



New American Leadership for Environmentally and Socially Responsible Investing and Corporate Responsibility

The Social Investment Forum and Socially Responsible Investing

For more than 30 years, socially responsible investors have been advocates for corporate social responsibility. They have engaged in shareholder activism, directed capital to companies that pursue sustainable business practices and invested in communities, particularly those least able to obtain financial services through traditional financial institutions.

The Social Investment Forum (SIF), www.socialinvest.org, is proud to represent the community that was talking about climate change before it became a widely accepted risk; that has long sounded the warnings about socially irresponsible business practices here and abroad; and that for decades has responsibly and successfully loaned money to low-income communities—without the record foreclosures precipitated by the predatory lending of the last several years.

The Social Investment Forum is the national nonprofit membership association dedicated to advancing the concept, practice and growth of socially and environmentally responsible investing (SRI). SRI is a broad-based approach to investing that encompassed an estimated \$2.71 trillion out of \$25.1 trillion in the U.S. investment marketplace at the close of 2006. From 2005 to 2007, SRI assets increased more than 18 percent while the broader universe of professionally managed assets increased less than 3 percent. SRI investors encourage corporations to improve their practices on environmental, social and governance (ESG) issues. SRI is also referred to as mission investing, responsible investing, double or triple bottom line investing, ethical investing, ESG investing, sustainable investing, and green investing.

Our nearly 500 members lead the nation's active SRI community in integrating ESG factors into investment analysis and decision making through portfolio construction, shareholder engagement and advocacy, and community investing.

Socially responsible or sustainable investors use capital to promote clear and responsible corporate governance; to increase disclosure and therefore overall transparency and accountability; to address corporate, environmental and social shortcomings—from outsized carbon footprints to human rights violations in the global supply chain; and to support community investing institutions that strengthen low-income communities through access to capital. SRI investors work to enhance the bottom lines of the companies and, in so doing, seek to deliver sustained long-term wealth to shareholders.

Socially responsible investors comprise individuals and institutions, such as universities, hospitals, foundations, insurance companies, public and private pension funds, Indian tribes, nonprofit organizations and religious institutions. Institutional investors represent the largest and fastest growing segment of the SRI world.



The socially responsible investment community urges the Obama Administration to:

- Establish clear parameters and effective regulations for the financial system and stimulate transparent assessment of financial as well as environmental, social, and good governance factors;
- Enhance access to the corporate proxy ballot so that long-term shareholders have a say in the nomination of corporate directors and in protecting shareholder value;
- Support corporate responsibility or sustainability reporting by public companies;
- Restate the consensus view that fiduciary duty may compel fiduciaries to consider environmental, social and governance (ESG) factors;
- Assert global leadership in combating climate change, including through tax incentives and significant public investments in clean energy technology, energy efficiency, and green collar jobs and training;
- Take a critical look at lending policies and create more accountability in the lending marketplace;
- Create more opportunities for financially struggling homeowners to restructure their mortgages, helping them stay in their homes and out of foreclosure;
- Endorse legislation that provides for socially responsible investing options in the federal government's retirement plan;
- Create an Office for Innovation in Corporate Social Responsibility to enhance and coordinate interagency CSR activities, allowing the federal government to become a state-of-the-art leader in CSR across its vast domestic and international arenas of influence.

We would welcome the opportunity to assist the Obama Administration in strengthening and creating policies, initiatives and programs that support good governance, transparency, and concerted attention on environmental and social issues within businesses and financial institutions.

PRIORITY AREAS FOR THE SOCIAL INVESTMENT FORUM

Securities and Exchange Commission (SEC)

Access to The Proxy Ballot

In 2007, the SEC issued rulemaking proposals to limit shareholders' access to the proxy ballot to nominate corporate directors and floated proposals to limit shareholders' ability to file advisory resolutions. While SIF and other concerned investors were able to block further action related to weakening shareholder rights to file advisory proposals, the SEC did move forward on limiting access to the proxy to nominate directors. We believe the SEC should engage in new rulemaking that reverses this decision.

The current financial crisis underscores the need to strengthen rather than weaken oversight of corporate managers so that they act in the best interests of shareholders and other stakeholders. Instead, the SEC has effectively prevented shareowners from placing director nominees on the proxy ballot of publicly held companies. In U.S. corporate director "elections" today, there is only one candidate for each board seat, handpicked by company management. Shareowners can't even vote "no"—all they can do is withhold their vote. If shareowners wish to nominate their own candidates for the board, they must undertake the costly and burdensome process of a separate proxy solicitation. This process is undemocratic. Directors are fiduciaries who are supposed to represent the shareholders, not management. Allowing shareholders access to the proxy ballot for purposes of nominating

corporate directors will improve oversight, make corporations more accountable and have beneficial effects on long-term financial performance.

