



UNEP FI & ADFIAP
Environmental & Social Risk Analysis Workshop
Sustainability Risk Management
An Overview

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Regional Head of Sustainability Affairs, Asia-Pacific

Manila, 27 October 2009

Sustainability Risk Management

- Types of Risk
- Reputational Risk
- Sustainability Risk
 - Issue Screening
 - Guidelines / Policies
 - Key Sectors
- Case Studies



Types of Risk

Management risks	Strategy risk	Outcome of strategic decisions or developments
	Reputation risk	Damage of our standing in the market
Chosen risks	Market risk	Changes in market factors such as prices, volatilities, correlations
	Credit risk	Changes in the creditworthiness of other entities
	Expense risk	Difference between operating expenses and income in a crisis
Consequential risks	Operational risk	Inadequate or failed internal processes, people and systems; or external events
	Liquidity risk	Inability to fund assets or meet obligations at a reasonable price

Management risks

Strategy risk

Outcome of strategic decisions or developments

Reputation risk

Damage of our standing in the market

Nature of risk:

- Long term
- Difficult to quantify
- Significant downside
- Difficult/Costly to minimize

How to manage risk:

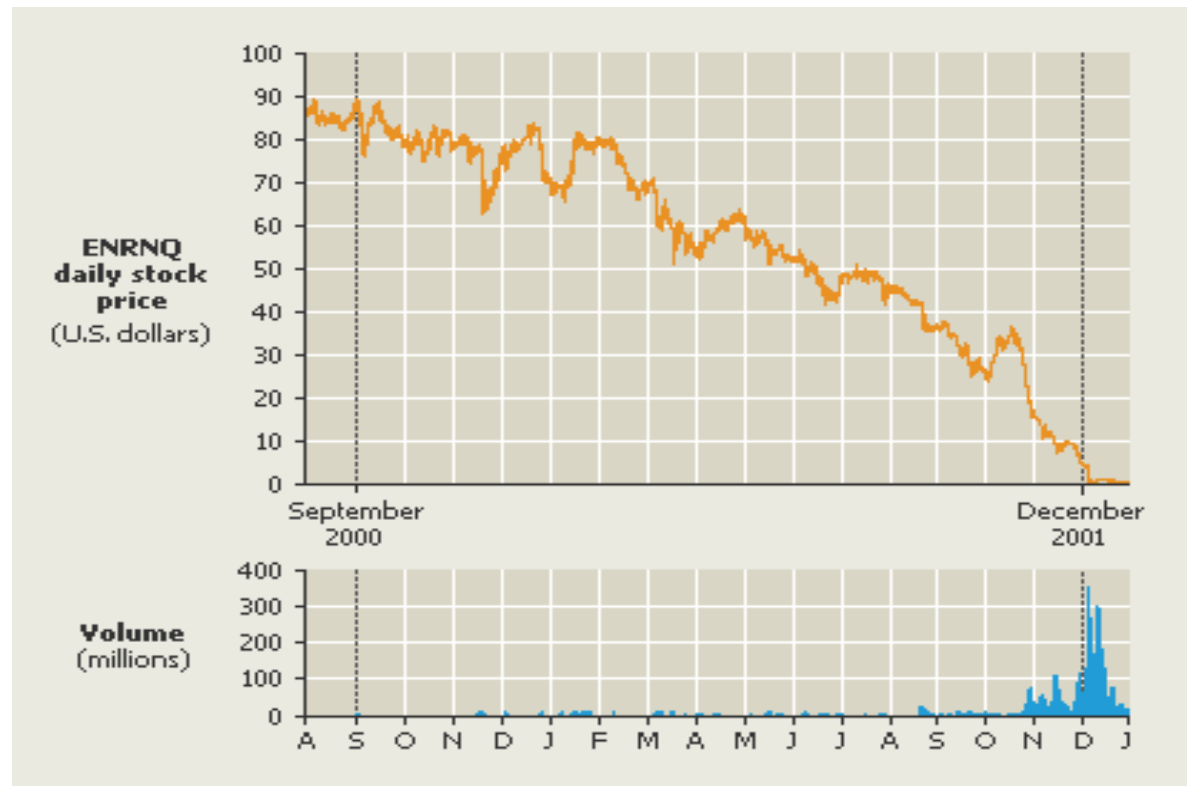
- High on senior management agenda
- Structured process for risk management

What is Reputation?

