



## ABI publishes revised Guidelines on Responsible Investment Disclosure

In January 2007, the Association of British Insurers (ABI) issued its updated Guidelines on Responsible Investment Disclosure. These guidelines, which modify the Socially Responsible Investment Guidelines launched originally by the ABI in 2001 (see our article in the Spring 2003 Bulletin), reflect the continued debate on corporate responsibility, and changes to UK and EU legislation such as the EU Accounts Modernisation Directive and the UK Companies Act 2006.

Insight and other institutional shareholders believe that the revised guidelines will help companies understand and respond to investors' needs for transparent, high-quality, forward-looking reporting, without imposing unnecessary costs on business.

The new guidelines have not changed substantially. They focus on encouraging companies to include discussion in their narrative reporting of the environmental, social and governance (ESG) risks they face, but set in the context of the full range of risks and opportunities the company faces. They also encourage companies to explain what steps they are taking to mitigate and address these risks. The guidelines apply to all companies, including small and medium sized companies and are laid out in Box 1.

### Box 1: The ABI's Guidelines on Responsible Investment Disclosure

The guidelines take the form of disclosures, which institutions would expect to see included in the annual reports of listed companies. Specifically, they refer to disclosures relating to Board responsibilities and to policies, procedures and verification.

With regard to the Board, the company should state in its annual report whether:

- 1.1 As part of its regular risk assessment procedures, the Board takes account of the significance of environmental, social and governance (ESG) matters to the business of the company.
- 1.2 The Board has identified and assessed the significant ESG risks to the company's short- and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response.
- 1.3 The Board has received adequate information to make this assessment and that account is taken of ESG matters in the training of directors.
- 1.4 The Board has ensured that the company has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

With regard to policies, procedures and verification, the annual report should:

- 2.1 Include information on ESG-related risks and opportunities that may significantly affect the company's short- and long-term value, and how they might impact on the future of the business.
- 2.2 Include in the description of the company's policies and procedures for managing risks, the possible impact on short and long term value arising from ESG matters. If the annual report and accounts states that the company has no such policies and procedures, the Board should provide reasons for their absence.
- 2.3 Include information, where appropriate using key performance indicators (KPIs), about the extent to which the company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the Board in providing oversight.

2.4 Where performance falls short of the objectives, describe the measures the Board has taken to put it back on track.

2.5 Describe the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.

With regard to the Board, the company should state in its remuneration report:

3.1 Whether the remuneration committee is able to consider corporate performance on ESG issues when setting remuneration of executive directors. If the report states that the committee has no such discretion, then a reason should be provided for its absence.

3.2 Whether the remuneration committee has ensured that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

Insight supports the ABI's Guidelines on Responsible Investment Disclosure. Their publication is timely, given the increasing recognition of the potential financial relevance of ESG issues to many companies. We encourage companies to adhere to the main principles outlined above. We believe they provide a good framework for engagement between companies and their shareholders to encourage best practice in managing ESG issues and, ultimately, shareholder value. We hope that these guidelines will stimulate companies to further improve their reporting on ESG issues within their Annual Reports and Accounts.

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**Produced by the Insight Investor Responsibility Team**

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