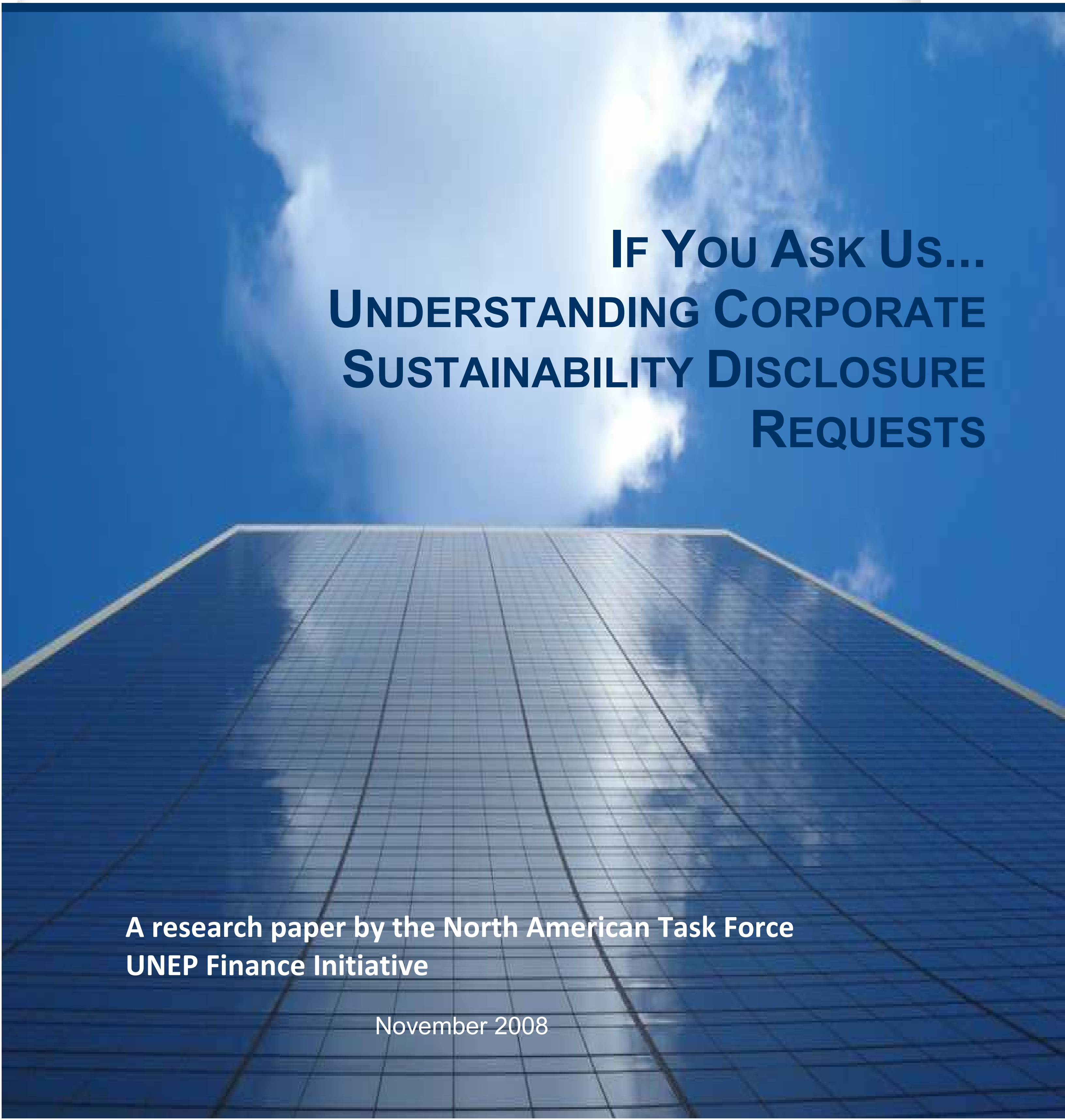

If You Ask Us... Understanding Corporate Sustainability Disclosure Requests

A research paper by the North American Task Force
UNEP Finance Initiative

November 2008

IF YOU ASK US …
UNDERSTANDING CORPORATE SUSTAINABILITY DISCLOSURE REQUESTS

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NORTH AMERICAN TASK FORCE, UNEP FINANCE INITIATIVE

The UNEP FI North American Task Force (NATF) works to incorporate the principles of sustainable development as normal business practice throughout the North American financial sector. NATF members at the time of developing this publication:

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DAVID GARDINER & ASSOCIATES, LLC

The mission of David Gardiner & Associates (DGA) is to help organizations and decision-makers to understand the different market risks, opportunities and issues associated with environmental sustainability. By marshalling technology, policy, and finance, DGA helps its clients build consensus and advance workable solutions. DGA creates strategic advantages for its clients by helping them understand environmental sustainability issues and providing advice, analysis, and strategies tailored to their needs. Our history of building bridges between businesses, governments, and non-profit organizations ensures that our client's plans are well-informed.

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FOREWORD FROM THE CHAIRS OF THE NORTH AMERICAN TASK FORCE, UNEP FI

As the world's interest in sustainability has grown over the last several years, the demand for information about a company's environmental, social and governance (ESG) programs, policies and impacts has increased. Many companies, particularly those who are UNEP FI members, address this demand by issuing public reports on these issues. The formalization and acceptance of reporting protocols, such as the Global Reporting Initiative, have helped to frame what is understood to be the most essential information. Still, there remains a plethora of organizations – particularly in the ESG investment world – who seek information above and beyond what is reported in sustainability reports. This report helps to explain who some of those organizations are, the differences between them, how they are helping to integrate this "extra" financial information into market valuation and company analysis, and who their audience is. It also explores the challenges for companies in responding to so many varied surveys ("survey fatigue", etc.), and suggests ways that respondents and surveyors can work together to make this a process that is satisfactory to all.

In short, this report seeks to frame the business case for companies – financial institutions or otherwise – who are asked to respond to sustainability-related surveys. After all, there are precious resources – both time and money – that need to be devoted to managing, researching and responding to these information requests. Companies should have a clear understanding of the returns from such an investment, as well as the risks they may run by choosing not to respond. The information in this report should help those companies to make a more educated decision. It will provide a template of pros and cons for them to weigh. Perhaps it may even help them to determine, in a world of finite resources, which surveys should take precedence, if choices need to be made. Finally, this report should assist the surveyors themselves to better understand the challenges that respondents have to the current methodologies.

We hope that no matter what type of organization you represent – financial or non-financial, global or regional, large or small, respondent or surveyor – that this report helps to clarify the various aspects of sustainability disclosure requests so that they advance the raison d'etre of UNEP FI: "to develop and promote linkages between the environment, sustainability and financial performance."

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Co-Chair, North American Taskforce

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LIST OF ACRONYMS

CDLI	Carbon Disclosure Leadership Index
CDP	Carbon Disclosure Project
DGA	David Gardiner & Associates, LLC
DJSI	Dow Jones Sustainability Index(es)
EIRIS	Ethical Investment Research Services
ESG	Environmental, Social, Governance
ESI	Ethibel Sustainability Index
FTSE	Financial Times Stock Exchange
GRI	Global Reporting Initiative
NATF	North American Task Force
NGO	Non-governmental Organization
SAM	Sustainable Asset Management Group
UNEP-FI	United Nations Environment Programme – Finance Initiative

EXECUTIVE SUMMARY

To help financial institutions respond to increasing requests for corporate sustainability[1] disclosure from non-governmental organizations (NGOs), sustainability indexes, and associated environmental, social, and governance[2] (ESG) research firms, this report examines the information requesters relevant to North American financial institutions. This report also examines the benefits and challenges of responding to ESG information requests – which often take the form of surveys, profiles, or targeted questionnaires – and identifies factors to consider in prioritizing requests.

This report is based on a review of public information, an examination of scholarly analyses, and interviews with 11 North American financial institutions that receive requests for participation, 10 information requesters and index developers, and 9 index and research 'users'.

