



global witness

Indecent Exposure: How EU investors and their subsidiaries are helping to bankroll human rights abuses and environmental destruction

This briefing exposes the role that EU-based investors and their overseas subsidiaries have played in bankrolling projects which have caused human rights violations and environmental damage, through a series of four case studies based on Global Witness investigations. It makes a case for mandatory regulations for EU-based investors and their overseas subsidiaries to identify, mitigate, and publicly report on the Environmental, Social and Governance (ESG) risks in their investment chains.

Global Witness

Global Witness is an international NGO with offices in Brussels, London and Washington DC. It investigates and campaigns to break the links between natural resources, corruption, conflict and associated environmental and human rights violations. We have been publicly campaigning for mandatory ESG requirements for EU-based investors since 2014, alongside the Regulate Finance Coalition of NGOs in Brussels.

Introduction: the need for strong ESG regulations for EU investors and their subsidiaries

The EU's landmark Action Plan on Financing Sustainable Growth claims to 'reorient private capital to more sustainable investments' and mainstream sustainability across investors' risk management. Although strong on rhetoric, the Action Plan lacks the substance to truly tackle the social and environmental harm caused by the financial sector.¹ This briefing paper draws on previous Global Witness publications to illustrate these harms and the devastating impact that unaccountable EU-based investors can have on communities across the globe.

Global Witness has investigated and exposed the role that EU-based investors and their subsidiaries have played in bankrolling companies causing social and environmental harm in numerous reports. These companies have variously been associated with human rights violations, land grabbing, destruction of primary forests, paying armed rebel groups, corruption and violence against communities and land and environmental defenders.

In many cases the investors failed to identify environmental, social and governance (ESG) risks in their investment chains before they were publicly exposed – demonstrating the inadequacy of their risk management. In some cases, investors did not withdraw their investments even when this evidence came to light. Some investors made efforts to engage with the companies to leverage change in the way they operate to correct the harms that had taken place. Other investors refused to accept responsibility for the shares their subsidiaries held, on the

basis that they only hold them in custody on behalf of their clients or that they are merely "passive" investments. Global Witness strongly believes that EU-based investors should be responsible for the ESG risks of their overseas subsidiaries and the shares that they publicly hold, regardless of whether they hold such shares directly, in custody or as passive investors.

This is the position of the OECD in their 2017 Guidance on Responsible Business Conduct for Institutional Investors:

"... the existence of RBC [responsible business conduct] risks (potential impacts) or actual RBC impacts in an investor's own portfolio means, in the vast majority of cases there is a "direct linkage" to its operations, products or services through this "business relationship" with the investee company."²

It is clear that there is a real lack of consistency in terms of how ESG due diligence is applied by different investors. This puts investments at risk. In many of the cases below, projects were stalled, incurred additional costs or never went ahead, undermining the investments made in them.

These case studies provide clear evidence of the need for all EU-based investors and their subsidiaries to conduct better risk- and impact-based due diligence and report on their findings. This will help them avoid the kinds of harms documented below and the clear material risks associated with them. This would help to safeguard Europeans' investments and ensure that they do not contribute to human rights violations and environmental destruction.

Drillers in the Mist: how secret payments and a climate of violence helped Soco International open Africa's oldest national park to oil (2014)

This emblematic case highlights how secret payments and a climate of violence in eastern Democratic Republic of Congo (DRC) helped Soco International open Virunga National Park, a UNESCO World Heritage site, to oil exploration with financial support from its many shareholders, **including European investors**.³ The international oil company signed the contract for the UNESCO World Heritage site in 2007 and it was ratified by presidential decree in 2010.⁴ As early as 2012, the Council on Ethics of the Norwegian Pension fund recommended divestment from Soco due to environmental concerns.⁵ Evidence published by Global Witness' September 2014 report, *Drillers in the Mist* showed how opponents of Soco were arrested, beaten and stabbed by government security forces identified as working alongside the company. This was enabled by an environment of corruption and impunity in which Soco played an active role. Soco and its contractors also appear to have paid off armed rebels.⁶ The Netflix documentary *Virunga*, which exposed Soco International's activities and the threats posed to the region, was premiered in April 2014 and appeared on Netflix in November that year.⁷

The serious risks to one of the most important ecosystems in the world posed by oil exploration in Virunga Park led to urgent calls for the protection of the park and the people that depend on it from the UNESCO



