

**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](mailto:rembert@ceres.org), copying Erica Scharn at [scharn@ceres.org](mailto: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?

- No

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

The materiality assessment should include a discussion of whether identified risks and opportunities are expected to play out in the short-, medium-, or long-term. Companies ought to be assessing material sustainability risks/opportunities by conducting scenario analyses. The materiality assessment could reference this activity and provide the company’s expectations about when specific sustainability issues will play out.

There should be guidance to companies that addresses the element of uncertainty with projections of how risks may or may not play out and encourages companies to address these issues despite the uncertainty and to identify the uncertainty.

It is difficult, at present, for most people to accurately contextualize and categorize short- and long-term ESG risks. We suggest that companies report ESG information for several vertical categories that are not covered in more standard annual report information. For example, management should discuss ESG assessments with regard to their supply chain, their own product portfolio, their diversity profile, ESG reporting structure etc. It would be very useful to have companies report on those boxes.

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

Companies should be encouraged to address ESG impacts/factors as part of the explanation of past financial/business performance. For example, companies could describe past examples of ESG impact upon their operations, including steps they have taken to address these. This may help complete the picture for investors seeking to understand how the company’s identified material issues have manifested themselves in the past, how they may in the future, and how corporate actions to address these issues may help.

**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.

- GRI is currently the most widely accepted ESG reporting standard, and therefore a good way to bring a consistent standard to disclosure. However, we also suggest that developments of both integrated reporting and SASB's accounting standards be considered. While adoption of these standards is not currently as widespread as GRI, it is a rapidly developing area that should be actively monitored.

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

- No, a hyperlink is sufficient

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

- NA

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

- Given the rapidly evolving state of ESG standards and developments, three years seems more appropriate.

**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?

- **While recognizing the challenges of moving issuers to a single format and location of sustainability reporting, exchanges should have the final say. We also believe that sustainability information should be included within annual financial filings, following the ESG materiality discussion as proposed. The location of sustainability reporting within annual financial filings will help maintain consistency and allow for the information to reach a broader base of investors.**

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

- **Sustainable governance (as defined by Ceres' 21<sup>st</sup> Century Roadmap) is an important element that should be included. Some aspects of this – board oversight of**

environmental and social issues and links between executive compensation and ESG performance – may be found in other areas of corporate reporting, but management accountability is a critical aspect that may not be addressed within the current list of ESG issues. As such, we recommend that sustainable governance be added. Included in sustainable governance should be an explanation of the reporting structure for the company’s sustainability groups.

- Suggest changing “environmental impact” to “environmental impact and resource consumption” or break out “resource consumption” (water, energy, materials) as a new category. This is worth including as an additional/separate concept because consumption/availability of natural resources are highly relevant to a company’s ability to succeed.
- “Employee relations” and “Supply chain” should overlap to clearly include workplace conditions at companies’ supply chain partners.

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

- Three to five years is sufficient.

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

- No

## **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?

- Yes

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

- No, but please see response to question 15 regarding small-cap companies.

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

- The proposal states, “An independent and credible third party should verify key ESG data.” How is key data defined? Does key data mean all ESG data or only those points

identified by an issuer as key? We urge that a broad range of sustainability data be assured. In addition, financial auditors should become familiar with and comfortable with verifying ESG disclosure.

## **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?

- Yes, small-cap companies should be granted additional time for the reasons specified in the proposal – less resources and less mature ESG data collection and reporting mechanisms. An additional 2-3 years is appropriate for small-cap companies.

### ***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?

- The proposed timeframe is reasonable.

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

- In order to maintain objectivity, we suggest that an independent third-party conduct the reviews.

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

- We strongly support that the stock exchanges annually report which listed companies comply with the reporting requirement and which fail to comply.
- Exchanges encourage/mandate that companies adhere to other listing standards. The various compliance tools that exchanges use for these other standards should be applied to sustainability reporting standards.
- “Annual financial reports” could mean either annual reports or government filings. While government filings would be preferable, we also see value in having this kind of information included in Annual Reports

Other issues/questions: It is important to consider the effect of different listing standards at different exchanges and to pursue harmonization across exchanges. We understand that this is a goal of the broader initiative and support that.