There are two basic categories of information requesters: ESG research firms and disclosure initiatives. ESG research firms use the requested information to develop sustainability indexes and other products that disseminate the information. Disclosure initiatives reveal the information provided by companies and issue reports to further disseminate information to investors and others. The most relevant information requesters for North American financial institutions appear to be as follows:[3]

TABLE 1 – Requesters of Corporate Sustainability Information in North America

ESG RESEARCH FIRMS:	
- EIRIS	- KLD Research & Analytics
- Innovest	- SAM Research Group
- Jantzi	- Vigeo/Ethibel
DISCLOSURE INITIATIVE:	
- Carbon Disclosure Project (CDP)	

Benefits of Participation

Companies report significant benefits from their participation in information requesters' corporate sustainability research efforts. It helps them:

- Communicate their corporate sustainability efforts to a wide audience, thus enhancing their reputation and brand as a good corporate citizen, which, in turn, can contribute to attracting and retaining customers and employees and can build greater support among key stakeholders.
- Receive third-party authentication for their ESG efforts, if the ESG firms rate them well or include them in indexes.
- Access additional investment through inclusion on sustainability indexes.
- Understand their own strengths and weaknesses, identify potential opportunities for improvement, and benchmark themselves against competition through the response process

[1] "Corporate sustainability" refers to four factors: economic, environmental, social, and governance.
[2] Environmental, social and governance (ESG) research firms study ESG factors and their relation to a company's economic sustainability.
[3] In alphabetical order.

and research firm feedback. This, in turn, can lead to continuous improvement in efficiency and management, resulting in lower costs and potentially increased access to capital.

- Reaffirm the company's 'license to operate' within the communities in which it conducts business, as a stakeholder that contributes to the social, environmental and economic aspects of that community.

The benefits of responding to requests for information may be difficult to replicate in other ways.

Challenges of Participation

Companies weigh these benefits against the sometimes considerable challenges of participation in requesters' corporate sustainability research efforts – challenges affected by a range of factors related to company resources and the nature of the request. Company resource constraints include staff, time, cost, and management systems limitations. The main issue with respect to the request itself is the ease of participation, which is affected by the level of coordination provided by the requesting entity and the quality, comprehensiveness, clarity, transparency, format, and relevance of the request, as well as the range of metrics requested in all requests received.

Factors to Consider In Prioritizing Requests

Companies consider a number of factors in deciding whether to respond to any given ESG information request:

TABLE 2 – Factors to Consider in Prioritizing Information Requests

Internal company considerations:	**Research firm characteristics:**
Available resources: (Time, money, personnel) Timing of request Availability of information/data Preparation time needed Company needs and objectives	Reputation Client base Products as a result of research Feedback provided Relationship with analyst Confidentiality Ease of participation

Recommendations

Financial institutions and information requesters should take further steps together to improve the information-request process in order to increase the likelihood of financial institution participation. Such steps could include:

- Spreading out the timing of requests;
- Ensuring adequate time to prepare the response;
- Expanding online information collection;
- Shortening the information requests;
- Standardizing quantitative metrics as much as possible; and
- Identifying a central contact point at each financial institution to collect requests and coordinate responses.

1 INTRODUCTION

In recent years, financial institutions have seen increasing demands for improved corporate sustainability disclosure and transparency from investors, employees, suppliers, customers, academia, rating research firms, and non-governmental organizations (NGOs).

One of the most common ways for companies to disclose corporate sustainability practices is through a sustainability report using the Global Reporting Initiative (GRI) framework, which provides consistency and comparability across company reports. But many companies also receive requests for environmental, social, and governance (ESG) information from research firms and disclosure initiatives – usually in the form of a general survey,[4] customized questionnaire,[5] and/or a profile review.[6]

Some of the ESG information sought by research firms and disclosure initiatives overlaps with information from the GRI-based sustainability reports, but the information requests often seek additional information from companies. Research firms in particular often push the limits of disclosure in order to maintain a niche in the marketplace, remain competitive, and create research products to be provided to a wide audience of institutional investors, media, and NGOs. Research firms play a unique role as the link in the chain that transforms corporate sustainability information into value in the marketplace. The most visible way that research firms use the information they receive is through sustainability indexes, which have proliferated recently to match the explosion in interest in corporate sustainability disclosure.

The competition among ESG research firms and the heightened interest in corporate sustainability disclosure has resulted in companies receiving multiple requests for additional disclosure using different assessment frameworks. Many companies receiving such requests do not understand the difference between the requesting entities, the advantages and disadvantages of responding to particular requests, or the business case for participating (and, similarly, the costs of not participating) in requesters' corporate sustainability research efforts.

This report's intended audience is the North American financial institutions (FIs) targeted by these requests for information – both those FIs just beginning to consider participating and those FIs already participating. This report aims to provide all North American FIs with a deeper understanding of the most relevant disclosure initiatives and research firms (and those firms' associated indexes) and to assist FIs in prioritizing their participation.

[4] Surveys are largely standardized, in which each firm is asked the same set of questions.
[5] A targeted questionnaire is a customized set of questions for companies used to gather information unavailable in public documents.
[6] Research firms develop company profiles based on public information and ask companies to review them for accuracy.

Many sources contributed to the research and findings in this report, including a review of public information from media sources and company websites, an examination of scholarly analyses, and, most importantly, interviews with:

- Senior managers at 11 North American FIs that receive requests for participation;
- 10 information requesters and index developers; and
- 9 index and research 'users'

(*See Appendix A for the interview list & Appendix C for a list of other sources*). The interviewees provided invaluable insight into how research is conducted, how indexes are developed, how companies view and respond to information requests, and how financial institutions and others perceive the benefits and challenges of participation (and the costs of non–participation).

The report begins with an overview of the relevant information requesters (and, where applicable, their associated indexes), as well as an overview of the general methodology for research and index development. The report then explores the benefits and challenges of participating in requesters' corporate sustainability research efforts, as well as the costs of non-participation, and suggests some criteria for FIs to consider in making the decision to respond to various information requests. The report concludes with a review of the business case for participation and with recommendations for improving the interaction between FIs and information requesters.

2 THE SUSTAINABILITY DISCLOSURE PROCESS

2.1 Research Firms, Indexes and Disclosure initiatives

The importance of corporate sustainability disclosure has taken off around the world, with increasing interest from institutional investors, the public, and governments. This interest has spawned a multitude of corporate sustainability indexes and disclosure initiatives, which markets like Europe have been quick to accept as part of daily business and as indicators of corporate success (due in no small part to the existence of relevant governmental mandates).

North America has not been immune to this explosion of interest, and North American companies have recently experienced a rise in requests for corporate sustainability disclosure. In fact, the FIs reviewed for this report receive an average of 11 information requests annually.

Although interest in corporate sustainability disclosure has boomed, not all manifestations of that interest are relevant for this report. Many developers of sustainability indexes, for instance, rely almost exclusively on public disclosure, which means North American FIs are not burdened with any (or at least with significant) related information requests. (This is why Calvert and its well-known Calvert Social Index are not considered in this report.) Furthermore, even among indexes and initiatives that do rely on company input, not all include North American companies, and in particular North American financial institutions.

Taking into account these constraints, this report focuses on the requesters of information identified (in alphabetical order) in Table 1 below.

The seven information requesters listed in the table reflect the approximate number of relevant requests that financial institutions are receiving on a regular basis that rely in some part on surveys, targeted questionnaires, or profile reviews. (Other firms such as Oekem and Storebrand have not been included due to their strong European-based focus and the irregularity of requests for information.)

TABLE 1 – Requesters of Corporate Sustainability Information

RESEARCH FIRMS & THEIR ASSOCIATED INDEXES							
Information Requester	**Relevant Sustainability Indexes**	**Date of Inception**	**Geographic Scope (global, regional etc...)**	**Constituents from N. Amer. (most recent listing)**	**Constituents from Finance Sector (most recent listing)**	**Constituent firms included (most recent listing)**	**#of funds based on the index**
EIRIS	FTSE4Good Global	2001	Global	30.40%	30.40%	779	18
	FTSE4Good US	2001	USA	100.00%	28.80%	183	N/A
Innovest	Customized indexes		Global	N/A	N/A	-	-
Jantzi	Jantzi Social Index	2000	Canada	100.00%	N/A	60	1
KLD Research and Analytics	KLD Domini 400 Social Index	1990	USA	100.00%	16.97%	400	2
	KLD Broad Market Social Index	2001	USA	100.00%	17.06%	2055	1
	KLD Large Cap Social Index	2001	USA	100.00%	20.00%	693	N/A
	KLD Select Social Index (SSI)	2004	USA	100.00%	15.72%	225	1
	KLD Global Climate 100 Index (GC100)	2005	Global	33.00%	3.00%	100	1
	KLD Dividend Achievers Social Index	2006	USA	100.00%	35.59%	171	N/A
	KLD Global Sustainability Index	2007	Global	N/A	22.61%	684	N/A
	KLD North America Sustainability Index	2007	N. America	100.00%	21.00%	689	N/A
SAM Research Group	Dow Jones Sustainability World Index (DJSI World)	1999	Global	25.70%	24.20%	313	50
	Dow Jones Sustainability N. Amer. Index (DJSI N. America)	2005	N. America	100.00%	13.00%	118	N/A
	Dow Jones Sustainability U.S. Index (DJSI U.S.)	2005	USA	100.00%	13.00%	99	N/A
Vigeo/Ethibel	Ethibel Sustainability Index (ESI) "Excellence"	2002	Global	21.70%	N/A	360	20
	Ethibel Sustainability Index (ESI) "Pioneer"	2002	Global	23%	na	190	N/A

