



# FTSE

RESPONSIBLE INVESTMENT FTSE PUBLICATIONS

UN Global Compact  
Communication of  
Progress 2011

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# 1. Introduction.



In 2006, FTSE pledged its commitment to supporting the principles of the Global Compact. Our support for the principles remains strong and in this progress report we take a look at how this has been demonstrated across the business and within the various services we provide to our clients.

We take these principles on with great enthusiasm across our business and they form a part of our mission and strategic goals. By way of measurement, we provide a report on an independent audit of our internal systems, examining our progress against the UN Global Compact Principles. The assessment of FTSE practices is carried out by the verification specialist; GoodCorporation, who spend a week at our offices carrying out the assessment by interviewing staff, suppliers, clients, shareholders and other important stakeholders. The results of this assessment are presented in this report.

FTSE plays a significant role in influencing investment strategies of our clients around the world. It is through our products and services that FTSE can have the greatest effect in supporting the shift to a more sustainable global economy. As a founding signatory and contributor to the development of the United Nations backed Principles on Responsible Investment, we aim to develop a broad range of tools to help investors consider Environmental Social and Governance (ESG) issues.

The launch of FTSE4Good has led us to set standards in new and often difficult areas, with the aim of developing a transparent benchmark supported by a comprehensive framework of criteria, which challenges companies to improve. I'm pleased to say that over the last ten years FTSE4Good has promoted the take up and support of the UNGC Principles by hundreds of companies around the world.

Going forward, I am excited to introduce the next evolution of FTSE4Good; FTSE4Good ESG Ratings, a new system for quantitatively measuring ESG risk and performance characteristics, which will further increase awareness of the importance of ESG risk amongst the global financial community.

It is an interesting time to be at the forefront of Responsible Investment and we hope that this report proves an informative guide to our achievements in this space and to learning about the importance we place on these responsibilities.

We look forward to continuing to lend our support to this initiative and fulfilling our duty as a signatory to both the UN PRI and the UN Global Compact.

**Mark Makepeace**

Chief Executive  
FTSE Group

## 2. Promoting the UN Global Compact Principles worldwide.

### 2.1 FTSE Group

FTSE Group (FTSE) is a world-leader in the provision of global index and analytical solutions. FTSE calculates indices across a wide range of asset classes, on both a standard and custom basis. FTSE indices are used extensively by investors worldwide for investment analysis, performance measurement, asset allocation, portfolio hedging and the creation of a wide range of index derivatives, funds, Exchange Traded Funds (ETFs), and other structured products.

FTSE has built an enviable reputation for the reliability and accuracy of our indices and related data services. FTSE has a long tradition of listening and responding to the market so that it is at the forefront of developing new approaches to index design, many of which are now accepted as the market standard. FTSE prides itself in continuing to invest significant resource in researching and developing new index solutions.

The foundation for FTSE's global, regional, country and sector indices is the FTSE global equity universe, which covers over 8,000 securities in 48 different countries and captures 98% of the world's investable market capitalisation. FTSE's flagship global benchmark, the FTSE All-World, is used by

investors worldwide to structure and benchmark their international equity portfolios.

Exchanges around the world have chosen FTSE to calculate their domestic indices. These include ATHEX, Bolsas y Mercados Españoles, Borsa Italiana, Bursa Malaysia, Casablanca SE, Cyprus Stock Exchange, IDX, JSE, LSE, NASDAQ Dubai, NYSE Euronext, PSE, SGX, Stock Exchange of Thailand and TWSE. In addition, FTSE works with a variety of companies and associations to deliver innovative index solutions which provide the market with fresh opportunities.

### 2.2 Responsible Investment

There has been significant growth of investor interest and incorporation of extra-financial (environmental, social and governance) factors into investment management and active ownership. FTSE has offered Responsible Investment (RI) tools since 2001 when the FTSE4Good Index Series, the innovative responsible investment index series, was launched. Since then, as well as developing further RI products, FTSE has supported the development of the UN Principles for Responsible Investment, and was the first index provider to become a signatory of the principles.

