

CORPORATE SUNSHINE WORKING GROUP BULLETIN
SEC AND SOCIAL/ENVIRONMENTAL ACCOUNTING
Third Quarter (September) 2006

The Corporate Sunshine Working Group is an alliance of investors and public interest organizations that advocates for broader and deeper corporate environmental and social disclosure requirements at the Securities and Exchange Commission, and monitors the SEC's enforcement of existing laws. The CSWG bulletin is published quarterly. Contact Michelle Chan-Fishel of Friends of the Earth – US at mchan@foe.org. To subscribe, send a blank email to sunshinewg-subscribe@topica.com.

SEC/ ACCOUNTING NEWS

1. Casey Named New Commissioner
2. SEC Adopts New Executive Comp Disclosure Rules
3. SEC Issues Concept Release on Evaluating Internal Controls

ADVOCACY AND ACTIVITIES

4. Investors Meet with SEC Commissioner to Push For Better Climate Reporting in SEC Filings
5. New Investor Campaign at SEC to Allow Certain Disclosure-Related Shareholder Resolutions
6. Public Comment Encouraged on CICA MD&A Reporting Guidance

INTERNATIONAL

7. SIO Advocates for Mandatory GRI Reporting in Canada
8. Two Steps Forward and One Step Back on the OFR
9. Australia: Mandatory CSR reporting not recommended
10. Malaysia Moves to Require Listed Companies to Disclose CSR activities

RESEARCH AND REPORTS

11. Survey Finds US Environmental Disclosure is Mixed
12. Review of Environmental Reporting of the FTSE All Share
13. IFAC Paper Sets Out Business Case For Addressing Sustainability

SEC/ ACCOUNTING NEWS

1. Casey Named New Commissioner

Kathleen L. Casey was sworn in as the SEC's newest Commissioner in July 2006. According to the SEC: "Prior to being appointed Commissioner, Ms. Casey spent 13 years on Capitol Hill. She served as Staff Director and Counsel of the Senate Banking, Housing, and Urban Affairs Committee. Ms. Casey was primarily responsible for guiding the Chairman's and Committee's consideration of, and action on, issues affecting economic and monetary policy, international trade and finance, banking, securities and insurance regulation, transit and housing policy, money laundering and terror finance. From 1996-2003, Commissioner Casey served as Legislative Director and Chief of Staff, respectively, for Senator Richard Shelby (R-AL). As Legislative Director, Commissioner Casey was instrumental in the drafting and passage of several laws. In her capacity as Chief of Staff, Ms. Casey acted as key advisor on all policy and political matters." Casey replaces Republican appointed Commissioner Cynthia Glassman.

2. SEC Adopts New Executive Comp Disclosure Rules

In July, the SEC unanimously approved new executive compensation disclosures rules that, among many things, would require companies to indicate when stock options were granted, and also what the full value of option grants. In addition, companies have to indicate whether

options are “in the money”; in the past executives have opted to buy shares at lower prices than those investors pay at the close of market on the same day. For a summary of the new rules, see <http://www.sec.gov/news/press/2006/2006-123.htm>

3. SEC Issues Concept Release on Evaluating Internal Controls

The SEC recently closed a public comment period on a new Concept Release on internal controls. The Release is meant to be a precursor to the Commission’s upcoming management guidance for assessing company internal controls for financial reporting. According to the Commission, the guidance will cover issues such as how to identify risks relating to financial reporting, how management should establish and evaluate internal controls procedures, and what kinds of documentation should be established. In the past, the Commission has referenced the Treadway Commission’s COSO framework as a suitable method for US companies to determine the robustness of their internal controls under Section 404 of Sarbanes Oxley. As mentioned in the 4Q2004 edition of the CSWG newsbulletin, the COSO Framework states that “The underlying premise of enterprise risk management is that every entity exists to provide value for its STAKEHOLDERS” (emphasis added) and particularly mentions “employees, suppliers, customers, competitors and the public” as examples of stakeholders. Balancing these concerns can be complex and frustrating because interests are often at odds. See http://www.coso.org/Publications/ERM/COSO_ERM_ExecutiveSummary.pdf
The SEC’s new concept release can be found at <http://www.sec.gov/rules/concept/2006/34-54122.pdf>

ADVOCACY AND ACTIVITIES

4. Investors Meet with SEC Commissioner to Push For Better Climate Reporting in SEC Filings
Under the auspices of the Investor Network for Climate Risk, several institutional investors met with SEC Commissioner Roel Campos on September 20, 2006 to raise concerns about inadequate corporate reporting of climate change-related risks in SEC filings. The investors highlighted the materiality of climate change to businesses, and also provided supporting evidence of company underreporting.

