

# Stakeholder Review Report 2014

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 Inc. to facilitate the stakeholder review process. Solstice was assisted in the U.S. by Strategic Sustainability Consulting. 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.

## Panel Structure and Process

The Stakeholder Panel process moved on line this year to expand opportunities for participation. The panel included TD stakeholders and corporate responsibility experts from Canada and the United States. Panel members contributed to a moderated discussion over several days through a Convetit "think tank" and came together for a final live discussion via webinar.

Our sincere thanks to the following individuals who contributed such valuable feedback:

### 2014 Stakeholder Panel

#### Canadian Panel Members

Yolanda Banks, Export Development Canada (EDC)  
 Stephanie Bertels, Simon Fraser University, Beedie School of Business  
 Philip Gass, International Institute for Sustainable Development  
 Scott Hannah, Credit Counselling Society  
 Scott Harrison, University of British Columbia, Institute for Resources, Environment and Society  
 Heather Mak, Tim Hortons  
 Brian Minns, Addenda Capital  
 Shannon Rohan, SHARE  
 James Temple, PwC Canada  
 Alan Willis, Alan Willis and Associates

#### U.S. Panel Members

Bill Baue, Sustainability Context Group  
 Nikki Daruwala  
 Divya Mankikar, Trucost  
 Christina Meinberg, University of California, Berkeley, Haas School of Business  
 Susan Nickbarg, SVN Marketing  
 Stephanie Rico, Wells Fargo  
 Evan Tylenda, Sustainability Accounting Standards Board

The panel's discussion was directed towards three objectives:

- Provide feedback on TD’s performance on the issues it has identified as material;
- Provide feedback on TD’s reporting; and
- Provide input to the current year’s prioritization of material sustainability issues.

The panel provided a wealth of ideas across the range of material issues. The purpose of this report is to provide accountability to the panel for the issues raised and a summary of the discussion for the wider stakeholder audience.

Once the discussion period closed, the facilitator circulated a draft panel report to the participants. Panel members reviewed it and agreed to have their name included. In recognition of the panel members’ contribution, TD directed a donation in their name to a charitable organization.

## Commentary from the panel

Some of the panel’s feedback related to how TD can demonstrate leadership in CR performance (Part 1) while other comments were suggestions for how TD can improve CR disclosures (Part 2). The panel used the on line tool to show their relative ranking of material issues. The panel was generally in agreement with TD’s assessment of priority but made some adjustments. As this information has already been received and incorporated into TD’s materiality process, we do not discuss it further here.

### Part 1: Comments on TD’s CR Performance

#### *1. Develop a long term vision and the roadmap to get there*

The panel would like to see TD’s vision for corporate responsibility and its long term plan, including multi-year goals, to get there. Summing up this common theme, one panel member asked for “longer term goals anchored in a vision of what kind of bank TD thinks it would like to become.” In formulating this vision, the panel asked TD to consider that our planet is finite and that this may impose limits on TD’s activities. The panel also recommended that the long term plan be guided by an understanding of global risks and megatrends such as those set out each year by the World Economic Forum. The panel further advised TD to consider all its activities, from retail banking to asset management to purchasing, in identifying its largest impacts and opportunities for leadership.

*“How does the Bank’s broader business strategy fit into the environmental challenges and limitations we are facing?”*

#### *2. Continue to play a leadership role by building on TD strengths*

The panel commended TD for its performance in several areas. They encouraged TD not to rest on its laurels but to continue raising the bar for the banking sector. They acknowledged that one institution cannot reasonably be expected to be equally active on every front and recommended that TD play to its strengths. Some of the strengths that the panel highlighted, together with the opportunities for further development are:

**Eco-efficiency** – TD has demonstrated strength in reducing its operational footprint. The panel recommends that TD redirect some effort from its own performance to how TD can shift North America towards a green economy through its business model and relationships with customers. This is closely related to the point above as it will require a clear vision and understanding of TD’s theory of change to create a roadmap towards a green economy.