### 2.3 The FTSE4Good Index sphere of influence

The FTSE4Good Index helps investors identify and invest in companies that demonstrate they are meeting globally recognised ESG standards. It is based on Environmental, Social, and Governance factors that in turn have become accepted benchmarks for companies. Over 2,300 companies from 25 countries around the world are assessed against the criteria.

The criteria are regularly updated so they remain in line with international standards. The criteria support the UN Global Compact, and in places use participation as a demonstration that a company is meeting elements of the FTSE4Good criteria (see the next section).

FTSE undertakes a global engagement programme of ongoing communication with companies affected by the introduction of new criteria to help them understand the changes they need to make and by when. Guidance and support is also provided as the companies work towards meeting the index's evolving standards regarding ESG practice.

In addition to the FTSE4Good Index, FTSE has recently launched the FTSE4Good ESG Ratings Service, where the 2300+ companies are all scored on 6 ESG themes. This allows institutional investors to monitor and integrate ESG risks into their investment decisions, and provides a tool for stewardship and engagement with investee companies.

Further information on FTSE4Good can be found on [www.ftse.com/ftse4good](http://www.ftse.com/ftse4good)

## 2.4 The UNGC principles mapped against the FTSE4Good Index criteria

The following is a selection of the FTSE4Good criteria. There is a close correlation of principles. The full criteria can be found at: [www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/F4G\\_Download\\_Page.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/F4G_Download_Page.jsp)

UN Global Compact Principles	
<b>HUMAN RIGHTS</b>	
<p><b>Principle 1</b> Protection of Human Rights - Businesses should support and respect the protection of internationally proclaimed human rights.</p> <p><b>Principle 2</b> Complicity in Human Rights abuse - Businesses should make sure that they are not complicit in human rights abuses.</p>	<p><b>FTSE4Good Human and Labour Rights Criteria</b> <i>Example:</i> "A clear statement of support for the Universal Declaration of Human Rights." In addition "A statement to respect all the ILO core labour standards... alternatively signatories to the UN Global Compact are considered to meet this requirement."</p> <p><b>FTSE4Good Human and Labour Rights Criteria</b> <i>Example:</i> "Guidelines governing the use of armed security guards based on UM basic principle..."</p>
<b>LABOUR</b>	
<p><b>Principle 3</b> Freedom of association and Collective Bargaining - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.</p> <p><b>Principle 4</b> Forced and Compulsory Labour - Businesses should uphold the elimination of all forms of forced and compulsory labour.</p> <p><b>Principle 5</b> Child Labour - Business should uphold the effective abolition of child labour.</p> <p><b>Principle 6</b> Discrimination - Business should uphold the elimination of discrimination in respect of employment and occupation.</p>	<p><b>FTSE4Good Supply Chain Labour Standards</b> <i>Example:</i> "Policy/Code to commit to, or be based on, the four ILO core convention areas: ...Freedom of Association and Collective Bargaining..."</p> <p><b>FTSE4Good Supply Chain Labour Standards</b> <i>Example:</i> "Policy/Code to commit to, or be based on, the four ILO core convention areas: Forced Labour..."</p> <p><b>FTSE4Good Supply Chain Labour Standards</b> <i>Example:</i> "Policy/Code to commit to, or be based on, the four ILO core convention areas: Child Labour..."</p> <p><b>FTSE4Good Human and Labour Rights Criteria</b> <i>Example:</i> "Adopting an equal opportunities policy and/or a commitment to diversity... Providing evidence of equal opportunities systems..."</p>
<b>ENVIRONMENT</b>	
<p><b>Principle 7</b> Precautionary Approach - Business should support a precautionary approach to environmental challenges.</p> <p><b>Principle 8</b> Environmental Responsibility - Business should undertake initiatives to promote greater environmental responsibility.</p> <p><b>Principle 9</b> Environmental Friendly Technologies - Business should encourage the development and diffusion of environmentally friendly technologies.</p>	<p><b>FTSE4Good Environmental Criteria</b> <i>Example:</i> "Policy refers to all key issues... Commitment to targets... monitoring and audit."</p> <p><b>FTSE4Good Environmental Criteria</b> <i>Example:</i> Environmental Management System indicators include "Identification of significant impacts... objective and targets in key areas... audits." Reporting indicators include "Data... and...performance against targets."</p> <p><b>FTSE4Good Environmental Criteria</b> <i>Example:</i> Policy indicators include "...product or service impact... and... strategic moves towards sustainability."</p>
<b>ANTI-CORRUPTION</b>	
<p><b>Principle 10</b> Corruption - Business should work against corruption in all its forms, including extortion and bribery.</p>	<p><b>FTSE4Good Countering Bribery Criteria</b> <i>Example:</i> Policy indicators include "Prohibits giving and receiving bribes." Management Systems indicators include "Procedures to remedy non-compliance." Reporting requires "Policy to be publicly disclosed."</p>

