

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?

No. We are of the view that it is important for stakeholders to see the process in which an entity undertook in assessing and selecting ESG issues that would affect the wellbeing of the entity in question.

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

Yes. The report should include risks under these categories as it would make it easier for potential investors to assess whether they would want to invest in an entity (or not) and this would also determine their investment horizon. It is also important to note these risks should be reported in a succinct manner in order to limit a lengthy and oversized integrated annual report.

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

No. In the South African context, the Companies Act has made it mandatory for listed entities to form a Social & Ethics Committee. The JSE forces listed companies to produce an integrated annual report. We also have Code for Responsible Investing South Africa, King III Code on Governance, Regulation 28 of the Pension Fund Act.

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.

Yes, it provides direction and the ability to create comparative analysis within industries and sectors.

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

It would be unnecessary to include the Content Index and would be more beneficial to stakeholders if a company would explain where they have not complied with the GRI.

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?

Yes.

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?

Yes, exchanges should determine the format through a consultative process with different industries, stakeholders and regulators. Once a format has been decided upon, it would aid investors in conducting analysis of ESG issues among competitors and also aid in monitoring year on year progress and performance.

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

Yes we are in agreement.

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

Yes.

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 as it would help with standardization and quality checks.

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

It is sufficient.

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

No, the entire report 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?

No. Within the 3-5year time frame, larger entities should provide industry guidance and aid in consultative discussions with regulators and small caps.

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 reviewing of disclosures should be conducted every year and reported on at the end of the financial year.

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

Stock exchanges should not be playing an assurance role as it distorts their independency.

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

Exchanges should provide certification and training for assurers.