- Reputation is a perceived image that you have about an organisation.
- Serious reputational damage can occur simply as a result of perceived failures, even if those perceptions are not grounded in fact.
- It is not solely about legal rights and wrongs but perceived values regarding rights and wrongs, which evolve with time and society.
- Managing reputation is tricky.
- Does reputation affect shareholder value?

Share Price Performance

The fall of Enron...



Over a 16-month period, Enron's stock price declined from a high of \$90 to a low of under \$1 before the giant energy-trading company declared bankruptcy.

Reputational Risk Policy

Mandatory submissions: actions / transactions that could involve...

- Controversial client and / or business activities
- Tax, accounting or regulatory implications
- Adverse environmental or sustainability implications
- Conflicts of interest
- Client suitability concerns

Other factors that could lead to a RRRP submission

„... an employee should consider how the Bank’s reputation might be damaged in hindsight, if it were associated with a particular action or transaction in the media. The Policy requires employees to be conservative when assessing potential reputational impact and, whenever in doubt, to err on the side of submitting an action or transaction to RRRP for review.“

“Reputational risk is the potential that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.” (Board of Governors of the Federal Reserve System, 2004)

Reputational Risk Review Process (RRRP)

- The Reputational Risk Policy and RRRP apply globally to all Divisions of the Bank and **across all regions**.
- The RRRP exists to **ensure global consistency** in reputational risk evaluation and to decide whether or not to pursue or execute a particular action or transaction
- Actions or transactions that are referred to the RRRP may be:
 - Declined
 - Approved with conditions, or
 - Approved with no conditions

RRRP Flow

Responsible

Tasks



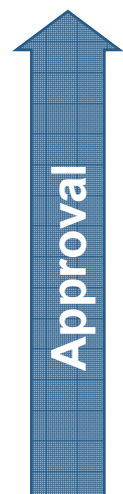
Reputational Risk
Sustainability
Committee (RRSC)

- Representation on Executive Board
- Sets policy, reviews key issues, can overrule a rejection



Regional CEO

- Can veto an approval (but cannot overrule a rejection)



Reputational risk
approver (RRA)

- After review, approves, rejects or modifies a submission

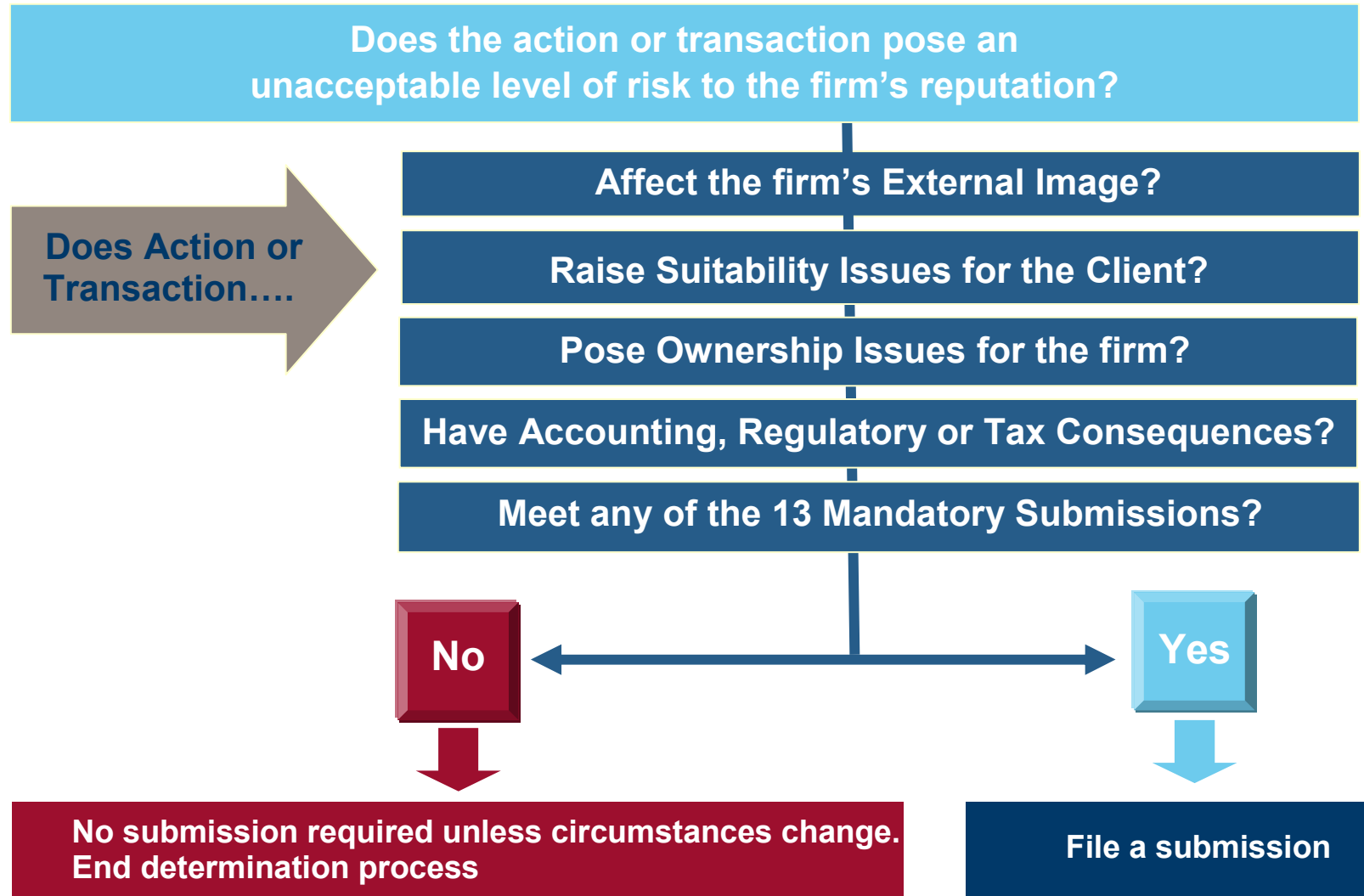
Divisional endorser
(Line
Management)

