



**THE ROLE OF STOCK EXCHANGES
IN ESG INTERVENTION**
*A Potential Path to Enhanced Corporate
Sustainability Disclosure*

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Contents

| | |
|---|----|
| I. PREFACE..... | 3 |
| II. SUSTAINABLE STOCK EXCHANGES INITIATIVE..... | 5 |
| III. REPORTING STANDARDS | 6 |
| IV. LEVELS OF ESG EXCHANGE INTERVENTION..... | 8 |
| A. HIGH INTERVENTION: MANDATES WITH GUIDANCE..... | 9 |
| B. HIGH INTERVENTION: MANDATES WITHOUT GUIDANCE..... | 11 |
| C. MEDIUM INTERVENTION: RECOMMENDATIONS & FINANCIAL TOOLS..... | 13 |
| D. LOW INTERVENTION: NO MANDATES, NO DIRECT RECOMMENDATIONS | 14 |
| V. CONCLUSIONS..... | 15 |
| FURTHER ANALYSIS..... | 15 |
| NEXT STEPS | 15 |
| VI. VI. APPENDIX..... | 16 |
| A. SUSTAINABLE EXCHANGE GROWTH & GUIDANCE:..... | 16 |
| B. REPORTING LANDSCAPE:..... | 17 |
| C. SUSTAINABILITY PRODUCTS..... | 18 |
| VII. VII. ACKNOWLEDGEMENTS | 20 |

I. PREFACE

Investors, governments and the public are demanding that corporations provide stakeholders with a clearer picture of how they are addressing sustainability-related business risks. As a result, companies are disclosing more information about their sustainability practices than ever before. To illustrate, the proportion of S&P 500 companies that published a sustainability, ESG (Environmental, Social and Governance), or corporate responsibility report rose to 90 percent in 2019 from 20 percent in 2011.¹

ESG generally means a broad set of environmental, social and corporate governance considerations material to a company's business strategy and ability to create value over the long term.² The International Accounting Standards Board defines information as "material" if its omission or misstatement could influence the economic decisions of users taken on the basis of financial statements.³ According to Ernst & Young's Global Climate Change and Sustainability Services 2018 survey, 97 percent of responding investors evaluate a company's ESG disclosures, a rise of nearly 20 percentage points from the year prior.⁴ While investors are increasingly relying on such disclosures, they're still confused by the number of sustainability reporting standards that exist. A recent survey by McKinsey found that 86 percent of executives and 89 percent of investors believe there should be fewer sustainability reporting standards than exist today.⁵

Stock exchanges have a strategic role to play in the shift towards more comprehensive ESG disclosure. Well-functioning exchanges enable economic growth and development by facilitating the mobilization of financial resources and bringing together those who need capital to innovate and grow with those who have resources to invest.⁶ They do this within an environment that is secure, transparent and equitable. Market regulators play a crucial role in encouraging good corporate governance and transparency, by requiring companies listed on their exchanges to fulfill specific ESG requirements.⁷

The World Federation of Exchanges (WFE) classifies stock exchange sustainability efforts into three primary categories: promotion of ESG disclosure, green bonds, and the creation of ESG indexes.⁸ While this report focuses predominantly on trends in exchange disclosure, the market for green finance related products is expected to continue to see rapid growth in the coming years.

Green bonds can be listed on any exchange with a traditional bond platform.⁹ They are no different from regular bonds with one exception, proceeds are dedicated to projects with environmental benefits, primarily climate change mitigation.¹⁰ As of January

¹Governance & Accountability Institute. *90% of S&P 500 Index Companies Publish Sustainability/Responsibility Reports in 2019*.

²NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

³International Accounting Standards Board. *IASB clarifies its definition of 'material'*. International Financial Reporting Standards.

⁴Bell, D. M. J., & Nelson, M. (2018, November 29). *Does your nonfinancial reporting tell your value creation story?* EY.

⁵Bemow, S., Godsall, J., Klempner, B., & Merten, C. (2019, August 8). *More than values: The value-based sustainability reporting that investors want*. McKinsey & Company.

⁶Zhan, J. (2017). (rep.). *The Role of Stock Exchanges in Fostering Economic Growth and Sustainable Development*. UNCTAD and the World Federation of Exchanges.

⁷*Stock Exchanges and Market Regulators*. The Global Reporting Initiative.

⁸Zhan, J. (2017). (rep.). *The Role of Stock Exchanges in Fostering Economic Growth and Sustainable Development*. UNCTAD and the World Federation of Exchanges.

⁹Climate Bonds Initiative. (2020). (rep.). *Green Bond Treasurer Survey report*.

¹⁰Climate Bonds Initiative. (2020). (rep.). *Green Bonds Global State of the Market 2019*.

