

COMMENT TEMPLATE
INCR LISTING STANDARDS DRAFTING COMMITTEE
CONSULTATION PAPER:
Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges
April 2013

CONSULTATION PROCESS, HOW TO PROVIDE COMMENTS AND TIMELINE

The consultation period is April 5 until May 1, 2013.

The Consultation Questions are designed to elicit feedback on key elements of the proposal in the INCR Listing Standards Drafting Committee Consultation Paper, which can be downloaded at <http://www.ceres.org/resources/reports/sse-white-paper/view>. Respondents may also choose another format, such as a letter or email response, and responders can discuss any aspects of the paper they choose to—and not merely the Consultation Questions.

Responses should be emailed to Tracey Rembert at rembert@ceres.org, copying Erica Scharn at scharn@ceres.org. Comments will be posted to INCR's webpage at <http://www.ceres.org/investor-network/incr/sustainable-stock-exchanges>, and to the United Nations-backed Principles for Responsible Investment (PRI) Clearinghouse. Comments will be public and commenters will be named unless anonymity is specifically requested.

PROPOSED LISTING STANDARD (3 SEGMENTS)

1) MATERIALITY ASSESSMENT (M1): Every company will discuss its process for determining the ESG factors material to its business, as well as the outcome of this materiality assessment, within its annual financial filings. The four key components of the materiality assessment are as follows:

- 1A)** Companies will discuss **how** they determined their material ESG issues
- 1B)** Companies will discuss **who** was involved in that process (including groups of stakeholders consulted, internal teams, and key management and board oversight)
- 1C)** Companies will disclose **which** ESG issues were determined to be material and why, including a discussion of both the risks and opportunities each issue presents as well as its connection to financial performance and business strategy
- 1D)** Companies will periodically review the materiality assessment, update as necessary, and report on the **frequency** of scheduled reviews.

Consultation Questions:

Q1: Are there any strong reasons not to mandate the materiality discussion?

Allianz Global Investors response: There are three compelling reasons to mandate the materiality discussion:

- focus on materiality is critical if ESG factors are to become more relevant to a broader base of investors
- integrating material ESG factors into the overall business strategy discussion would help to crystalize the importance of the risks and opportunities arising from these factors for investors
- attention to material ESG factors from senior company management i.e. the board, would send the message that ESG factors are real business issues that warrant their attention and should therefore also warrant the attention of their investors

Q2: Should the materiality assessment explicitly include short-, medium- and long-term, as well as ‘indeterminate,’ timeframes for reporting risks and opportunities?

Allianz Global Investors response: Yes. Placing timeframes on material ESG risks and opportunities will help to contextualize these issues supporting better integration of ESG into financial modeling and analysis. The use of four time frames may overcomplicate reporting. The use of two timeframes such as medium and long term which are updated annually for any changes would make sense.

It will be important to establish a common definition of ‘materiality’ to ensure that issuers (especially those who may be new to this area) do not misinterpret ‘material ESG’ issues or ignore them.

Q3: Are there additional ways to address the lack of ESG risk reporting in financial filings?

Allianz Global Investors response: Yes, a qualitative discussion (such as in the Management Discussion and Analysis section of the report) on integration and awareness of ESG risks in the business.

2) GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX (M2): Every company will provide a hyperlink in its annual financial filings to a GRI Content Index, which will inform investors about the availability and location of a company’s ESG data.

Note: M2 does not mandate or endorse a GRI-based sustainability report, and completion of a GRI Content Index does not require the publication of a GRI-based report. A key impetus for investors engaging with stock exchanges on ESG disclosure was their frustration over the inconsistencies of ESG reporting, and the time-consuming task of locating any company’s ESG reporting items spread across numerous reporting vehicles. A GRI Content Index will address this concern by eliciting, for each GRI Key Performance Indicator, whether the disclosures exist from a given company, and where they can be found.

Consultation Questions:

Q4: Is the GRI Content Index the best way to give investors some disclosure consistency without being overly prescriptive for companies? If not, please list other suggestions.

Allianz Global Investors response: a reporting standard is critical for achieving consistency in any type of financial disclosure. The GRI guidelines are already established and tested and are therefore the best way to provide the consistency in ESG disclosure that investors are seeking. Regular review of the guidelines to ensure relevance will be critical.

