

Countering Bribery Criteria

The FTSE4Good Policy Committee has recognised that countering bribery is a topic of increasing concern and has therefore overseen the development, by FTSE Group of a new set of FTSE4Good Index criteria covering this issue. These criteria have been developed on the basis of broad consultation over an 18-month period involving input from many stakeholders, including corporations, fund managers, government representatives, non-governmental organisations, business associations and private investors.

There are many organisations and associations currently working processes for countering bribery¹ however the FTSE4Good Criteria for Countering Bribery take the Transparency International Business Principles for Countering Bribery² as a starting point. Bribery is defined as *"an offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something which is dishonest, illegal or a breach of trust in the conduct of the enterprise's business."*³

Which Companies Need to Meet these Criteria?

All companies face the potential risk of being drawn into bribery to some degree, irrespective of the sector, country, or business activity, and evidence of significant bribery could constitute a sufficient reason for removing any company from the FTSE4Good index unless there is mitigating evidence of anti-bribery systems and effective remedial action. It is FTSE's declared intention to require all companies to address bribery in the future.

High Risk Companies

To begin with, these criteria first apply only to companies that have been identified as having the highest levels of exposure to risk of engaging in bribery. The relative need to adopt special measures to prevent bribery is a function of the unique level of risk of engaging in bribery that each company faces. That level of risk varies widely in certain locations and contexts. These criteria will initially apply only to companies that have

been identified as having the highest levels of exposure to risk of engaging in bribery. The process used to identify companies as high risk has three filters:

- Sector
- Country
- Public contracts

A company found to be high risk in all three filters is identified as a company that is high risk overall in the area of bribery.

High Risk Companies – ALL three filters must apply to each company before they are designated 'High Risk'

Companies from the following ICB (Industry Classification Benchmark) sectors and sub-sectors⁴ are considered more likely to have the highest levels of exposure to risk of engaging in bribery:

- Oil & Gas Producers; Oil Equipment, Services, & Distribution; Chemicals; Industrial Metals; Mining; Construction & Materials; Aerospace & Defense; General Industrials; Electronic & Electrical Equipment; Industrial Engineering; Support Services; Electricity; Gas, Water, & Multi-Utilities.
- Pharmaceuticals; Hotels; Fixed Line Telecommunications; Mobile Telecommunications; Software & Computer Services; Technology Hardware & Equipment.

Companies operating in countries that are deemed to have the highest risk, or perceived risk of, levels of bribery:

- Countries scoring 4 or less on the Transparency International Corruption Perceptions Index.
- Countries scoring 0 or less (negative) on the World Bank Governance Indicators list.

For a list of the countries please see next page.

Companies that are involved in any way with government/public contracts, or where a government licence is critical to the operation of their business, are considered as having the highest levels of exposure to risk of engaging in bribery.

1 - Global Compact 10th Principle against Corruption; UN Convention Against Corruption; OECD Convention on Combating Bribery of Foreign Public Officials; ICC Rules to Combat Extortion and Bribery.

2 - The Transparency International Business Principles for Countering Bribery is an international multi-stakeholder business initiative designed to complement the UN and OECD conventions, which provide a tool to enterprises to develop effective approaches to bribery.

3 - Source: Transparency International Business Principles for Countering Bribery and Guidance.

4 - Related business activities, as defined by EIRIS, will also be used to identify high-risk companies. Therefore, some companies may still need to meet the criteria even if they are not classified in the above sectors/subsectors. Other companies that do fall within the above sectors/subsectors will not be classified as high-risk if they are not involved in high-risk business activities.

High Risk Country List

Countries scoring 0 or less (negative) scores on the World Bank Governance Indicators List* or countries scoring 4 or less on the Transparency International Corruption Perceptions Index** are considered high risk. Using this methodology, all the following countries are classified as high risk, and this list will be reviewed annually:

- Countries in both Transparency International and World Bank lists: Albania, Algeria, Angola, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bolivia, Bosnia-Herzegovina, Brazil, Cameroon, Chad, China, Colombia, Congo, Congo Dem Rep, Cote D'Ivoire, Cuba, Dominican Republic, Ecuador, Egypt, Ethiopia, Gabon, Gambia, Georgia, Ghana, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Kazakhstan, Kyrgyz Republic, Kenya, Kyrgyz Republic, Lebanon, Libya, Macedonia, Malawi, Mali, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Palestinian Authority, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Russia, Senegal, Sierra Leone, Sri Lanka, Sudan, Syria, Tajikistan, Tanzania, Thailand, Turkey, Turkmenistan, Uganda, Ukraine, Uzbekistan, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe. Countries in Transparency International list only: Croatia, Eritrea, Latvia, Madagascar, Poland, Saudi Arabia, Serbia and Montenegro, Slovakia. Countries in World Bank list only: Afghanistan, Bulgaria, Burkina Faso, Burundi, Cambodia, Central African Republic, Comoros, Djibouti, El Salvador, Equatorial Guinea, Guinea, Guinea-Bissau, Guyana, Jordan, Kiribati, North Korea, Laos, Lesotho, Liberia, Macao, Marshall Islands, Micronesia, Rwanda, Samoa, Sao Tome and Principe, Solomon Islands, Somalia, Swaziland, East Timor, Togo, Tonga, Trinidad and Tobago, Vanuatu

* World Bank Governance Indicators List source: <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html> revised regularly, currently every 2 years.