2020, 17 stock exchanges offered dedicated green bond sections,¹¹ providing additional visibility to the label,¹² and in 2019 global green bond and loan issuance reached a new record of \$257.7 billion.¹³

Another high-demand financial tool, ESG indexes, define universes that meet specific criteria for use by asset managers, as well as standards for characteristics to compare with the underlying market.¹⁴ The primary uses for indexes are: performance benchmarks, the basis for passive investment funds such as Exchange Traded Funds (ETFs), and investment policy benchmarks for large asset owners such as pension funds.¹⁵ Today, over 1,000 of these indexes exist, reflecting the growing appetite of investors for ESG products and the need for measurement tools that accurately reflect the objectives of sustainable investors.¹⁶ Research by Blackrock, the world's largest asset manager, shows that ESG-focused indexes have matched or exceeded returns of their standard counterparts, with comparable volatility.¹⁷ The firm projects global Sustainable ETF assets to reach \$400 billion by 2028.¹⁸

Many exchanges worldwide have recognized such opportunities, as well as the related risks, and are increasing their efforts to engage market participants and integrate sustainability into mainstream financial practices.¹⁹ Exchanges continue to be the primary drivers of ESG disclosure in markets where reporting is encouraged or required, with 82 percent of exchanges fulfilling this function, according to WFE's 2020 Annual Sustainability Survey.²⁰

James Zhan, director of UNCTAD's Division on Investment and Enterprise, asserts: "Stock exchanges are uniquely positioned at the intersection between investors, companies, and regulators. As such, they can play a key role in promoting responsible investment and sustainable development."²¹

¹¹Appendix C.1

¹²Climate Bonds Initiative. (2020). (rep.). *Green Bond Treasurer Survey report*.

¹³Climate Bonds Initiative. (2020). (rep.). *Green Bonds Global State of the Market 2019*.

¹⁴Appendix C.2

¹⁵iShares by BlackRock. (2019). (rep.). *An Evolution in ESG Indexing*.

¹⁶iShares by BlackRock. (2019). (rep.). *An Evolution in ESG Indexing*.

¹⁷iShares by BlackRock. (2019). (rep.). *An Evolution in ESG Indexing*.

¹⁸Businesswire. (2018, Oct.). *BlackRock Takes Sustainable Investing Mainstream with Range of Low-Cost Sustainable Core ETFs*.

¹⁹SSE Initiative and the World Federation of Exchanges (WFE). (2019). *How exchanges can embed sustainability within their operations: A blueprint to advance action*.

²⁰The World Federation of Exchanges. (2020, July). (rep.). *WFE Annual Sustainability Survey 2020*.

²¹*Stock Exchanges and Market Regulators*. The Global Reporting Initiative.

II. SUSTAINABLE STOCK EXCHANGES INITIATIVE

The United Nations backed Sustainable Stock Exchanges Initiative (SSE) was launched in 2009 to engage exchanges in the dialogue about how to promote better markets through sustainable business practices. The SSE's mission is to provide a global platform for exploring how exchanges, in collaboration with investors, companies (issuers), regulators, policymakers and relevant international organizations,²² can enhance performance on environmental, social and corporate governance issues and encourage sustainable investment, including the financing of the UN's Sustainable Development Goals.²³

Today, the SSE has 96 Partner Exchanges,²⁴ covering 51,943 listed companies and over \$88 trillion in U.S. domestic market capitalization.²⁵ Almost every major stock exchange has joined the SSE in the past decade.²⁶

The Initiative's goal is for all stock exchanges to provide listed companies with guidance on sustainability reporting. The SSE has developed a "Model Guidance" report as a voluntary tool for exchanges to guide issuers on ESG reporting,²⁷ offering a copy/paste template to use in the creation of their own materials.²⁸ While there is no one-size-fits-all method, there are emerging international and local best practices, guidelines and frameworks. The guidance document identifies common practices like adopting existing reporting processes in line with investor and stakeholder expectations, as well as considering national securities laws, which may already require disclosure of material information.²⁹

Today, 54 percent (55 of the 102 tracked stock exchanges) have published ESG reporting guides for their listed companies, compared to just less than one third when the Model Guidance was launched in 2015.³⁰

"Stock exchanges and the private sector are critical partners. We look forward to many more advances through this important initiative," said Antonio Guterres, Secretary-General of The United Nations in SSE's 10-year Impact Report.

²²Appendix Figure A.2

²³*About the SSE initiative*. Sustainable Stock Exchanges.

²⁴Appendix Figure A.1

²⁵*About the SSE initiative*. Sustainable Stock Exchanges.

²⁶*About the SSE initiative*. Sustainable Stock Exchanges.

²⁷Appendix Figure B.1

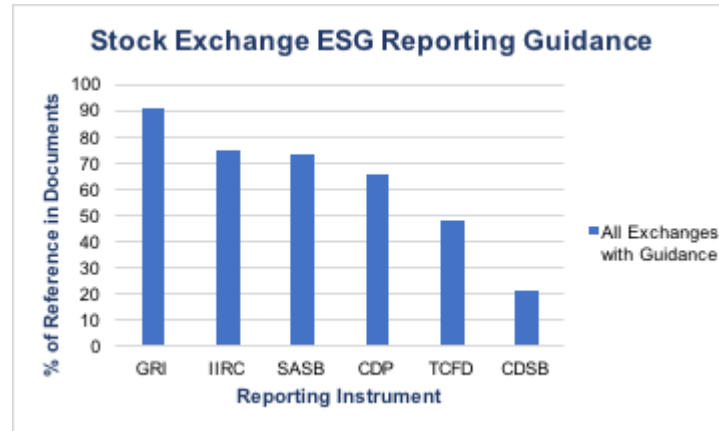
²⁸*ESG Disclosure*. Sustainable Stock Exchanges.

