World Federation of Exchanges ESG Reporting Guidance
Investor Comment Period
Deadline March 25, 2016

The following form organizes investor comments to the World Federation of Exchanges' (WFE) recently launched **Exchange Guidance & Recommendations** (referred to here as WFE Guidance), issued by its Sustainability Working Group of 22 stock exchanges. In order to provide useful commentary to the WFE on this guidance for listed companies, and how the guidance can drive improvements in the quality and consistency of sustainability reporting, Ceres is overseeing an institutional investor consultation on the WFE Guidance. Please use this form when possible to provide feedback. We also accept comments in the Excel spreadsheet attached to this consultation, if that is more feasible.

Please submit comments to: **Sophia Showalter, showalter@ceres.org.** Ceres accepts text, Word or PDF comments, as well as edits to the Excel file. To discuss the WFE guidance before submitting your comments, please contact Tracey Rembert at rembert@ceres.org or +1-617-247-0700 x 106.

The Consultation Questions below are organized to elicit feedback on specific and general aspects of the WFE's Guidance. The Guidance includes a table of 33 Key Performance Indicators (KPI) on sustainability matters, and a separate table of dozens of ESG (Environmental, Social & Governance) reporting recommendations for both exchanges and companies. The WFE Guidance is three pages in total. The two-page table of recommendations follows the order of principles (column B) mentioned in another set of guidance--the *UN Model Guidance on Reporting ESG Information to Investors*, which launched in September 2015, and which instructs exchanges on how to better communicate with companies on ESG reporting expectations.

DEADLINE for comments: March 25, 2016.

The WFE Guidance, in Excel form, is attached to the consultation email. Each KPI and Recommendation is numbered, to easily reference it in your comments.

Section 1: CONTACT INFORMATION

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Do you want to keep your comments confidential, and your identifying information redacted (Y/N)? **No**

Section 2: BASIC QUESTIONS ON THE WFE GUIDANCE

Q1. The WFE has issued guidance in two parts--a list of 33 KPIs, and a table of broader recommendations for exchanges, and for listed companies. At a high level, which aspects of the guidance seem most important to you?

From a high level the recommendations are the most relevant component of the guidance, as compared to the individual KPIs. From ICGN's perspective it is important to think about what we are trying to achieve from greater ESG reporting. In this context we must remember that ESG is not an end unto itself; rather this disclosure is a means to better understand how a company is managed and governed for long term and sustainable value creation. ESG disclosures also provide a foundation for identifying potential areas of engagement between companies and investors as they relate to ESG issues that are relevant in an investment context. We refer you to ICGN's Guidance on Integrated Business Reporting[1], which expresses ICGN's position on integrated reporting, disclosures, KPIs and the use of ESG factors in greater detail.

Q2. Are the number of recommendations and KPIs too much to incorporate into guidance at one time (Y/N)? How might the WFE better organize the two types of guidance to be more digestible by companies?

If taken as a required list for all companies to adopt and disclose the number of KPIs probably is too great for investors, and possibly companies as well, to absorb. But if this listed is viewed as a "menu" from which the company to screen for its most material KPIs, then it may be useful. The materiality of these KPIs will differ from company to company and sector to sector; a prescriptive list for all companies to follow may dilute its meaning. To simplify presentation in the current form of 33 discreet KPIs, it might be useful to cluster some of the S&G KPIs into a small group of organizing "buckets"—e.g., employee and human rights, codes of conduct, pay, etc.

Q3. What are the two biggest deficiencies, in your opinion, in the Guidance?

1. **As structured, the individual recommendations can come across as a bit disjointed, like reading a long list. A broader narrative would be useful to link these individual pieces into a common whole. 46 recommendations are quite a bit to digest, and some inevitably will have greater and lesser significance for exchanges and companies.**
2. **Not all KPIs are of equal importance to individual companies, and looking at too many KPIs can be confusing for both companies and investors. A key will be to identify those individual KPIs that have greatest relevance; this is likely to be <u>sector based</u>. ICGN's own Guidance notes that "an indicator is likely to be important and relevant to strategy if it is used by the board and executive management in monitoring the company's performance in achieving its strategy… where sector-specific practices have emerged for indicators, companies should make use of such indicators unless they have specific reasons for considering them inappropriate."**

Q4. The WFE did not have a stance on the definition of *materiality* (leaving it up to each individual exchange

[1] See: http://icgn.flpbks.com/icgn-integrated-business_reporting/#p=1

and the company to define). Do you agree with this strategy? Why or why not?

Identifying the most material KPIs is important in the use of ESG information. We appreciate that WFE may not wish to impose a definition that may conflict with individual jurisdictions. But it might wish to consider a "strawman" definition to serve as a point of reference, as a possible suggestion, not as a prescription.

Q5. The WFE did not recommend a specific reporting framework be used by companies for overall sustainability reporting (though it does recommend certain frameworks for specific aspects of reporting). Do you agree with this strategy? Why or why not?

ICGN agrees that there are several respected frameworks in place that have their merits both for investors and/or civil society bodies. ICGN's own *Guidance on Integrated Business Reporting* recognizes groups such as the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). We have specifically noted our support for the IRRC's <IR> framework, but observe that the main objective is for companies to achieve "integrated thinking" rather than to adopt a specific reporting framework.

