



CRISA
CODE FOR
RESPONSIBLE
INVESTING IN
SOUTH AFRICA
PRACTICE NOTES



CRISA SUMMARY

The Code for Responsible Investing in South Africa (CRISA) provides guidance on how institutional investors should execute investment analysis and investment activities and exercise rights so as to promote sound governance. There are five key Principles:

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance (ESG), into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the Principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

CRISA applies to:

- Institutional investors as asset owners, for example, pension funds and insurance companies (see page 9 of CRISA for a definition of "institutional investor").
- Service providers of institutional investors, for example, asset and fund managers and consultants (see page 9 of CRISA for a definition of "service provider").

INTRODUCTION

This practice note has been drafted by the CRISA Committee (the Committee) and is designed to provide guidance to institutional investors and their service providers on how best to undertake disclosure on progress towards the application of the Principles set out in CRISA. This practice note focuses predominantly on the implementation and interpretation of Principle 5 of CRISA: *Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments*. This Practice Note is a living document and may be updated from time to time by the Committee.

The practice note is structured under the following headings:

- Purpose of disclosure
- Disclosure duties of institutional investors and service providers – presenting the respective roles of institutional investors and service providers with regards to disclosure
- Framework for CRISA disclosure – presenting a guideline with reference to content, timing and medium for CRISA disclosure.

PURPOSE OF DISCLOSURE

Public disclosure regarding the implementation of CRISA is a key element for the effectiveness of CRISA. Without it institutional investors, i.e. asset owners are not able to hold service providers to account, ultimate beneficiaries are not able to hold institutional investors to account and investee companies are deprived of the opportunity to meaningfully engage with institutional investors and their service providers. In view of the fact that application of CRISA is voluntary, market forces are necessary to encourage self-regulation. Without sufficient public disclosure, market forces do not have a sufficiently informed basis upon which to function.

The disclosure requirement of CRISA serves several important purposes, including that it:-

- Helps build a growing repository of practices to promote dialogue and learning.
- Advances transparency and accountability such that stakeholders can: -
 - a. call institutional investors and service providers to account
 - b. gain confidence that commitments are carried forward in practice.
- Provides formal information flow in order to further facilitate engagement between investors and investee companies.
- Drives continuous performance improvement in terms of the application of CRISA.
- Safeguards the integrity of CRISA.

DISCLOSURE DUTIES OF INSTITUTIONAL INVESTORS AND SERVICE PROVIDERS

The Committee recognises that institutional investors may outsource some or all of their investment decision-making processes and activities to service providers. Notwithstanding this CRISA provides as follows: *Legally, the institutional investor, who is the asset owner, has fiduciary duties towards the ultimate beneficiaries of these investments and is accountable in this regard. If an institutional investor appoints a service provider to make investment decisions or to execute any aspect of the investment activities dealt with in CRISA, that relationship is regulated by the mandate. Expectations for application of this Code, reporting requirements and sanctions for non-adherence by the service provider are to be agreed and determined via the mandate. However, the accountability of the institutional investor to the ultimate beneficiary to monitor application is not diminished by such mandate.* Therefore, as far as disclosure on the application of CRISA is concerned, the ultimate responsibility for ensuring complete disclosure lies with the institutional investor as owner of the assets to which the disclosure pertains.

In the event that none of the investment decision-making processes and activities are outsourced to service providers, the institutional investor should follow the disclosure guidelines as set out in this Practice Note.

In practice, service providers to institutional investors may be faced with having to make various disclosures in accordance with each mandate received. This may not be workable if there are a number of mandates. Similarly, there are also difficulties associated with the aggregation of information for institutional investors that use a number of service providers. There is the risk of double counting and other practical challenges with managing the information that may result in inaccuracies. The United Nations-backed Principles for Responsible Investment (PRI) provides for this

eventuality by recommending that its asset manager (service provider) signatories publish proxy voting results and the nature and extent of engagements with investee companies. Asset owners (institutional investors), are encouraged by the PRI to report on the processes and procedures they have in place to select and monitor service providers with the view that the adoption of the six PRI principles is promoted.

The Committee endorses this approach and therefore, where investment activities and decisions are delegated to a service provider by mandate, the institutional investor is required to, at a minimum, disclose:-

- the extent to which disclosure (or aspects thereof) has been delegated to a service provider;
- details of its mandate to the service provider; and
- details of the processes and procedures on how it selects and monitors application by its service provider(s) of CRISA in respect of those investment decisions and activities that have been delegated via the mandate.

The disclosure obligation on a service provider will depend on whether this has been delegated in terms of the mandate and if so, the extent of the delegation. Service providers should follow the guidance provided in this practice note in so far as it falls within the scope of its delegation.

The overarching principle that applies to disclosure by the institutional investor *vis-à-vis* their mandate with a service provider is that the disclosures by the institutional investor, as asset owner, and its service provider should when read together cover the complete disclosure framework as described below.

FRAMEWORK FOR DISCLOSURE

It should be noted that CRISA requires that “*the disclosure by institutional investors should be made public in order that it is readily accessible to all stakeholders, including companies and the ultimate beneficiaries*”. With regards to public disclosure, this includes, but is not limited to, publication on the institutional investor and/or its service providers’ website and/ or in the integrated annual report or responsible investment report, as the case may be. Disclosure in the integrated annual report may be by means of reference to the website disclosure or that in the responsible investment report. It may be a standalone report or a section in the integrated annual report or responsible investment report. Recognising that the implementation of CRISA is an on-going activity the following framework is proposed for disclosure. Note that we deal with CRISA disclosure as consisting of three separate elements below due to the fact that the appropriate platform and timing of disclosure for each of these are different depending on the information requirements of the users.