5. New Investor Campaign at SEC to Allow Certain Disclosure-Related Shareholder Resolutions
In recent years, SEC staff have allowed companies to exclude disclosure-related shareholder proposals which ask for assessment of risks regarding current policy issues facing the company. The original SEC precedence and rationale for allowing the exclusion of “risk assessment” proposals was to prohibit shareholders from challenging detailed company accounting criteria – a matter that is prescribed by law and is also related to the “ordinary business” of the company. However, in 2006, SEC staff made unprecedented use of the “risk assessment” rationale to exclude a record 12 proposals on issues such as climate change-related risks. Investors turned to filing shareholder resolutions because they were clearly were not receiving adequate information in SEC filings. A “shareholder rights working group” is currently forming to address the proxy risk assessment issue; those interested in joining should contact Sanford Lewis at 413 549-7333 or strategiccounsel@mac.com

6. Public Comment Encouraged on CICA MD&A Reporting Guidance

The Performance Reporting Board of the Canadian Institute of Chartered Accountants is currently soliciting public comment on a discussion paper “MD&A Disclosure About the Financial Impacts of Climate Change and other Environmental Issues.” Although this draft does not have the authority of a legally-binding accounting standard, it is important in that it offers best-practice guidance to accountants and reporters. The draft is also important because it is the first climate risk disclosure guidance issued by an accounting body. Friends of the Earth has issued an

action alert, encouraging investors to submit letters in support of this draft. For a copy of the alert, email mchan@foe.org; to see the draft, go to http://www.cica.ca/index.cfm/ci_id/247/la_id/1.htm

7. SIO Advocates for Mandatory GRI Reporting in Canada

From socialfunds.com: "While this question [of mandatory Global Reporting Initiative disclosure] has been bandied about informally for a long time, the Social Investment Organization (SIO) in Canada recently formalized the notion in its submission to the National Roundtables on Corporate Social Responsibility last week. The Roundtables, established by the Canadian government to improve CSR practice specifically in the Canadian extractive sector operating in developing countries, are convening between June and November 2006 in Vancouver, Toronto, Calgary, and Montreal. SIO used the opportunity to make an unprecedented recommendation that the Canada Business Corporations Act be amended to mandate annual GRI reporting." See <http://www.socialfunds.com/news/article.cgi/2114.html> for the full story, and for the submission see http://international.gc.ca/cip-pic/library/CSR_Toronto_Submission_%20Eugene_Ellman_0906.pdf

INTERNATIONAL

8. Two Steps Forward and One Step Back on the OFR

The saga of the UK Operating and Financial Review continues: After being scrapped by the Chancellor of the Exchequer, OFR supporters have managed to restore a few aspects of the regulation in the UK Companies Bill. This bill was passed in order to comply with the EU Accounts Modernization Directive and will require companies to provide some general social and environmental disclosure through a "Business Review" report, although it will not be as specific as what would have existed under the OFR. In particular, the Business Review does not require disclosure and discussion of Key Performance Indicators, which were to be a key way for companies to discuss non-financial data with shareholders. Accounting Standards Board Reporting Standard 1, which was developed in order to implement the OFR, has now been demoted to best practice, rather than a formal accounting standard. Notably, directors' duties in the Bill now explicitly include paying attention to stakeholder issues, such as the environment, long term consequences of decisions, impact of decisions on the community, and the needs of employees.