Virunga National Park is a world heritage site and home to a quarter of the world's remaining mountain gorillas © Martin Mecnarowski: shutterstock

World Heritage Committee, the British Foreign Office, the Belgian and European Parliaments, and the International Crisis Group.⁸ It was feared that oil operations in this area would threaten endangered species, peace and stability in the region and the very existence of the national park.⁹

After WWF filed a complaint against Soco to the Organisation for Economic Co-operation and Development (OECD) in June 2014, after Soco had completed its seismic testing programme, it issued a joint statement with WWF in which the company committed to cease oil operations in Virunga unless UNESCO and the Congolese government agreed that it is “not incompatible with World Heritage status”. WWF withdrew its OECD complaint.¹⁰ In November 2014, Soco reiterated its commitment to not further exploring or drilling within Virunga Park and stated that it was no longer conducting operations anywhere inside its oil block.¹¹ In 2015, the company pulled out of the DRC and relinquished its licence, writing off its investments in the process.¹²

In June 2015, Global Witness **published cheques showing** that Soco had paid tens of thousands of dollars to a Congolese military officer accused of bribery and of brutally silencing opponents of oil exploration in the park.¹³

EU-based investors behind the scene

At the time that Global Witness published its *Drillers in the Mist* report in September 2014, a number of investors from several EU countries held shares in Soco International. These included, amongst others, three major providers of pensions and insurance, **Legal & General**,¹⁴ **Aviva** and **Standard Life Investments**,¹⁵ and two fund managers **Schroders** and **Aberforth Partners**. Despite extensive media coverage of the ESG risks and harms of oil extraction and of Soco's behaviour in the Virunga National Park, these EU investors still retained shares in Soco in April 2018. In fact, the latter two asset managers actually increased their holdings since 2014. Most of the other EU-based financial investors who held shares in 2014 continued to do so in 2018.¹⁶

Table 1. Relevant European investors in Soco since 2014

EU Investor	Ownership in Dec. 2014 (% of shares) ¹⁷	Ownership in April 2018 (% of shares) ¹⁸
Schroders PLC via its funds	0.66	4.67
Aberforth Partners LLP via its funds	1.63	2.87
Legal & General Group PLC via its funds	1.84	1.42
Standard Life Aberdeen PLC ¹⁹	3.52	1.04 ²⁰
Aviva	0.39	0.27

Divestments and engagement with the company

As mentioned above, in 2012 the Norwegian pension fund Council on Ethics recommended the exclusion of Soco International due to an unacceptable risk of the company, through its petroleum activities, being responsible for severe environmental damage in Virunga National Park. After Soco concluded an agreement with WWF on the suspension of further petroleum activities in Virunga and confirmed that their activities had stopped, the Council recommended it should not be excluded.²¹ However, while Soco does not appear on the excluded list,²² since 2015 Norway's pension fund is no longer listed as a Soco shareholder.²³

After Global Witness' *Drillers in the Mist* report was published in 2014, **Investec**, a UK asset management company,²⁴ reportedly withdrew their investment in Soco in what it called 'the ultimate expression of discontent', according to the Telegraph newspaper.²⁵ Within 12 months, the **Church of England** had also sold its £1.6 million stake in Soco after the company failed to satisfy the Church with its response to evidence of human rights abuses, bribery and corruption linked to its operations in Virunga National Park.²⁶ **Standard Life Investments** told Global Witness that they had engaged with Soco over many issues, including their activities in the DRC, and that "our dissatisfaction with the company's response... was a factor in us selling our actively held position." However, Standard Life still holds a small "passively managed" shareholding in the company – meaning that their investments "either track an index or make automated investment decisions based on various factors."²⁷

Aviva has gradually reduced its shareholdings in Soco since 2012 and as of 2018 no longer holds active shareholdings. However, they do still hold 0.27% in passive index shares. Aviva sent Global Witness detailed information about their extensive engagement with the company and other stakeholders since 2012 over Soco's operations in the DRC. This included a 22-page report from ethical investment foundation EIRIS commissioned by Aviva titled "Two years on: Review of progress by Soco International on EIRIS' ESG recommendations." The report does show some progress by the company against the EIRIS recommendations. This report was also presented to the board of Soco in an attempt to influence the company via engagement rather than divestment.²⁸

Aviva is considered to be one of the EU's more progressive and ESG conscious investors and it is clear that they have considered the ESG risks in detail and actively acted to improve company behaviour. They have also done broader public engagement aimed at promoting the protection of areas of outstanding natural value more generally.