*“This could be a flagship issue and more depth could be added on what TD sees as integral for a Green Economy in North America, how we get there, and what the role of TD is in this regard.”*

**Responsible financing** – TD has developed systems to incorporate environment, social and governance (ESG) factors into decision making. The panel recommends TD place more emphasis on educating client investors to incorporate socially responsible investing (SRI)/ESG factors in their investing decisions.

*“Just as ESG factors are weaved into your investment decisions, ESG education can become part of the everyday conversations you have with your wealth management customers.”*

**Financial education** – The panel commended TD for investing heavily in financial literacy programs. They recommended that TD collaborate with others in banking and not-for-profits to avoid duplication of effort and scale up financial education. They also suggested that while financial education can support customer understanding of existing banking products and services, there is still a gap in the industry in terms of delivering financial products suitable to lower income customers, that literacy alone cannot solve.

*“It would be great to see financial literacy initiatives coupled with greater efforts to address the “supply” side of financial exclusion, specifically related to product and service innovations.”*

**Diversity and inclusion** – The panel highlighted diversity and inclusion as an area of strength for TD but also challenged TD to go deeper, especially in the face of future labour shortages. For example, overall workforce diversity compares favourably to labour market availability, though it may be lagging at senior management levels. A deeper look at diversity might include asking whether labour market availability truly reflects the communities TD serves. It could also include a review of TD’s performance review systems.

*“How is TD contributing to ensure early development of future employees?...TD adequately discusses its recruitment efforts; however, if no effort is made to ensure work-ready employees then the recruitment efforts will fail.”*

**Access to banking** – TD is offering some low cost banking solutions for lower income customers and has launched a micro lending program in the U.S. The panel encouraged TD to continue looking for new opportunities to improve access to banking. For example, TD could lower effective banking costs by reducing hold times on deposits and provide short term loans at reasonable rates as an alternative to high cost pay-day loans.

*“While it's great that TD Bank has stepped up in offering low-cost banking solutions for lower-income individuals and families, you also have to consider the implications and the costs your lower-income customers incur as a result of these holds.”*

### **3. Use TD's influence with customers, suppliers and other decision makers**

In another key theme, the panel noted that as a major bank, especially in Canada but with a growing presence in the U.S. as well, TD is in a position of influence. By exerting itself throughout its value chain, TD is in a position to realize greater business and sustainability improvements. Some examples include:

**Tackling climate change with customers** – The panel noted that banking itself is not highly energy intensive. The panel was more concerned about TD's indirect financing of carbon emissions through its commercial lending and its support for renewable energy and environmental improvements by its customers.

*“Perhaps larger GHG reduction opportunities exist outside the organization through lending practices geared towards energy intensive customers.”*

**Educating customers and the public about environmental issues** – The panel commented favourably on the work TD has already done to engage customers and employees and encouraged TD to continue in this role.

*“Given the company reaches so many people in North America, the company could play a very important educational role with its customers on these topics, helping raise awareness and build capacity on these issues in a broader public context.”*

**Supporting “green” suppliers** – The panel noted that TD has a Responsible Procurement Policy and encouraged TD to use it to promote green procurement.

*“Without those to buy green products, there is no market and no green economy transition.”*

**Advocating as an investor** – TD Asset Management (TDAM) invests in other companies on behalf of TD's retail and institutional investors. As an investor, TDAM can strive for greater uptake of ESG principles in the companies it owns shares in. The panel noted that TDAM is a signatory to the Principles for Responsible Investment and asked “could TDAM do more?”