DISCLOSURE INITIATIVE						
Information Requester	**Associated Disclosure Quality Index**	**Date of Inception**	**Geographic Scope**	**Response Rate**	**Investors Represented (#) (2008)**	**Investors Represented ($) (2008)**
CDP	CDP Carbon Disclosure Leadership Index	2000	Global	S&P 500 Financial Sector (2008): 57%	385	$57 Trillion

The table illustrates the diversity of information requests and their uses:

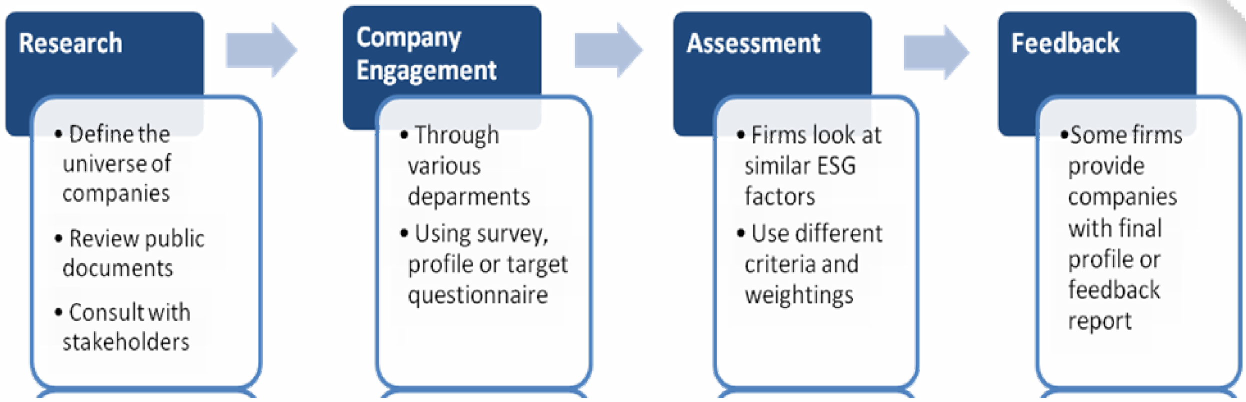
- Most indexes have been developed fairly recently, within the last eight years, with the exception of KLD's Domini 400 Social Index, which was established in 1990.
- There are indexes focused on the U.S., Canada, North America, and globally (although the global indexes usually also have a sibling North American regional index). KLD develops the largest number of funds focused mostly on North America, while the Excellence and Pioneer indexes by Ethibel (which is based in and focused on Europe) have the smallest percentage of North American firms.
- The FTSE4Good indexes and KLD's Dividend Achievers index contain the highest percentage of financial sector constituents; KLD's Global Climate 100 Index has the smallest percentage, reflecting the index's focus on energy and climate solutions.
- Most indexes – except the Domini 400 and KLD GC100 – do not cap the number of companies; rather, the number of constituents is limited only by the number of companies meeting the inclusion criteria.
- There is only one major, relevant disclosure initiative: the Carbon Disclosure Project.

In order to compare these information requesters, it is important to first understand the general processes they use to gather and utilize corporate sustainability information.

2.2 Sustainability Research and Index Development

Research firms generally undergo a three- or four-step process in developing their research, as summarized in Figure 1 below. That information is then put to a variety of uses, including index development.

FIGURE 1: Research Firms' General Process



2.2.1 Research

The process begins by defining the "universe" of companies that will be evaluated in order to determine eligibility for index inclusion. The universe is often another traditional index such as the Russell 2000, S&P 1500, or Dow Jones World Index. Research firms evaluate the companies in this universe against a set of ESG criteria, determining which companies can be listed as eligible for index inclusion. Most firms, such as SAM, Jantzi, and Innovest, evaluate companies by sector so they can determine the top performers in each

Most firms begin their assessment with an analysis of publicly available documents and data, which involves collecting information from company documents, stakeholder documents (i.e., NGOs, governments), and media sources. Jantzi supplements its public research with third-party data such as KLD's Socrates research database and Sustainable Investment Research International (SiRi) data. Throughout the year, firms continuously review public documents to maintain up-to-date research databases. SAM is an exception in that its evaluation process relies predominantly on information from its annual questionnaire instead of from public sources.

Most research firms claim to make their analyses more comprehensive through consultation with various stakeholders of the focus companies. However, this might be the least structured and most expensive aspect of the research process, so it tends to be inconsistent. The extent of stakeholder outreach is difficult to differentiate between firms, especially since considerable variance exists even within each firm, depending on the particular corporation, sector, or ESG attribute in focus.

2.2.2 Company Engagement

Based on the public information, with the exception of SAM, most research firms then directly engage companies, usually in the spring or summer. Firms communicate with different company departments (e.g., investor relations, public affairs) depending on whether there is already a well-established relationship and whether the company has a sustainability officer. Typically, major research firms conduct an annual full review of companies, although EIRIS conducts full reviews every two years. Even if companies do not respond, they are still rated. Being an active participant in the process mainly provides companies with the opportunity to clarify issues and include additional information that could potentially improve their rating/score. Companies that already have exceptional disclosure will likely receive fewer questions.

The specific form of engagement varies. Some research firms develop company profiles based on public information and request a profile review by companies. These can vary in length; some are up to 20 pages long. Other firms, such as Vigeo and KLD, include a list of targeted questions with the profile review. Some firms develop a customized questionnaire to fill in gaps in the public record and/or ask industry-specific questions; SAM, as noted, relies predominantly on an annual questionnaire, which is considered to be among the most rigorous in terms of the number of questions and depth of information requested. EIRIS combines a profile review with a survey, although the survey is not widely used. And Innovest sometimes develops a targeted list of questions for specific companies or sectors, but it is up to the individual Innovest analyst whether to forward the question list in advance to the company (which makes it more like a survey) or to set up an 'interview' or discussion to answer outstanding questions. Clearly, there are a range of mechanisms used in various combinations, which can generate confusion.

On average, companies are provided a one-month response period; appropriately, SAM provides the most time (three months) for companies to submit a response since its questionnaire is approximately 100 questions. Most surveys and profiles are in Microsoft Word format, although a few are now online. SAM's process, for instance, involves an online survey that allows for multiple users to enter information through different log-ins, with a coordinator to monitor progress and send in the final submission.

2.2.3 Assessment

Research firms tend to evaluate companies across similar areas of focus with respect to ESG factors, including: governance, workplace, human rights, product and safety, and environmental performance. The firms differ in that each has specific criteria under each focus area and can weigh the relative importance of specific areas in slightly different ways that can impact the final company score or rating. So while the areas of focus do not vary significantly, the associated criteria and weights can vary. In addition, many research firms develop industry-specific criteria and/or issue focus areas. For example, this past year, some firms had more of a focus on climate change and the sub-prime market.

The ESG research firms do evaluate companies that do not respond to information requests. To do so, they rely on the company's public disclosure and third-party information. Non-participation can adversely impact a company's final score or rating depending on the quality and quantity of that company's public disclosure.

