

News Release
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Financial institutions fail to manage their environmental, social and governance risks, global survey finds

Latest research from global responsible investment specialist EIRIS finds only a quarter of companies are adequately managing their environmental, social and governance (ESG) risks.

At risk? - How companies manage ESG issues at board level focuses on 2,200 companies listed on the FTSE All-World Developed Index to track their progress on managing non-financial ESG risk issues over a three year period (2005-2008).

ESG risks vary from sector to sector and from company to company. They can stem from issues as varied as human rights, discriminatory practices, child labour, bribery and corruption, climate change, pollution and environmental issues, obesity and product safety.

In assessing each company's ESG risk management system EIRIS' research takes the following components into account:

- Board responsibility for ESG issues
- Risk management systems to address ESG risks
- Identification of ESG risks
- Potential ESG liabilities and ESG opportunities

At the recent London Summit the G20 leaders released a statement that included pledges 'to build an inclusive, green, and sustainable economic recovery'. By incorporating ESG criteria into their investment decision-making and ownership practices investors can directly influence companies to improve performance in these areas. EIRIS' latest research shows that many companies are not managing their ESG risks effectively and, as such, is a wake-up call to investors.

Key research findings:

- **Financial sector worst performer:** in 2008 almost a quarter of financial institutions failed to disclose any evidence of ESG risk management - which is at least twice that of any other sector. This is in part a result of poor disclosure and a failure to recognise the importance of ESG issues.

- **Limited progress:** companies have demonstrated a small improvement in ESG risk management. Between 2005 and 2008 the number of companies achieving an 'average' overall score for their risk management systems has increased by 7.4%. However, considerable room for improvement still remains.
- **Japanese companies show biggest improvement:** 19% showed an improvement in their risk management systems. In contrast, companies in Australia and New Zealand showed very little progress on ESG (only improving by 0.4% overall).
- **Resources sector best performer:** partially a reflection of the very public ESG issues that these companies have had to deal with such as environmental damage in the Niger Delta or the 2005 Texas City refinery explosion.

Initiatives such as the UN Principles for Responsible Investment (PRI) and the UN Global Compact have helped push ESG issues up the investment agenda. There is also increasing scrutiny of these issues by regulators; the Danish government has announced that companies will be legally bound to report on CSR issues and the Norwegian government is also urging companies to do the same.

In this context there is likely to be increased pressure on companies to provide evidence that they are managing their ESG risks. Those companies that are not already doing this are at risk of incurring significant costs to their business.

Stephanie Maier, Head of Research at EIRIS said 'There is a growing view among investment professionals that ESG issues can affect the performance of investment portfolios. This latest research highlights the big disparities that exist in the extent to which companies around the world are effectively managing the various ESG risks they face. Our new global ESG risk management criteria will enable investors to build a comprehensive picture of how well a company is managing the issues and opportunities presented by ESG risks.'

Recognising the challenges that committing to the UN Principles for Responsible Investment represents for investment managers and asset owners, EIRIS has recently launched a [PRI toolkit](#) that offers practical solutions for investors looking to implement the UN PRI.

Click [here](#) to download a copy of the research

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Notes to Editors

1. EIRIS (www.eiris.org) is a leading global provider of independent research into the social, environmental governance and ethical performance of companies. EIRIS, a UK-based organisation with offices in the US and France together with its international research partners, has a wealth of experience in the field of responsible

investment research. EIRIS provides comprehensive research on around 3,000 companies in Europe, North America and the Asia Pacific region. EIRIS is already retained by 100 institutional clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, North America, Australia and Asia. EIRIS has developed a comprehensive suite of products to help investors assess their portfolios and design investment strategies in response to the challenge of a carbon-constrained economy. For more information on EIRIS' products and services visit www.eiris.org or email: clients@eiris.org

2. **EIRIS PRI toolkit** offers practical solutions for investors looking to implement the UN PRI, and in particular Principles 1, 2 and 3. The EIRisk tool assigns companies an ESG risk management grade that can be integrated into investment analysis and decision making processes. It helps investors meet their commitments under Principle 1 of the PRI. The Global Compact Engager assists investors who have adopted an engagement strategy, and meet their commitments under Principle 2 of the PRI. The Report Monitor focuses exclusively on companies' reporting practices to assist signatories to identify leaders and laggards on ESG disclosure, and meet their commitments under Principle 3 of the PRI. Further information on the toolkit is available [here](#).

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