Investor engagement with companies can be a powerful tool to improve behaviour. However, there is a limit to what one minority shareholder can achieve on their own. The progress by Soco reported in the EIRIS report is very limited, particularly when it comes to human rights and corruption-related indicators, as opposed to environmental ones where progress was deemed better. The serious allegations made against Soco should be a major red flag for any investor considering its investments in the company. They should seek clear reassurances from the company about future

operations and monitor ESG risks carefully. This case highlights the need for regulation to level the playing field for investors and set standards so that investors can work together to improve company behaviour, rather than relying on individual conscientious investors to push for change alone.

Global Witness wrote to Aberforth, Schroders and Legal & General to ask for comment but at the time of publication had not received a response.

Global Witness also wrote to Soco International. We received a response from Camarco, a financial and corporate communications consultancy, which simply stated, "A spokesperson for Soco International said: 'no comment'".

Defenders of the Earth (2016) India: Stamping down on protest at Vedanta's mine sites

In 2004, European-based mining company Vedanta Resources launched a US\$2 billion project in partnership with Odisha state to build a massive open-pit mine to extract bauxite, an ore used to make aluminium, in the sacred Niyamgiri Hills, north-eastern India.

It was feared the mine would destroy large areas of forest, pollute vital water sources and force members of the Dongria Kondh tribe to leave their lands. The tribe organised peaceful protests against the mine and in a ground-breaking decision, the Indian Supreme Court ruled that the tribal community had the right to vote on the project proceeding. By August 2013, all 12 tribal village councils had unanimously voted against it.²⁹

In August 2015, Vedanta announced the closure of the aluminium refinery it had built in anticipation of the mines opening.³⁰ However, a leading community activist told The Citizen newspaper in June 2017 that violence against indigenous people who opposed that mine increased after the court ruling.³¹ Global Witness documented how social activist Prafulla Samantara, who filed the petition with India's Supreme Court, had been physically attacked and intimidated by "hired goons" he believed were connected to the company.³² Vedanta told Global Witness, while it accepts that it did not engage effectively with local people prior to the vote, it pointed out that it had relinquished rights in the Niyamgiri Hills in 2015 without mining commencing and that it played no part in the intimidation suffered by Prafulla or any human rights abuses.³³



*Prafulla Samantara, 2017 Goldman Environmental Prize winner.
© Goldman Prize*

On 23 May 2018, it was reported that more than 10 people protesting against a copper plant operated by Vedanta had been shot dead and approximately 80 wounded by police in Tamil Nadu, south India.³⁴ Within days the Tamil Nadu Pollution Control Board ordered Vedanta's Sterlite Copper plant to be permanently closed.³⁵ This case also attracted UK political attention, with John McDonnell MP, the Shadow Chancellor, calling for Vedanta to be delisted from the London Stock Exchange two days later, in

order to restore confidence in the governance of the Stock Exchange.³⁶ Vedanta told Global Witness that the company and its subsidiary Sterlite Copper took no part in the proceedings against the protestors and had no influence over the police action. They called the protestors environmental concerns "unfounded" pointing out that the plant had been "non-operational" since March 2018. The cost of the closure of the plant was estimated at US\$22.5 million per month by the company.³⁷

Divestment

In 2007, the Norwegian Pension Fund excluded Vedanta Resources PLC and its subsidiaries Sterlite Industries Ltd and Madras Aluminium Company Ltd following a recommendation from the Council on Ethics which found that the companies were responsible for, or contributed to, severe environmental damage and systematic human rights violations in India. One of the Council on Ethics recommendations in 2007 addressed the environmental impacts associated with the planned operations in the Niyamgiri Hills (detailed above), as well as the violation of the human rights of tribal people in the area.

In 2016, the Council on Ethics reviewed the 2007 recommendation and responses from Vedanta, and looked into developments at Vedanta's subsidiaries from 2007 to 2016. The Council concluded that "the basis for excluding Vedanta from investment by the Norwegian Government Pension Fund Global is still present, as there continues to be an unacceptable risk of the company causing or contributing to severe environmental damage and serious or systematic human rights violations."³⁸

In 2010, the Church of England divested its financial interest in Vedanta, worth around £3.8 million, over concerns around the controversial plans for the open-cast mine in the Niyamgiri mountains. The company said in its statement “We are not satisfied that Vedanta has shown, or is likely in the future to show, the level of respect for human rights and local communities that we expect.”³⁹

Which EU investors are backing Vedanta?