²⁹*United Nations SSE initiative: 10 Years of Impact and Progress*. Sustainable Stock Exchanges.

³⁰*United Nations SSE initiative: 10 Years of Impact and Progress*. Sustainable Stock Exchanges.

III. REPORTING STANDARDS

There is no one globally accepted set of standards that is appropriate across all forms of nonfinancial information and the sheer number of reporting frameworks, guidelines and standards in the space can be overwhelming.³¹ Of the SSE's tracked exchanges that provide written guidance on ESG reporting (55 total), the following reporting instruments are most frequently referenced:³²



- **The Global Reporting Initiative (GRI):** Founded in 1997, GRI Standards are the most widely adopted global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts.³³
- **The International Integrated Reporting Council (IIRC):** Founded in 2010, the IIRC has created a framework that seeks to integrate sustainability and traditional financial metrics in a single corporate disclosure.³⁴
- **The Sustainability Accounting Standards Board (SASB):** Born out of responsible investment research at Harvard University in 2012, SASB seeks to establish and improve industry-specific metrics for investors in the United States.³⁵
- **The Climate Disclosure Project (CDP):** Founded in 2000, CDP focuses on climate reporting, forests and water security through annual questionnaires and scoring.³⁶
- **The Task-Force on Climate-related Financial Disclosures (TCFD):** Founded in 2015, TCFD considers the physical, liability and transition risks associated with climate change to establish recommendations for consistent disclosures on climate-related risk.³⁷
- **The Climate Disclosure Standards Board (CDSB):** Founded in 2007, CDSB is an international consortium of businesses and environmental NGOs that offer a framework for companies to report on environmental metrics with

³¹Appendix Figure B.2

³²*ESG Guidance Database*. Sustainable Stock Exchanges.

³³*About GRI* The Global Reporting Initiative.

³⁴*International Framework*. Integrated Reporting.

³⁵*Homepage*. Sustainability Accounting Standards Board.

³⁶*Home*. Carbon Disclosure Project.

³⁷*Task Force on Climate-related Financial Disclosures: TCFD - About*. TCFD.

the same rigor as financial metrics, in annual reports or 10-K filings. Specifically, it recommends utilizing CDP data with its framework to fulfill TCFD's recommendations.³⁸

The scope and depth of these disclosures differ considerably as a result of the subjective choices companies make about their approaches to sustainability reporting: which frameworks and standards to follow, which stakeholders to address, and which information to make public.³⁹

Stock exchanges are positioned to harmonize these approaches as a crucial interface between companies and investors. While about half of stock exchanges currently provide listed companies with guidance on sustainability reporting,⁴⁰ they must encourage businesses, regulators and standard setters to raise the ambition in order to align with the 1.5 °C warming scenario⁴¹ outlined in the Paris Agreement.⁴²

“Stock exchanges should further support meaningful, forward-looking and globally comparable company ESG disclosures. Exchanges with voluntary disclosure frameworks should move to mandatory disclosure, and all exchanges should officially endorse the TCFD,” wrote Fiona Reynolds, Managing Director, Principles for Responsible Investment and Member of the SSE Governing Board in the 10-year Impact Report.⁴³

³⁸ *Homepage*. Climate Disclosure Standards Board.

³⁹ Bemow, S., Godsall, J., Klempner, B., & Merten, C. (2019, August 8). *More than values: The value-based sustainability reporting that investors want*. McKinsey & Company.

⁴⁰ *United Nations SSE initiative: 10 Years of Impact and Progress*. Sustainable Stock Exchanges.

⁴¹ *According to the Climate Action Tracker, the central objective of the Paris Agreement is its long-term temperature goal to hold global average temperature increase to “well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.”*

⁴² *Paris Temperature Goal*. Climate Action Tracker.

⁴³ *Paris Temperature Goal*. Climate Action Tracker.

IV. LEVELS OF ESG EXCHANGE INTERVENTION

Governments and regulators around the world have started to adopt “non-financial” disclosure requirements for public companies. A lack of regulatory control may embolden impropriety and corrupt the better angels of corporate nature.⁴⁴ On the other hand, if the exchange can help businesses better plan and execute long-term strategy, markets will naturally disseminate and incentivize the right tools.⁴⁵

Some reporting guidelines have gone to classify the varying levels of stock exchange intervention into “Low”, “Medium” and “High” categories in order for their stakeholders to better understand where their efforts stand relative to other exchanges. NASDAQ, for example, developed the framework featured in the figure below:⁴⁶

The Range of Exchange Intervention on ESG:

| LOW | MEDIUM | HIGH |
|---|---|--|
| <ul style="list-style-type: none"> <input type="checkbox"/> No action <input type="checkbox"/> Promote ESG best practices <input type="checkbox"/> Participate in exchange/Investor dialogues <input type="checkbox"/> Join working groups <input type="checkbox"/> Publicly support ESG frameworks <input type="checkbox"/> Offer awards | <ul style="list-style-type: none"> <input type="checkbox"/> Create stakeholder & company dialogue <input type="checkbox"/> Create indexes, financial products (green bonds) <input type="checkbox"/> Create voluntary ESG guidance <input type="checkbox"/> Tiered disclosure recommendations <input type="checkbox"/> Report or explain | <ul style="list-style-type: none"> <input type="checkbox"/> ESG-related listing rules <input type="checkbox"/> ESG-tiered listing fees <input type="checkbox"/> Delisting for ESG noncompliance <input type="checkbox"/> Publication of ESG reporting data <input type="checkbox"/> Audit enforcement <input type="checkbox"/> Requiring more sophisticated reporting standards (IIRC) |

