

## Institutional investors achieve greater disclosure of bribery and corruption risks

*A three-year engagement by PRI signatories has resulted in improved transparency and disclosure of anti-corruption strategies, policies and management systems by several global companies with significant exposure to corruption risk.*

LONDON, 25 April 2013 – Three quarters of companies targeted in an investor engagement aimed at improving disclosure and understanding of companies' anti-corruption risk management have significantly improved their transparency in this area. The results of this engagement will enable investors to better assess and manage their exposure to the financial, operational and reputational impacts of corruption risks in their portfolios.

The engagement was undertaken by a coalition of 21 signatories to the Principles for Responsible Investment, a global body of investors who believe that environmental, social and corporate governance (ESG) factors affect the long-term performance of investment portfolios. The investor group, led by F&C Asset Management and Hermes Equity Ownership Services, collectively manages more than \$1.7 trillion in assets, and began engaging with 21 companies across 14 countries in March 2010 to encourage them to demonstrate that they had appropriate anti-corruption controls.

An important element of this work was to encourage reporting in line with international reporting frameworks, such as the International Corporate Governance Network's Statement and Guidance on Anti-Corruption Practices and the UN Global Compact's Reporting Guidance on the 10th Principle Against Corruption. Companies were asked to improve their disclosure of how they managed bribery and corruption risks as well as tested on the efficacy of their risk management in this area.

Each of the 21 companies were selected due to their poor public disclosure of anti-corruption risk management and high levels of corruption risk because of the nature of their businesses. Poor disclosure is often a sign both of companies with cultures where corruption can occur, and of poor risk management.

A methodology developed by Transparency International, called Transparency in Reporting on Anti-Corruption (TRAC), was used to assess companies against fifty indicators relating to their anti-corruption strategy, policy and management systems.

The results from the engagement have been encouraging: By early 2013, sixteen companies have improved their performance against the indicators, with ten companies improving their score by four-fold, and the leading company improving its score by six-fold.

*Tim Goodman, Associate Director at **Hermes Equity Ownership Services**, commented: “We have seen in recent high profile cases, even if corruption is not prosecuted, the huge reputational and financial damage it can cause to the companies engaging in it. More than that it siphons value to the corrupt, inhibits fair competition and impedes economic development to the detriment not only of shareholders’ portfolios but of companies’ other stakeholders and wider society. Hermes Equity Ownership Services has therefore been proud to be part of the PRI’s collective engagement to fight for better management of corruption risk as part of its work in combating corruption. We look forward to continuing to work with PRI and its members on this vital issue affecting the long-term value of our clients’ portfolios and thank Transparency International for the support that it has given to this work.”*

*“Anti-corruption has been a key priority area for us for many years since it undermines the legitimacy and sustainability of economic systems and provides huge risks to the companies we invest in. We are glad to see that this joint investor engagement has been fruitful and led to increased company disclosure. We will continue to engage with companies regarding their anti-corruption work,” said Christina Hillesöy, chairwoman of the **Ethical Council, collaboration between the First, Second, Third and Fourth Swedish National Pension Fund**.*

***Ann Byrne, CEO of the Australian Council for Superannuation Investors**, said: “As long-term investors we have a responsibility to address the impact that bribery and corruption has on investment returns, market volatility and uncertainty in company performance. Companies involved in allegations of corruption and bribery are often characterised by poor corporate governance processes, the failure of internal processes to protect the integrity of stakeholders and an inability to successfully implement and monitor company codes of conduct. As such, ACSI is pleased to participate in this collaborative initiative which proactively engages in dialogue with companies on these issues.”*

The findings were released as a group of 12 investors, collaborating through the PRI, work to launch the next phase of their work to engage with companies on anti-corruption issues. The new engagement will target up to 50 firms across a wider range of sectors and countries to better understand their ability to manage and reduce corruption-related risks and their capacity to improve practices and transparency.

## Note to editors:

PRI signatories that participated in the engagement included: Australian Council of Superannuation Investors (ACSI)<sup>1</sup>, AP1 (First Swedish National Pension Fund), AP2 (Second Swedish National Pension Fund), AP3 (Third Swedish National Pension Fund), AP4 (Fourth Swedish National Pension Fund), APG Asset Management, BC Investment Management Corporation, Boston Common Asset Management, California State Teachers' Retirement System (CalSTRS), Ethos Foundation, F&C Asset Management, Henderson Global Investors, Hermes Equity Ownership Services, MN, New Zealand Superannuation Fund, Rathbone Brothers Plc, Robeco, Skandinaviska Enskilda Banken (SEB) AB, Sparinvest Group, Syntrus Achmea Asset Management, and Victorian Funds Management Corporation.

The 21 companies that were targeted by the engagement are domiciled in: Austria, Belgium, Brazil, China, France, Germany, Japan, Mexico, Russia, South Korea, Spain, Sweden, UK, USA. They operate in the following sectors: Materials, Telecommunications Services, Capital Goods, Aerospace & Defence, Construction, Media, Utilities, Food Markets.

Transparency International provided research and expertise to the investor coalition. Further details on Transparency International's TRAC methodology can be found [here](#).

The international reporting frameworks on anti-corruption practice by the International Corporate Governance Network and UN Global Compact can be found [here](#) (for ICGN) and [here](#) (for UNGC).

## About the Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

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<sup>1</sup> The Australian Council of Superannuation Investors (ACSI) is a collaboration of superannuation funds and is participating on behalf of the following PRI signatories: AIST, Australian Catholic Superannuation and Retirement Fund, AustralianSuper, CARE Super, Catholic Super, Cbus, Christian Super, Energy Industries Superannuation Scheme (EISS), ESSSuper, HESTA, Hostplus, Industry funds management, Local Government Super, LURFSuper, Media Super, NGS Super, Statewide Super, Tasplan, Telstra Super, TWUSUPER, UniSuper, VicSuper, and Vision Super