ESG Disclosure

We also urge the SEC to require publicly traded companies to report on environmental, social and governance issues that, if not managed properly, can harm shareholder value and public welfare. Though the SEC requires disclosure of financially material issues, to date this requirement has not been enforced when it comes to reporting on environmental and social issues that may pose significant risks and therefore have material financial impact. In addition, we believe the financial materiality standard is insufficient to ensure regular and consistent disclosure of long-term social and environmental risks. In our experience, many of these risks are inherently long-term and difficult to address in a short time frame. It is therefore not appropriate to measure their materiality against the same yardstick used for other more easily quantifiable risks.

In numerous European markets, as well as South Africa and Brazil, public companies are required by legislation or listing requirements to produce annual corporate social responsibility (CSR) or sustainability reports describing their policies and practices in areas such as the environment, climate change, employee relations and codes of conduct for vendors. We support required annual CSR or sustainability reporting by companies following the Global Reporting Initiative Guidelines (GRI) and believe it is time to require all companies to be more transparent on their ESG goals and performance.

Shareholder Resolutions

The new SEC Chair should also instruct the Division of Corporate Finance not to automatically issue No Action letters omitting shareholder proposals that ask management to undertake a risk assessment or review the financial implications of an array of environmental, community, public health and human rights concerns and issues.

In fact, we ask that the SEC restore, within the first hundred days of the new administration, the right of investors to propose and vote upon resolutions asking a company to evaluate how such specific risks may affect the company's business.

Department of Labor/ERISA

In October 2008, the Assistant Secretary of Labor for the Employee Benefit Security Administration took the unfortunate step of issuing two bulletins modifying the Department of Labor's official view on fiduciary duties. Arguably, these modifications sought to limit investment management discretion as well as the exercise of shareholder rights by pension fund fiduciaries. While it appears that the basic foundation underlying these principles remains intact (i.e. protecting the beneficiary's financial interests), internal inconsistencies and ambiguous language in these bulletins could discourage prudent decision making by trustees in the area of investment policies, proxy voting and shareholder engagement with companies. We believe that the current leadership at the Department is misrepresenting the consensus understanding on fiduciary duties that has evolved from legal and regulatory precedents as well as the steps taken by a number of leading pension funds. We also believe that now is the time for the new Administration to restate the consensus view that fiduciary duty may compel fiduciaries to consider environmental, social and governance factors.

We call on the President-elect and the incoming Administration to reject the outgoing Assistant Secretary's guidance and instead provide fiduciaries with clear, consistent and unambiguous guidance that adheres to the contemporary and principled understanding of fiduciary duties.

Addressing Climate Change

The Social Investment Forum is heartened by the nominations of highly qualified women and men to be members of the President-elect's energy and environment team. We are also encouraged by the President-elect's policy framework for energy and the environment that includes green jobs, plug-in hybrid cars, expanded incentives for renewable energy and development of a cap and trade program.

At this moment, companies face financial, physical, regulatory, reputational and legal risks as a result of climate change. In general, the disclosure currently provided by companies does not provide the information that investors need about how companies assess and manage these risks. More and better disclosure is necessary around environmental risks, but this is only one of the important actions that need to be taken to address global warming.

Like our colleagues at Ceres, a coalition of investors and environmentalists that includes many SIF members, we also urge the Obama Administration to assert global leadership in combating climate change by investing in and providing tax incentives to stimulate clean and renewable energy and energy efficiency; committing to substantial greenhouse gas reductions; investing in green collar jobs and training; and ensuring that a U.S. cap and trade system sets a firm price for carbon and other greenhouse gas emissions. We also look to U.S. leadership in the negotiations under the auspices of the United Nations to create a post-Kyoto framework that will establish binding emissions reductions commitments on a global basis.

Addressing the Continuing Economic Crisis

Today's financial crisis might have been avoided or lessened had the traditional financial community integrated into its corporate culture the principles that guide the work of SRI practitioners.

SIF believes that the regulation of the financial services industry needs to be strengthened and informed by a philosophy that seeks to protect and further the public interest, not simply the often short-term interests of financial institutions. Over the past 30 years, the deregulation of the financial services industry and the lack of oversight by such key agencies as the Treasury Department, the Federal Reserve and the SEC have contributed to the current financial crisis. The recent marketing of financial instruments worth trillions of dollars with inadequate transparency and regulation has led to spectacular market failures. It is clear that allowing the industry largely to police itself and determine its risk levels is unacceptable.

Regulations need to be put in place that improve transparency and control for permissible levels of leverage. To meet these objectives, regulatory bodies need to closely monitor those financial institutions and restrict activities adverse to the public interest.

The primary goal of the strengthened regulations should be to safeguard investors and the general public. An exchange and regulatory mechanism should be created for credit default swaps and other currently unregulated securities. Hedge funds should be registered and required to disclose their positions to federal regulators. Capital levels and margin requirements should be set and enforced. There needs to be an independent and accountable credit agency that is not subject to conflicts of interest.

