

Stakeholder Review Report 2013

TD has been reporting on corporate responsibility (CR) performance since 2002 and began incorporating panel feedback in the 2011 CR Report. To encourage open and frank discussion, TD engaged an independent consultant, Solstice Sustainability Works to facilitate the stakeholder review process. This panel report has been prepared by Solstice with the *Management Response* sections added by TD. The panel’s feedback informs TD’s materiality analysis and its corporate responsibility reporting, and guides the Bank’s ongoing work towards being The Better Bank. On behalf of TD, we would like to express our appreciation to all the panel members who shared their experience and insights.

Panel Structure and Process

The Stakeholder Panel process consisted of a panel meeting in Toronto in October 2013 and interviews with some stakeholders who could not be present for meeting. The panel included a mix of previous members and new voices. In collaboration with us, TD selected as panellists individuals with a diversity of knowledge and experience and the willingness to provide valuable and candid feedback. Some have prior experience with corporate responsibility (CR) reporting, some reflect the interests of TD’s core stakeholders and some have experience in social, environmental or governance issues that are relevant to TD. While we did not hold a meeting in the United States this year, the panel included people from organizations with a U.S. presence. Panel members took care to highlight Canadian and U.S. differences where these occurred. Our thanks to the following individuals who participated:

2013 Stakeholder Panel
Yolanda Banks, Export Development Canada (EDC)
Neil Crawford, Aon Hewitt
Monica Da Ponte, WWF-Canada
Wesley Gee, The Works Design
Paula Glick, MSCI
James Gray-Donald, Bentall Kennedy
Karim Harji, Purpose Capital
Mimi Marrocco, University of Toronto
Doug Morrow, Corporate Knights
Christine Nunez, Atkinson Foundation
Christopher Ragan, McGill University
Shannon Rohan, SHARE
Barbara Turley-McIntyre, The Co-operators Group Ltd.

As advance preparation, panellists reviewed TD’s 2012 CR Report, the prior year’s Stakeholder Panel Report, and TD’s draft materiality analysis for 2013. After welcoming the group, TD representatives left the meeting and the panel was encouraged to provide frank and constructive feedback. The panel’s discussion was directed towards three objectives:

- Provide feedback on TD’s performance on the issues it has identified as material;
- Provide input to the current year’s prioritization of material sustainability issues; and
- Provide insight into how material sustainability issues are likely to change over the mid-term.

After the meeting, the facilitator circulated detailed notes to the Panel members to check for accuracy and then prepared this Review Report. TD management received it and added a response. Panel members received the finished Review Report and agreed to have their name included. Panellists were reimbursed for travel costs and TD offered to make a contribution on each panellist’s behalf to one of a choice of charities.

Commentary from the panel

The panel was encouraged by TD’s willingness to learn and openness in conducting the stakeholder review, and offered these comments in the spirit of continuous improvement.

Part 1: Comments on TD’s CR Reporting

The panel commented that TD is already a leader in reporting, but as expectations are always rising, TD will need to do even better to maintain a leadership position. The panel offered these general recommendations for improving future reporting.

Provide context for performance

The panel identified three kinds of contextual information that would help readers interpret and assess TD’s CR performance:

- Benchmarks, especially to industry norms or peer performance
- Regulatory requirements or thresholds, to show when TD is going beyond compliance
- Ratios, to show TD’s impact or contribution in relation to overall economic, environmental or social conditions

“We don’t have the context we need to know how TD is doing in relation to its peers, its targets, and its business strategy.”

Link targets and goals to TD’s vision

TD has scorecards with goals for each of its four CR themes and some goals have associated targets. The panel commented that the goals and targets as a whole did not give them a clear picture of how TD is doing in relation to its vision. They offered the following suggestions:

- Set multi-year goals for each area, showing the path towards achieving the vision
- Set annual targets as milestones towards goal attainment
- Ensure targets are “SMART” (specific, measurable, actionable, relevant and time-bound)

“Show how performance against targets ladders up to overall goals.”