*“TDAM is often among the top ten shareholders for Canadian public companies and hence holds some power and legitimacy when seeking to hold dialogues with companies on sustainability issues.”*

### **4. Provide thought leadership on new economic models for sustainability**

TD already practices thought leadership, for example through the pronouncements of its economics unit. As the world grapples with complex sustainability challenges, the panel sees a need for respected institutions such as TD to direct some thought leadership towards developing more sustainable economic models. The panel recommended several ways in which TD thought leadership could support the emergence of a green economy:

**Deal with the sustainability implications of economic growth** – Growth is a difficult subject for green economy thinkers. It is becoming more accepted that unlimited material growth is physically impossible on our finite planet. However, much of the discussion around corporate responsibility rests on an assumption that economic growth can continue without growth in material throughput and wastes/emissions. TD has made a good start by achieving a reduction in GHG emissions from energy use even while its occupied space grew in 2013. How could this be extended to other environmental impacts? The panel would welcome TD’s research on this challenging topic.

*“Approaches that are truly intended to be sustainable should reflect the fact that the Earth is finite, and the limits to growth and the amount of life that the Earth can support are defined by ecological processes.”*

**Draw a tighter connection between natural capital and the business of the bank** – The panel noted that some banks struggle to quantify how performance on environmental issues connects to the business of banking. Valuing natural capital is part of TD’s stated approach. By articulating the links between natural capital and risk management (for example increasing vulnerability to a changing climate), TD could contribute to thought leadership. Natural capital accounting could provide rigour to this analysis.

*“In referencing Natural Capital, it appears that TD is developing its ability to link its business to increasing financial and environmental value. As this activity develops, it would be great to see the link between the activities in this section and protecting bank income/exposure from liabilities in the core activities of the bank whether retail banking, corporate lending or asset management.”*

## Part 2: Comments on TD’s CR Reporting

These comments relate to TD’s 2013 Corporate Responsibility (CR) Report. The panel acknowledged that TD’s report is covering the most material issues and applauded TD for many aspects of its reporting. In this section we present some recurring themes from the panel discussion with examples and then some more specific comments.

### 5. Provide context for performance

The panel noted that TD has inserted “Context” points in the report, but found that the type of context offered was not always what the panel needed to fully understand TD’s performance. Context is a common stakeholder request in CR reporting currently. It usually refers to a combination of benchmarks and analysis that shed light on performance. To be most useful, context should situate TD’s performance in its local and global environment, in relation to demographics, ecological limits, regulatory requirements, economic data and banking norms. As examples, the panel suggested the following as some areas of performance that would benefit from contextual analysis:

**Climate change** – The Intergovernmental Panel on Climate Change has determined that a global average temperature increase of 2 degrees Celsius is a critical threshold beyond which the impacts

of a changing climate could become significantly worse. The Panel suggested comparing TD's Greenhouse Gas (GHG) emissions and the emissions it indirectly finances to its share of the global emissions associated with the 2 degrees threshold.

*"...it would be great to see...more context in terms of the bank's financing of the low-carbon economy. For example, what is the proportion of financing to renewable energy/energy efficiency projects in terms of overall energy sector financing?"*

**Turnover** – The panel noted that U.S. employee turnover was much higher than Canadian and would like to understand the factors in the U.S. that give rise to it. TD's turnover may not be unusual for the sector, but without benchmarks and analysis it's impossible to know. Further context would come from explaining the cost implications of turnover to TD.

*"Providing context around why turnover rates vary from Canada to the U.S. would be helpful. Is it an operational reason? Societal reason?"*

**Diversity** – The panel appreciated that TD provided some context for staff diversity in the form of labour market availability benchmarks, but as differing interpretations can be drawn (for example the result that females filled about 36% of TD senior management positions could represent a strength or room for improvement) the panel suggests that TD provide not just benchmarks, but also its own analysis of the comparison.

*"While I appreciate TD's transparency in enabling stakeholders to discern the sustainability context for themselves, I would expect this to be a topic of discussion in the report..."*

## **6. Develop the ability to report on impacts of TD's activities**

Corporate responsibility and sustainability reporting generally concentrates on measures of input (dollars spent) and output (wastes produced) because these are measurable, directly attributable to the organization's activities and because the most commonly used reporting frameworks emphasize these types of indicators. Our panel would like to see TD go beyond these indicators to assess the wider impact of its actions.

