

Breakfast session

Corporate Social Responsibility

Wednesday 17 September – 07:45-08:45

Carbon Trading: Warming up to a global opportunity?

Wednesday 17 September – 16:00-17:00

Green trade and ethical investment – the rise in corporate social responsibility

Wednesday 17 September – 14:00-15:00

Social awareness

Is corporate social responsibility an obligation or an opportunity?

The realm of corporate social responsibility was explored from three different angles at Sibos on Wednesday. The broad challenge of prioritising where money and effort can most fruitfully be applied to do the maximum social good was the subject of a breakfast addressed by Bjorn Lomborg, adjunct professor at the Copenhagen Consensus Centre, who challenged participants at a breakfast meeting to prioritise a series of potential solutions to broadly recognised social objectives.

Prioritisation is essential in this regard. As John Bolton, former US ambassador to the United Nations, put it during a similar exercise run by the Consensus centre for diplomats from a range of countries, "If you have a thousand priorities, you have none." The difficulty with prioritising social objectives, said Lomborg is that in choosing certain issues to ad-



dress first, one is of necessity relegating others to a lower place in the queue.

One way of looking at social action, he said, is to focus on solutions rather than

problems. With the help of economists, the Consensus Centre has established a monetary measure of the value that a dollar spent on certain actions produces in terms of benefits.

Lomborg used these measures to introduce the audience to the process of selecting solutions. To address the need to expand the reach of formal education, for example, he asked participants to

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continued

choose between a reduction in the cost of schooling and payment incentives to parents according to the likely effectiveness of their outcomes, continuing the exercise through a range of issues.

Doing well by doing well?

Is doing the right thing for the world mutually exclusive from making a healthy profit for financial services firms? In Wednesday's 'Green trade and ethical investment: The rise in corporate social responsibility' session, panelists were asked to assess the impact of CSR (corporate social responsibility) and sustainability issues on their business models and the extent to which CSR is a commercially viable strategy.

The definition of CSR was the first stumbling block for speakers, a problem that could have wider implications for identifying where firms need to focus their efforts. CSR can broadly be defined as the demonstrable awareness of any adverse effects that firms have on stakeholders and the need to address them.

Jeremy Charles, COO of Thames River Capital, viewed CSR as another form of corporate governance. "CSR is still just scratching the surface," he said. "At the moment, it is just a marketing fad that looks good on annual accounts. An investor is still only interested in performance."

However, Debbie Whitaker, head of sustainability for Standard Chartered, said her firm's sustainability strategy could have a direct effect on the emerging markets in which it operates. "Some of the world's biggest challenges, such as water availability, climate change, poverty, are the issues that can limit potential economic growth," she said "It's about finding a sweet spot between helping



"The ability to reduce carbon emissions will be part of our competitiveness in the future."

Mark Tennant, Bluerock Consulting

address world issues, identifying the challenges that affect the markets and trying to make money."

Private sector firms may be unwilling to invest in CSR initiatives because they are hard to quantify. This is illustrated by the fact that corporate responsibility issues are not yet in the mainstream psyche of equity analysts.

"You can't sit a group of analysts down and force them into thinking climate change is a massive political agenda and that this will in turn lead in an investment change," said Charles. "We need to adapt to this."

Developing a policy

Francis Vanbever, SWIFT's CFO, described the initiatives SWIFT is taking in this area. "We are in the early stages of developing a CSR policy," he said. "This is becoming increasingly important in the way that companies are viewed, so we are using our community to help us."

Once CSR matures as a concept, panellists agreed that

aspects are likely to be incorporated into the thinking behind all business decisions and could even lead to the development of new asset classes.

This has already happened with the emergence of a carbon trading market, introduced by the Kyoto Protocol in 2005. Its impact on the financial markets was explored in one of the last sessions of Wednesday evening, 'Carbon Trading: Warming up to a global opportunity'.

This session was primarily used to educate Sibos delegates on a market already worth USD 80 million, and expected to grow to USD 2 trillion by 2020. Pioneering work by the European Commission has made Europe a leader in the development of the carbon market, delegates were told.

"We now have an operational market, not a theoretical concept. This means that people that build manufacturing plants have to think actively about the carbon emissions they put in the air," said Peter Zapfel, coordinator for carbon markets and energy policy for the European Commission.

The carbon market works by using a 'cap and trade' system, in other words, reducing emissions in a cost effective way. The principles put in place by the Kyoto agreement allow the carbon market to be implemented in a controlled and phased way, said Zapfel, before a fixed cap on emissions is introduced in 2013. This approach will cut emissions by 21% from 2005 levels.

Stuart Turner, a consultant to TZ1, a subsidiary of the New Zealand Stock Exchange, also pointed out that as well as a regulated market, there is a voluntary market that allows individuals to offset their carbon emissions.

Future growth

The continuing expansion of the carbon trading and other new markets, according to session moderator Mark Tennant, chairman, Bluerock Consulting, depends on a number of technological, financial and strategic considerations. "Industrial companies are critical in leading technology in this area," he said. "We have to find ways of doing things differently, otherwise the carbon market will eventually become too expensive. The ability to reduce carbon emissions will be part of our competitiveness in the future."

He also recognised the need for firms to make less polluting products as efficient as those that emit high levels of emissions and to use the carbon market as a catalyst for developing new and greener technologies.

Tennant went on to acknowledge that the projected growth of this new kind of commodity market is "not one financial firms can ignore, because it is another pool of alpha."

"It is a politically-driven market, which means it won't go away," he added.

Responding to a question in the audience, Turner noted that banks have an advisory role in helping the carbon market to mature and integrate with other financial markets. There is also a role SWIFT can play as its members include fund managers, custodian banks, corporates and others who are already major players in the carbon market.

Looking ahead, the question for the financial services community is not so much how to contribute to socially desirable ends. It is rather, as economics has always asked, how to allocate limited resources to unlimited wants. It's not called the dismal science for nothing. <<