- Business Area head or designee
- Supports or rejects a submission

Originator
(Any employee)

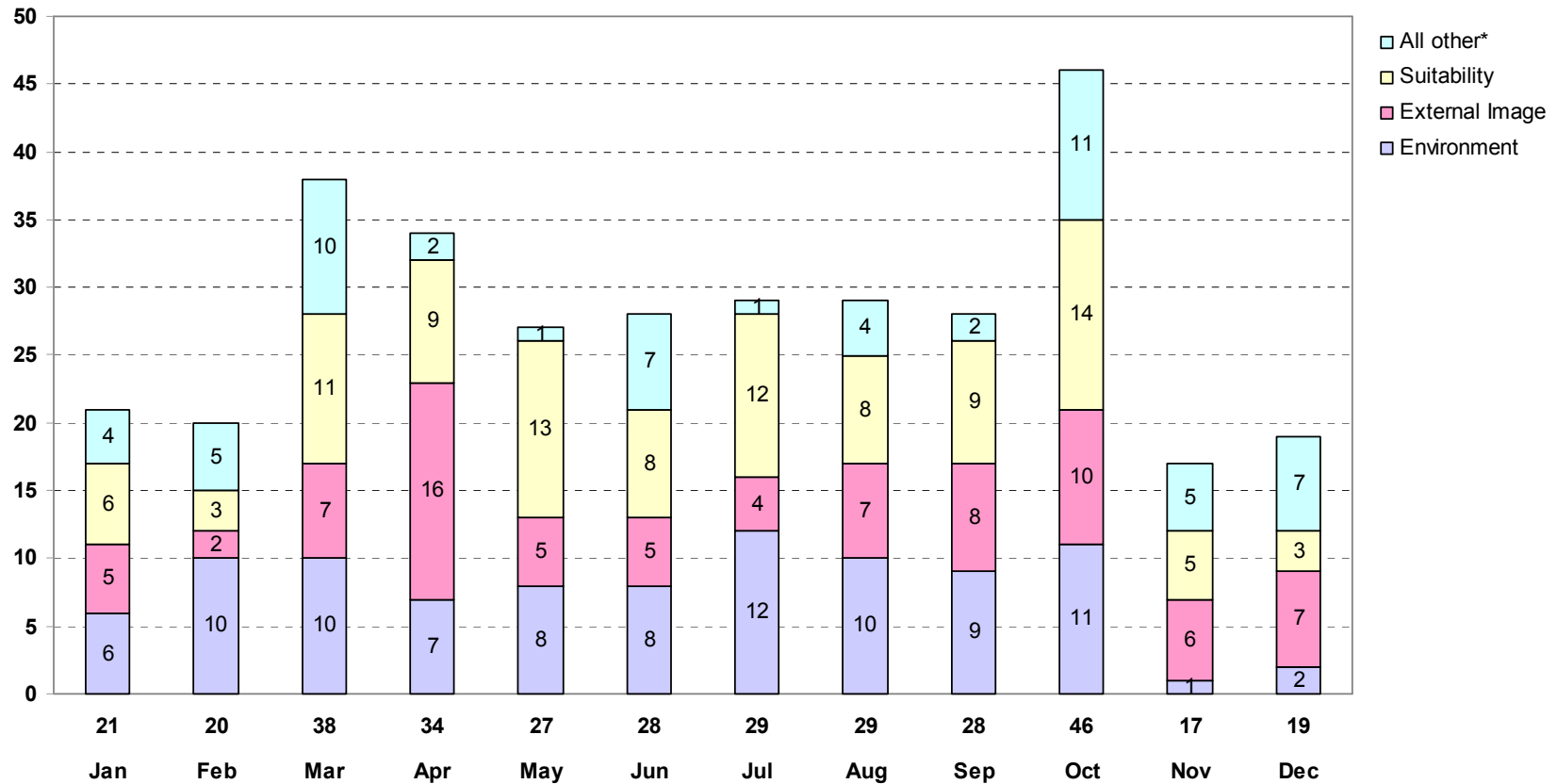
- Initiates approval process

Should the action/transaction be referred to RRRP?