## 2.5 Environmentally friendly technology (Reinforcing FTSE's support to principle 9)

FTSE has developed a range of market leading environmental markets indices, reinforcing its support to this principle.

### FTSE Environmental Markets Index Series

The FTSE Environmental Markets Index Series measures the performance of companies globally that have significant involvement in environmental markets, including renewable & alternative energy, energy efficiency, water technology and waste & pollution control. The FTSE Environmental Technology index series and the FTSE Environmental Opportunities index series require companies to have a significant proportion (50% and 20% respectively) of their business in the development and deployment of environmental technologies, including renewable & alternative energy, energy efficiency, water technology and waste & pollution control. This is also underpinned by the FTSE Environmental Market Classification System.

FTSE has set up an independent committee of clean technology and investment professionals to govern the research and management. The Chair is Winston Hickox, former Secretary of the State of California Environmental Protection Agency who also designed and implemented the environmental investment mandates for the California public employees retirement fund, CalPERS. The series is in collaboration with the environmental technology specialist, Impax Asset Management who carry out the research for the indices.

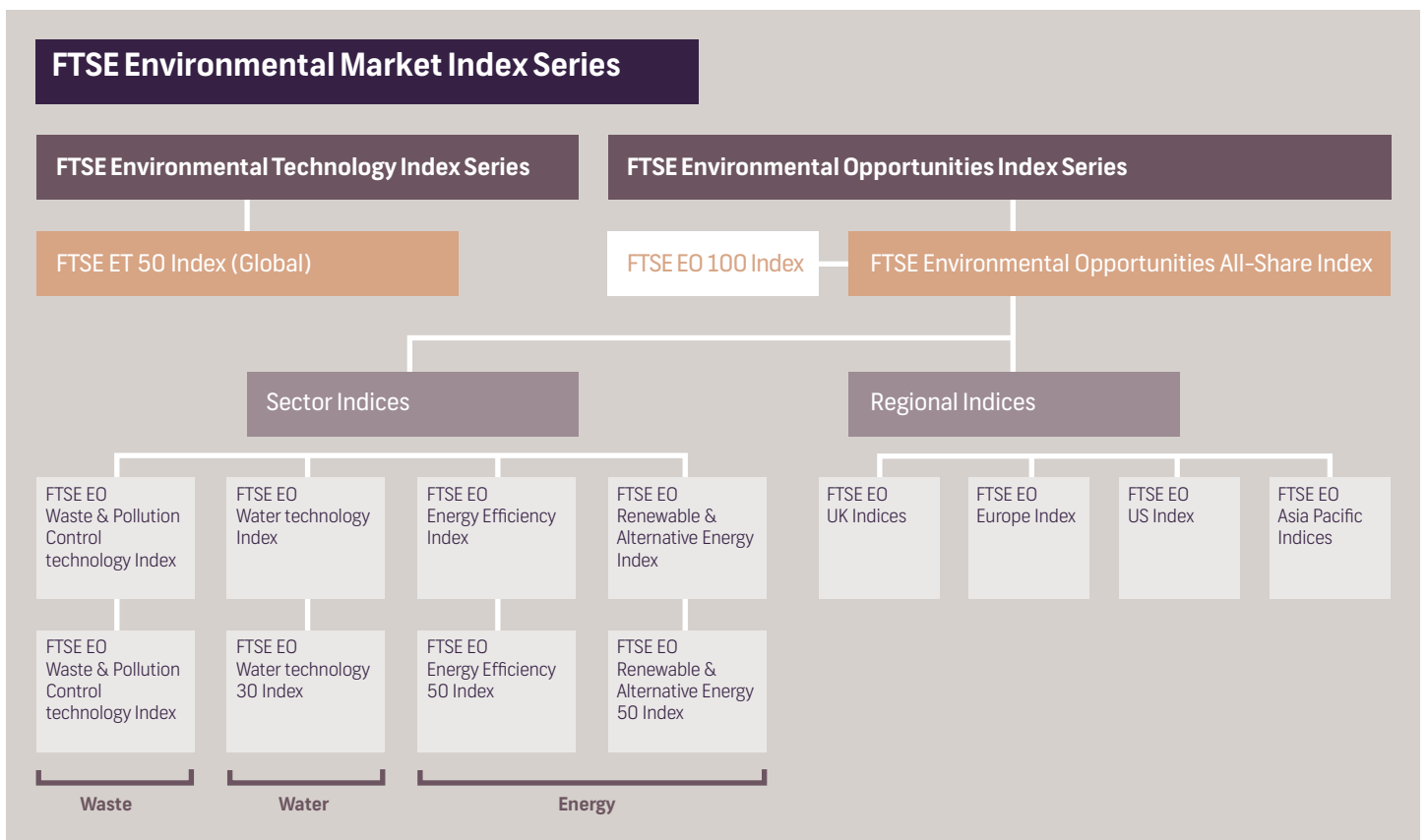
### FTSE Environmental Markets Classification System