9. Australia: Mandatory CSR reporting not recommended

From www.mallenbaker.net: "A federal parliamentary committee has recommended that CSR reporting should remain a voluntary activity for Australian businesses. The Joint Committee on Corporations and Financial Services has stated that it does not believe that mandatory standards will lead to improvements, but that businesses will be expected to show that voluntary action can improve performance. The chairman of the committee, Grant Chapman said that a number of businesses already did well when measured against international standards. But plenty of others still had further to go. One recommendation that caused a fair degree of comment was one that suggested that companies should reflect on how well company bosses have prepared the firm for the long-term future in its remuneration proposals." See: www.mallenbaker.net/csr/nl/98.html#anchor1667

10. Malaysia Moves to Require Listed Companies to Disclose CSR activities

As excerpted from *The Edge Malaysia*: "The launch of the Bursa Malaysia corporate social responsibility (CSR) framework on Sept 5 represents a great leap forward in the country's efforts to promote business sustainability. Bursa Malaysia [the Malaysia Stock Exchange] sees this as an opportunity to influence and enhance the quality and value of public-listed companies. Chief

executive Yusli Mohd Yusoff regards CSR as a vital criterion for guiding investors' decisions globally, and stakeholders who expect companies to have good CSR practices that go beyond community services alone...there is now a greater demand for disclosure of the impact of business on society and environment. It comes as no surprise when Prime Minister Datuk Seri Abdullah Ahmad Badawi, in his recent Budget 2007 speech, spoke of the need for public-listed companies to inculcate such culture and disclose their CSR activities." Tay Kay Luan. "CSR Momentum: Big step forward for CSR," The Edge Malaysia, September 18, 2006.

RESEARCH AND REPORTS

11. Survey Finds US Environmental Disclosure is Mixed

In 2006, the Brattle Group released the results of a web-based survey to benchmark the current attitudes, practices, challenges, and trends relating to this area. It found that although companies disclose environmental liabilities (usually in the 'Legal Proceedings' and 'Management Discussion and Analysis' sections, and as footnotes in their financial statements), "only 14% of the respondents reported accruing liabilities on their financial statements." In addition, the survey found that companies are struggling to define what is material and use different materiality thresholds: "The most common test reported is the filing of a legal claim (50% of respondents). Other specific tests frequently reported include specific dollar amounts (21% of respondents) and expecting resolution of liability within the next five years (21% of respondents). Twenty-nine percent of the respondents reported not having a specific test for materiality." Despite the wide variation in materiality definitions, "opinions regarding whether there is sufficient guidance to determine what is 'material' were about evenly split between those respondents that answered 'yes' and those respondents that answered 'definitely no' or 'probably no.' Interestingly, some of the respondents who answered 'probably yes' reported not having a specific test for materiality, which suggests their preference for some flexibility in determining what is 'material.' Conversely, some of the respondents who answered 'definitely no' or 'probably no' appear to want additional guidance, as they had also reported not having a specific test for materiality." To see the summary of the results, go to: www.abanet.org/environ/committees/environdisclosures/Env_product_liability_disclosure.pdf

12. Review of Environmental Reporting of the FTSE All Share

Trucost, on behalf of the UK Environmental Agency, recently did an update to their 2004 report 'Environmental Disclosures in the Annual Report & Accounts of companies in the FTSE All Share'. Since the last review, the UK has introduced new Company Law which requires enhanced environmental and social reporting. The survey found that since the new law, many companies have improved their discussion of environmental issues; however, the levels of quantification of environmental performance remain low. In particular, the survey found that 96% of companies discussed their interaction with the environment in their Annual Report and Accounts, in comparison with 86% in the 2004 study. The most common disclosure was regarding waste management, followed by disclosures related to compliance. Disclosures regarding climate change also dramatically increased. The full copy of the report will be available in Fall 2006. www.trucost.com

13. IFAC Paper Sets Out Business Case For Addressing Sustainability

A paper from the International Federation of Accountants provides an overview of enterprise sustainability and sets out the business/financial case for addressing sustainable development at the enterprise level in terms of the risks that sustainable development poses and the opportunities which it brings. It also seeks to identify the main sustainability related roles which the professional accountant in business might occupy, either today, tomorrow or at some more distant future time. The paper was published simultaneously with an information paper entitled

Professional Accountants in Business - At the Heart of Sustainability, in which high profile professional accountants in business explain how sustainability issues impact on them.
www.ifac.org/Store/Details.tmp?SID=11565145692751995