According to Vedanta annual reports, a UK-based major international investment company, **Standard Life Investment**, has been one of its substantial (indirect) shareholders for the last five years. In 2014, this investor held 7.87% of Vedanta shares,⁴⁰ a figure which increased to 8% in 2015⁴¹ and 9% in 2016⁴² before dropping to less than 5% in 2017,⁴³ according to Vedanta’s annual reports. It appears from Orbis records that Standard Life held shares in Vedanta as far back as 2007. Orbis lists a number of other EU-based investors with smaller shareholdings between 2005 and 2018.⁴⁴

Despite the controversy surrounding Vedanta’s operations in India, Aberdeen Standard Investments, parent company of Standard Life Investments, still holds 2.7% shares in Vedanta. Aberdeen Standard told Global Witness that they have engaged extensively with the company on the Niyamgiri and Tamil Nadu controversies. They also stated that they discussed the Tamil Nadu incident on a call with Vedanta on 25 May 2018, which they cited as an example of their engagement to encourage positive change. They have conveyed to Vedanta that they need to do more to ensure that they meet international best practice standards on environmental, human rights and community consultation issues.⁴⁵ They didn’t provide any additional information on

their engagement with the company or third parties in their response.

Investor engagement and divestment are important tools to improve company behaviour and safeguard investments. But investors should not be waiting for problems to hit the headlines before they act. They should be proactively conducting due diligence into ESG risks, and working to mitigate them, before problems occur.

The New Snake Oil: violence, threats, and false promises at Golden Veroleum’s Liberian palm oil plantation. (2015)

Golden Veroleum Liberia (GVL) is a palm oil company that presides over one of the world’s biggest palm oil plantations, located in southern Liberia. In 2015, Global Witness reported how Liberians had complained that they had been violently beaten, threatened, and arrested for protesting the expansion of Golden Veroleum (GVL).⁴⁶ GVL’s agreement, signed with the government in 2010, grants a 350,000 hectares (ha) “Area of Interest” within which the company can convert 260,000 ha of land into an oil palm estate. It’s estimated that at least 41,000 people live within the initial operations area (210,000 ha) alone.⁴⁷



Golden Veroleum’s contract covers an area the size of London and Barcelona combined.

According to eyewitnesses interviewed for the report, on 26 May 2015 GVL workers and community members – frustrated over low wages and other grievances – held a sit-in on a road in the Butaw section of the GVL plantation, barring passage by car of high-ranking GVL and government officials. These officials promptly summoned the Liberian police, who fired tear gas and attacked the protestors. This environment of fear and suppressed community frustration culminated in a day of violence in which 37 community members were arrested and at least two were assaulted by government police.⁴⁸

GVL's only investor is Golden Agri-Resources (GAR), which has a remarkably poor record when it comes to human rights abuses, land grabbing and environmental abuses in Indonesia.⁴⁹ The Global Witness report also exposed the biggest financial backers of GAR including US and European investment funds, banks and their subsidiaries. Among the EU shareholders in GAR at the time, were the investment manager **Silchester International Investors** which held an estimated US\$403 million in shares, **Standard Chartered**⁵⁰ and **HSBC**⁵¹ which held US\$710 million and US\$409 million via their subsidiaries respectively. (**Allianz** also held an estimated US\$12 million in shares).⁵²

After requesting further information about their investments for the report, HSBC stated that they did not invest directly in GAR projects, but rather held GAR shares “in custody” for other ultimate “beneficial” shareholders.⁵³ Global Witness believes that the subsidiaries of EU-based institutions, including banks, should be held to the same standards as EU-based fund investors, and that all shareholders, even those that only hold shares “in custody” for the real hidden

investors, should abide by the same standards. This will avoid a dual standard and prevent investors from dodging ESG regulations either by buying shares through nominees or denying that they are responsible for active investment decisions for shares they hold on behalf of clients.

What happened after the publication?