2.2.4 Feedback

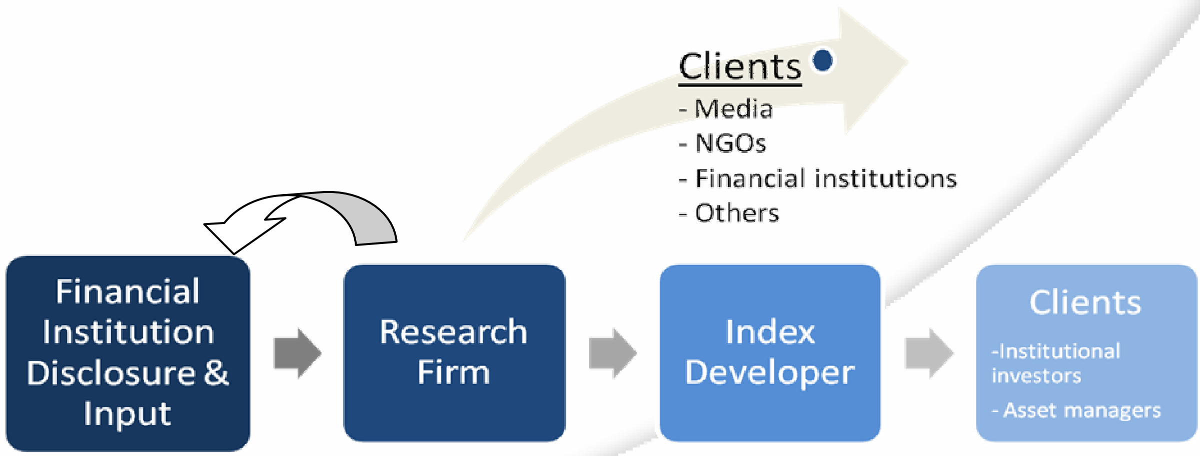
In some cases, such as with EIRIS and SAM, the research firms provide companies with feedback or the final company profile, which can include the company score/rating and the criteria that were met or unmet. This is an important way that companies can gain value from participation, as they can see the areas where they excelled and/or performed unsatisfactorily. Companies can use this information to improve their internal management of these issues, and when the feedback reports provide sector benchmarking (e.g. SAM's); companies can see where they stand in relation to their peers.

2.2.5 Research Uses and Users

Research firms and their clients use the research in a variety of ways. Typically, the information disclosed by FIs goes to the research firm, then to index developers, and then out to clients, although some information goes directly from research firms to other clients (*Figure 2*). Research firms are the critical link in the chain that transforms corporate sustainability information into value in the marketplace.

The most common use of research firms' corporate assessments is for generating lists of companies to be considered for inclusion in sustainability indexes. Once the research firms complete their evaluations of the eligible companies, these evaluations are sent to index developers. In most cases, this transfer is in-house, since a majority of firms have both a research unit and an index unit. The relationship between EIRIS and FTSE4Good is one of the few examples of a relationship between separate research and index development firms.

FIGURE 2 – Flow of Information in Research and Index Development



Index developers' principal screens are more economic. In other words, after the research firms (or departments) use ESG criteria to whittle down the field of eligible companies, the index developers use economic criteria to identify the best economic performers within that subset. Depending on the design of the index, criteria to determine company inclusion can include factors such as market capitalization and sector weight in comparison to the benchmark index. Once the index is developed, it is often licensed or sold to financial institutions for use in products.

"As an institutional investor, we use ESG-based indexes because they are consistent with our overall investment approach - long-term shareholder value." -- Interviewee

Research firms use the information they have collected for purposes other than index development as well. For instance, research firms populate research databases with their information and assessments and often sell the databases to clients. Research firms (and their clients) also use the collected information to develop company reports and company engagement strategies, to screen donors, to assemble customized investment portfolios, and to create financial products such as mutual funds, equity baskets and separate accounts. The financial clients of the research firms, such as institutional investors, private client brokers, and investment advisors, are the primary users of the products that research firms develop. Other clients include governments, the media, and non-profit groups such as foundations, charities, and religious groups.

Research firms compete for these and other subscribing clients, but no independent body exists to test the firms' processes or verify their marketing claims; rather, the market "votes" on the quality of the products by way of data customers' subscription decisions. SAM is a noteworthy exception to this lack of verification, as Deloitte verifies and assures SAM's annual assessment process and methodology.

2.3 Disclosure Initiative Methodology

The disclosure initiative process tends to be much simpler and more direct than the process of research firm information-gathering and index development; at least, that is the case for the Carbon Disclosure Project.

Every year, institutional investors (e.g., banks, pension funds, insurance companies) sign on to a letter that is sent to thousands of companies. The letter requests that companies respond to the CDP questionnaire, which seeks information about greenhouse gas (GHG) emissions and the business risks and opportunities presented by climate change. CDP develops the questions on the questionnaire through a stakeholder process and are ultimately investor-driven. CDP distributes the letter and questionnaire at the beginning of February. Companies have four months to respond.

In most cases, companies agree to make their responses to the questionnaires publicly available; however, a few companies choose to keep their responses private. CDP posts public submissions online and provides them directly to investors and financial analysts, who use it to engage companies on climate risk, make lending decisions, prepare sell side analyst reports, and create new investments.

Independent consulting firms also analyze CDP responses to support the development of the Carbon Disclosure Leadership Index (CDLI). In Canada, the equivalent index is the Climate Disclosure Leadership Index and is based on the Canada 200. The relevant CDLIs for North America are those based on the FTSE Global 500 and S&P50. In 2008, PricewaterhouseCoopers analyzed the S&P500 and Global 500, and The Conference Board of Canada analyzed the Canada 200. To be eligible for the index, companies must be included in the 500 largest companies in the FTSE Global Equity Index – the Global 500, or S&P500, and/or the Canada 200, must show exemplary performance in their reporting of GHG emissions and climate change strategies, and must have made their CDP responses publicly available. The consulting firms compare each company in the research sample to sector peers and assign them a score from 0 to 100. They select the top performers with the highest scores in carbon intensive and non-carbon intensive sectors for the index. In 2008, the Global 500 CDLI has 67 constituents, while the S&P 500 CDLI has 60. The 2008 Canada 200 Climate Disclosure Leadership Index listed 15 top reporting companies.

2.4 Comparisons of Information Requesters

With this understanding of the processes used by corporate sustainability information requesters, it is worthwhile to look at and compare the requesters in detail. In particular, this section provides two useful comparative tables:

- **Table 2** explores the different 'inputs' and characteristics of the requesters' research processes (e.g., type of company engagement).
- **Table 3** compares the 'outputs' of their research processes in terms of products and the clients that use those products.

More detailed descriptions of each information requester are available in Appendix B.

TABLE 2: "Inputs" and Characteristics of the Research Process

Major Research Providers	Research Firm Review Period of Companies	Company Engagement * (Profile, survey, targeted questions)	Sent to	Format	Response period
EIRIS Survey Research	Rolling basis	P + S (optional)	CSR, IR, Public Affairs	Word (profile) Online (survey)	3 weeks
Innovest	Rolling basis	T	IR, Environment or Sustainability Officer	-	No set time
Jantzi	N/A	S + P	IR; CSR; public affairs	Word	1 month
KLD Research & Analytics	Rolling basis	P + T	IR , Corporate Communications, Sustainability Officer, etc.	Word Online (One Report)	6 weeks
SAM Research Group	April - September	S	CEO, IR, CSR/Sustainability department, Public Affairs	Online	April-June
Vigeo	N/A	T + P	Varies	Word	1st period -to respond to questions; 2nd period -to respond to report. (Total 4 weeks)
CDP	__	S	CEO	Online	January-May

* P= Profile; S = Survey; T = Targeted Questions

TABLE 3: Outputs from the Research Process

Major Research Providers	Associated Indexes	Feedback	#of funds based on the index	Total invested $ in related funds	Clients	Products
EIRIS Survey Research	FTSE4Good	General feedback - in terms of unsatisfactory areas	N/A	$8.9 billion	80 institutional clients: • Financial Institutions • Governments • Pension Funds • Private client brokers • Religious and charities • FTSE4Good	• Ethical Portfolio Manager • Convention Watch • Research • Country Sustainability Reporting • Corporate Ethics Review
Innovest	Customized indexes	Analyst discretion to send the profile for company review. Companies must pay fee for final rating and scores.	-	N/A	Clients represent more than $7 trillion in assets. - Institutional Investors, Advisory Firms, Major Industrial Corporations, Foundations and Endowments, Government and International Organizations.	Company Profiles, Sector Reports, I Ratings, Screening Services, Consulting, Intangible Value Assessment
Jantzi	Jantzi Social Index	Copy of final profile	3	N/A	• Mutual funds • Pension funds • Money managers • Investment advisors • Foundations • Governments	Canadian Social Investment Database; research for engagement strategies, customized portfolios, return analysis; donor screening, PortfolioEdge
KLD Research & Analytics	Various	Ratings available to companies and other clients	44	$10 billion	400+ fund managers in Asia, Europe and N.America	Research and Branded indexes (makes them unique); 3 units: research, consulting, indexes; Business Ethics 100 List; Sustainable Business 20

Major Research Providers	Associated Indexes	Feedback	#of funds based on the index	Total invested $ in related funds	Clients	Products
SAM Research Group	Dow Jones Sustainability Indexes (DJSI)	One page assessment report, plus total results across all areas and sector average comparison	50	$16 billion	Various	- 66 licenses have been sold to asset managers in 16 countries. - DJSI used as a benchmark and investment universe for financial products: mutual funds, certificates, equity baskets and separate accounts. - $6 billion of products are based on DJSI.
Vigeo	Ethibel Sustainability Index (ESI) "Pioneer" and "Excellence"	Final rating report - tool for internal evaluation	N/A	15.9 million(euro) in assets	Various	-
CDP	Carbon Disclosure Leadership Indexes	Via public analysis	N/A	N/A	Institutional Investors, media, NGOs	CDP annual reports: S&P 500, FTSE Global 500, Canada 200, various regional and country specific reports; Bloomberg CDP data

As these two tables clearly illustrate, there are some significant differences among the various information requesters in how they collect information, what they do with the information, and who they reach. To help North American FIs decide which research processes to participate in, we now turn to an assessment of the benefits and challenges associated with such participation.