It is important to note that higher intervention levels do not always result in more comprehensive reporting. Some exchanges require more sophisticated reporting standards, but several still offer little or no guidance for companies on how to navigate these standards or even produce suggested reporting documents without these standards.⁴⁷

⁴⁴NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

⁴⁵NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

⁴⁶NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

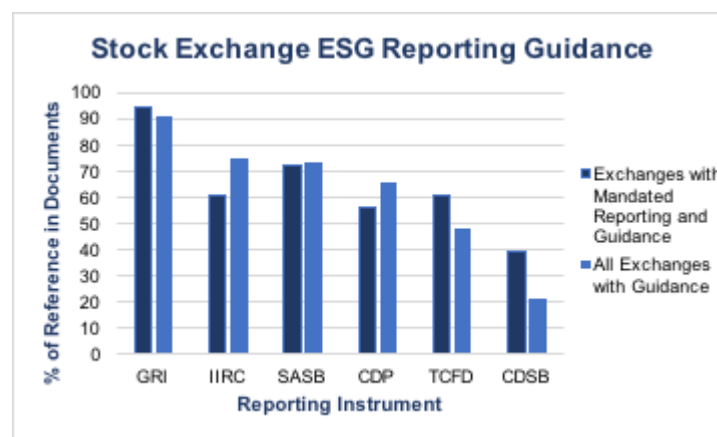
⁴⁷NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

A. HIGH INTERVENTION: MANDATES WITH GUIDANCE

Of the 24 exchanges that require ESG as a listing rule, 18 also directly provide companies with stock-exchange-authored guidance, meeting SEE's goal.⁴⁸ Using a spectrum like NASDAQ's, the following exchanges would be considered high-level interveners:⁴⁹

1. Belgium: Euronext Brussels
2. China: Hong Kong Exchanges and Clearing Limited
3. France: Euronext Paris
4. India: Bombay Stock Exchange
5. Indonesia: Indonesia Stock Exchange
6. Ireland: Euronext Dublin
7. Luxembourg: Bourse de Luxembourg
8. Malaysia: Bursa Malaysia
9. Netherlands: Euronext Amsterdam
10. Nigeria: Nigerian Stock Exchange
11. Peru: Bolsa de Valores de Lima
12. Philippines: Philippine Stock Exchange
13. Portugal: Euronext Lisbon
14. Singapore: Singapore Exchange
15. Thailand: Stock Exchange of Thailand
16. United Kingdom of Great Britain and Northern Ireland: Euronext London
17. Vietnam: Hanoi Stock Exchange
18. Vietnam: Ho Chi Minh Stock Exchange

Regarding the reporting standards referenced, the breakdown of tools mentioned by exchanges with mandated disclosure and guidance documents is fairly similar to those mentioned by all exchanges with guidance, with the exception of CDSB.⁵⁰



⁴⁸ *Exchanges Filter Search*. Sustainable Stock Exchanges.

⁴⁹ *It is important to note that several links to guidance reports in this grouping were missing (Philippines, Malaysia, Singapore, Ho Chi Minh, Hanoi) from both exchange websites and the SSE database or led to documents in languages such as Indonesian and Thai that were unable to undergo analysis by the author of this report.*

⁵⁰ *ESG Guidance Database*. Sustainable Stock Exchanges.

CASE A.1: EURONEXT

To illustrate, Euronext's guidelines (utilized by Brussels, Paris, Dublin, Amsterdam, Lisbon and London) address the necessity of aligning strategies with regulatory requirements.⁵¹ While the document summarizes key performance indicators (KPIs) in the ESG sphere, the European Directive already requires public-interest entities with more than 500 employees to publish non-financial information, including information on environmental, social and employee matters, diversity, respect for human rights and on anti-corruption and bribery matters since 2014.⁵² The guidelines reference GRI, TCFD, the Organization for Economic Cooperation and Development (OECD), SASB, the Transparency International's Business Principles for Countering Bribery, The UN Global Compact, The UN Guiding Principles on Business and Human Rights, The UN Sustainable Development Goals and encourage external auditing "if resources allow."⁵³

CASE A.2: HKEX

Hong Kong Stock Exchange (HKEX) has been rated highly and awarded by both local and overseas rating agencies or professional institutions, in recognition of its achievement in corporate governance and CSR.⁵⁴ For example, listed companies must comply with two levels of "Stock Exchange Listing Requirements;" and if the issuer does not report on one or more of the "comply or explain" provisions, it must provide considered reasons in its ESG report. Additionally, HKEX conducts annual reviews and surveys of listed companies' reporting, in order to improve the guidance resources provided for ESG governance and disclosure.⁵⁵ The results of the 2019 review led to changes in the reporting boundaries of significant climate-related issues and upgrading the disclosure obligation of all "Social" KPIs to "comply or explain."⁵⁶

CASE A.3: IDX

This level of exchange intervention does not always result in best-practice ESG reporting. The effectiveness of mandated reporting requirements come into question when proper frameworks are not incorporated. For example, the Indonesia Stock Exchange mandates both ESG disclosure and provides guidelines, but does not include references to any mainstream sustainability standards,⁵⁷ contributing to the inability of comparisons and discrepancies in global reporting mechanisms.

