



RECOMMENDATIONS OF THE WORLDCONNECTORS WORKING GROUP FINANCIAL SYSTEMS TO THE N DUTCH BANKING SECTOR

These recommendations were formulated by the following Worldconnectors who are active within the Worldconnectors' Working Group *Financial Systems*: Herman Wijffels, Ruud Lubbers, Herman Mulder, Nanno Kleiterp, Tineke Lambooy, Adrian de Groot Ruiz and Leontien Peeters.
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Preamble

The objective of the Working Group Financial Systems of the Worldconnectors is to make recommendations for more comprehensive and future-oriented commercial and risk management policies by the Dutch banking sector. In this task it has limited itself to address those issues which, so far, in the public debate on reforming the financial sector have received less attention: corporate social responsibility and sustainability.

It is recognised that Dutch banks have taken important initiatives in this space, but the trust-crisis with the bank sector as well as the urgency of addressing "public goods" and the role of business therein, require more priority and urgency. The Recommendations made herein may be incorporated in the Bank Code, which became effective on 1 January 2010.

(A) CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

- (1) In their commercial and risk management policies banks need to make their own contribution to corporate social responsibility and sustainability; Environmental, Social, Ethical & Governance (ESEG) issues need to be part of core business;
- (2) Each bank needs to define its own standards and policies for Environmental, Social, Ethical and Governance (ESEG) issues in its own operational and its client-oriented lending-, investing-, asset management- trading- and advisory- practices ¹;
- (3) The ESEG standards and policies will be fully integrated in the core evaluation- and approval processes, including in KYC/Due Diligence procedures with respect to business- and private banking clients²;

¹ international reference for defining ESEG standards may be found in , inter alia, OECD Guidelines for Multi-National Enterprises (OECD-MNE), Earth Charter International (ECI), Global Compact (UN-GC) Principles for Responsible Investment (UN-PRI), Equator Principles for Project Financing, Ruggie's Framework for Human Rights and Business "Protect, Respect, Remedy".

² Due Diligence on a client should explicit include the ESEG approach of such client. benchmarking against "sector codes and/or "best practices" should be made and if found deficient, be explicitly discussed with the client.

- (4) ESEG standards and policies will be included in internal training and management development programs, and incorporated in business unit objectives and personal targets/KPI's;
- (5) Verification of the implementation of ESEG standards and policies will be a part of the internal control systems and procedures.

(B) GOVERNANCE

- (1) The composition and agenda of the Managing and Supervisory Boards will reflect the importance of ESEG; one member of the Managing Board will have ESEG, with emphasis on external representation, in his portfolio;
- (2) An annual Sustainability Report on ESEG issues will be issued, preferably integrated in the Annual Report: it will be prepared by the Managing Board, adopted by the Supervisory Board and approved by the General Shareholders Meeting, where required by the law;
- (3) ESEG issues will be explicitly discussed with Staff Council and in other Advisory Councils of the bank, whereby external experts on ESEG issues may be consulted; an independent grievance procedure or ombudsman may be created, reporting to the Managing Board; staff, including "young bankers" may play an important catalytic role in developing and implementing a bank-wide ESEG commitment;
- (4) The creation of a Foundation to foster international sustainable development should be considered, including offering opportunities for "corporate volunteering"; an annual contribution from bank profits may be considered.

(C) PUBLIC REPORTING

- (1) Each bank will publish annually a Sustainability Report which will be supported by an independent assurance provider³;
- (2) In its commercial practice it will emphasize the need by its business clients to publish their standards, policies and implementation on ESEG.

(D) THE "NEW" ECONOMY

- (1) Emerging views and concepts for a new "green and just economy" framework, as inter alia stated in the recommendations of the EU study on "The Economics of Ecosystems and Biodiversity" (TEEB: to be published in the fall of 2010) and the Stiglitz/Sen Report, should be incorporated in bank-analyses and research on countries, businesses in the context of capital market operations, ratings, investment advice;
- (2) Collaboration on ESEG issues by banks with universities and other "think tanks" should be intensified.

(E) DEVELOPMENT COOPERATION

- (1) The Report "Less Pretense, More Ambition" by the Dutch governmental Scientific Advisory Commission (WRR), addressing the future of development cooperation, may be a useful starting point for the Dutch financial sector to consider how it may support government policies and interventions, in particular as it focuses on the financial sector in developing countries;
- (2) This WRR Report calls for more coherence of government policies; in collaboration with financial sector (and industry) an evaluation and improvement of the current financial and non-financial support mechanisms across the various ministries for investing and trading in developing countries should be initiated, to promote and effect international sustainable development.

(F) NATIONAL SUPERVISION

- (1) Every country has the right to have a bank-sector whereby savings are guaranteed and business is

³ As reference the indicators of the Global Reporting Initiative (GRI) may be used, including its Financial Sector Supplement.

secured by the bank sector to facilitate "normal" financial and business risks; but bank activities whereby extraordinary, non-client related risks (such as private equity, proprietary trading) are taken, should not benefit from such guarantee;

(2) Next to the traditional oversight role of Dutch Central Bank (DNB) and Authority Financial Markets (AFM), this role should be expanded to include ESEG issues;

(3) Pillar 3 of the Basel II Framework ("market discipline") should explicitly refer to reporting on ESEG issues.

(G) INTERNATIONAL COOPERATION & SUPERVISION

(1) The Dutch government should take initiatives in international bodies such as EU, BIS, IMF, WB, OECD, WTO) to promote and effect the ESEG issues in the banking and business sector;

(2) These initiatives also apply to a much more prominent role for the newly-industrial countries in such bodies.

The mission of the Worldconnectors Round Table is to encourage the ambition and enhance the role of the Netherlands - in all its dimensions of society - as a key player in the global community of nations and peoples, with the urgent aim of working towards a just, sustainable, inclusive and peaceful world.

The Round Table will be a catalyst and an actor for an open, tolerant, optimistic and pro-active Netherlands that, in all its diversity, is 'a global actor in the world'.

The vision and work of the Round Table is based on the UN Millennium Declaration and the Earth Charter.

For more information see www.worldconnectors.nl