3 BENEFITS & CHALLENGES OF PARTICIPATION

Interviews with financial institutions that receive information requests and 'users' of various indexes and research provided important insights into the benefits and challenges of participation – as well as the costs of non-participation.

TABLE 4: Benefits and Challenges of Participating in Corporate Sustainability Information Requests

BENEFITS	CHALLENGES
Non-financial:	**Internal resources required:**
Learning and innovation	Staff
Competitor benchmarking	Time
Reputation and brand enhancement	Money
"Social license" to operate	Systems
Independent verification and authentication	Expertise
Employee recruitment, motivation, retention	Transparency and clarity of the research process
Customer satisfaction	**Ease of participation:**
Exposure to new markets/clients/investors	Original request is sent to different departments within FIs
Financial:	Metrics used within the evaluation
Operational efficiency	Type (profile, survey, targeted questions) and format of the request
Risk management	
Investor relations and access to capital	

3.1 Benefits: The Business Case

As is clear from Table 4 above, there are numerous benefits to responding to corporate sustainability information requests. These benefits can generally be divided into non-financial and financial benefits.

3.1.1 Non-Financial Benefits

One of the major benefits of responding to information requesters' corporate sustainability research efforts is the potential for a company to get a better sense of its own strengths and weaknesses and determine potential opportunities for improvement. The process can also lead companies to develop better internal systems for managing and reporting key metrics. In addition, companies can gain important information from the feedback reports that some research firms provide.

"A key benefit of responding to information requests is that we get to see how we're doing as a company and where we can improve. There are opportunities that are highlighted through the process of responding. We can see where we can improve competitively against our peers." – Interviewee

The results of the research can also be useful for a company, particularly in terms of understanding how it stands in relation to its competition. Ratings, rankings, and standardized public disclosures allow companies to benchmark themselves against their peers and assess their competitive standing (some companies prefer to be sector leaders, while others feel most comfortable being right in the middle of the pack). Several interviewees explicitly mentioned that participation by competitors is one of the key factors influencing their decision on whether to participate. One interviewee commented, "Another aspect [to responding] is seeing what our peer banks are doing. If we see a vast majority are tracking particular statistics, then that tells us that we should do that and gauge our success against other companies. For example, one area is the carbon risk within our portfolio. There are a lot of discussions with banks around that and how you do that."

Participation can also enhance a company's reputation in a variety of ways. Participation in well-respected indexes and disclosure initiatives can improve stakeholder engagement and disclosure, which can bolster the firm's reputation among its key stakeholders. It can reaffirm the company's 'license to operate' within the communities in which it conducts business, as a stakeholder that contributes to the social, environmental and economic aspects of that community. In addition, participation provides an avenue for third-party authentication of company efforts (including in relation to peers), providing outside legitimacy that can boost a company's reputation and brand recognition and could potentially appeal to new clients, employees, and other stakeholders. If the information requests support well-known and well-respected indexes and disclosure initiatives, it heightens the value of this external validation and legitimacy. Not surprisingly, therefore, almost all financial institutions interviewed chose to respond to information requests from the CDP and SAM. There was also consistent and high participation with research firms such as EIRIS, Innovest, and to a somewhat lesser extent KLD. Among Canadian firms, Jantzi also received high participation. In contrast, the utility of responding to the more minor indexes was widely seen as negligible.

"Receiving the information requests encourage us to develop internal systems and procedures. We examine the information requests, compare them against GRI, and identify our internal information gaps and discuss if or how we will begin to track it." – Interviewee

The potential for enhancing a company's reputation should not be trivialized. For instance, attraction, motivation, and retention of employees are critical to doing business, particularly as the labour market becomes more competitive for high-quality employees. Recent graduates are increasingly starting to consider a company's reputation for sustainability when selecting job offers, and existing employees' pride and morale are increasingly linked to corporate sustainability practices. Customers are also becoming more aware of sustainability issues and how their consumer choices are impacting the planet. Institutional clients – those in North America as well as those in new markets – have shown increasing interest in working with sustainable companies that have a demonstrated ability to address risks associated with environmental, social and governance issues.

3.1.2 Financial Benefits

Financial benefits can flow from many of the non-financial benefits. Better internal knowledge and the resulting innovation in management systems and metrics can provide the opportunity to increase operational efficiency and significantly lower costs. As one financial institution commented during the interview, "there are operational benefits to quantifying the company footprint and exposure as a company. It's helpful to us so that we can manage more efficiently. Collection of data gives us the ability to make decisions regarding efficiency." Higher-quality employees and a larger customer base may be attracted to the company, and as a result competitiveness and market position can strengthen – ultimately leading to higher shareholder value. In addition, pursuing corporate sustainability allows companies to address a range of risks, and with improved risk management, the access to and cost of capital becomes more favourable.

Responding to ESG research firms can help communicate corporate sustainability programs into the marketplace. Maplecroft's research shows that investors tend not to use information from corporate sustainability reports in investment analyses. Companies reports often fail to properly outline the business case for ESG initiatives and lack third party authentication that investor's value. Rather, investors value corporate sustainability programs that are linked to improved risk management when making investment decisions (Warhurst, 2008). Thus, the ESG firms provide an important service in translating corporate sustainability efforts into value in the marketplace.

ESG firms translate efforts into the marketplace through sustainability indexes, which are the most visible and directly related financial products developed as a result of the firms' research. Being listed on a sustainability index can be a proxy for a company's ability to proficiently manage certain risks. In addition, by providing the financial, NGO, media, and other communities with access to corporate sustainability information, research firms and disclosure initiatives enable a broad array of stakeholders to make informed decisions about this aspect of companies' risk profiles.

Interviewed institutions made very clear, however, that participation in corporate sustainability indexes and disclosure initiatives does *not* affect stock prices, nor do they expect it to. The indexes, for instance, target a relatively small part of the U.S. equity market.

Furthermore, in terms of performance, there is no clear reason to favour one index over another, as the major sustainability indexes appear to differ little in their observed returns. For instance, a comparison of the FTSE4Good US, the DJSI US, the Calvert Social Index, and the KLD Domini Social 400 found:

> "[W]hile the structures of SRI indexes do indeed differ significantly, there is no statistically significant difference in performance. In other words, social investors, especially institutional investors who typically construct broad, benchmark-tracking portfolios, enjoy a relative diversity of SRI index styles to choose from, all of which generate performance in the same ballpark" (Baue, 2004).

Moreover, performance sustainability and mainstream indexes has also differed little. In their study of the FTSE4Good family of indexes, Collison et al. (2007) found that the small performance differences that did exist compared to their mainstream index counterparts were due to risk differences inherent in corporations' business models. These authors concluded that "investors who invest in a portfolio of companies that satisfy FTSE4Good's corporate social responsibility criteria do no worse than their counterparts who do not follow a socially responsible strategy when purchasing equities." Similarly, Schröder (2007) concluded that sustainability indexes "exhibit no out- or under-performance compared to conventional market indexes." This appears to be the dominant view, although academic literature in the field includes both those who have found that sustainability indexes slightly underperforms the broad market (Geczy et al., 2005) and those who have found they significantly outperform the broad market (Derwall et al., 2005).

In sum, the existing research and empirical data suggest that sustainability indexes generally do not perform very differently from each other or from their benchmarks, and institutions do not expect their participation to yield an increased stock price. Nevertheless, as noted, FIs recognize that there are other important financial and non-financial benefits to consider.