⁵¹Euronext. *Guidelines to Issuers for ESG Reporting*. ESG Guidelines for listed companies.

⁵²Euronext. *Guidelines to Issuers for ESG Reporting*. ESG Guidelines for listed companies.

⁵³Euronext. *Guidelines to Issuers for ESG Reporting*. ESG Guidelines for listed companies.

⁵⁴HKEX Stock Exchange. Sustainable Stock Exchanges.

⁵⁵Exchange Publishes ESG Guide Consultation Conclusions and its ESG Disclosure Review Findings. HKEX. (2019, December).

⁵⁶Exchange Publishes ESG Guide Consultation Conclusions and its ESG Disclosure Review Findings. HKEX. (2019, December).

⁵⁷ESG Guidance Database. Sustainable Stock Exchanges.

B. HIGH INTERVENTION: MANDATES WITHOUT GUIDANCE

The six exchanges listed below require companies to disclose ESG metrics, but do not meet SEE's goal in providing ESG reporting guidelines for companies:

1. Argentina: Bolsas y Mercados Argentinos & Bolsa de Comercio de Buenos Aires
2. Austria: Wiener Börse
3. India: National Stock Exchange of India
4. Namibia: Namibian Stock Exchange
5. South Africa: Johannesburg Stock Exchange
6. Zimbabwe: Zimbabwe Stock Exchange

One might assume that the requirement of reporting without guidance documents would result in poor disclosure mechanisms. While the exchanges do not provide their own guidelines for the issues, the majority of this grouping include the information required for high-level reporting in other formats, such as listing requirements. However, this scenario does not meet SSE's goal of each exchange offering a separate guidance document.

CASE B.1: BYMA & BCBA

Beginning with Argentina, BYMA includes in its Listing Rules, following the National Securities Commission approval, that sections that require issuers of shares and/or marketable securities must issue a Sustainability Report and to submit it with the issuer's annual accounting documentation.⁵⁸ In 2008, Buenos Aires City Council passed Law 2594 requiring all international and local companies in the city with over 300 employees to generate annual sustainability reports.⁵⁹ Companies are required to produce their reports in accordance with the Ethos Reporting Initiative's indicators (GRI member) and the Accountability 1000 standard⁶⁰ at a minimum.⁶¹

CASE B.2: VSE

On Austria's Wiener Borse Exchange, the European directive on Non-Financial Information Reporting (NFRD) has been implemented into the Austrian legal environment, while CSR reporting is also mandatory as part of annual reporting.⁶² Listed companies also are required to abide by the Corporate Governance Code and include a declaration of commitment.⁶³

CASE B.3: NSE

The National Stock Exchange of India (NSE) mandates companies to release a "Business Responsibility Report" which covers topics like "principle-wise performance"⁶⁴ without mentioning any of the mainstream sustainability reporting frameworks.

⁵⁸ *Argentine Stock Exchanges and Markets*. BYMA.

⁵⁹ *Initiatives Worldwide*. Global Reporting Initiative (GRI).

⁶⁰ *The AA1000AP (2018)* is an internationally accepted, principles-based framework and guidance that organisations can use to identify, prioritize and respond to sustainability challenges to improve long-term performance ([Accountability](#)).

⁶¹ *Initiatives Worldwide*. Global Reporting Initiative (GRI).

⁶² *Wiener Borse Stock Exchange*. Sustainable Stock Exchanges.

⁶³ *Market Segmentation*. Vienna Stock Exchange.

⁶⁴ *Format for Business Responsibility Report (BRR)*. Securities and Exchange Board of India.

CASE B.4: NSX

The Namibian Stock Exchange (NSX) enforces that all companies adhere to the NamCode or the Corporate Governance Code for Namibia,⁶⁵ which includes standards on sustainability and governance. The NamCode mentions GRI guidelines as “the accepted international standard for sustainability reporting” and requires that “sustainability reporting and disclosure should be independently assured.”⁶⁶

CASE B.5: JSE

In another case, the Johannesburg Stock Exchange (JSE) has historically been on the forefront of the ESG reporting sphere, and mandates integrated reporting, which includes information regarded as ESG.⁶⁷ Specifically, it asks companies to comply with the principles of the King Code on Corporate Governance,⁶⁸ including a recommendation that companies integrate their approach to report on risks and opportunities across financial and sustainability considerations.⁶⁹

CASE B.6: ZSE

In another example, the Zimbabwe Stock Exchange (ZSE) requires that “the issuer must disclose its sustainability policy, including mitigation of risks, sustainability performance data and other material information,” which deepens stakeholders’ understanding of corporate performance and encourages the adoption of internationally accepted reporting frameworks, such as the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines.⁷⁰

In conclusion, it is very unlikely for exchanges that mandate ESG reporting to leave companies in the dark as to what they must disclose. Even so, there are varying levels of the usage of sustainability standards within these listing requirements. Many of these requirements are far more thorough and scrutinous than the guidance documents provided by the exchanges in section A. This discrepancy brings the question of the effectiveness in each stock exchange releasing its own reporting guidance for issuers (SEE’s goal). However, it is likely that several exchanges would not offer any guidance or mandates without support from the SSE.

