

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

Comments from Steve Lydenberg

Tracy, this is excellent and a real contribution. I think it's going to have a huge impact and the time is right for it. I have three big-picture general comments that I think are worth giving serious consideration to—they are also integrated below:

- 1) I'm increasingly convinced that what we want to know is whether ESG is integrated into companies' *strategic planning*. So what I would suggest is that the section on Materiality be retitled something like "Materiality and Strategic Planning" and all the questions be formulated so companies have to answer questions something like "Does your company integrate those ESG issues it considers material into its strategic planning? If so, please specify. If not, please state why not? If there are no ESG that it considers material, please explain." I am thinking these days that the question of whether (and how) ESG is driven into strategic planning is even more telling than materiality (despite all the time and effort I have spent on materiality).
- 2) I think that if you also ask (i.e., force the company to answer) the question of what they think the most material issues are *for its industry* and how those issues related (or don't relate) to the specifics of the company, you will get some telling answers. So there might be a question like "What do you believe the most material issues are for your industry, how do they relate to your company, and how are they integrated into your company's strategic planning?" The industry-level approach is SASB's approach and I think it has certain virtues for a couple of reasons. For one, it's a lot harder for a company to deny the materiality/necessity for strategic thinking for an issue for its whole industry than it is for just itself. For another, it gives a company a chance to compare/distinguish itself to others in its industry on a strategic or tactical level. That is, "Issue X is material for our industry and unlike our competitors we are taking Y approach." We won't get at that kind of thinking (or the absence of it) unless we give companies an opportunity to situate themselves within their industry.
- 3) *Core business models that conflict with the public interest*—everything from tobacco to fossil fuels to for-profit health care. How to raise these issues? This is crucial and hard to deal with. I don't think the "product safety" issue alone will get at it. I think the best approach is to create a category, probably in M3 Corporate Disclosure that is called something like "Alignment with Sustainability" or "Alignment with Societal Goals" or "Creation of Shared Value" or even all three: "Alignment of Core Business Models with Sustainability, Societal Goals and the Creation of Shared Value" or something along those lines. The question then asked is something like "In what ways do you view your company's core business models as aligned with sustainability? With societal goals? With the creation of shared value? Do you view any of your core

business models as in conflict with the goals of the creation of sustainability, societal goals and shared value? If so, how is your company addressing these conflicts? If not, why not?” Or something along these lines.

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 **and how they integrate them into their strategic planning.**

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 and **how they were integrated into their strategic planning and core business models,** 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?

Definitely mandate discussion. I think it should be coupled with a strategic management question. That will get at whether they are actually doing anything about it, and really prompt them to think more deeply.

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

I think the time frame question might be solved by the strategic management issue, since strategic management should be by definition long term.

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

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.

This is a *great idea*. I’m strongly behind it.

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

I don’t know. Either way does the trick. Let the legal folks figure this one out.

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

No.

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

I have no idea.

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
- Alignment of Core Business with Sustainability, Societal Goals and the Creation of Shared Value

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?

I think the exchanges should be encouraged to give general guidance, specific to its region, stressing issues it believes are particularly relevant overall. As to format, as is implied by my general comments early, I think an over-reliance on specific quantitative indicators runs a danger of investors only learning particulars of what a company did yesterday, without a full enough sense of why they did it and what they are likely to do in the future. Consequently, I would try to figure out a way to encourage or mandate that the exchanges require that the companies tell you what they are planning to do about their most material issues.

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

See above on conflicts between basic business models/core businesses and sustainability/societal goals. If we don't get to that, we won't every get beyond the "greenwashing" for most companies.

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

The time frame issue is not quite so relevant for forward-looking strategic-planning sustainability-alignment issues. The more these types of issues are emphasized, let less the time-frame issue will matter.

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 idea.

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?

Assurance is fine for “accounting” data, it’s less important for the forward-looking sustainability strategic planning types of disclosure and goal setting. Consequently, I am not so concerned about assurance as others are. The issue arises by analogy from financial accounting, but the analogy is inexact.

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

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?

I don’t see any reason why they should be treated differently, particularly if we’re emphasizing strategic planning and integration of business models with sustainability/societal goals.

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?

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

I leave this series of questions to wiser minds more experienced in the ways of stock exchanges.

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