International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

2 November 2009

Sustainable Stock Exchanges Event

United Nations Headquarters,

New York

2 November 2009

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Chairman,

IOSCO Executive Committee

and

Chairman,

New Zealand Securities Commission

SP010-09

Ladies and gentlemen:

The focus of this event is the confluence of two great forces – global capital and global warming.

My discussion with you today is focused through a regulatory lens and may prove disappointing to some of you. I would like to leave you with two thoughts and two questions. The first thought is that global warming meeting up with global capital may be one of the most productive ways to eventually combat climate change. The second thought is that there has been an exciting explosion of activity all around the world as stock exchanges have chosen to include listing rule changes, created new indices, and otherwise responded to investor demands for greater information on environmental Social and Governance issues. The two questions I am asking today are: are these changes happening quickly enough to influence corporate behaviours? And – are market disciplines sufficient or is regulatory intervention required? Some of the answers to these questions may depend on your regulatory philosophy.

Concern for the future of the planet is making activists of us all – more of us choose carefully the food we eat, the car we buy, the type of house we build, the origin of the energy we use. We use the same yardstick to choose how we invest our money.

The global financial crisis has distracted some from the necessary focus on global warming and relevant corporate disclosures, but there are a number of lessons from the crisis which serve as pointers to the importance of our refocusing on greater transparency in this area. The Global Financial Crisis illustrates that dark unregulated or under regulated parts of markets outside the spotlight of transparency grew to dangerous proportions which challenged the very fabric of global financial markets and led us to the brink of ruin

Recent efforts by the G20 and IOSCO are aimed at ensuring greater transparency in areas un or under regulated parts in the market. In relation to climate change indicators we should not be complacent about lack of disclosure.

Mary Shapiro Chairman of the US SEC said recently “We should never underestimate or take for granted the wide spectrum of benefits that come from transparency. In particular transparency plays a vital role in promoting public confidence in the honesty and integrity of financial markets.”

This is where UNCTAD should be congratulated on the development of the global compact. It is encouraging to see the Principles for Responsible Development being embraced by a number of Investors and stock exchanges around the world. I am pleased to note that the New Zealand Superannuation Fund has recently signed-on and that Glen Saunders, a Trustee of that Fund, is a member of the PRI Board.

I am grateful to Dan Siddy, founder and Director of Delsus Ltd for his analysis of the progress of exchanges around the world in proactive commercial strategies in response to investor interest in ESG issues. This report was commissioned in late 2008 by the WFE. He points out that roughly 11 percent of assets in the US are now involved in socially responsible investment.

A number of exchanges, many in emerging markets, for example Malaysia, Thailand, China and Taiwan have encouraged or mandated corporate Social Responsibility concepts while a number of developed markets, Australia, London, and others have required or asked on an "if not why not" basis for disclosures of environmental or sustainable policies.

This is not a new concept. Certain investors and investment choices have always been driven by values – particularly, religious and cultural. The rise and success of Islamic capital markets is a clear example. The 21st century promises an expansion of this choice into secular issues – particularly climate change and the sustainability of life on earth.

Investors increasingly demand Environmental, Social and Governance, or ESG, based returns as well as financial returns. They look harder at companies they're considering investing in, asking about carbon footprints and emissions trading. We are also seeing greater analyst interest in these areas. Investors rely on companies to supply all the necessary information and so demand greater transparency, in prospectuses, annual reports and through continuous disclosure.

Where continuous disclosure applies companies are required to disclose all Environmental, Social and Governance issues which are material.

Smart companies and stock exchanges recognise the power of ESG values to drive investment. Whether mandated or not, we are seeing greater transparency in published investment strategies, with environmental policies and carbon footprints commonplace disclosures.

What was a whisper in the 20th century – “Don’t invest in guns or tobacco” – has become a shout – “Invest to protect the planet”. To my mind, the 21st will be the century of investor power and choice!

Stock exchanges have always played a role in social and economic development, as the medium through which share-holders exercise choice and influence. Regulators, too, have always done what they can to enable investors to make sound choices. Disclosure and transparency are compulsory to varying degrees in every jurisdiction. Transparency is a core goal of IOSCO. Most regulators rightly assume that the more investors know, the better they can match an investment opportunity with their own financial and ESG aspirations.

One issue for Investors and regulators will be how they define good governance. Good governance – its encouragement, and, where necessary, enforcement – is a vital plank in investor protection and one of the bases of investor confidence. As a concept and practice, it can be seen to capture both social and environmental outcomes and more besides.

My colleague on the Financial Crisis Advisory Group, John Bogle, has said the crisis was one of "ethic proportions". He defines good corporate governance as a set of guidelines or tools ensuring "self-interest does not get out of hand". An ethical backbone that ensures every corporate decision, every initiative, is soundly based not just in the pragmatics of profit but also in decent values.

We have known for some time that good governance makes good business sense. An investor opinion survey published in 2000[1] found more than 84% of 200 global institutional investors were willing to pay a premium for shares in a well-governed company in preference to a poorly governed one with a comparable financial record. Three-quarters indicated that, as investors, board practices were at least as important to them as financial performance. A decade on, and having been hit by the crisis, those figures might be even more impressive.

As the world prepares for Copenhagen, and hopefully a consensus for targets for greenhouse gas emissions, we have seen a number of Exchanges around the world actively servicing national and international carbon markets. These markets are aiming at providing trading platforms for futures contracts based on carbon emission reduction credits or other environment-related products. Regulatory oversight of thee markets is vital as they run the same risks of market abuse as other commodities and futures markets. They provide a valuable enabler for companies to offset or otherwise manage their environmental issues.

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[1] Cited in *King Report on Corporate Governance for South Africa – 2002 (King II Report)*, Institute of Directors in Southern Africa.

One issue to consider is that a consensus may be delivered in Copenhagen and jurisdictions may sign on to a fully inplementable international agreement. Under such an agreement companies would need to calculate and manage their carbon emissions through trading or other mechanisms. The issue of environmental disclosures would then become commonplace and normalised as a regular part of corporate reporting.

The International Auditing and Assurance Standards Board has just issued a consultation paper as part of its work to improve reporting on greenhouse gases. Its goal is a robust standard.

If jurisdictions feel markets are not responding quickly or strongly enough to the challenge of global warming, they will mandate changes, as some have already done. We might eventually see a global standard. In this respect, a global consensus would be most helpful, and we look forward to seeing what comes out of December's UN climate change conference in Copenhagen.

I agree with Sir Howard Davies, former Chairman of the FSA and now Director of the London School of Economics, who said recently in New Zealand that regulation will always be a backstop. Regulatory intervention must always be considered when it's clear markets cannot or will not deliver the protection and disclosures investors need.

Is it enough, then, to let the current trends take their course? When it comes to ESG issues, do we need to do more? This is an interesting and difficult question. My own view is that the jury is still out.

The debate about whether global finance and financial regulation and the role of stock exchanges is changing fast enough to cope with global warming is one we need to have.

Thank you.