⁶⁵ *NamCode Inside*. Namibian Stock Exchange (NSX).

⁶⁶ *NamCode Inside*. Namibian Stock Exchange (NSX).

⁶⁷ *Sustainability: Regulator, Influencer, Advocate*. Johannesburg Stock Exchange (JSE).

⁶⁸ PricewaterhouseCoopers. *King IV report - Corporate Governance*. PwC.

⁶⁹ *Exploring ESG: a practitioner’s perspective*. BlackRock. (2016, June).

⁷⁰ NewsDay Zimbabwe. *Govt gazettes ZSE Statutory Instrument to enhance transparency, accountability*. (2019, June 18).

C. MEDIUM INTERVENTION: RECOMMENDATIONS & FINANCIAL TOOLS

Stock exchanges considered medium-level interveners are often proponents of voluntary ESG disclosure, providing issuers with the necessary guidance to report on material nonfinancial topics and offering financial tools that reward those considered to be leaders in the sustainability space.⁷¹ For example, Japan Exchange Group, Brazil's B3 Stock Exchange and NASDAQ do not require ESG reporting as a listing rule, but provide companies with written guidance and are covered by several sustainability indices.⁷²

CASE C.1: JPX

In conjunction with the Tokyo Stock Exchange, the Japan Exchange Group published a Practical Handbook for ESG Disclosure, intended to support listed companies who are choosing to work on ESG disclosure.⁷³ However, every listed company must prepare a report on corporate governance. Additionally, if any environmental or social information is deemed to have a remarkable effect on investors' investment decisions, it must be immediately disclosed by companies as required by the Exchanges' Listing Rule.⁷⁴ JPX also launched a dedicated platform for Green and Social bonds over two years ago.⁷⁵

CASE C.2: B3

Brasil, Bolsa, Balcão (B3) encourages transparency and recommends that listed companies report their ESG practices and explain if they have published Annual Report that integrates sustainability indicators through items of the Reference Form. In addition, B3 has its own Social and Environmental Responsibility Policy, which aims to formalize and orient guidelines for action.⁷⁶

CASE C.3: NASDAQ

Exchanges that consider themselves on the low- or medium-level of intervention, are still facing immense pressure from investors and are actively taking measures to improve the quality of ESG data provided. For example, NASDAQ announced the acquisition of OneReport, Inc., a privately-held provider of corporate responsibility and environmental, social, and governance (ESG) data management and reporting services in February 2020.⁷⁷ Additionally, NASDAQ releases an annual sustainability report, provides companies with written guidance on ESG reporting and offers over 70 sustainability-related indexes.⁷⁸

⁷¹ NASDAQ. (2019). (rep.). *ESG Reporting Guide*.

⁷² *B3 Stock Exchange*. Sustainable Stock Exchanges.

⁷³ *Practical Handbook for ESG Disclosure*. Japan Exchange Group. (2020, May 31).

⁷⁴ *Practical Handbook for ESG Disclosure*. Japan Exchange Group. (2020, May 31).

⁷⁵ *Green and Social Bonds*. Japan Exchange Group.

⁷⁶ *Sustainability: B3*. A Bolsa do Brasil.

⁷⁷ *Nasdaq Acquires ESG Reporting Service*. Markets Media. (2020, February 4).

⁷⁸ *Nasdaq Good Works*. Nasdaq.

D. LOW INTERVENTION: NO MANDATES, NO DIRECT RECOMMENDATIONS

Just over half of SSE's Partner Exchanges offer guidance documentation for companies on ESG disclosures. While the majority of these exchanges do not mandate any sort of sustainability reporting, they are only asked to sign a letter that states, "We voluntarily commit, through dialogue with investors, companies and regulators, to promoting long-term sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on our exchange."⁷⁹

CASE D.1: NYSE

For example, while New York Stock Exchange (NYSE) does not mandate reporting or offer a guidance reporting document to companies. However, NYSE publishes an annual corporate sustainability report,⁸⁰ has compiled an ESG disclosure guidance library with resources from GRI, SASB, TCFD, SSE and the World Federation of Exchanges Sustainability Working Group⁸¹ and regularly conducts webinars and interviews with Directors from SASB or S&P's Sustainable Finance Team.⁸²

On a spectrum of exchange ESG intervention, NYSE would be classified as low-level, but the substantial resources it offers

Taking an approach similar to NYSE's, compiling best-practice resources, could likely result in higher quality reporting than a mandate to report without guidelines or references to best practice standards. High or low ESG exchange intervention levels does not ultimately mean the quality of company disclosures will be significantly better, as seen in the Indonesia Stock Exchange's mandate, without any mention of internationally accepted standards.