Q5: Would it be preferable to include the GRI Content Index itself in financial filings, rather than a hyperlink to it?

Allianz Global Investors response: Yes, provided that the format of the GRI Content Index is simplified from its current form. For example rather than showing the full set of indicators against which issuers may decide to report against (this currently runs into four pages), a listing of the top level sections is provided instead. A suggested format may look like this:

- Strategy and Analysis
- Organizational Profile
- Report Parameters
- Governance, Commitments and Engagement
- Economic
- Environmental
- Social: Labour Practices and Decent Work
- Social: Human Rights
- Social: Society
- Social: Product Responsibility

Each section would be a hyperlink to the more detailed, underlying indicators. This should enable investors to dip in and out of sections they require more insight into whilst not being too overwhelming.

Q6: Should something other than the hyperlink to the GRI Content Index be included in the financial filings? If so, what and why?

Allianz Global Investors response: please see response to Q5 above. This format may be further expanded to include the highlighting of material ESG risks and opportunities and could take the form of a matrix. For example:

GRI Content Index Section	Risks	Timeframe	Opportunities	Timeframe
Strategy and Analysis				
Environment	Climate change	Long-term	Product Innovation	Mid-term
	Water stress	Mid-term		

Each of the sections in the above table could be hyperlinks themselves taking investors to the specific sections of ESG reporting that would detail where and what the issuer's material ESG risks lie, how these are being addressed and over which time frames they are expected to manifest themselves, whilst also putting ESG factors into a helpful context for investors.

Q7: Is five years an appropriate timeframe for the periodic review of the GRI Content Index and developments in the market?

Allianz Global Investors response: Given that the introduction of ESG listing standards is still in its infancy and is yet to be fully tested across different regions (bearing in mind that different regions will be at different levels of sophistication in ESG disclosure) the review of the GRI Content Index may need to be reviewed after the first year following their implementation and thereafter every two to three years to ensure relevance and reflection of market developments.

3) CORPORATE ESG DISCLOSURE (M3): Every company will disclose information on the following categories of ESG issues, using a comply or explain approach for each category:

- Climate change
- Diversity
- Employee relations
- Environmental impact
- Government relations
- Human rights
- Product impact and safety
- Supply chain

Issuers will determine the format and location of the reporting, which could include one or more of the following: stand-alone sustainability reports, annual reports, financial filings, integrated reports, websites and other venues.

Mandate Guidance:

The corporate ESG disclosures will allow investors to gauge issuer performance over time. Comprehensive disclosures on the aforementioned categories should include both qualitative and quantitative information and should ideally incorporate the following aspects: policies and procedures, performance data (including regulatory fines and other legal actions), goals and timeframes, and related governance.

Examples of reporting topics in each category are provided below (note that these examples are provided for illustrative purposes and should not be considered to be an exhaustive list, or a set of minimum requirements):

- Climate change: *greenhouse gas emissions and reduction initiatives, physical risks and opportunities*
- Diversity: *employee, board and supplier diversity; training and recruitment programs*
- Employee relations: *labor relations and freedom of association, safety, employee turnover and demographics, training, remuneration*

- Environmental impact: *water, energy and materials consumption; emissions and waste; toxins; packaging*
- Government relations: *political involvement and spending, contracting and revenue payments, tax strategy*
- Human rights: *non-discrimination efforts, prevention of child and forced labor, compliance with international human rights norms*
- Product impact and safety: *cultural and community impacts, product life cycle assessments, recalls, product integrity and safety*
- Supply chain: *size and geographic scope, risks of disruptions (due to e.g. extreme weather events, labor disputes, etc.), impacts on local communities, labor and environmental compliance efforts*

M3 RECOMMENDATION:

Financial and ESG data are often reported to investors using different timeframes and/or reporting cycles and it is important that both sets of disclosures be aligned in the future, to avoid confusion and inaccurate analytics. Reporting timeframes should be aligned within three to five years of the implementation of the listing rule.

Consultation Questions:

Q8: Should the exchanges, rather than the issuers, determine the format and location of the sustainability reporting?

Allianz Global Investors response: Yes as this would establish the consistency in reporting that investors are seeking.

Q9: Do you agree with the current list of ESG issues and examples? If not, what ESG categories would you suggest removing or adding?