The FTSE Environmental Markets Classification System (EMCS) is the world's first comprehensive global classification system for environmental markets. This unique classification system of environmental technology that has six sectors, and 25 sub-sectors.

A potential barrier to investment in this area in the past has been the difficulty in defining this market and understanding its investment characteristics. This classification system aims to enable investors globally to clearly identify and measure investment opportunities in environmental markets.

The global investment community now has a company classification system with sufficient levels of granularity and precision to define this growing area and assist in the design of investment products.

Further information can be found on: [www.ftse.com/environment](http://www.ftse.com/environment)



## 3. FTSE Group and Corporate Responsibility.

### 3.1 Demonstrating Corporate Responsibility

With our involvement in high profile responsible investment initiatives it is crucial that, as a company, we practice corporate responsibility ourselves. So again, this year, FTSE invited GoodCorporation to carry out an independent annual verification audit and assessment. They assessed FTSE on its responsibility to employees, clients, suppliers, shareholders, the community and the environment. There are 65 areas of management practice that are assessed, highlighting not only where the company is strong but also highlighting areas for action and improvement.

GoodCorporation is an assessment organisation founded in 2000 that carries out independent assessments for clients of how well they implement in reality their principles of responsible business management. The GoodCorporation Standard was developed in co-operation with the Institute of Business Ethics through a broad consultation process and was released in 2001 and undergoes a triennial review. Assessments have been carried out in over 40 countries, and the process is overseen by an Advisory Panel.

### 3.2 UN Global Compact Principles: Assessment of FTSE Group

The following is extracted from the GoodCorporation Assessment Report:

KEY: Assessment grades as awarded by the assessor.

- **Fail:** There is no policy or system, or it has largely broken down.
- **Minor non-compliance:** There is a policy and system but it is not always working.
- **Observation:** There is a policy and system that works but potential improvements have been identified.
- **Merit:** The policy and system work well.
- **Commendation:** The policy and system are examples of best practice.