In the area of learning and development, for example, the panel noted "outstanding results" in the number of people trained and other output measures. It is also important to know what the impact of these programs has been. "Has there been a measurable impact on strengthening key capabilities that are needed to enhance the effectiveness of the bank in the context of ESG over the coming years?"

Ideally, these impact measures would be linked back to TD's vision and long term goals.

*A key area of opportunity here is to re-focus the language within the report to emphasize the overarching impacts versus simply reporting back on outputs.*

## **7. Structure CR report to reflect the materiality of issues**

The panel commented favourably on TD's extensive coverage of several topics. For example, the Workplace and Governance sections were described as "almost encyclopedic" in scope. Comprehensive

coverage, however, can leave readers questioning what is most important to TD. The panel commented that there was not a clear relationship between the ranking of material issues and the quality and depth of reporting. For example, Eco-efficiency takes up 15 pages of the 2013 CR Report while Security, Privacy and Fraud, a highly ranked material issue, is covered in one page. TD could also consider structuring the report to show the relative importance of the issues to TD's business and sustainability plans.

*"What are the most important areas, issues and metrics that are actually monitored most closely in the C-suite and by the Board for TD to stay on course in achieving its value creation objectives?"*

#### **8. Be transparent about controversial topics**

The panel did not point to any specific under-reported controversy, but cautioned TD that "financing of even one controversial transaction can negate/call into question all your good work." One area the panel flagged that has potential to generate controversy in banking is financing of carbon emissions. TD does not report on its financed emissions even though it has a relatively low impact for its sector. The panel recommends TD identify areas of controversy and proactively develop infographics or other means of communicating its exposure to these issues.

*"As just 2-3% of TD Bank Group's lending is to high carbon or water risk industries, TD would benefit by disclosing its portfolio financed emissions."*

#### **9. Strive for greater integration**

TD's reporting of the use of ESG criteria in assessing credit risk shows how ESG and traditional business factors can be integrated. The panel would like to see more examples of integration, for example "Workplace linked to Strengthening Communities, or Governance linked to most other areas."

Integrated thinking could also be demonstrated by reconciling different interpretations of risk. The panel noted that TD uses "environmental risk" in the sense of risks to the Bank arising from environmental events, such as flooding. Readers concerned with TD's impact on the environment could interpret environmental risk differently. Integrating these differing notions of risk would be a useful contribution.

*"It seems like different silos of the organization reported their 'best' information and someone needed to step back once the enormous job of gathering it up were done, and bring that larger, integrated and balanced perspective."*

In addition to these general recommendations, the panel indicated specific opportunities for enhanced disclosure for several issues not discussed above. These are included in the table below:

| <b>Topic</b>          | <b>Disclosure recommendations. TD could enhance reporting about...</b>       |
|-----------------------|--|
| Responsible financing | TD's role in financing companies that are engaged in controversial projects. |
|                       | TD's role in assisting green small business development                      |
|                       | Proportion of overall energy sector financing that goes to renewable energy  |

|                      |   |
|----------------------|---|
|                      | or energy efficiency projects   |
| Risk management      | Managing risks associated with exposures faced by the banking system as a whole (“systemic risk”) |
| Corporate governance | Oversight of sustainability matters   |
|                      | Board diversity benchmarks, especially for gender diversity                                       |
|                      | Board training in CR and in diversity and inclusion   |
| Ethics and integrity | Any breaches, fines and follow up taken   |
| Workplace            | Employee volunteerism – how much is done on employee’s own time?                                  |
|                      | Living wage calculation   |
|                      | Turnover rates linked to compensation, hiring costs   |
|                      | Use of outsourcing or contract labour   |
|                      | Results of employee engagement survey including where TD scored low                               |
| Customer focus       | More specific goals   |
|                      | Privacy policy  |
|                      | Disaster recovery planning  |
|                      | Services for the unbanked and other vulnerable populations  |
|                      | U.S. foreclosures   |

**Conclusion**

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