In February 2018, the Roundtable on Sustainable Palm Oil (RSPO) made a complaints decision on a Golden Veroleum Liberia's (GVL) case filed in 2012. The RSPO concluded that GVL had not complied with the principles of Free, Prior and Informed Consent (FPIC) with regards to the signing of the MOUs with the Butaw and Tarjuowon (Blogbo) communities in Liberia, and had used coercive methods in its negotiation with them.⁵⁴ GVL appealed against the decision but this was dismissed by RSPO.⁵⁵ In response to the decision, GVL voluntarily and temporarily withdrew from the RSPO in July 2018, arguing that the company was “disappointed in the appeal panel decision and the way the complaint on GVL has been managed”.⁵⁶

According to the 2017 GAR annual report, published in 2018, on 7 March 2018 **Silchester International Investors LLP**, an investment management company, held 11.01% shares in GAR, 2% more than in 2015 when the report was published.⁵⁷ **Raffles Nominees PTE LMD (SG)**, whose parent company is **Standard Chartered Bank (UK)**, held around 1.9 million shares, representing a 15.16% stake. **HSBC (Singapore) Nominees PTE LTD**, the subsidiary of **HSBC Holdings PLC (UK)**, held 492,000 shares, which represents a 3.86% stake in GAR.⁵⁸

Global Witness wrote to Silchester, HSBC and Standard Chartered in August 2018, pointing

out that despite the publicly available evidence of the harms mentioned above, all three had retained shares in GAR. Both HSBC and Standard Chartered declined to take responsibility for the shares they held, and any associated ESG responsibility, on the basis that shares are held by their subsidiaries in custody on behalf of their customers. Both banks told Global Witness that they were unable to provide us with the details of the ultimate beneficial owners, citing client confidentiality.⁵⁹ HSBC said they are willing to raise concerns with the institutional shareholders that they are acting on behalf of as custodian. Silchester had not responded at the time of publication.

In a letter dated August 2018, HSBC told Global Witness that GAR shares held by HSBC as either custodian or through its asset management business represented 3.14% of GAR's total issue share capital. HSBC also stated that GAR shares held in HSBC's name are all held on behalf of customers and do not represent an active investment decision made by HSBC, financing provided by HSBC or any direct relationship between HSBC and GAR.⁶⁰

Meanwhile, Standard Chartered Bank told Global Witness that Raffles Nominees PTE LTD is an "indirect" subsidiary, which according to the bank, is a "depository agent" and not a fund. Its purpose, according to Standard Chartered, "is to hold securities as nominee only." Standard Chartered also stated that the bank does not hold any shares in Golden Agri-Resources "from its own account" and did not provide further information about the number of shares held by Raffles.⁶¹

In both instances then, the banks refused to accept responsibility for the shares they hold

in GAR, despite being publicly listed as major shareholders in the company. When Global Witness asked for the details of the active investors behind the shares held by their subsidiaries, both registered in the secrecy jurisdiction of Singapore, they refused to do so. As such, we simply do not know who is behind the investments. This situation creates a serious accountability gap when it comes to assessing liability for ESG due diligence.

Rubber Barons: how Vietnamese companies and international financiers are driving a land grabbing crisis in Cambodia and Laos. (2013)

In 2013, Global Witness revealed how two of Vietnam's largest companies, Hoang Anh Gia Lai (HAGL) and the Vietnam Rubber Group (VRG), bankrolled by **Deutsche Bank** and the International Finance Corporation (IFC), had leased vast tracts of land for plantations in Laos and Cambodia, with disastrous consequences for local communities and the environment.

People affected were impoverished, faced food and water shortages and had received little or no compensation. The spiritual forests and burial grounds of indigenous minority peoples had also been destroyed. When they resisted, communities faced violence, arrest and detention, often at the hands of armed security forces who were on the companies' payroll.

It also appears that HAGL and VRG also hid their beneficial ownership of rubber holdings in order to acquire land concessions five and sixteen times the size of the legal limit respectively.⁶²



Villagers look out over the land and forest they recently lost to a HAGL subsidiary company's rubber concession, Cambodia, 2013. © Global Witness / Chris Kelly

In this case study we focus on the role of HAGL and its investors.

Who were the EU investors in HAGL at the time?

In 2011, HAGL became the first Vietnamese company to list on the London Stock Exchange's Professional Securities Market (PSM), using Deutsche Bank Trust Company Americas as its depository bank.⁶³ Following this, Deutsche Bank continued to finance HAGL through its **DWS Vietnam Fund Ltd**; holding 3.4 million shares, worth approximately US\$4.5 million at that time.⁶⁴ In addition the company indirectly received an undisclosed amount of investment from **Deutsche Bank** through its **Vietnam Exchange Traded Fund**, which had a market capitalisation of US\$16.5 billion at that time.⁶⁵

What happened after the report?