## GoodCorporation Assessment Results 2011

UNGC principle	GoodCorporation reference	FTSE's performance	Grade
<b>1. Businesses should support and respect the protection of internationally proclaimed human rights</b>	EMP1 – EMP9 EMP12 – EMP13 EMP17 – EMP19	<p>FTSE scores mainly merits (and only one observation) on the key GoodCorporation points which relate to human rights.</p> <p>FTSE's main support of human rights comes through the FTSE4Good index, which puts it in an unusual position to set standards for listed companies to strive to attain. Human Rights criteria are also included in the inclusion criteria for the index. The FTSE4Good index has been made more challenging through the creation of Environmental, Social and Governance (ESG) ratings which gives further incentives for companies to improve their performance.</p>	Merit
<b>2. Businesses should make sure that they are not complicit in human rights abuses</b>	EMP1 – EMP9 EMP12 – EMP13 EMP17 – EMP19	<p>FTSE's adherence to good human rights practices are embodied in its ethical and human resource policies and procedures. They were assessed by GoodCorporation in June 2011 and there were no findings which indicate violations of human rights.</p>	Merit
<b>3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</b>	EMP5	<p>Freedom of association is expressed in the Ethical Conduct Policy and FTSE's support of the UN Global Compact. Employees have little interest in joining a union but feel properly consulted by the management.</p>	Merit
<b>4. Businesses should uphold the elimination of all forms of forced and compulsory labour</b>	EMP18	<p>All FTSE employees have a clear and fair contract. The staff handbook also contains clear policies on resignations and retirements.</p> <p>FTSE's adherence to good human rights practices are embodied in its ethical and human resource policies and procedures. They were assessed by GoodCorporation in June 2011 and there were no findings which indicate violations of human rights.</p>	Merit
<b>5. Businesses should uphold the effective abolition of child labour</b>	EMP19	<p>The Ethical Conduct Policy includes a commitment to not using child labour.</p>	Merit
<b>6. Businesses should uphold the elimination of discrimination in respect of employment and occupation</b>	EMP14 EMP17	<p>The Ethical Conduct Policy and Staff Handbook detail the policy on equal opportunities clearly and thoroughly, and explain each step of procedures applicable in case of non-compliance. Reports are made to senior management regarding the policy. Employees confirm that the policy works in practice.</p>	Merit

UNGC principle	GoodCorporation reference	FTSE's performance	Grade
<p><b>7. Businesses should support a precautionary approach to environmental challenges</b></p>	<p>ENV1 – ENV2</p>	<p>The FTSE Group Environmental Policy statement commits FTSE to good environmental performance as 'a fundamental element' of their corporate social responsibility programme.</p> <p>The annual report on environmental impact and progress covers areas of direct and indirect impact. Progress of targets are compared and targets clearly stated for the next year.</p> <p>FTSE continues to set targets for reducing its environmental impacts and monitors progress with great care. The attitude and action is in stark contrast to many office-based companies who perceive they have 'no significant impacts'.</p>	<p>Merit</p>
<p><b>8. Businesses should undertake initiatives to promote greater environmental responsibility</b></p>	<p>ENV3 – ENV5</p>	<p>The main influence which FTSE can have in promoting environmental responsibility is through the FTSE4Good index. Environmental criteria have always existed but have been strengthened since the beginning. Many companies found the criteria challenging and deadlines were set for compliance and FTSE engaged with many companies. FTSE has a process of engaging with the companies and timetables are set for improvement.</p>	<p>Merit</p>

# 4. Appendix.

## 4.1 GoodCorporation Assessment Methodology

GoodCorporation's methodology is designed to carry out independent assessments of business practices. There are several key components to achieving this independence:

- The work is carried out entirely by GoodCorporation staff and associates, who have no connection with FTSE.
- GoodCorporation supplies no services to clients other than independent assessment.
- The report is reviewed by GoodCorporation's independent Accreditation Council, which assesses the content for robustness, consistency and appropriateness of the grading.
- The assessment is based on a four-step process which seeks to establish how processes work in practice as well as in principle, involving feedback from internal and external stakeholders.
- Access can be demanded to any documentation and GoodCorporation selects the stakeholder samples.