Layer information to build a complete picture

TD is reporting on several complex issues and readers may need a variety of types of information to understand TD's performance. The panel recommends including:

- A clear story line – why is the issue important to TD and its stakeholders and how do TD's efforts make progress on the issue?
- Performance criteria – how does TD define good performance for this issue? Refer to industry standards or regulatory thresholds where appropriate
- Explanation of TD's systems to manage risk or improve conditions – not just a description of the systems, but data to demonstrate that the systems are working
- More third party voices or examples to bring the issues to life – include examples of mistakes and what TD learned from them
- Future plans – show trajectory towards the vision

"Have the CEO tell a compelling story and use the report to back it up."

Explore linkages among issues

The panel noted that some issues are interrelated but treated as independent in the CR Report. They would like to see more integration of issues. TD may be able to make more progress by coordinating its response across a number of areas. For example, the issue of financial literacy could be linked to the issue of accessible and inclusive banking, and both could be addressed in part through product and service innovation. The panel further recommended an expanded view of community investment/involvement/development that would see TD also strengthening communities through the provision of financial products, services and advice designed to meet community needs.

"Demonstrate intentional cohesion of all issues; weave issues together."

Consider audience needs

The panel acknowledged that TD's CR Report serves multiple purposes and has diverse audiences. They encouraged TD to put the emphasis on CR *reporting* as a whole rather than *the Report*, so that audiences can select what is most relevant to them. Some audiences focus on data quality with trends, benchmarks and ratios being highly important. Other audiences are interested in stories that link issues and demonstrate that TD is making progress on the most material issues. For them data is not of interest in itself, but as evidence to support the story. The panel also commented on a general level of audience cynicism about reporting and urged TD to highlight its shortcomings and the actions taken in response. This will enhance TD's credibility and the status of CR reporting generally.

"Reporting exercise lacks credibility because it is all good news; TD does not state enough challenges."

In addition to these general recommendations, the panel indicated specific opportunities for enhanced disclosure for several issues. These are included in the table in the next section.

Part 2: Comments on TD's CR Performance

Panel members discussed TD's performance on groups of material issues and assessed it as follows:

1. TD's response is appropriate to the materiality of the issue and on track,
2. TD's response demonstrates leadership in the sector,
3. TD's response is not enough or not working, or
4. the CR Report does not provide enough information to assess.

Issues for which TD's response is appropriate and on track

The table below shows the issues for which TD's response was assessed as appropriate to the materiality of the issue. The panel highlighted TD's best practices and flagged some initiatives as examples of sector leadership, but did not assess TD's performance as overall leadership in any area. Suggestions that would move TD towards leadership are included in the third column. Suggestions for improvements in disclosure are shown in the right column.

"What's leadership? Something that goes beyond compliance, beyond current best practice and sets the agenda for the sector on an issue."

Material issues	What is TD doing right?	What more could TD do?	What other information is needed?
Accessible banking & inclusion	<ul style="list-style-type: none"> • Simply Save program (automatic savings plan) may be a leadership initiative. • Complying with regulatory requirements for providing basic services and making locations physically accessible. • Performance in U.S. is better where regulatory requirements are more demanding. 	<ul style="list-style-type: none"> • Go beyond compliance. • Address needs of people with low incomes for access to savings products, credit, and financial advice. • Develop product and service innovations for people with low incomes (e.g. on-reserve banking) 	
Community investment	<ul style="list-style-type: none"> • Meeting Imagine Canada benchmark for philanthropy (benchmark is 1% of average revenues – TD reports 1.3%) 	<ul style="list-style-type: none"> • Evaluate the impact of activities TD funds. • Take broader, more strategic view to strengthen communities through innovation in core banking activities 	<ul style="list-style-type: none"> • Disclose the comparison groups and their context – U.S. and Canada have different requirements.
Diversity and equal opportunity	<ul style="list-style-type: none"> • The panel sees the legal framework driving performance in this area. In Canada, TD is doing as well as any of the major banks. 	<ul style="list-style-type: none"> • Continue to support work place diversity at all levels 	