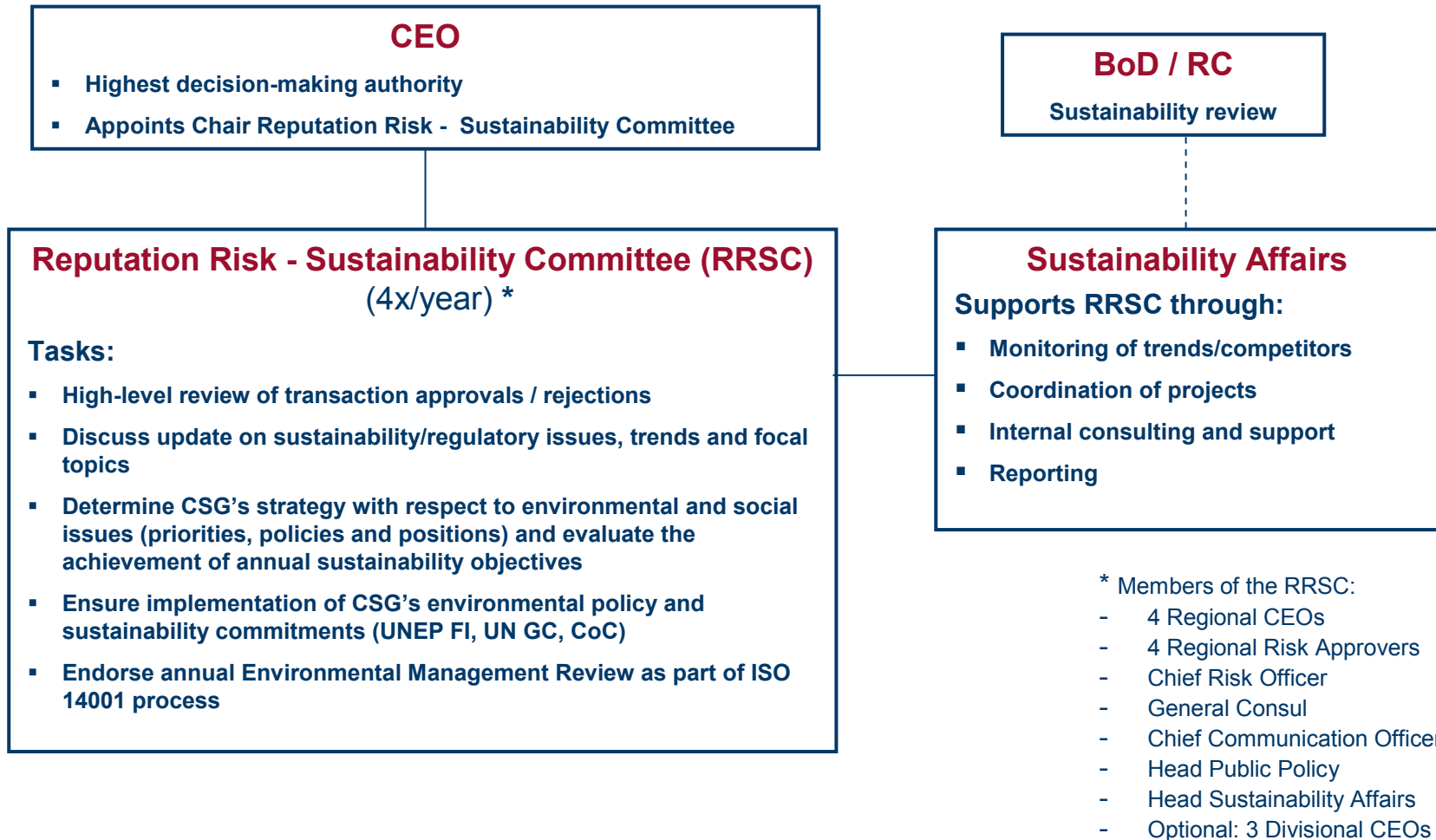


Year 2008 Rep-Risk Referrals, APAC Region

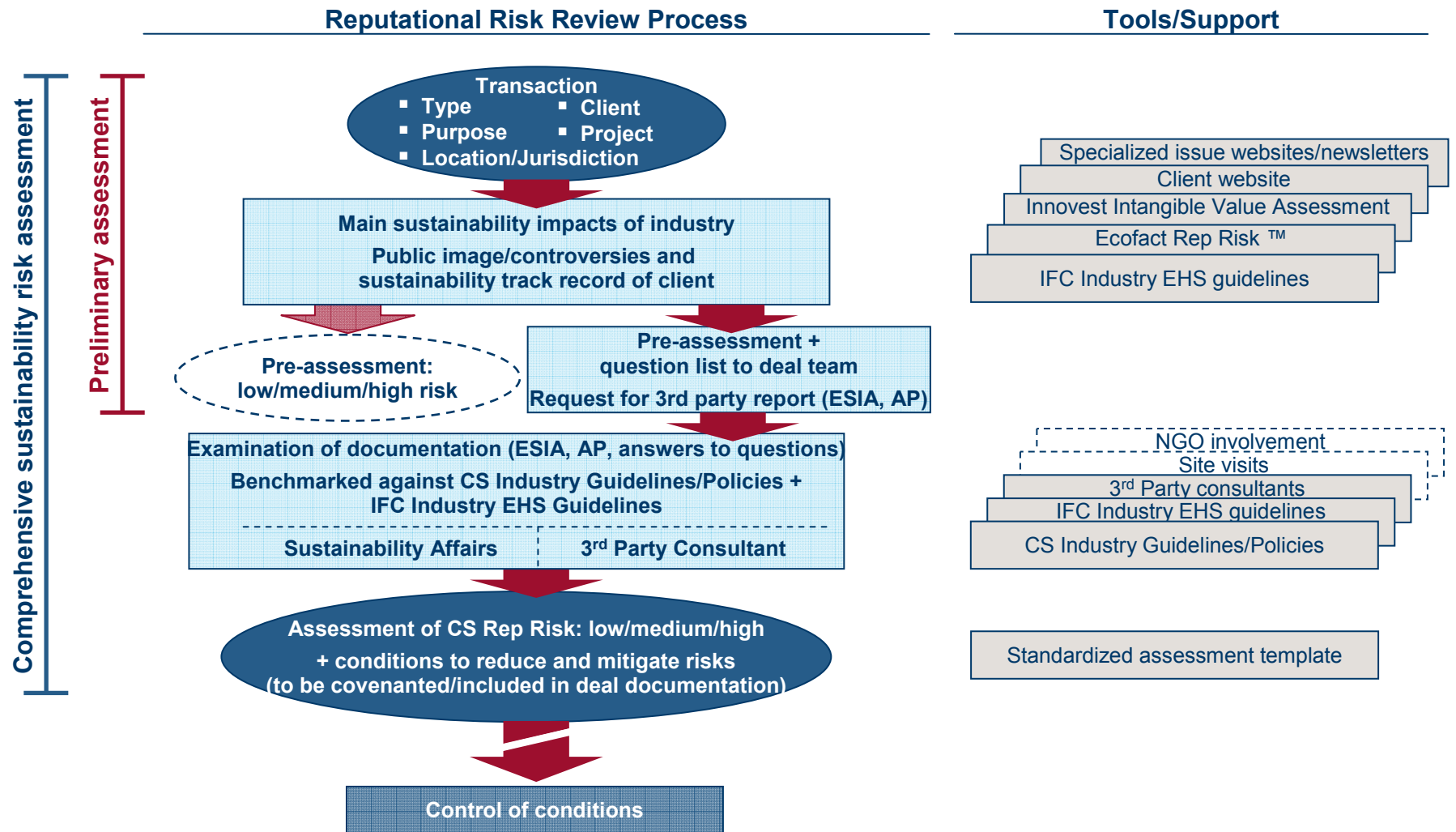
- 336 referrals to the Rep-Risk team
- 94 referrals (28%) were in the 'Environment' category