3.2 Challenges

Financial institutions weigh the benefits and challenges of participation. Financial institutions interviewed said they receive an average of 11 requests per year for corporate sustainability information in the form of a survey, questionnaire, or profile review, with some FIs receiving as few as six requests and others receiving as many as 20. Financial institutions are feeling overwhelmed with the increasing number of requests. A range of factors – some internal to the company and some that have more to do with the nature of the information request – affect the level of burden on financial institutions and thus their willingness and ability to respond to the requests for corporate sustainability information.

3.2.1 Company Resources

Responding to information requests requires company resources – time, staff, and money. Financial institutions also sometimes find they lack the internal management systems to measure, collect, and provide the requested information. In addition, financial institutions often feel unable to evaluate the various disclosure requests, unclear about the differences among the firms seeking information.

Companies receiving a survey, questionnaire, or profile typically have an internal process to respond. Companies usually have an overall coordinator in investor relations, a sustainability department, or communications department who distributes particular questions or parts of a profile to relevant business units responsible for those areas. Based on interviews, financial institutions tend to have an average of 12 people contributing to company input requests. SAM's annual questionnaire requires the most work, with an average of 16 data providers. Data providers can work in a range of departments, such as environment, health and safety, investor relations, real estate, or sourcing.

Responding to an information request can take anywhere from one day to more than three weeks. Response time depends on the difficulty and length of the request, the availability of information, and the number of data providers. The average response time is five days, though the rigorous SAM questionnaire requires about 17 days for gathering and coordinating a response. Additional time and resources come into play right before submission, when the response typically requires verification from the legal, investor relations, and finance departments.

These participation costs are not trivial in terms of person-hours, systems, and the expertise needed to develop, track, audit, and verify the information.

3.2.2 The Nature of the Request

How challenging it is for a company to respond to a request for corporate sustainability information is also heavily dependent on the nature of the request itself. As one would expect, the easier the request makes it to participate, the more likely it is that a company will participate.

"In the information requester's final report the rating or ranking system used to evaluate the company is not always clear. There is a great deal of subjectivity." – Interviewee

Ease of participation is influenced by a range of factors and characteristics:

- As noted above, requests for information often go to different departments, and it is difficult to track them. Financial institutions generally found it much easier to participate when there was one assigned analyst from the requesting firm to work with it throughout the process. Having an assigned analyst – and a good relationship with the analyst – plays a significant role in the decision to participate.
- The quality and comprehensiveness of the information request matters. Financial institutions generally thought positively of those information requesters that were thorough and prepared prior to contacting the company for additional input; their opinion was much lower for those that seemed to do little research ahead of time. Some executives from financial institutions interviewed, for instance, felt that profile reviews were difficult because the profiles often did not cite the source of the information or were not well-researched, requiring additional work on the company's part to correct inaccuracies or fill in gaps. Financial institutions also criticized some profiles because the public information on which they rely is frequently inaccurate, particularly media accounts.
- The clarity and transparency of the request makes a difference. Financial institutions do not understand the process and methodology of research firms, indexes, and disclosure initiatives, nor do they have a good understanding of what they are being asked for and why. Furthermore, interviewees pointed out that they received very few, if any, corporate sustainability questions from investors during regular investor relations or earnings calls, leading them to question how representative the information requests are of requesters' client bases.
- The format of the request is also important. Notwithstanding the daunting size of SAM's survey, a few interviewees liked the online format of the survey because it allowed multiple users to enter information from across the company and made completing it much easier. CDP was also described as lengthy and time-consuming but relatively user-friendly because companies could tailor the survey to their own business activities and enter the data online.
- The type and relevance of information requested can play a large role. Some interviewees commented approvingly that Innovest and KLD tend to ask more investor-related questions. However, overall, questions often do not seem well-targeted or relevant to the financial service sector. This can make it much harder for responders to track down the relevant information within the company and provide an accurate, complete response. One interviewee commented, "These questions are for everyone, and we do not always know how to answer as a financial institution. The questions are not geared toward our industry, so we have a harder time giving input."

"Research firms need to recognize the real material risk and make the case to mainstream analysts." – Interviewee

- The range of metrics used in information requests adds to the challenge. Surveys, profiles, and other requests often ask for information to be reported using different metrics, which requires respondents to re-calculate or re-package information, rather than use the same data for multiple requests.

Related to this last point, one additional element that adds to the challenge of participation is the perceived lack of a good, clear benchmark for non-financial reporting. Interviewees noted that the Global Reporting Initiative (GRI) was supposed to help establish such a benchmark for reporting, but that the research firms are going above and beyond that, such as by seeking greater quantification. This makes it more difficult for companies to prepare for compiling and submitting requested information.

3.3 Costs of Non-Participation

Most research firms do not require participation in order to score, rate and rank companies. When companies choose not to participate, they are evaluated solely on the publicly available information in company documents, government sources, and the like. If a company has excellent public disclosure, there is often little or no effect on the scoring. However, a company's failure to adequately disclose *and* to respond to information requests, will likely adversely affect its score. Not only can this ultimately affect the company's potential inclusion in indexes, but it can also have ripple effects as company evaluations are used in other products that research firms distribute to the media, NGOs, and others in the financial community.

Therefore, financial institutions must understand the client bases of information requesters, who uses the information and how relevant those users are to the companies' markets. This can be difficult to assess, however, as there are a wide range of potential users with a variety of interests and perspectives. Currently, index and research products generated from company responses are used for mainstream mutual funds, exchange-traded funds, structured products, unit investment trusts, and research databases. Within the financial sector, research firm clients include Morgan Stanley, JP Morgan Chase, TIAA-Cref, State Street Global Advisors, and Barclays Global Investors. The information from company responses is also sold to governments, charities, other non-governmental organizations, and the media. The information also supports other ratings and rankings for Corporate Knights, Corporate Responsibility Office magazine (CRO), and the Carbon Disclosure Leadership Index (CDP/CDLI). Clearly, then, failure to respond to an information request could prevent a company from having its corporate sustainability work communicated to users and incorporated into markets it otherwise might be unable to reach. The more important stakeholders use the data, the more useful and worthwhile it is for the financial institution to participate.[7]

[7] That being said, several interviewees praised SAM for keeping the requested information confidential, even though that limits the number of other stakeholders and products that can use the information and amplify companies' corporate sustainability achievements.

4 CONCLUSIONS & RECOMMENDATIONS

4.1 Summary and Conclusions

There are several significant non-financial and financial benefits of participating in information requesters' corporate sustainability research efforts. Many of the non-financial benefits enhance the financial benefits since they draw new clients and customers, attract higher-quality employees, and support innovation – all of which contribute to increased operational efficiency, reduced risk, improved market position and competitiveness, and ultimately increased access to capital and improved shareholder value. Responding to relevant requests for information delivers benefits that may be difficult to replicate through other avenues.

"In selecting which requests to respond to we compare the requesting firms in terms of their validity in the marketplace, their reputation, public relations impact, and which ones provide the opportunity to compare ourselves to our peers and those outside of our industry." – Interviewee

Financial institutions considering participating in information requesters' corporate sustainability research efforts should consider a variety of factors, including internal company issues and the requesters' characteristics (Table 5).

TABLE 5: Criteria to Consider in Prioritizing Information Requests

CRITERIA TO CONSIDER IN PRIORITIZING INFORMATION REQUESTS	
Internal company considerations:	**Information requester characteristics:**
Available resources:	Reputation
Time, money, personnel, etc.	Feedback provided
Timing of request	Client base
Availability of information/data	Relationship with analyst
Preparation time needed	Confidentiality
Company needs and objectives	Products as a result of research
	Ease of participation

Each financial institution faces different circumstances that can affect its decision to participate. Institutions should first be aware of the available resources required to respond to information requests, the availability of the data requested, etc. It is also vitally important that FIs also consider what the company needs and objectives are (e.g., public relations, access to new markets or investors), as this could bear on which information requests to respond to. Indeed, the information requesters' characteristics matter a great deal, and interviewees' identified the 'pros' of each of the information requesters, as detailed in Table 6.