⁷⁹ *Partners*. Sustainable Stock Exchanges.

⁸⁰ *Corporate Responsibility*. Intercontinental Exchange.

⁸¹ *NYSE ESG Resource Center*. Intercontinental Exchange.

⁸² *NYSE ESG Resource Center*. Intercontinental Exchange.

V. CONCLUSIONS

Exchanges continue to be major promoters of ESG disclosure. Uniquely positioned as a channel between issuers and investors, these bodies have the opportunity to promote more efficient capital markets that generate long-term value.⁸³ There is consensus that those promoting high-quality ESG information enable investors to better evaluate fundamental drivers of value creation and help companies navigate, comply with or stay ahead of regulations that require disclosure of financially material ESG information.⁸⁴ This report demonstrates the breadth and scale of exchange intervention and assesses its impact at a surface level. While the analysis found hints that higher levels of intervention contribute to better ESG outcomes, the bulk of the research took place among the highest level of intervention. Due to the brevity of the project's timeline, several reports at the medium and lower levels of intervention were excluded, only highlighting a few case examples at each. However, there is a clear trend that exchanges at every level are making some strides towards enhanced reporting.

FURTHER ANALYSIS

Additional research, outside of the 24 stock exchanges that both mandate reporting and offer written guidance, is necessary to determine if higher levels of intervention result in more comprehensive ESG disclosure than medium or lower levels of intervention. Furthermore, there is still no international convergence on reporting formats and standards, and some exchanges have raised concerns about the divergence on standards and ESG practices across the globe.⁸⁵ While GRI standards were the most popular reporting framework across exchanges of different intervention levels,⁸⁶ there still is substantial investor demand to harmonize various frameworks.

NEXT STEPS

By providing guidance to issuers, an exchange has the opportunity to clearly address challenges surrounding insufficient ESG data disclosure. According to SSE's 10-year impact report, we have seen a stark change in stock exchange levels of ESG engagement. Exchanges that were once relatively quiet on the topic of sustainability have now become vocal and determined.⁸⁷ However, despite the gains of the past decade, we have only just begun to develop strategies to successfully address the challenges we face.

"Making matters even more serious, many of these goals, such as addressing climate change, are not aspirational in nature, but critical to the very survival of humanity. And to be clear, these are not only long-term problems, rather they are very much present-day challenges, some of which are already being felt in market prices, portfolio allocation and people's daily lives," said James Zhan, director of UNCTAD's Division on Investment and Enterprise.

⁸³Sustainable Stock Exchanges Initiative. (2017). (rep.). *Model Guidance On Reporting ESG Information To Investors*.

⁸⁴Sustainable Stock Exchanges Initiative. (2017). (rep.). *Model Guidance On Reporting ESG Information To Investors*.

⁸⁵The World Federation of Exchanges. (2020, July). (rep.). *WFE Annual Sustainability Survey 2020*.

⁸⁶*ESG Guidance Database*. Sustainable Stock Exchanges.

⁸⁷*United Nations SSE initiative: 10 Years of Impact and Progress*. Sustainable Stock Exchanges.

VI. VI. APPENDIX

A. SUSTAINABLE EXCHANGE GROWTH & GUIDANCE:

Figure A.1: Stock Exchange Sustainability Growth⁸⁸

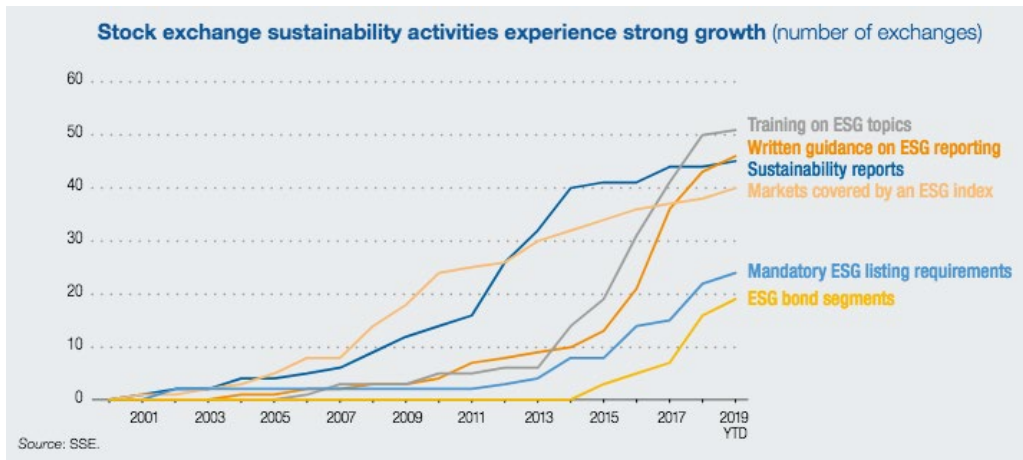


Figure A.2: SSE Structural Breakdown⁸⁹ Figure A.3: Range of Exchange Intervention⁹⁰



The Range of Exchange Intervention on ESG

| Low (35 exchanges) | Medium (40 exchanges) | High (12 exchanges) |
|--|---|--|
| <ul style="list-style-type: none"> No action Promote ESG "best practices" Participate in exchange/investor dialogues* Join working groups* Publicly support ESG frameworks* Offer awards | <ul style="list-style-type: none"> Create stakeholder & company dialogue* Create indexes, financial products (green bonds)* Create voluntary ESG guidance* Tiered disclosure recommendations Report or explain | <ul style="list-style-type: none"> ESG-related listing rules ESG-tiered listing fees Delisting for ESG noncompliance Publication of ESG reporting data Audit enforcement Requiring more sophisticated reporting standards (IIRC) |

*Nasdaq actions to date

⁸⁸ United Nations SSE initiative: 10 Years of Impact and Progress. Sustainable Stock Exchanges.