Material issues continued	What is TD doing right?	What more could TD do?	What other information is needed?
Environmental and social responsibility in financing (Note that TD has been assessed in relation to a North American peer group. If the peer group was global financial institutions, TD's performance would have been rated as not enough.)	<ul style="list-style-type: none"> • Environmental and Social Risk (ESR) process applies to 100% of wholesale and commercial banking transactions. • TD is explicit about its lending policy exclusions. • TD is a signatory to Equator Principles and discloses the number of projects assessed. • TD participates in the UNEP Finance Initiative's GHG Protocol Technical Group. • TD has calculated its exposure to carbon risk. 	<ul style="list-style-type: none"> • TD lags the European financial institutions, especially in terms of disclosure. • TD could commit to reduce carbon risk exposure. • Embed ESR conditions in loan covenants. • Address human rights more clearly in CR Report – it is a broader issue than aboriginal rights. 	<ul style="list-style-type: none"> • Explain more about the ESR process including the composition of the teams making the decisions and the filters they use. • Disclose more about the individual projects financed, being explicit about oil sands projects. • Measure and disclose the Greenhouse Gas (GHG) emissions represented by its financing (“financed emissions”).
Environment (green operations)	<ul style="list-style-type: none"> • Lots of data in report. 	<ul style="list-style-type: none"> • Deepen connection to ESR. The materiality of TD's own environmental footprint pales in comparison to its potential to influence others. 	
Financial literacy	<ul style="list-style-type: none"> • TD is the leader in its peer group, but real leadership would require an approach coordinated with accessible banking and customer service. • Partnering with communities is an effective approach. 	<ul style="list-style-type: none"> • Use learning from literacy programs in development of products and services. • Don't overstate the importance of financial literacy by itself – sometimes low income people are not lacking financial literacy as much as they are lacking relevant products, services and advice, so link this issue to Accessible Banking and Customer Service. 	<ul style="list-style-type: none"> • Disclose U.S. partners • Explain how curriculum development is done. Good programs respond to identified community needs. • Use consistent metrics in Canada and U.S. for evaluating impact.
Labour rights	No specifics provided.		
Stakeholder engagement		<ul style="list-style-type: none"> • Treat as process issue, not material issue. 	

Issues for which TD's response is not enough or not working

The issue of Affordable Housing was one where differences in the Canadian and U.S. context may affect performance. The panel determined that TD was doing enough in the U.S., where the institutional response is more regulated, but not in Canada.

Material issues	What is TD doing right?	What more could TD do?	What other information is needed?
Affordable housing (Note: rated appropriate in U.S. but not in Canada.)	<ul style="list-style-type: none"> U.S. performance may appear better because regulatory requirements are stiffer. 	<ul style="list-style-type: none"> Product development combined with public policy advocacy for affordable housing. 	

Issues the panel could not assess

The panel was unable to form a conclusion on several issues because they lacked the contextual information that would enable them to distinguish TD from its peers, to see where TD is going beyond compliance, or to put TD's performance in perspective. Even though TD is doing many things well, the panel commented that they could not tell if these actions were exemplary in the industry or merely the norm. Suggestions for additional disclosures that would help them assess performance are in the right column.

Material issues	What is TD doing right?	What more could TD do?	What other information is needed?
Corporate governance			<ul style="list-style-type: none"> Define how TD measures good performance – what criteria it uses and targets it sets.
Customer service/ satisfaction & convenience	<ul style="list-style-type: none"> Improvement in CEI index year over year. 	<ul style="list-style-type: none"> Offer products that provide alternative to high management expense ratios on mutual funds. 	<ul style="list-style-type: none"> Disclose how CEI index is calculated. Compare data to industry benchmarks.
Employee engagement & development		<ul style="list-style-type: none"> Take a broader view of engagement – go beyond tools and systems to improve productivity. 	<ul style="list-style-type: none"> Compare data to industry benchmarks. Use more quantitative metrics in scorecard.
Executive compensation	<ul style="list-style-type: none"> From investor perspective, high executive compensation may be justified if share price performs well. TD has advisory vote on executive compensation. 	<ul style="list-style-type: none"> From societal perspective, ratios are important, as they reflect widening income gap. 	<ul style="list-style-type: none"> Ambiguous indicator – should amount of compensation be higher or lower than other banks? Provide a summary table that shows key ratios from proxy circular.
Risk management			<ul style="list-style-type: none"> Use industry criteria to show whether TD is doing a better or worse job than its peers.