TABLE 6: Interviewees' Views of the Pros of Each Requester

Major Research Providers	Pros of Participation
CDP	• Investor driven • Ability to tailor responses according to industry/business activity • Highly visible and strong reputation • Lengthy but in-depth, material questions • Transparent process • Focused (on climate disclosure) • Participation assists managers with operational efficiency evaluation and management
EIRIS Survey Research	• Association with FTSE's reputation • Tells source of information in profile
Innovest	• High credibility • Wide distribution • Objective • Financially material questions
Jantzi	• Canadian-focused
KLD Research & Analytics	• Highly visible • Widely distributed
SAM Research Group	• Strong reputation due to association with DJSI • Support and feedback for participants • Highly transparent process • Online • Comprehensive • External assurance by Deloitte
Vigeo	• European-focused

4.2 Recommendations

The ESG disclosure process poses challenges that need to be addressed. Currently, some firms reduce their challenges by using online services and software, which consolidate questions from different requesters so that similar questions require only one response. This report recommends financial institutions and information requesters take further steps together to improve the information request process to increase the likelihood of financial institution participation. Such steps could include:

Actions for information requesters:

- Spreading out the timing of requests; current requests tend to overlap from early spring to summer.
- Ensuring adequate time to prepare the response, which often takes longer than the one-month average response time provided.
- Expanding online information collection to make the process easier.
- Shortening the information requests and standardizing quantitative metrics as much as possible.
- Improving the level of disclosure and transparency about methodology and criteria used in the ESG research firm evaluation process.
- Ensuring that company participants receive feedback from the evaluation process.
- Sharing company best-practices in key areas under evaluation, so that other companies have the opportunity to learn about leading practices that could be used to improve their own performance.
- Demonstrating the materiality of certain criteria to long-term shareholder value. A focus on materiality would make the research products and associated indexes more likely to be used by mainstream investors.

Action for respondents:

- Identifying a central contact point at each financial institution to collect external requests and coordinate responses from internal departments.

APPENDIX A: DESCRIPTIONS OF INFORMATION REQUESTERS

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) works with institutional investors (with combined assets of over $57 trillion under management) to seek from the world's largest companies' greenhouse gas emissions data and information on the business risks and opportunities presented by climate change. In 2008, 385 investors signed the CDP's letter requesting information from 3,000 companies (in 2007, 2,400 companies received the letter, with over 1,300 responding). Signatory investors included financial institutions such as Canadian Imperial Bank of Commerce (CIBC), Merrill Lynch, JPMorgan Asset Management, Goldman Sachs, Morgan Stanley, Royal Bank of Canada, Scotiabank, State Street, TD Asset Management, UBS, West LB, Vancity, and HSBC.

CDP questions cover: analysis of risk and opportunities; response strategy; GHG emissions accounting, management, reduction, and cost implications; and climate change governance. CDP attempts to maintain some consistency in its questionnaires from year to year, but the format of questions is gradually changing from more open-ended questions to more specific ones that allow comparability of answers by investors. The majority of the responses to these questionnaires are publicly available; however some firms request that their responses remain private.

Investors use CDP information as an indicator to determine whether to engage or invest with a company. CDP data is also used to conduct a cross-sector analysis when evaluating portfolios. Other users integrate the data into their analysis

Ethical Investment Research Services (EIRIS)

Established 25 years ago, EIRIS is a global provider of independent research, primarily concerned with the ESG and ethical performance of companies. The firm's research universe encompasses about 3,000 companies in Europe, North America and the Asia Pacific region. This number includes over 730 companies from the U.S. and 100 from Canada. Financial institutions represent approximately 10% of North American companies under review. Over100 institutional clients, including pension funds and retail fund managers, banks, private client brokers, charities, and religious affiliates, and the FTSE4Good Index Series.

Environmental evaluations are based on the analysis of policy, management systems, environmental reporting (i.e. efficiency, emissions, etc.), performance improvements, and industry specific issues (i.e. chemical waste, deforestation, etc.) Social issues are categorized into human rights policies, supply chain and sourcing, and treatment of employees as well as other stakeholders. Evaluations of governance are drawn from the company's risk management skills, ethics code, gender diversity, and leadership.

When assessing companies, EIRIS initially uses publicly available information. In addition, companies are provided the opportunity to contribute additional information, verify information, and clarify inaccuracies through a company profile review and survey.

In general, the collected information is not confidential. Information collected is summarized; key points are extracted, and then used in compile a research database that is distributed to clients. Clients can also receive company assessment results. EIRIS sends FTSE data twice a year in order to compile the FTSE4GOOD indexes. EIRIS' Portfolio Manager Software also makes research available for clients to manage their portfolios. Other EIRIS products and services include convention watch, country sustainability ratings, and investor toolkits on Climate Change and the UN PRI. Research is often used by clients for research publications, reports to investors, constructing ethical indexes, ranking/comparing companies and for charity donor-screening.

Innovest

Innovest Strategic Value Advisors began operations in 1995 with the goal of combining sustainability and finance by "identifying non-traditional sources of risk and value potential for investors." Today, clients represent more than $7 trillion in assets in over 20 countries and the firm assists over 30 institutional investors and pension funds in portfolio management, research, and analysis. Clients include UBS, Henderson Global Advisors, HSBC, BNP Paribas, Schroders Investment Management, and Rockefeller & Co., as well as leading pension funds in the U.S., the U.K., continental Europe and Scandinavia. While Innovest does not manage money directly, it now has over $1.3 billion under "structured sub-advisory mandates with asset management partners" such as ABN-AMRO, State Street Global Advisors, and T. Rowe Price. Other services include competitor benchmark studies, investment products such as investment screens and index models.

When conducting company studies, Innovest analysts track over 120 factors of sustainability in company performance to help clients create and manage portfolios. Innovest provides research and ratings, screening services, private consulting, and asset management sub-advisory. Innovest rates more than 2,000 companies in four strategic areas: environment, strategic governance, stakeholder capital, and human capital. Much of this data is available via "I-Ratings," a database that includes up-to-date Innovest ratings, screening services, and other research. Innovest emphasizes the importance of "extra-financial" risk analysis, such as company policy on political, environmental, labour, and human rights risks, as an indicator of the larger company management ability.

The general methodology for Innovest's research and ratings is divided into two areas: environmental assessment and social assessment. The environmental assessment is done based on the"EcoCValue'21 Rating Model," a model based on company performance in six more specific categories: strategic management capacity, sustainable profit opportunities, financial risk management, sustainability risk, operating risk exposure, and historical contingent liabilities. The social assessment is made based on the Intangible Value Assessment (IVA) Rating Model. This model is broken down into smaller performance indicators as well: emerging markets, products and services, human capital, shareholder capital, and sustainable governance. In order to obtain this data, Innovest engages in a five-step rating and research process. The analysts begin with a sector overview and the macro trends associated with the companies industry, followed by raw data collection of annual company reports and similar documents. Next, Innovest interviews company executives and using the collected data, completes the models outlined above. Finally, the researchers assign a rating (AAA - CCC) to the company.

Jantzi

Formed in 1992, Jantzi Research is a Toronto-based investment research group providing services to mutual funds, money managers, investment advisors, foundations, religious orders, and government. In January 2000 the firm launched the Jantzi Social Index (JSI) a broad market index, based on the TSX Composite and TSE 60, of companies that meet a broad range of ESG criteria. The index underlies two products in Canada: the flagship fund of Meritas Financial Inc., a mutual fund company, and an iShares ETF. Some socially responsible investment firms use JSI as a benchmark to track performance. In addition to the JSI, Jantzis' core products include the Canadian Social Investment Database, investment universe customization, the Portfolio*Edge* audit, and the development of ESG investment guidelines.

Jantzi Research's methodology begins with a review of publicly available information from company documents, government, industry associations, media, other research organizations, Jantzi engages companies after the review of public documents in order to gather information that was not already available. Analysts develop a list of targeted questions which is sent to the companies along with a company profile for the company's review. Jantzi analysts often engage stakeholders directly as well. Jantzi uses about 200 indicators to assess companies in the areas of community and society, customer relations, corporate governance, employee relations, environment, human rights, and controversial business practices (i.e. alcohol, gambling, weapons production, nuclear power, and tobacco). Following the assessment, companies are provided a copy of the final company profile.

KLD Research and Analytics, Inc.

Since 1988, this U.S. research firm has been conducting ESG research, creating branded indexes, and providing consulting services for investors. KLD established the first index that screened constituents based on ESG performance, the Domini 400 Social Index.

Today the firm maintains 20 indexes in both global and domestic markets. The firm has over 400 clients. Most clients are based in the U.S. but KLD also provides research for investment firms in Europe and Asia. Clients include 31 of the world's 50 largest money management firms and over $10 billion are invested in vehicles based on KLD indexes. KLD analyzes companies from both foreign and domestic investable universes. Domestic indexes are based on KLD research of the 3000 largest U.S. equities. The financial sector makes up approximately 15% of the market cap of the KLD domestic research universe.