In November 2013, after Global Witness' *Rubber Barons* report was published, **Deutsche Bank** divested from HAGL without explaining the reasons it dropped its stake, retaining some minor residual shareholdings. **Swiss-based CBR Investments** also sold all its financial interests in HAGL within a few days of the publication of the report, arguing the company had failed to fulfil environmental,

social and governance principles in Cambodia.⁶⁶ At this time, responsible international investors should have been seriously reconsidering their investments in HAGL due to the gross human rights abuses and environmental damage associated with the companies' operations in Laos and Cambodia. But, just two weeks after the *Rubber Barons* report was published in May 2013, **Credit Suisse (CH)** swapped bonds held in HAGL to acquire more than 10% of the company's shares, making it the second largest shareholder, in a move which Global Witness argued was in contravention of its commitments to human rights.⁶⁷ Credit Suisse told Global Witness that it was not an investor, but a "custodian" for a third party investor. It was instructed by private clients to divest all the holding in HAGL in 2015. It did not provide any further information about its clients.⁶⁸

There are currently no EU-based investors listed on the Orbis database⁶⁹ or in the most recent HAGL annual report.⁷⁰

Divestment motivated by ESG concerns sends a powerful message to companies to clean up their act, but investors should be proactively investigating a company's risks before NGOs or the media uncover them. This would help influence company behaviour for the better, preventing problems in the first place, and safeguard investments from risks that had already been identified.

Recommendations – what can the EU do to prevent financing of environmental damage, human rights abuse and corruption

The EU's landmark Action Plan on Financing Sustainable Growth called for the mainstreaming of sustainability or ESG issues in investors' risk management. While we welcome the rhetoric and overall intention of the Commission, we do not believe the specific measures proposed by the Action Plan are currently tough enough to avoid the problems outlined in the case studies above from occurring again in the future.

From Global Witness' perspective, the two most critical parts of the Action Plan are the legislative proposals announced in May 2018:

- The Regulation on the establishment of a framework to facilitate sustainable investment (Action 1)⁷¹
- The Regulation on Disclosures Relating to Sustainable Investments and Sustainability Risks (Action 7)⁷²

Here we focus on the latter, the Regulation on Disclosures Relating to Sustainable Investments and Sustainability Risks (DSR Regulation).

The DSR Regulation requires investors to report on how they integrate ESG factors in their risk management processes. While this is welcome, disclosure alone will not lead to the necessary reform of the financial sector. The EU needs to respond to the huge sustainability challenges posed by growing demand for resources internationally. It should be more ambitious and set up

requirements within the DSR Regulation to ensure that investors carry out due diligence to incorporate sustainability risks in their investment decisions.

Investors need to identify whether the assets or companies they are investing in will have any negative impact on sustainable development and then mitigate that impact. Investors have sophisticated systems for managing and mitigating financial risk – but

Due Diligence

Due diligence describes the processes investors use to systematically identify and mitigate sustainability risks. Due diligence encompasses a range of different processes, specific to each investor, and together they add up to a systematic approach to risk management. In 2017, as part of its broader corporate governance guidance, the OECD agreed with a range of institutional investors on a definition and explanation of due diligence for investors, defining it as: the ongoing process through which investors can “identify, prevent, mitigate and account for how they address their actual and potential adverse impacts as an integral part of business decision-making and risk management systems”. We recommend that the EU uses this definition to reinforce consistency and align with existing market practice.

For more information see Global Witness' briefing on [Investor Due Diligence](#) on our website.

they need to do more on sustainability risks which often, as the case studies above show, come with material costs.

While an ever-increasing group of mainstream investors are integrating sustainability within their internal decision-making,⁷³ many others are failing to do so. The DSR Regulation is the EU's opportunity to mainstream consideration of sustainability risks and level the playing field. Where legislatively possible this should be extended to overseas subsidiaries, shares held in custody, and passively held shares, in line with OECD guidelines.

On 2nd August 2018 the European Parliament's Committee on Economic and Monetary Affairs (ECON Committee) rapporteur MEP Paul Tang published his draft report on the DSR Regulation⁷⁴, in which he proposes a number of ways in which the measures could be strengthened.