### The GoodCorporation assessment covers key stakeholders and the UN Global Compact principles.

#### *The assessor:*

- Interviews key managers in the organisation from HR, HSE, sales, procurement, finance, community relations, etc to understand how practices are supposed to work, reviewing records, documents and system outputs as necessary.
- Selects and interviews samples of employees, customers, suppliers, partners, shareholders, regulators and industry bodies, community organisations and NGOs, as relevant to the organisation.
- Uses all the evidence gathered to evaluate how effectively the practices are working in reality, grading each practice to help monitor and benchmark performance.
- Maps the GoodCorporation assessment of practices against the UN Global Compact principles

### The verifier checks

1. A policy exists
2. A system is in place to implement the policy
3. A record exists to show that the system works
4. Stakeholders, when asked, agree the system works and is fair
5. Verifier then grades: fail, minor non-compliance, observation, merit, or commendation

## 4.2 Mapping UN Global Compact Principles against GoodCorporation References

The following was done by GoodCorporation:

### ***PRINCIPLE 1 – Businesses should support and respect the protection of internationally proclaimed human rights.***

- EMP1: There are clear employment terms and conditions for all employees.
- EMP2: There is a process to ensure that the privacy of employees is respected.
- EMP3: There is a clear disciplinary procedure that is fairly applied.
- EMP4: There is an effective process to deal with employee complaints and grievances.
- EMP5: Freedom of association and organisation of employee is respected.
- EMP6: There are effective employee communication and consultation process.
- EMP7: There is a process to monitor compliance with relevant employment laws and regulations.
- EMP10: There is a process to ensure that employees know how and when their pay and benefits are determined.
- EMP11: Local cost of living and market rates are taken into account when setting pay and benefits.
- EMP16: There is a policy not to employ forced, bonded or otherwise exploited labour.
- EMP17: There are processes to ensure that employment practices for young people follow internationally accepted standards.

### ***PRINCIPLE 2 – Businesses should make sure that they are not complicit in human rights abuses.***

- EMP1-EMP7, EMP10, EMP11, EMP16, EMP17

### ***PRINCIPLE 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.***

- EMP5: Freedom of association and organisation of employee is respected.

### ***PRINCIPLE 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour.***

- EMP1-EMP7, EMP10, EMP11, EMP16, EMP17

### ***PRINCIPLE 5 – Business should uphold the effective abolition of child labour.***

- EMP17: There are processes to ensure that employment practices for young people follow internationally accepted standards.

### ***PRINCIPLE 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.***

- EMP12: The organisation encourages diversity and recruits, promotes and rewards employees on the basis of merit alone.

### ***PRINCIPLE 7 – Business should support a precautionary approach to environmental challenges.***

- ENV1: The organisation identifies and measures the impacts of its operations and products on the local and global environment, including climate change.
- ENV2: The organisation monitors and continuously reduces its environmental impacts.

### ***PRINCIPLE 8 – Business should undertake initiatives to promote greater environmental responsibility.***

- ENV4: There is a process to encourage employees and contractors working on the organisation's behalf to participate actively in environmental protection.
- COM1: The organisation's plans and activities take account of its impacts on communities.

### ***PRINCIPLE 9 – Business should encourage the development and diffusion of environmentally friendly technologies.***

- ENV1: The organisation identifies and measures the impacts of its operations and products on the local and global environment, including climate change.
- ENV2: The organisation monitors and continuously reduces its environmental impacts.
- COM1: The organisation's plans and activities take account of its impacts on communities.

### ***PRINCIPLE 10 – Business should work against corruption in all its forms, including extortion and bribery.***

- COM5: There is a process to ensure that there are no forms of bribery or corruption in relation to public officials and public bodies.
- CUS12: There is a process to ensure that there are no forms of bribery or corruption in relation to customers.
- SUP9: There is a process to ensure that there are no forms of bribery or corruption in relation to suppliers and contractors.