

To:
Mr. Fabrice Demarigny
Secretary General
CESR, The Committee of European Securities Regulators
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To:
The Expert Group on Prospectus
President Fernando Teixeira dos Santos
CESR Secretariat, Paris

To:
The Consultative Working Group (CWG)
CESR Secretariat, Paris

Brussels, 28 January 2003.

Dear Mr. Demarigny,
Dear Mr. Teixeira dos Santos,
Dear Members of the Expert Group,
Dear Members of the Consultative Working Group,

Following:
Your invitation for responses to the consultation paper "Addendum to the Consultation Paper" (CESR/02-286, Addendum to the "Consultation Paper" CESR/02-185-b: *CESR's Advice on possible Level 2 Measures for the Proposed Prospectus Directive*), on your advice to the European Commission on the requested implementing measures, regarding the Future Directive on the prospectus to be published when securities are offered to the public or admitted to trading;

Considering:
The Statement by Fernando Teixeira Dos Santos in the Consultation Paper,
- Stressing the decisive nature of the Proposed Directive for the development of an effective, competitive and integrated financial market in Europe (Consultation Paper §15);
- Calling for the facilitation of the widest possible access to capital markets (through simplified and more flexible regulatory requirements), to be balanced against principles of protection and appropriate information to investors (Consultation Paper §15);
- Calling for the achievement of an effective securities market regulation by the end of 2003, as required by the Stockholm European Council by the fast adoption of a common European approach in order to reach a competitive and successful market within the international financial market (Consultation Paper §20);
- Inviting all to contribute with their own experience on the impact of the proposals established in this paper and advance any other suggestions (Consultation Paper §22);
- Stressing the importance of a productive consultation with the comments of users and participants showing the advantages and disadvantages of the proposal, resulting in a more qualitative advice from CESR to the European Commission (Addendum §8);

Respecting:

The deadline for submitting responses to the paper, 6 February 2003 in order to meet the requirement for CESR to deliver its technical advice by March 2003;

Referring to:

- One of the three substantive areas, namely Part Two: the "Incorporation by reference";
- The statement of §270, recalling the fundamental aim of the incorporation by reference, as to simplify and reduce costs of drafting a prospectus, however not to the detriment of other interests of the prospectus: "The prospectus must contain all the information necessary in order to enable the investor to make an informed assessment of the proposed investment";

We, ETHIBEL asbl and signatories, plead for additional requirements to be incorporated in a prospectus;

Recalling:

- The Commission Green Paper on promoting a European framework for Corporate Social Responsibility [COM (2001) 366 final], which launched a consultation procedure on the concept of corporate social responsibility (CSR);
- The Council Resolution of 3 December 2001 [OJ C 86, 10.4.2002] on follow-up to the Green Paper, which recognised that CSR can contribute to reaching the objectives laid down by the European Council in Lisbon, Nice and Gothenburg for the European Union to become the most competitive and dynamic knowledge-based economy in the world fostering social integration and sustainable development;
- The Commission Communication concerning Corporate Social Responsibility: A business contribution to Sustainable Development [COM (2002) 347 final], which constitutes a follow-up to the Green Paper, which places the debate on CSR in the wider context of corporate governance and accountability and which states: "*Registration statements and prospectuses issued at the time of an IPO (initial public offering), can be another useful source of information on social and environmental risks allowing the prospective investor to assess the overall risks associated with a business*";

Referring to:

The World Summit on Sustainable Development in Johannesburg and the adopted Plan of Implementation according to which the international community should promote CSR, accountability and the exchange of best practices in the context of sustainable development;

Observing that:

- There is a growing awareness that issues, which make up the corporate environmental and corporate social responsibility agenda, contain "material risks" which regulators, markets, investors and companies should take full account of;
- There is a growing awareness that environmental, social and ethical considerations are being built into the new governance architectures (SEE Management) and are affecting the roles and responsibilities of the finance sector and the capital markets and their regulators;
- There is a growing awareness that corporate governance needs to ensure that the board of directors develops, implements and explains policies that increase the shareholder value, that lower the cost of capital, that reduce financial, business and operational risk and that address reasonable stakeholder concerns;
- There is a growing awareness that, in order to ensure trust and confidence in business and markets, more rigorous corporate governance, more extended disclosure and reporting, improved regulatory oversight and the restoration of the relationship between corporations and their stakeholders is needed;

Observing that:

- The July 2002 US Sarbanes-Oxley Act requires directors of US-listed companies to maintain a system of controls that allow them to report accurately on material business and financial risks;
- Under the SEC regulations, companies filing their annual financial statements have to include a supplemental statement discussing material risks;
- Tests in the US courts and various cases have defined material risks as being those things that would be material to investors' interest or anything that would lead to a material change in the price of a company's listed securities;

Observing that:

- The Association of British Insurers, which represents the key investors on the London Stock Exchange, have in their 'ABI Guidelines' identified corporate responsibility issues as material risks.
- The 1999 Turnbull Committee Report has defined the role of the board in providing greater guidance to which risks require management. For LSE-listed companies, risk factors now include non-financial areas such as reputation, brand value, product quality, environmental impacts, employee health and safety and others;
- The French government has passed legislation in 2002, requiring all French listed companies to publish extensive employee relations and environmental data in their annual reports to shareholders. Similar legislations are under consideration by other governments.
- A CBI-survey showed that over one-third of an institutional investor's valuation of a company is based on non-financial elements;

Observing that:

- The metrics, standards, formats for reporting, assessing, benchmarking and rating material risks and opportunities have considerably been refined;
- 'Intangible value assessments', 'material business risk ratings', 'sustainability risk ratings', 'corporate responsibility ratings', 'corporate governance ratings', 'full risks and opportunities assessments' are increasingly provided by rating agencies;
- Through years of testing and revision by hundreds of stakeholders around the world two standards have been successful in gaining broad acceptance. The 2002 Sustainability Guidelines of the Global Reporting Initiative do include expanded principles on reporting and provide a harmonised basis of social, environmental and economic indicators. The AA1000 Assurance Standard, developed by the Institute of Social and Ethical Accountability provides a 'non-proprietary, open-source, sustainability assurance standard as part of the broader AA1000 Series accountability management framework';

We, ETHIBEL asbl and signatories, organisations and companies related to the domain of finance and ethical/sustainable investment, plead for the addition of supplemental disclosure requirements to be incorporated in the prospectus to be published when securities are offered to the public or admitted to trading, disclosing social and environmental liabilities, listing material social and environmental business risks and impairments and explaining which policies and controls are in place to manage these Corporate Social Responsibility Risks. These disclosure items should be listed in the disclosure requirements concerning the issuer. Alternatively, we would applaud that in time these supplemental CSRR documents would be incorporated by reference in the prospectus.

Brussels, February 5, 2003.

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