Reputational / Sustainability Risk Governance




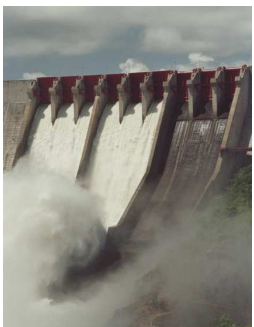


Sustainability Risk Management Process



Key Industries / Sectors

- Internal Sustainability Policies / Guideline exist for:

Sector	Forestry	Mining	Oil & gas	Hydropower
				
Issues	<ul style="list-style-type: none"> Loss of high conservation value forest Loss of biodiversity Illegal logging Monoculture (palm oil, soy) Loss of home, shelter, subsistence for local communities 	<ul style="list-style-type: none"> Contamination of land and water Impacts on biodiversity Impacts on public health and safety, local cultures, community-based livelihoods Decommissioning and rehabilitation Poor governance/corruption 	<ul style="list-style-type: none"> Contamination of land, water, air Destruction of natural habitats, impacts on biodiversity Impacts on public health and safety, local cultures, community-based livelihoods Decommissioning and rehabilitation Poor governance/corruption 	<ul style="list-style-type: none"> Impact on riverine and surrounding terrestrial environments Destruction of natural habitats Impacts on biodiversity Impacts on cultural heritage Displacement or resettlement of people
Standards	<ul style="list-style-type: none"> IFC EHS Guidelines for Forest Harvesting / Pulp & Paper Mills FSC RSPO 	<ul style="list-style-type: none"> IFC EHS Guideline for Mining GRI Mining Sector Supplement Extractive Industries Transparency Initiative (EITI) 	<ul style="list-style-type: none"> IFC EHS Guidelines for Offshore / Onshore Oil and Gas Development Extractive Industries Transparency Initiative (EITI) 	<ul style="list-style-type: none"> IFC General EHS Guidelines, OP Safety of Dams World Commission on Dams (WCD) guidelines

Screening Tools



Credit Suisse

RepRisk Relationships

General Information →

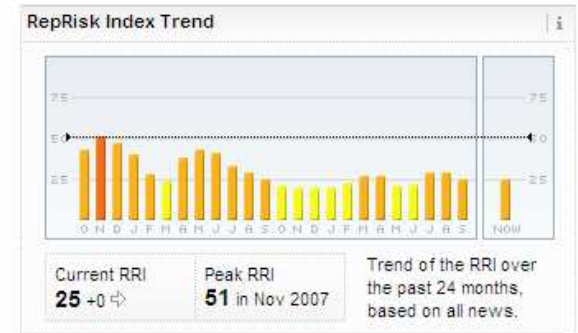
- Financial Institutions (304)
- Other Companies (273)
- Projects (25)
- Countries (31)
- Issues (22)
- UN GC Principles (8)
- NGOs (41)
- Campaign Exposure (3)

Sector(s):
 ▶ [Banks](#)

Headquarters:
 ▶ [Switzerland](#)

Website:
 ▶ www.credit-suisse.co...

Credit Suisse Group AG
 (Credit Suisse), formerly Credit Suisse Group is a



Date / Source	News	Abstract
01.09.2009 dte.gn.apc.org (Down to Earth Indonesia)	NGO report addresses problems caused by companies in Indonesia	Companies involved with the United Nations REDD projects (Reducing Emissions from Deforestation and Forest Degradation) have come under fire as the programs have been criticized for an alleged lack of community consultation, failure to protect indigenous rights, and potential corruption, in a Down to Earth report on Indonesia. It also detailed the negative impacts of palm oil production in the country, such as the violation of indigenous rights, overuse of resources, impact on ecosystems and endangered species, and the neglect of local participation processes. It is alleged that the Roundtable on Sustainable Palm Oil has certified companies that are involved in unresolved community conflict in Indonesia.
25.08.2009 regenwald.org	Samling, Interhill, Shin Yang, KTS und Rimbunan Hijau accused of rainforest destruction in Malaysia (German)	NGO Rettet den Regenwald is urging the public to write to the Malaysian government, demanding the recognition of land rights for the indigenous Penan people, and an immediate stop to the threat of rainforest destruction by firms including Samling, Interhill, Shin Yang, KTS, and Rimbunan Hijau. This issue is once again in the spotlight as more than 8000 Penan are currently staging protests in the forests of Borneo, claiming that the companies have destroyed their traditional hunter and gatherer, nomadic lifestyle through logging and palm oil activities. Credit Suisse is also criticized for aiding such activities, including Samling's IPO and Golden Agri-Resources' recapitalization.