KLD evaluates companies according to over 280 data points, including measures of corporate environmental policies; community relations; corporate governance; diversity; employee relations; human rights; and product quality and safety. KLD researches company performance by continuously monitoring government data and media sources, company financial and sustainability reports, and data generated by third party oversight organizations. The research database is updated every two weeks.

In addition to its review of publicly available resources, KLD annually engages with researched companies and requests that companies review their KLD profiles for inaccuracies. KLD also asks for company input regarding issues of particular importance to the firm or its sector. While KLD does not use a survey per se, KLD participates in One Report, which includes a list of questions that KLD would ask a company. Companies have the option of responding to KLD using One Report.

KLD uses its research database to rate and rank companies according to their ESG performance. The standard research product developed by KLD supports all of its indexes, except the Global Climate 100 which is considered a strategy index because it's based on a value chain of climate solutions.

In addition to its indexes, KLD products include tools for investment management professionals including the SOCRATES research database, KLD Compliance (pre-trade compliance service), KLD PASS (Portfolio Advisor's Screening Service), and KLD STATS (summary of research database). Investment products based on KLD research include mutual funds, exchange traded funds, variable annuities, unit investment trusts, and structured products. Index products include index licenses, holdings, analytics, and performance data.

Sustainable Asset Management (SAM) Group

Founded in Switzerland in 1995, the SAM Group is a specialized investment group for sustainability investments. SAM has $11.9 billion under management, and $6 billion under licenses. SAM is best known for its research and index development of the Dow Jones Sustainability Indexes (DJSI). There is approximately $5 billion in DJSI investment vehicles.

Each year, SAM refines its corporate sustainability assessment methodology. The three core stages in the evaluation process are: 1) Analysis of Macro Problems and Industry Trends, 2) SAM Corporate Sustainability Analysis, and 3) Determination of Sustainable Fair Value. SAM assesses the data to create SAM's index products, including DJSI. In the first stage, analysis of macro problems and industry trends, relevant macro trends and the challenges they present to each industry are identified. Companies are then analyzed within the framework of industry, challenges identified in the analysis of macro problems and industry trends.

The Corporate Sustainability Analysis stage consists of the corporate sustainability screening, i.e. primary research in form of proprietary sustainability methodology developed by SAM. Screening of 2,500 companies involves the online questionnaire and media and stakeholder analysis. SAM works with Evaluserve to conduct the data gathering for companies not responding to the questionnaire and media analysis. Evaluserve is also responsible for the data gathering that supports the Corporate Sustainability Assessment.

The online questionnaire is developed by sector analysts and tested with business and academics. In order to allow for stability in the methodology, credibility, and a comparison across years a majority of the questions are multiple choice and only 20-30% of the questions change from year to year. The first year a company responds requires the most time and effort. In following years, previously submitted data is automatically uploaded and can be updated if necessary. Two-thirds of the questions request additional evidence to support company responses. The online format of the survey allows for multiple users to enter information from various company departments. Individual company responses are kept confidential and the information is used only for developing and distributing index products. Company information in aggregated form (i.e. company scores) can be used for SAM research, advisory or investment activities, or publication.

If companies choose not to respond to the questionnaire, the company assessment is based solely on a review of public documents and the media and stakeholder analysis. In 2008, approximately 1,100 companies were analyzed, of which half completed the questionnaire and half were analyzed exclusively on public information. Based on the screening of the initial 2,500 companies, a more refined “Best-in-Class universe” is developed to be SAM’s investment universe.

An external assurance report by Deloitte ensures that the corporate sustainability assessments are completed in accordance to defined rules. At the end of the assessment and evaluation, companies receive an online one page feedback report. The report provides company results across the various criteria, as well as the sector average for company comparison. Companies selected for the indexes receive the member label for external marketing and communications.

Company assessments are used to develop the Dow Jones Sustainability Indexes (DJSI). The DJSI World is based on the 2,500 largest companies of the Dow Jones Global Wilshire index. The DJSI North America universe covers the 600 largest North American companies of the Dow Jones Wilshire Global index. The DJSI World selects the top 10% in each industry group and the DJSI North America selects the top 20% in each industry group. The indexes seek to minimize turnover by requiring DJSI World companies to only qualify amongst the best 13%, whereas a new component needs to be ranked amongst the best 7% in its industry group.

The organization’s clients vary in size and sector, from banks to insurance companies, from pension funds to foundations. Unlike other research firms, SAM does not sell the data in associated research databases. SAM’s DJSI indexes are licensed to 66 financial institutions.

A partial list of clients with SAM licenses:
Credit Union Central Alberta
Credit Union Central of Ontario
Deutsche Bank
State Street Global Advisors
TD Asset Management
UBS Deutschland AG
UBS Global Asset Management (Japan) Ltd
Fortis Investment Management
ING
WestLB

Vigeo/Ethibel

Founded in 2002, Vigeo is a European-based ESG research firm. The firm has grown to be one of the largest corporate social responsibility rating agencies in Europe after the acquisition of the Belgian Stock at Stake in 2005 and the Italian Avanzi SRI Research in 2006. The former was owned by Forum Ethibel, a network of several NGOs and non-profit organizations. As part of the transaction, Vigeo and Forum Ethibel established a partnership for the development and maintenance of the Ethibel Sustainability Indexes.

While Vigeo researches the individual companies for the indexes, Forum Ethibel remains in charge of establishing and controlling the ethical criteria/composition of the indexes; which is based on the investment universe of the Ethibel Registers. Ethibel and Vigeo maintain a tight connection to one another, yet clearly divide business roles in order to avoid a conflict of interest. Those indexes that are relevant to North American financial institutions are the ESI Pioneer Global and the ESI Excellence Global.

Vigeo undertakes the initial company research in support or ESI indexes based on criteria developed by Ethibel. Vigeo has a 14-step research process. Steps 1-3 involve determining relevant criteria for the sector under study. Criteria are weighted based on importance for the sector. A multi-source data collection and analysis is conducted during Steps 4-6. Relevant data is uploaded into the research database. Following a review of public information, Vigeo initializes the company dialogue in Step 7 when there is insufficient, imprecise or conflicting data collected. The analyst develops an additional set of targeted questions. Step 8 involves scoring the company. A company is scored based on its commitment to leadership, implementation, and results associated with the evaluation criteria. Companies are assigned a rating on each of the six Vigeo domains (human rights, human resources, environment, business behaviour, corporate governance, community involvement). During steps 9 – 12, Vigeo completes a feedback report which is shared with the company. The company has the opportunity to review the report and provide any additional information or observations. The final steps, 13-15 involve sector rating. Scores for each company are converted into ratings. Each rating is descriptive of a company's performances in comparison to other companies in the same sector.

The detailed company profiles and ratings are transferred to Ethibel, where reviewed companies are reclassified according to the four Ethibel fields of corporate social responsibility. Companies are not ranked. Companies are not included or excluded from selection for having a score above or below a reference value. Scores simply provide a basis of comparison. Ethibel automatically excludes companies involved with nuclear, weapons, gambling, and tobacco. The Ethibel Register Committee, external and independent experts provides input regarding the selection of companies. The Ethibel board of directors makes the final decision on whether to add or remove the company from the index.

APPENDIX B: INTERVIEW LIST

RESEARCH FIRMS AND INDEX DEVELOPERS:
Calvert
Carbon Disclosure Project (CDP)
Dow Jones Sustainability Indexes (DJSI)
Ethical Investment Research Services (EIRIS)
KLD
FTSE
Innovest
Jantzi
Sustainable Asset Management (SAM)
Vigeo
FINANCIAL INSTITUTIONS:
Bank of Montreal
CIBC
Citigroup
JP Morgan Chase
Legg Mason
Merrill Lynch
Morgan Stanley
RBC
ScotiaBank
State Street
Wachovia
USERS:
ClearBridge Advisors
Corporate Knights
Innovest
Mercer
Morgan Stanley
RiskMetrics Group
State Street Global Advisors
SustainAbility
World Wildlife Fund

APPENDIX C: SOURCES

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About the UNEP Finance Initiative

The United Nations Environment Programme Finance Initiative (UNEP FI) is a strategic public-private partnership between UNEP and the global financial sector. UNEP FI works with over 170 financial institutions that are Signatories to the UNEP FI Statements, and a range of partner organisations, to develop and promote linkages between the environment, sustainability and financial performance. Through a comprehensive work programme, regional activities, training and research, UNEP FI carries out its mission to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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