Element 1: Disclosure of policies

Policies should be made publically available to provide stakeholders with information on the following:

- The extent to which the institutional investor (or the service provider under mandate) incorporates sustainability considerations, including ESG, into the investment process as set out under Principle 1.

- The manner in which the institutional investor (or the service provider under mandate) discharges its ownership responsibilities, including its policies regarding proxy voting and the disclosure of proxy vote results as set out under Principle 2.
- The manner in which the institutional investor (or the service provider under mandate) identifies, prevents and manages conflicts of interests as set out under Principle 4.

Further to the above, these policies should also provide stakeholders with information on the governance structures and controls that are in place to ensure effective implementation. Additionally, policies should be reviewed by the board and, when necessary, updated annually.

It should be noted that the above policies may be drafted as separate policies or may be rolled into a single policy. Similarly the above policies may be incorporated in overarching responsible investment policies that address both the requirements of CRISA and the UN-backed PRI.

Timing: The effective date for disclosure of CRISA policies and/or guideline documents is 1 February 2012.

Disclosure medium: Website or other readily accessible public platforms where on-going activity can be tracked.

Element 2: Disclosure of responsible ownership practises

Disclosure of responsible ownership practises includes disclosure on both proxy vote results (in a manner consistent with the policy on proxy voting) and a summary of engagement activities. This may include, but is not limited to the following:

- a. Disclosure of proxy vote results in a manner consistent with the institutional investor's responsible ownership policy. In the event that voting is not made public but only divulged in terms of a mandate to clients directly, a full explanation of the considerations that informed this practice and agreement should be provided - refer to paragraph 15 under Principle 5. Good practice with regards to responsible ownership should include:
 - i. direct disclosure of vote results per resolution
 - ii. whether the vote cast by the institutional investor or its service provider was against or where it abstained from voting
 - iii. an explanation of the reasons where it abstained or a vote was cast against the proposed resolution
 - iv. whether the meeting was attended by the institutional investor or whether voting took place by proxy.
- b. Summary of engagement activity in a manner consistent with the institutional investor's responsible ownership policy with details on the nature and number of engagements and otherwise include the substance of the engagement and progress made.

Timing: In terms of CRISA, disclosure should have been instituted with effect from 1 February 2012. Proxy voting and engagement are on-going activities and it is therefore recommended that disclosure occurs at a minimum twice a year, in a manner consistent with the institutional investor's responsible ownership policy. Disclosure of this nature may occur more frequently or on a continual basis according to each institutional investor's requirements.

Disclosure medium: Website or other readily accessible public platforms where on-going activity can be tracked.

Element 3: Comprehensive disclosure of CRISA implementation

CRISA requires that institutional investors “*at least once a year, fully and publically disclose to what extent it applies this Code*” Disclosure of a general statement concerning the implementation of CRISA should include:

- A general description of the approach adopted in order to implement CRISA.
 - A description of the governance structures and controls that the institutional investor has in place to support the monitoring of the application of the CRISA Principles.
 - A description of the extent to which the institutional investor outsources the application of CRISA through its mandate with services providers.
- Time period which the disclosure covers.
- Extent to which the institutional investor or its service providers' have engaged with stakeholders to better understand information requirements (paragraph 11 of CRISA).
- Measures adopted by the institutional investor to ensure application of CRISA by service providers (paragraph 17 of CRISA). Please refer to heading 2.3 above for further guidance in this regard.
- In respect of each Principle:
 - Description of how each Principle has been practically implemented, including scope of application (refer paragraph 16 of CRISA). In terms of this, the scope of application may be either through direct investment and/or ownership decision making processes and/or through the selection and/or management of service providers.
 - Description of specific monitoring actions undertaken, including qualitative and quantitative measures that support the application of the Principles (refer paragraph 16 of CRISA).
 - Any forward-looking commitments, if applicable, regarding the application of the Principles over the next 12 months, including key performance indicators or targets and timelines for applying CRISA.
 - Details concerning progress made on any forward-looking commitments for the previous reporting period.
- If the Principle is not applied then a clear explanation should be provided covering the following:
 - Background information and context taken into consideration when the decision was made not to apply or to apply differently
 - Reason for not applying the Principle or applying it differently
 - Mitigating factors introduced to manage the risk emanating from a limited application or no application of a specific CRISA Principle.

Timing: Due to there being multiple financial year-ends throughout the year, it is proposed that each institutional investor discloses, in an annual statement, their application of the Principles set out in CRISA, to coincide with their annual reporting cycle after 1 February 2012. Notwithstanding the fact that the Committee recognises that full implementation of CRISA will only happen over a period of time, greater levels of disclosure are anticipated from 2013 and beyond.

Disclosure medium: The evident vehicle for comprehensive disclosure is the integrated annual report or responsible investment report of the institutional investor or its service providers, as the case may

be. In the alternative the formal report could contain a link(s) to the updated information and other relevant reports on the website.

Disclaimer: This practice note does not deal with compliance with legislation or regulation. Legal advice needs to be obtained in this regard.