Screening Tools

Innovest
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[Intangible Assessment Home](#) | [Business Activities Home](#) | [Global Compact+ Home](#) | [Carbon Beta™ Home](#)

CREDIT SUISSE GROUP	Intangible Value Rating BBB
CSGN-VX	Carbon Beta™ Rating --
Industry: GLOBAL BANKS	Country: SWITZERLAND
Outlook: Steady	Global Compact plus Assessment 🟡
	Business Activities Assessment 🟢

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Intangible Value Assessment Four Pillar Scores	Intangible Value Rating																									
Company Scores	BBB																									
0 1 2 3 4 5 6 7 8 9 10																										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Strategic Governance</td> <td style="width: 30%; text-align: right;">4.3</td> </tr> <tr> <td>Human Capital</td> <td style="text-align: right;">5.8</td> </tr> <tr> <td>Environment</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Stakeholder Capital</td> <td style="text-align: right;">4.2</td> </tr> </table>	Strategic Governance	4.3	Human Capital	5.8	Environment	5	Stakeholder Capital	4.2																		
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Stakeholder Capital	4.2																									
 Industry Average																										
Rating Comment																										
<p>The strongest driver of a bank's long term financial performance is its ability to profitably allocate capital and accurately forecast and manage risk. In our view a bank is only as sustainable as the risks that it finances. Our analysis of banks addresses two core questions:</p> <ul style="list-style-type: none"> What is the environmental and social (ESG) risk intensity of the companies and consumers that a bank has financed? Is the bank's (ESG) risk management strategy and product portfolio commensurate with its ESG risk exposure? <p>Consumer Finance: Innovest looks for three core traits in a bank's consumer finance operations:</p> <ul style="list-style-type: none"> That it does not enable "prime" borrowers to live beyond their means by issuing more debt than their incomes can sustain over the long term. If it extends finance to low income, unbanked, or underbanked consumers that it expands due diligence accordingly and only issues debt (or trades securitized debt) on reasonable terms which is consistently repaid. That it proves it is achieving objectives 1 and 2 with hard data. <p>Corporate Finance: With corporate finance Innovest takes that view that "you are what you finance." We examine all publicly filed deals that each bank has participated in and measure the aggregate ESG risk intensity of the companies that each bank has financed.</p> <ul style="list-style-type: none"> If a bank has a strategy of avoiding high risk companies we look to see that its deal portfolio is, in aggregate, low risk from an ESG perspective. If a bank's strategy is to embrace risk then we look for statistically viable evidence that the high risk companies that it has historically financed have improved over time. Above all we want to see that a bank's ESG due diligence strategy is commensurate with its risk 																										
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Case Studies

■ Sakhalin II Oil & Gas Project

- World's largest integrated oil and gas project
- Original budget estimate USD 10bn
- Key finance from EBRD
- Credit Suisse appointed to advise Sakhalin Energy Investment Company in 1999



■ Trans-Amazon Highway

- 2,500km highway upgrade / construction mandated by governments of Brazil and Peru
- Multi-national engineering and construction company
- Financial guarantees provided by a regional development bank
- Project Finance (Equator Principles cat. A) with loan repayment over 15 years

Sakhalin II Oil & Gas Project

- Western Gray Whales
 - Offshore platform and pipeline is close to summer feeding grounds of a threatened whale species, impact through noise of work and risk of oil spill
- Wildlife and fisheries
 - Construction of 800 km onshore pipeline in seismic area and crossing 1000 rivers, impacts on island wildlife and spawning of salmon and other fish
- Aniva Bay
 - Dredging work for LNG jetty alters seabed texture (excavation and dumping of material), impacting feeding and spawning grounds of fish
- Indigenous peoples
 - Disputes over sufficient prior consultation and adequate compensation
 - Impact of project work on people's livelihood