Global Witness is particularly supportive of the following proposals:

- Introducing mandatory due diligence for all EU investors to ensure that they mitigate all environmental, social and governance (ESG) risks, and report on this.
- Broadening the definition of sustainability risk to ensure it covers not only risks to investors but also to people and planet.
- Establishing a non-exhaustive list of potential ESG risks that investors should mitigate against as part of their due diligence processes, ahead of the introduction of a full, overarching and mandatory EU due diligence framework

- Ensuring not only asset managers but all institutional investors, including banks and insurers, are covered by these rules

In addition to the DSR Regulation, Global Witness is calling on the EU to strengthen its broader system of financial and corporate governance regulation, in order to address the loopholes identified by the case studies above. These case studies highlight the extent to which the changes to financial regulations introduced within the Action Plan do not go nearly far enough. They are simply the start, rather than the end, of the major regulatory overhaul required to ensure the financial sector plays its part in delivering a sustainable future.

A significant additional opportunity will be the revision of the EU's framework for public reporting by companies due in 2019-2020. Better corporate reporting will help investors to better understand the companies they are investing in, and achieve the EU's sustainable finance objectives.

www.globalwitness.org

¹ Global Witness, New EU Sustainable Finance Initiative – strong on rhetoric, weak on regulation. Available here: <https://www.globalwitness.org/en-gb/press-releases/new-eu-sustainable-finance-initiative-strong-rhetoric-weak-regulation/> (Accessed 8 Mar 2018)

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³ Global Witness, Drillers in the mist: how secret payments and a climate of violence helped Soco International open Africa's oldest National park to oil, 3 Sep 2014. Available here: <https://www.globalwitness.org/en/archive/drillers-mist-how-secret-payments-and-climate-violence-helped-uk-firm-open-african/> pages 3, 23.

⁴ Ibid, pages 24-25.

⁵ Council on Ethics for the Norwegian Government Pension Fund Global, Annual Report 2014, 31 Dec 2014. Available here: https://www.banktrack.org/download/council_on_ethics_2014_annual_report_pdf/councilonethics2014annualreport.pdf (Accessed 03 Sep 2018) page 9.

⁶ Global Witness, Drillers in the mist: how secret payments and a climate of violence helped Soco International open Africa's oldest National park to oil, 3 Sep 2014. Available here: <https://www.globalwitness.org/en/archive/drillers-mist-how-secret-payments-and-climate-violence-helped-uk-firm-open-african/> page 3.

⁷ Netflix, Virunga documentary, 17 Apr 2014. Available here: <https://www.netflix.com/gb/title/80009431> (Accessed 3 Sep 2018)

⁸ Global Witness, Drillers in the mist: how secret payments and a climate of violence helped Soco International open Africa's oldest National park to oil, 3 Sep 2014. Available here: <https://www.globalwitness.org/en/archive/drillers-mist-how-secret-payments-and-climate-violence-helped-uk-firm-open-african/> pages 25-26.

⁹ Ibid.

¹⁰ Ibid. WWF Press Release, Oil company Soco not to drill in Virunga World Heritage Site. June 11 2014 Available here: <http://wwf.panda.org/?223211/Oil-company-Soco-not-to-drill-in-Virunga-World-Heritage-Site%22>

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¹² Soco International PLC, 2015 Annual Report. Available here: https://www.socointernational.com/private/downloads/2q5yfck4hHmg_VQUE1eMKg/SOCOARA2015_DL.pdf (Accessed: 28 August 2018) page 75.

¹³ Global Witness, Virunga: UK company bankrolled soldiers accused of bribery and violence in quest for oil in Africa's oldest national park, 10 June 2015. Available here: <https://www.globalwitness.org/en/campaigns/democratic-republic-congo/soco-in-virunga/> (Accessed 7 Aug 2018)

¹⁴ Legal & General Group PLC is the parent company of Legal & General Investment Management Ltd. Legal & General Group PLC, 2017 Annual Report. Available here: <https://www.legalandgeneralgroup.com/media/2360/annual-report-2017.pdf> (Accessed 28 Aug 2018) page 213.

¹⁵ Standard Life Aberdeen PLC is the parent company of Standard Life Investments, 2017-18 Annual report. Available here: https://uk.standardlifeinvestments.com/AR_SLIC_Long.pdf (Accessed 28 Aug 2018) page 802.

¹⁶ SOCO shareholder history data drawn from Orbis on 31 July 2018, which was provided by the financial database FactSet

¹⁷ SOCO shareholder history data drawn from Orbis in July 2018, which is provided by the financial database FactSet.

¹⁸ Ibid.

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