⁸⁹ United Nations SSE initiative: 10 Years of Impact and Progress. Sustainable Stock Exchanges.

⁹⁰ NASDAQ. (2019). (rep.). ESG Reporting Guide.

B. REPORTING LANDSCAPE:

Figure B.1: Recommended ESG Disclosure Forms⁹¹


| STAND-ALONE SUSTAINABILITY REPORTING | FINANCIAL REPORTING WITH MATERIAL ESG FACTORS | INTEGRATED REPORTING ⁵¹ |
|---|--|--|
| Sustainability reports address the relevant ESG information needs of investors and sometimes other stakeholders, such as consumers and civil society. | After a company determines certain ESG factors are material to its business over a specific time horizon, it may decide to include this information in its financial reports. ⁵⁰ These likely cover a smaller set of ESG factors than the other options listed. | An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. |


Figure B.2: Categories of Reporting Frameworks⁹²

Talking: Fulya Kocak


Categories of Reporting Frameworks


- Voluntary Disclosure Frameworks
You Choose






- Guidance Frameworks
You Use








- Third-Party Aggregated Frameworks
Ignore and you may Lose







⁹¹Sustainable Stock Exchanges Initiative. (2017).(rep.). *Model Guidance On Reporting ESG Information To Investors*.

⁹² Reit. *Webinar: A Look Back to Chart a Path Forward – REIT ESG in 2020 and Beyond*. Nareit.

C. SUSTAINABILITY PRODUCTS

Figure C.1: Green Bond Listings⁹³

| Name of Stock Exchange | Type of Dedicated Segment | Launch Date |
|---|---------------------------------------|----------------|
| Oslo Stock Exchange | Green bonds | January 2015 |
| Stockholm Stock Exchange | Sustainable bonds | June 2015 |
| London Stock Exchange | Green, social, & sustainability bonds | July 2015 |
| Shanghai Stock Exchange | Green bonds | March 2016 |
| Mexico Stock Exchange | Green bonds | August 2016 |
| Luxembourg Stock Exchange* | Green, social, & sustainability bonds | September 2016 |
| Italian Stock Exchange | Green & social bonds | March 2017 |
| Taipei Stock Exchange | Green bonds | May 2017 |
| Johannesburg Stock Exchange | Green bonds | October 2017 |
| Japan Exchange Group | Green & social bonds | January 2018 |
| Vienna Stock Exchange | Green & social bonds | March 2018 |
| NASDAQ Nordic & Baltics** | Sustainable bonds | May 2018 |
| The International Stock Exchange | Green bonds | November 2018 |
| Frankfurt Stock Exchange | Green bonds | November 2018 |
| Moscow Exchange | Green & social bonds | August 2019 |
| Euronext | Green bonds | November 2019 |
| NASDAQ Sustainable Bond Network*** | Green, social, & sustainability bonds | December 2019 |

*LuxSE created LGX as a dedicated platform for green, social and sustainability bonds

**Nasdaq's joint offering of sustainable debt segments are operated by Nasdaq Europe. Sustainable bonds are currently listed on Nasdaq's sustainable bond markets in the Baltics, Copenhagen, Helsinki, Reykjavik, Stockholm and Vilnius

***The Nasdaq Sustainable Bond Network is not a listing venue but a transparency platform open to all green, social and sustainability bonds meeting its inclusion criteria, regardless of the listing status.

⁹³Climate Bonds Initiative. (2020). (rep.). *Green Bond Treasurer Survey report*.

Figure C.2: ESG Index Methodologies⁹⁴

Avoid and advance
Sustainable investing styles

| AVOID | | ADVANCE | |
|---|---|--|---|
| Screened | ESG | Thematic | Impact |
| Objective | | | |
| Remove specific companies/industries associated with objectionable activities | Invest in companies based on ESG scores/rating systems | Focus on particular E, S or G issues | Target specific non-financial outcomes along with financial returns |
| Applications | | | |
| Screening out producers of weapons, fossil fuels and/or tobacco | Optimised ESG benchmarks; active strategies overweighting strong ESG performers | Environmental focus (low carbon or renewable energy); social focus (diversity) | Specific green bond or renewable power mandates |
| Examples | | | |
| S&P 500 Fossil Fuel Free Index | Bloomberg Barclays MSCI US Corporate ESG Focus Index | MSCI Low Carbon Target Indexes | MSCI ACWI Sustainable Impact Index |

Source: BlackRock. The above table is for illustration purposes only. It serves as a general summary and is not exhaustive.

⁹⁴iShares by BlackRock. (2019). (rep.). *An Evolution in ESG Indexing*.



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