Sakhalin II Oil & Gas Project

NGO
Campaigns



Children's drawings
sent to Credit Suisse
CEO



Sakhalin II Oil & Gas Project

■ Key lessons learned:

- Conduct environmental due diligence against broadly accepted standards
- Use specialist consultants with industry and local knowledge
- Integrate political factors in risk assessment
- Include formal client commitment to risk mitigation in transaction contract
- Regularly review project's environmental performance (semi-annually)
- Ensure direct access to client's environmental affairs unit
- Avoid exclusive reliance on deal team information
- Engage with NGOs and client to address critical issues

Trans-Amazon Highway

Likely direct impacts (construction phase):

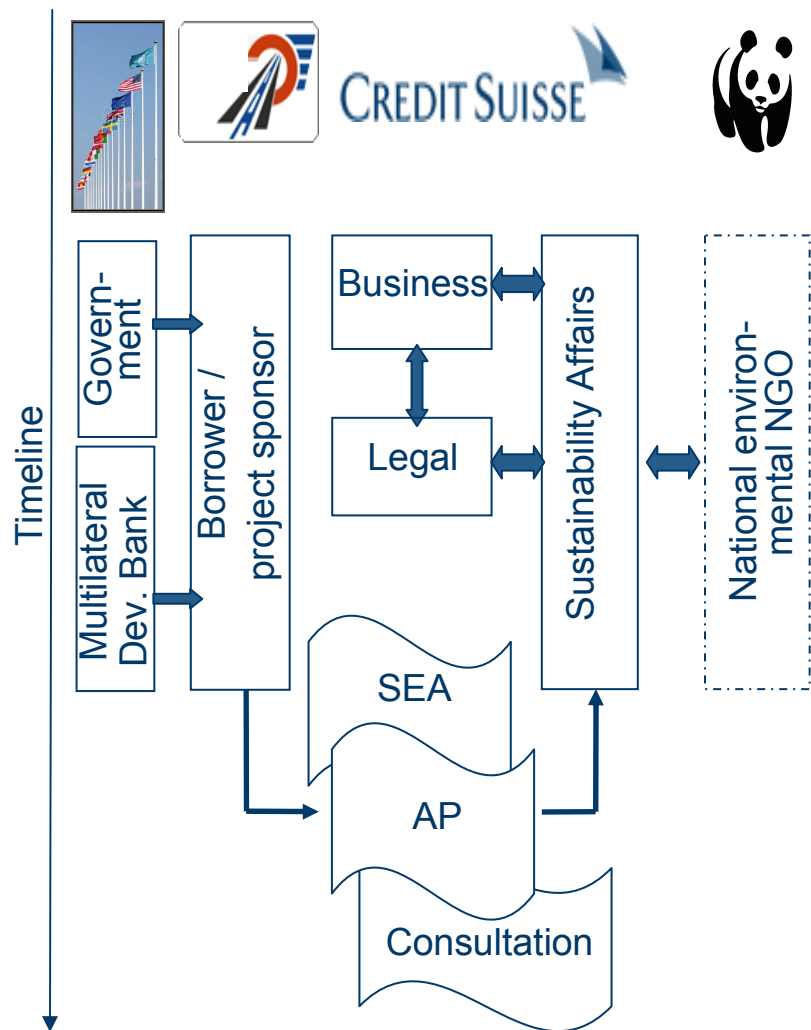
- Threat to protected species (flora and fauna), impact on biodiversity
- (Minor) Resettlements, potential conflicts with indigenous communities
- Potential impact on cultural heritage (archeological sites)
- Immigration of laborers in search of work during construction



Likely indirect impacts (highway operation):

- Illegal activities – logging, mining and agricultural land uses
- Impact of immigrants on indigenous peoples groups
- Emigration of local people & indigenous groups

Trans-Amazon Highway



Outcome	<p>Turned down – too many potentially serious environmental and social impacts outside of client control</p>
Lessons learnt	<ul style="list-style-type: none"> ■ Multilateral dev. bank guarantees financial risk and sets certain env. / social standards ■ Govt. mandate for project may add some legitimacy to project – but no guarantee! ■ Direct impacts may be mitigated (bank leverage with client) ■ Indirect impacts very difficult to mitigate (outside of the bank's influence), yet the bank may be held responsible for them ■ Sympathy from an NGO does not protect you from rep risk

Sustainability Risk Management

- Thank You



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