

## **RESPONSIBLE INVESTMENT**

### **1. Decisions required and recommendations for approval**

No decisions required for this Quarter

### **2. Activity Report**

#### **2.1 Enhanced Business (post-OFR) reporting**

A global consortium led by investors (including USS) and other interested parties, have now sent two letters to the Minister for Trade and Industry, Alan Johnson. The first letter was sent in response to a call for comments in which the signatories expressed their concerns and suggested steps that the government should take to rectify the loss of information resulting from the abolition of the OFR. In response to the government's decision to consult more widely to determine amendments to the Company Law Reform Bill "to ensure effective forward looking narrative reporting by quoted companies", an additional letter was sent by a larger consortium. The letter made four practical recommendations to the government:

- To provide strong incentives for an active voluntary approach towards reporting based on standards set out in the Accounting Standards Board's Reporting Statement
- The fears that directors have about personal liability relating to forward looking reporting need to be addressed
- It is vital that full consideration is given to future global developments in reporting which will be shaped by the International Accounting Standards Board

There is a need for a broader body of support for better reporting which could be based on a proposed set of Principles for Reporting & Accountability. Request appendices A & B.

#### **2.2 Safe harbour paper**

USS also submitted a separate paper to the government's consultation which focuses on some of the main legal and strategic considerations arising from the debate over the possible introduction of a 'safe harbour' provision for directors in forward looking reporting. The paper did not attempt to take a position either for or against the introduction of a safe harbour. Rather it sought to surface, in a balanced manner, the issues that need to be addressed if there is to be a campaign for the introduction of the safe harbour. Request appendix C for a copy of the paper.

#### **2.3 International Accounting Standards Board submission**

USS coordinated a joint response to the IASB's consultation on its proposed Management Commentary on behalf of a global consortium of investors, corporates and other interested parties. The letter, which included BP and CalPERS among the signatories, aimed to provide support to the IASB's initiative as it provides "an opportunity to equip global markets with a regime of corporate accountability that is both forward-looking and pragmatic". Request Appendix D for a copy of the letter.

#### 2.4 News Corp: update – court decision

The plaintiffs in the lawsuit against News Corporation, including USS, have now settled their action against the company prior to the case going to trial. The company has now agreed to allow a shareholder vote at the next AGM on the ‘poison pill’ takeover defences put in place in 2004, as per our original request. This is a significant achievement both in terms of improving corporate governance standards in the US and for the rights and interests of minority shareholders in NewsCorp. The case also highlights the importance and benefits of collaboration among pension funds at a global level.

#### 2.4 Enhanced Analytics Initiative

Over the past Quarter, EAI’s membership has again increased. Importantly, two of the new members are from North America, the first members from this market. The Canada Pension Plan Investment Board (CPP) is a large state pension fund with assets of €66bn, whilst Calvert is a mutual fund that is well respected in the SRI sector, and has assets in excess of €10bn. An additional European member is the French fund Sogeposte (€25.7 billion), asset management subsidiary of La Banque Postale. These new memberships take the Initiative’s total assets under management to €757bn. EAI also introduced a new category of membership for high profile supporters of EAI amongst organizations or individuals who support the Initiative but do not directly own assets or manage money. Keith Ambachtsheer (Adjunct Professor of Finance, and Director of the Rotman International Centre for Pension Management at the University of Toronto) and Rob Arnott (Editor of the *Financial Analysts Journal*) are the first members in this category.

#### 2.5 Executive Remuneration

Further to the joint letter sent to the SEC in contemplation of a rulemaking proposal regarding enhanced disclosures on executive compensation, USS coordinated an additional collaborative submission to the SEC following the publication of the consultation document. The letter, which was sent on behalf of 16 global pension funds including CalPERS and ABP, commended the SEC for its proposed comprehensive expansion to the US reporting scheme. The letter also put forward a number of recommendations including the need to allow shareholder resolutions seeking an advisory vote on executive compensation. Many of the signatories are also members of the International Roundtable on Executive Remuneration which aims to facilitate collaborative global engagement among investors with companies that have poor remuneration practices. [Request Appendix E for a copy of the letter](#)

#### 2.7 Climate change

The IIGCC has focussed on public policy issues over the past quarter. This has included a submission to Government on the Phase II of the EU Emissions Trading Scheme which emphasised the importance of long-term policy certainty for investors, and the separate publication of a statement on the importance of including the aviation sector in EU ETS which was sent to all 25 EU Environment Ministers. In addition, the IIGCC submitted comments to the Stern Review on the economics of climate change, and responded to the DTIs consultation on mandatory business reporting,

emphasising that all companies should consider climate change as an issue for inclusion in their Business Review. IIGCC members, including a USS participant, also met with DEFRA to discuss Phase II and beyond of EU ETS, the government's Climate Change Programme Review and engagement with policymakers, and with the Stern review Team to discuss the importance of credible long-term policy commitments. For more information, please request Appendix F.

## 2.8 Launch of Principles for Responsible Investment

In April, UN Secretary-General Kofi Annan officially launched the Principles for Responsible Investment at a signing ceremony at the New York Stock Exchange. USS attended this launch and, as agreed, signed up to the Principles, along with over 20 other asset owners from around the world. A separate launch, attended by Howard Jacobs and a member of the RI team, was hosted in Paris on May 2, with a specific focus on asset managers. USS has played a significant role in the development of these Principles, and the RI team and LIO will develop a strategy for their implementation at the fund. More details of the PRI can be found at <http://www.unpri.org/> and in Appendix G.

## 2.9 Other activities including public presentations and media coverage (Request Appendix H)

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3 May 2006