Access to the Proxy Ballot

As stated above, this crisis has made clear that shareholders must have the opportunity to more directly affect corporate decision making and hold corporate boards more accountable. We support provisions that allow shareholders access to the proxy ballot to nominate and

elect individuals to the board of directors as an important step in making boards more accountable to investors committed to the long-term financial strength and success of corporations.

Executive Compensation Reforms

We support reforms in executive compensation policies and practices. It is quite possible that compensation incentives were driving forces behind financial companies taking excessive risks that led to the economic crisis. In addition, companies providing excessive bonuses and perks while downsizing staff and watching stock prices slide contribute to declining confidence in the business sector.

In order to hold compensation committees more accountable, we support an annual nonbinding shareholder vote on the executive compensation plan as described in the proxy for all publicly held companies. Shareholders have demonstrated a strong desire for this kind of accountability: more than 100 "Say on Pay" resolutions were offered by shareholders in 2008, and they averaged voting support of over 43 percent. We strongly support the advisory vote as one important tool for investors to hold companies accountable on executive compensation. Simply put, executive compensation has to be better aligned with the interests of shareowners, long-term corporate performance and the public.

Loan Modification and Increased Support for Community Development Financial Institutions (CDFIs)

SIF also asks that more be done for Americans who have been targeted by out-of-control and predatory lending practices that have decimated vulnerable communities. The Center for Responsible Lending projects that almost 2.2 million subprime foreclosures will occur, primarily from late 2008 through the end of 2009. An essential first step in ending the broader financial crisis is allowing for wide modification of loans to keep families in their homes.

The overall track record of solid, careful lending by Community Development Financial Institutions (CDFIs) to "subprime" borrowers stands in sharp contrast to the practices of institutions that created the predatory lending debacle. The incoming Administration should increase support for CDFIs, including setting aside at least \$1 billion in bailout funds for them to continue their success in building communities. Additionally, an increased role for CDFIs, and increased funds for the CDFI Fund, must be part of any economic recovery program.

SRI Option in Federal Thrift Savings Plan

In the 110th Congress and in the two previous Congresses, legislation has been introduced to create an SRI or corporate social responsibility option for employees in the Federal Thrift Savings Plan. A number of other public sector, as well as private sector employers, already provide one or more SRI retirement plan options to their employees. Providing SRI vehicles will give federal employees, who have made public service their careers, an investing option that addresses many of the issues they focus on in their daily work, including human rights, equal opportunity, the environment, accountability and ethics.

We believe that the federal government should be leading this trend, not lagging behind, and we call on the Obama Administration to support this change to the Thrift Savings Plan.

Create an Office for Innovation in Corporate Social Responsibility

SIF believes the time has come for the U.S. government to promote corporate social responsibility more comprehensively and effectively in alignment with public policy objectives in both the domestic and international arenas. We ask the Obama Administration to appoint an Office for Innovation in Corporate Social Responsibility (CSR) to enhance and coordinate CSR activities across the government, at home and abroad, and to actively pursue policies and initiatives to strengthen the CSR commitments of the private sector. We suggest this office be based in the Domestic Policy Council and work closely with the National Economic Council and the National Security Council to ensure appropriate interagency coordination on both the domestic and international fronts.

Such coordination should extend to an array of domestic and international agencies, including the Department of Treasury, the SEC, the Department of State and the U.S. Agency for International Development, the Department of Commerce, the Environmental Protection Agency and the possible new Office of Innovation to ensure that the U.S. Government can be a state-of-the art CSR leader across its vast domestic and international arenas of influence.

The need for such a role was spelled out in a 2005 Government Accountability Office report that found that 12 U.S. agencies, with over 500 federal programs, policies and activities, fell into one or more of four roles of endorsing, facilitating, partnering or mandating CSR activities. The report found that “these roles range from the least government involvement—endorsing companies’ voluntary efforts above and beyond compliance with laws and regulations—to the most government involvement through mandating behavior consistent with CSR.” These activities were found in domestic and internationally focused programs.

Finally, the GAO report found that there is no comprehensive, mandated federal role, definition, or agency coordination in global CSR, even though investments have become globalized, with many U.S. investors holding portfolio investments around the world. Recognition of the growing interest in CSR has led to a vastly increased emphasis on multilateral and international efforts around CSR and SRI, such as the Global Reporting Initiative, the UN Principles for Responsible Investment (PRI), and the Global Compact as well as important initiatives already underway in the US that require higher level focus and coordination in order to achieve their important objectives.

The person who leads this effort should have professional experience in corporate social responsibility/socially responsible investing, a deep knowledge of cutting edge corporate responsibility approaches, and an ability to forge partnerships between government agencies, and among government, the private sector and civil society. She or he should be well versed in domestic as well as international policy in this arena and able to drive change inside the government as well as in the corporate sector.

We believe the creation of an effective and creative Office for Innovation in CSR can be a profound and lasting legacy of the Obama Administration.

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