



# Social Investment Forum

*Information, contacts and resources on socially responsible investing*

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## ASrIA CONFERENCE, TOKYO, OCTOBER 28, 2002 PANEL: A-Z OF SOCIALLY RESPONSIBLE INVESTING

### REMARKS OF FRAN TEPLITZ, MANAGING DIRECTOR, US SOCIAL INVESTMENT FORUM

Thank you for the opportunity to join you today, as a representative of the U.S. Social Investment Forum. The U.S. Forum greatly appreciates the work of ASrIA and the leadership it is providing to advance socially responsible investing in Asia, and we very much look forward to further strengthening our ties with ethical investors globally.

By way of introduction, the U.S. Social Investment Forum is the national, non-profit trade association for socially and environmentally responsible investing in the United States. We have just over 500 members who participate in designing and implementing our primary programs. These include research, community investing (which provides access to capital to low-income populations domestically and internationally), shareholder advocacy, and international investing issues. All of these programs lend themselves to, or require, international collaboration and we are very interested in working with you more closely on each of these aspects of SRI.

When ASrIA invited me to join you, and described this panel, it was clearly no accident that someone from the United States was asked to address shareholder issues. Shareholder issues, of course, embody the corporate governance concerns that have been headline news. During the past year we have witnessed wave after wave of corporate scandal, including Arthur Anderson, Enron, Tyco, Worldcom and others. The crimes committed have profoundly affected the credibility of the business community and the well-being of employees, shareholders, and the public.

Ultimately, the U.S. government has stepped in, passing new legislation known as the Sarbanes-Oxley Act. This law toughens the consequences for corporate criminal behavior, creates an accounting oversight body, and addresses such issues as auditor and analyst independence and the sale of stock by company officials, among other provisions.

The recent violations have also accelerated one of the shareholder trends that the U.S. Forum wrote about in the 2001 edition of our "Report on Socially Responsible Investing Trends in the United States." This trend is the first major shareholder point I wish to highlight today – namely, the gradual confluence or linkage between the formerly separate worlds of corporate governance shareholder action on the one hand and social shareholder action on the other. As social shareholder advocates are turning their attention to corporate governance issues, such as

executive compensation or auditor independence, corporate governance advocates are also turning some attention to social and environmental issues.

An important example of this shift in the corporate governance sector is found in the issue of climate change. For example, Robert Monks, a leading corporate governance expert in the United States has taken-up the issue of global warming, and Institutional Shareholder Services, a leading proxy voting advisory firm, recently urged its clients to support a shareholder resolution at ExxonMobil on renewable energy options. The resolution received an impressive 20.3% of the shareholder vote and needed only 10% in order to be reintroduced next year, thereby keeping the issue in front of the company's management.

Pension funds, such as those of New York City, the State of Connecticut, and the State of Minnesota are also corporate governance advocates that are now addressing social shareholder issues.

The emerging connection between social and corporate governance shareholder work is one of the most promising developments for promoting corporate accountability across diverse issues. If this connection continues to grow, it means that social and environmental risks faced by companies, which are overwhelmingly ignored by management and financial regulatory agencies, will ultimately receive far more attention. Indeed, liability for social and environmental issues is gradually being recognized as a legitimate fiduciary responsibility. Of course, we still have a long way to go before this is widely achieved. Yet it is a positive sign that the idea of the "new fiduciary" is one that includes financial, social, and environmental considerations.

The growing connection between the corporate governance and social shareholder sectors also means that traditional corporate governance issues will in turn receive an added boost from social shareholder activists. In the past, those on the "social side" left matters such as rules pertaining to accounting firms, or the expensing of stock options, to the conventional financial sector. But clearly the voices from the social advocates are needed on those issues as well.

And this brings me to my second point. A key development that social and corporate governance shareholder advocates are currently addressing is a new proposal by the U.S. Securities and Exchange Commission on proxy voting disclosure. On September 20<sup>th</sup> the Commission proposed a new rule that would require mutual fund companies and registered investment advisors to disclose their proxy voting guidelines and the votes they cast for the companies in their portfolios. The comment period for this rule lasts until December 6<sup>th</sup>. While not every socially responsible fund and advisor as yet discloses this information, the SRI industry very much supports this initiative. Individual investors account for  $\frac{3}{4}$  of the assets in mutual funds, yet have had no information on how mutual fund companies vote their investors' shares. Shining the light on these votes and the criteria used to determine voting positions, is a prerequisite for influencing how votes are cast. Mutual funds, of course, have traditionally voted with management. Disclosure of voting policies and votes cast will open debate for investors.

The U.S. Forum has a campaign now underway to generate letters to the Securities and Exchange Commission, to mutual fund companies, and to the association of mutual fund

companies, urging their support of proxy voting disclosure. Sample letters are available on our shareholder web site, at [www.shareholderaction.org](http://www.shareholderaction.org)

Another shareholder development to watch, with potentially far-reaching effects for shareholders, is the receptiveness of SEC Chairman Harvey Pitt to potentially dispensing with the so-called “ordinary business” provision under which many shareholder resolutions are dismissed or weakened. Currently, if the Commission determines that a shareholder resolution pertains to a company’s “ordinary business” it is dismissed on the grounds that such matters are outside the scope of the shareholder process. Changing this rule would greatly expand shareholder opportunities and is an issue to monitor closely.

In my last remaining minutes, let me identify some of the key issues we see on the horizon for the next shareholder season. In 2002, more than 400 resolutions will have been filed and of those, more than 1/3 will address social and environmental issues. We expect to see increasing numbers of resolutions in the year ahead, especially in the wake of the wake of the recent scandals. The polling and interviewing we have conducted, with our members and with colleagues in organized labor and faith-based institutions, indicates high levels of interest in the following issues:

- \* corporate governance concerns
- \* climate change/renewal energy
- \* international labor standards
- \* human rights
- \* pharmaceutical pricing
- \* executive compensation linked to (a social or environmental issue)

We might also see more resolutions like this last example, where a governance issue such as CEO pay is linked to progress on social/environmental concerns. Trends with this hybrid or “crossover” resolution should be watched in the years ahead.

In closing, the U.S. Social Investment Forum looks forward to working with ASrIA to promote corporate transparency and policies that uphold sound fiscal management, including the corporate governance and the social and environmental concerns that are inherently part of doing business.

Thank you very much.