

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?

Arisaig Partners: No, there are no strong reasons not to mandate materiality disclosure. Beyond disclosure of the issues themselves, discussion of the process of identification is critical in order that the analysis will remain meaningful. Building into corporate planning

process will ensure that material issues are integrated into business strategy and become part of the discussion between company and investors. It would be useful to have a definition of what materiality means and whether this addresses systemic risks and how industry specific it should be.

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

Arisaig Response: Timeframes support the inclusion of these into financial models, which is critical. Four timeframes could complicate the discussion too much, particularly in the early stage but the minimum amount would appear to be 2 – short and long.

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

Arisaig Response: Management discussion sheds light on topics. Raises question on whether we are moving companies to Integrated Reporting and ultimately how the work of this group is aligned to IR. This requires clarification to avoid duplication.

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.

Arisaig Response: An agreed common standard is critical and GRI is the most established and global reporting framework at present. It is prescriptive but this could be supported by selection of indicators that would be mandated.

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

Arisaig Response: An overview of a select number of section could be included in financial filings with hyperlinks to fuller information and those excluded. Again, raises questions of overlap with Integrated Reporting that needs to be addressed.

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

Arisaig Response: Yes as it provides evidence and discussions of issues in more detail.

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

Arisaig Response: In the initial stages a more timely review will help hone the standards and make changes based on feedback.

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?

Arisaig Response: If the focus is on consistency for comparability by the investment community then yes.

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

Arisaig Response: We include Governance in this analysis as it goes directly to the core of the business strategy. This would include Board and underlying committee structures, remuneration, audit.

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

Arisaig Response: Yes, appears reasonable although this depends on how many changes and alterations are made every year.

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

Arisaig Response: If the timing of responses to CDP and other reporting frameworks are at different times of year to end of year results then this could mean that financial and environmental data is out of synch. Overall, however, I think synchronizing should be encouraged as this brings relevant data into the hands of analysts at the right time. Again this brings to the fore as to how this work fits with Integrated Reporting.

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?

Arisaig Response: Assurance is critical if data is to be viewed by analysts in the same way as financial data.

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

Arisaig Response: More flexibility may be required in this area given the completeness of data but given the importance in terms of validity of the data it should be encouraged to move forward in the same time as the reporting approach itself.

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

Arisaig Response: Again, given the importance of consistency it seems right to provide clarification of a scope for assurance.

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?

Arisaig Response: Yes, as followers to the larger cap players.

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?

Arisaig Response: Yes.

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

Arisaig Response: This seems sensible to be led by the exchange given that it can move forward with the issuers and be more involved in improvements to the system and a source of expertise.

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

Arisaig Response: Independence of monitoring and feedback will be important for the credibility of the exchange.

From: **Rebecca Lewis** <rebecca@arisaig.com.sg>

Date: Wed, May 15, 2013 at 3:06 AM

Responses:

1. Do you think M1 and M2 should be mandatory? Or should all proposals be comply or explain? **Comply or explain with move to mandatory over time seems to be more supportive of change and has worked in other geographies.**

2. Investors have said they would like a tool that tells them where key ESG data exists, and if it does exist. Is a GRI Content Index (M2) the best way to give investors a consistent map for this information? If not, what would replace it? Do we need to simplify the presentation of the GRI content index? If so, how should this be done? How can this section more clearly depict to companies that investors want on place to capture existing disclosures.

Agree with GRI as established and some level of consistency across companies, simplified index from GRI with links to more detail and expansive discussion and data.

~Before answering question 3, please keep in mind that as it stands the purpose of M1 is on the integration of E&S issues into financials and a focus on materiality. M3 on the other hand, is an attempt to get at issues that some investors find important, and that may not be directly material to the company, but will capture externalities and those issues that may be material to a universal owner's portfolio overall.~ 3. Does the connection between M1 (materiality assessment) and M3 (issue areas for ESG disclosure) need to be more clear. If you agree, what changes would you suggest? Another suggestion was that M3 could be used more as guidance for companies, highlighting issue areas for disclosure. What do you think about these approaches? Please indicate how you would like to see M3 in

the final proposal.

If it is seen as bottom up, M3 is wider view and M1 is most material based on analysis I think this is clearer.

4 How can M1 better incorporate the language and principles of integrated reporting?

Seek feedback from IR on this but a focus on risks and opportunities is, I believe, at the heart of integrated reporting. I see less about opportunities in this approach.

6. Should companies be the ones to define materiality, in their financial filings, rather than investors trying to agree upon one set definition of materiality?

I think that definition should be uniform but application in terms of identification be down to the company.

7. Should governance be added as a category under M3. If so, what language would you propose?

Yes, requires more discussion.