Allianz Global Investors response: please see response to Q5 and Q6. The one area where the proposed list of ESG issues and the GRI Content Index are ‘light’ on are on Governance issues such as board oversight controls, management incentives, etc. This is an area that could be further strengthened to get a balance on E, S and G issues.

Q10: Is three to five years an appropriate timeframe for aligning reporting timeframes and if not, how long should it be?

Allianz Global Investors response: Yes. The first two years would be expected to be an implementation and roll out phase following which, the third year would be an opportunity to make further refinements. By year four/five the reporting standards should be fully implemented.

Q11: Are there situations where it would not be appropriate to synchronize financial and sustainability reporting timeframes, and if so, what are those situations?

Allianz Global Investors response: the synchronisation of financial and sustainability reporting timeframes may force companies to move towards more integrated reporting. This may have a positive consequence on how Investor Relation's departments of issuers structure their road shows i.e. 'professionalizing' the ESG component of their investor communications by integrating with their financial reporting roadshows thus reaching a much broader investor audience than at present where in the main ESG roadshows focus on RI investors. At this time therefore, we do not foresee any situations where it would not be appropriate to synchronise reporting as it is being proposed. The only instance where there may be an exception is instances where data is unavailable, for example from recently acquired companies that do not track ESG performance data. However reports can note excluded operations and follow-up with amendments.

GENERAL RECOMMENDATION FOR ISSUERS

ASSURANCE

Data presented in the company's ESG disclosures should be independently assured within five to seven years of the listing requirement's issuance.

Consultation Questions:

Q12: Is an assurance requirement appropriate for all markets?

Allianz Global Investors response: Yes if we are to ensure consistency in standards globally. Equally, this would be particularly relevant for global investors.

Q13: Is the recommended time frame of five to seven years sufficient or too long or too short?

Allianz Global Investors response: difficult to judge at this stage. The picture may be clearer after the first two or three years with the ambition to have the reporting standards rolled out, implemented and tested. However we believe that a 5-7 year timeframe may be too long, and it would be best to align assurance requirements with other time frames in report of 3-5 years.

Q14: Should the recommendation be more specific in terms of what should be assured?

ADDITIONAL RECOMMENDATIONS FOR EXCHANGES IN THE IMPLEMENTATION OF THE LISTING STANDARD

SIZE OF COMPANIES

Large issuers (as determined by the exchange) are expected to comply with all three mandates upon passage. If exchanges determine that smaller companies will require more time for compliance with these mandates, exchanges should set the market capitalization threshold and the maximum timeframe for compliance to achieve the goal of all companies reporting within a reasonable timeframe of three to five years. However, if items are material, they must be disclosed regardless of size.

Consultation Question:

Q15: Should small companies be granted additional time, and if so, how much is sufficient?

Allianz Global Investors response: Yes. A two year time lag relative to the large cap reporting timeframe would seem appropriate to enable companies to set up and roll out systems for measuring their material ESG performance factors. Exchanges should hold issuers to account if they fail to report within the agreed upon timeframe.

EXCHANGE MONITORING OF REPORTING

A) Stock exchanges are strongly encouraged to assess the overall level of disclosure and reporting quality of the mandated disclosures (materiality assessment, GRI Content Index and corporate ESG reporting) after two years and every three years thereafter to reassess quality. If quality is poor, the exchange(s) should intervene and recommend best practices or means of improvement to ensure usefulness to shareholders and the market.

B) Each exchange is strongly encouraged to report publicly on its parameters for the oversight of the monitoring process, the methodology employed, and the outcomes of the assessment.

C) Exchanges are encouraged to seek investor feedback on the quality of the disclosures.

Consultation Questions:

Q16: Is the proposed timeframe reasonable (two years followed by every three years)? If not, what timeframe do you recommend for reviewing disclosures?

Allianz Global Investors response: Yes.

Q17: Who should conduct the review? Should the WFE or an independent third-party conduct reviews of the disclosure quality instead?

Allianz Global Investors response: Reviews could be conducted by the regional exchanges themselves given they would have a good understanding of the local practices, challenges to reporting and establish guidance for best practice on ESG reporting. WFE could act as the global oversight body that would work towards promoting global standards for the generally accepted principles on ESG reporting by issuers among its members. It could also be the body to annually report on the performance of exchanges and the progress they are making towards establishing ESG reporting among their listed issuers.

Q18: Is there any advice investors can offer on implementation of this monitoring recommendation?