** TI CPI source: http://www.transparency.org/policy_and_research/surveys_indices/cpi researched and issued annually

Criteria for High Risk Companies

(NB: Further company guidance on these criteria will be available from FTSE Group on request)

| | Policy | Management | Reporting |
|---------------------|---|---|--|
| Criteria Indicators | <ul style="list-style-type: none"> • Prohibits giving and receiving bribes; ¹ • Commits to obeying all relevant laws; • Commits to restricting and controls facilitation payments; • Commits to restricting giving and receiving gifts; • Policy is publicly available. | <ul style="list-style-type: none"> • Communicates policy to employees; • Trains relevant employees; • Compliance mechanisms (e.g. assurance, audits, monitoring, board reports); • Provides secure communication channels for employees to seek advice or voice concerns (e.g. , hotlines, advicelines, whistle-blowing procedures for protection, internal reporting mechanisms); • Procedures to remedy non-compliance. ² | <ul style="list-style-type: none"> • Policy is publicly disclosed; • Compliance mechanisms are publicly disclosed. |

Implementation Timetable for High Risk Companies

High risk companies currently FTSE4Good Index constituents must meet the criteria to remain in the index, according to the timetable of phased deadlines below.

| | Sectors | Policy..... OR.....Management | Policy... AND... ...Management | Reporting |
|-----------------|--|--|-----------------------------------|------------------|
| Phase 1 Sectors | <ul style="list-style-type: none"> • Oil & Gas Producers; Oil Equipment, Services, & Distribution; Chemicals; Industrial Metals; Mining; Construction & Materials; Aerospace & Defense; General Industrials; Electronic & Electrical Equipment; Industrial Engineering; Support Services; Electricity; Gas, Water, & Multi-Utilities. | 1st July 2006 | 1st January 2007 | 1st July 2007 |
| Phase 2 Sectors | <ul style="list-style-type: none"> • Pharmaceuticals; Hotels; Fixed Line Telecommunications; Mobile Telecommunications; Software & Computer Services; Technology Hardware & Equipment. | 1st January 2007 | 1st July 2007 | 1st January 2008 |

NB: All high risk companies currently not in FTSE4Good Index Series, will need to meet the criteria in full to gain inclusion.

¹ Companies that are signatories to the UN Global Compact may be considered committed to this criteria indicator.

² Where there is a significant and credible controversy/allegation that a company, its business partners, including suppliers, contractors or agents are committing bribery, the company must have taken visible, demonstrable or quantifiable steps to prove it has investigated these allegations effectively and in a timely manner.

Future Criteria

Future Criteria for High Risk Companies (to be confirmed by FTSE4Good Committee)

Currently, best practice in countering bribery is still being implemented by companies. As a result some of the areas FTSE explored in setting criteria have only been partially implemented by companies. The FTSE4Good Committee will therefore review the criteria after implementation by companies, with the intention of introducing the following criteria:

Policy

- **Board Level** Commitment made public;
- **Transparency of any political donations**, and an approvals and disclosure process for such donations;
- **Policy applies to business partners** (including agents, suppliers and contractors) i.e. they must not promise, solicit, give or accept bribes as part of their business relationship with or on behalf of the company.

Systems

- **Sanctions process** for breaches of policy;
- **Risk based assessment** or risk led prioritisation/implementation (simple and high level to identify the vulnerability of the company);
- **Communicate policy to business partners** (including agents, suppliers and contractors);
- **Appropriate systems for appointment and remuneration of business partners and intermediaries** (e.g. due diligence and vetting of agents' anti-bribery policy, or that partner or intermediary payment is not above market rates, which could indicate that the partner or intermediary intended to facilitate bribery).

Medium Risk and All Other Companies

- **Medium Risk:** The FTSE4Good Committee is currently evaluating the criteria for medium risk companies and will make an announcement in 2007 on criteria requirements. However companies in the following sectors have been identified as medium risk (regardless of business activity or country of operation):
 - Public Works/Construction and associated Engineering; Defence; Energy and Utilities; Mining and Extractives; Oil and Gas; Property Development; Steel and Chemicals
 - Global Hotel Chains; IT; Telecomms; Pharmaceutical
- **All other companies:** It should be emphasised that companies **not** falling in the *High Risk* or *Medium Risk* groups still face risks of becoming exposed to bribery. These companies are encouraged to consider implementing appropriate practices to counter bribery. Although the FTSE4Good criteria for Countering Bribery currently focus on high risk companies, it is FTSE's declared intention to require all companies to address bribery at an appropriate point in the future. This will be considered and introduced at the discretion of the FTSE4Good Committee.

Next Sectors

The FTSE4Good Committee will review expanding the coverage of the criteria to more sectors following implementation. The following sectors and business activities were identified in the public market consultation held in the summer of 2005 as likely to contain the next companies that should to be require to meet the criteria:

- Agriculture
- Education
- Health
- Transport and Logistics



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