Material issues continued	What is TD doing right?	What more could TD do?	What other information is needed?
Security, privacy and fraud	<ul style="list-style-type: none"> Whistle blowing hotline Monitoring activities 	<ul style="list-style-type: none"> Underscore customer protection in CR reporting. 	<ul style="list-style-type: none"> Report hotline usage and follow up. Explain results of monitoring. Provide more details on steps taken to address threats.
Supply chain management			<ul style="list-style-type: none"> Disclose scoring system or conditions for suppliers and disclose how many have been discontinued for not meeting TD requirements.
Taxes	<ul style="list-style-type: none"> All banks pay large amounts of tax. Tax table sets it out. 	<ul style="list-style-type: none"> Focus less on absolute amount of taxes and more on the TD's approach to tax minimization. What are the ethical issues? 	<ul style="list-style-type: none"> Ambiguous indicator – is paying more tax good or bad? Add context by showing taxes as % of GDP in jurisdictions where TD operates.

Part 3: Comments on TD’s Material Issues

“Where is your money and what is your money doing?”

The panel reviewed seventeen issue areas that TD has determined to be significant to TD’s business and to its stakeholders, and commented on their priority from the perspective of stakeholders. As the results of the panel have already been incorporated into TD’s CR Report for 2013, only the most significant panel recommendations on material issues are included here.

Add Climate Change as a distinct material issue

The panel acknowledged that TD covers energy use and related GHG emissions in its reporting. The panel noted that the frequency of extreme weather events, such as the flooding in Calgary, is predicted to increase with climate change. Climate change poses new or greater risks to TD, such as higher insurance losses and threats to branch operations. Increased public scrutiny of industries linked to climate change through heavy emissions may put some project financing at risk. For these reasons, the panel recommends that climate change be dealt with as a distinct material issue.

Add Ethics as a material issue

The panel observed that the culture of an organization affects all the other issues. An ethical culture sets the direction and tone of organizational behaviour and guides decision-making, ensuring that the organization will consistently do the right thing in every situation. Identifying Ethics as a material issue will help TD monitor the state of the underlying culture and possibly reduce risks of unethical decisions

or behaviours. Some of this could be said of Corporate Governance but the panel suggested Ethics had a broader meaning. TD would need to specify how it is using the term.

Change the stakeholder priority of some issues for 2013

Note that panel feedback on priority will be reflected in TD's final presentation of materiality in the 2013 CR Report.

The panel recommended a higher stakeholder priority for the following issues, with accompanying rationale:

- Community investment – opportunity for greater alignment with core banking business
- Corporate governance – similar reasons to Ethics above
- Employee engagement – engagement of employees affects success in other areas
- Environmentally and socially responsible financing – greatest opportunity for impact
- Executive compensation – public concern about fairness, income inequality
- Risk management – underlies everything a bank does

The panel recommended a lower stakeholder priority for the following issues, with accompanying rationale:

- Diversity and equal opportunity – important but highly regulated in banking sector
- Labour rights – although livable wage and people in precarious employment are important sub-issues
- Stakeholder engagement – seen as a process, rather than a material issue
- Taxes – it's a basic expectation companies will pay the taxes they owe; tax fairness could be covered under Ethics.

For other issues, the panel agreed with TD's preliminary prioritization of significance to stakeholders.

Part 4: Evolution of material issues

The panel also commented on how material issues are likely to change in priority over the mid-term, defined as the next five years.

The panel expected the following issues to rise in significance to stakeholders:

- Accessible banking – demographic shifts
- Customer satisfaction – increasing automation makes customer service one of few opportunities for TD to distinguish itself
- Financial literacy – financial illiteracy affects the ability of people to support their families
- Security, privacy and fraud – while already given the highest importance, the full extent of this threat has not yet been felt

The panel expected the following issues to decline in significance to stakeholders:

- Stakeholder engagement – will be built into process, not a substantive issue

- Green operations – stakeholders more concerned about environmental implications of lending and investment than the impacts of bank operations on energy and paper.

There were mixed views on the following issues:

- Diversity and equal opportunity – some believe that the value of diversity in the work place has already been well established and institutionalized in Canada while others believe that society’s failure to close real gaps in equal opportunity, including in Board diversity, will keep this issue a concern for the near future
- Executive compensation – some believe this will peak within five years and be resolved; others see increasing concern about the gap in incomes
- Supply chain – some foresee greater pressure on banks as a way to reach targeted industries; others see opportunity for progress through procurement to be limited in the banking sector.

Conclusion

The panel thanked TD for convening the panel and looked forward to seeing TD’s response.