Section 3: QUESTIONS ON THE KPIs

Q6. Which KPIs are most critical on this list to you?
For all the questions in Section 3 (Q6-Q11), it is difficult to meaningfully comment on in the abstract, as these will differ in importance between companies and sectors, particularly so with environmental and social indicators. Not all indicators will necessarily be material for all companies, however governance and ethics indicators should be relevant across all companies and sectors. If anything there may be too many indicators. While yes/no indicators can be useful, they can also lead to a superficial tick box analysis if taken out of context.

Q7. Which KPI *Metrics* need more clarification or rewording in the *Measurement* description to be more useful to you?

Q8. Several of the KPIs ask "yes or no" questions, and do not stipulate a company to link to the policy or disclosure referred to. Feedback from investors so far has been strongly supportive of companies linking to the policies/initiatives in question. Do you agree?

Q9. The KPIs, while covering a few aspects of governance, do not cover board oversight and accountability of sustainability matters. Do you believe such KPIs should be added? If so, please suggest possible indicators.

Q10. While the Recommendations mention stakeholder engagement, the KPIs do not cover the issue. Should that topic be added to the KPIs? If so, please suggest a possible indicator.

Q11. In 2013-2014, investors highlighted 10 issues (in a Ceres-led consultation) they felt KPIs should be developed for, by stock exchanges, to give companies more clarity on reporting. Two issues--**Communities and Community Relations** (indigenous people's impacts, community engagement, economic development) and **Product and Service Impact and Integrity** (recalls, data breaches, product safety, life cycle issues) were not covered by the KPIs. Is it critical for those two issues to be incorporated (Y/N)? If so, why?

Section 4: QUESTIONS ON THE TABLE OF RECOMMENDATIONS

I. RECOMMENDATIONS FOR EXCHANGES

Q12. The investor consultation on ESG reporting, led by Ceres in 2013-2014, clearly highlighted the need for more robust discussion by companies on their ESG materiality process, and the outcomes thereof. The WFE list of recommendations, while mentioning this topic (#46), does not prioritize the materiality assessment within companies over other recommendations or indicators. Did the WFE cover this issue adequately in your opinion, or should it be made more explicit in the KPIs or Recommendations?
Materiality is key to making ESG disclosure/KPIs relevant for investors who use them. By making this the last point of an already very long list of recommendations, there is the risk that the urgency of this point could be lost.

II. RECOMMENDATIONS FOR LISTED COMPANIES

Q13. Are there any Company Recommendations that you disagree with? Please list Item # and describe why.
Some of the language can come across as unduly prescriptive (e.g., R8—participate in "any" exchange hosted events), others may be difficult to meaningfully measure (e.g. R6 – quantifying the number of employees affected by a KPI or R41—investor turnover.
Q14. There are several recommendations to companies on stakeholder engagement. Is the Guidance missing anything on this critical issue?

Q15. What are your views on the recommendation for companies to have their data assured by a third party?
ICGN believes it is good to have disclosure strengthened by independent assurance that is carried out having regard to established disclosure standards applicable to non-financial business reporting.

Q16. What 3-4 recommendations for companies are most critical for exchanges to ensure are accomplished?
The key is to focus on how, and which, ESG factors are being factored into corporate strategy and risk management, and how the board is overseeing this. The narrative dimension to this report is key to join the dots between ESG in the abstract and how it plays a role in company governance and board oversight.

Section 5: CONCLUDING THOUGHTS ON THE WFE GUIDANCE & ESG REPORTING

Q17. The WFE Guidance is exactly that--voluntary guidance. Do you support exchanges creating mandatory listing rules on ESG reporting, or working with the securities regulator or government to do so--or is voluntary reporting guidance enough to create consistency and broad uptake by issuers?

ESG reporting as and end unto itself should not be the subject of regulatory rules. What could be part of a regulatory or exchange listing rule framework is a rule calling for integrated reporting of financial and non-financial performance – which should normally include ESG factors, but also other qualitative reporting disclosure.

Q18. Is there any other supporting material or documents you believe should be created by the WFE to assist companies in developing higher-quality reporting on ESG issues?
As noted earlier we believe that a narrative piece providing joined up thinking between the purpose of this initiative, the nature of the recommendations and the applications of the KPIs would be important to put these many individual components into context.

Q19. Should the guidance apply to small-cap companies? Why or why not?
Small cap companies should be encouraged to report on their key ESG related risks and how these are being managed. But this should be done on a basis that is proportional to the size and complexity of small cap companies. If the guidance and application of KPIs are to be adhered to rigidly across all categories, without consideration of size, structure and sector, that is likely to be overkill for many small companies.

Q20. Other comments, questions or criticisms you would like to add?
ICGN is an investor-led membership body with over 650 members in 47 countries globally and institutional investor members representing in excess of US$26 trillion in assets under management. Our mission is to inspire better standards of corporate governance and responsible investment practice. Our Integrated Business Reporting Committ supports ICGN's policy work in areas relating to ESG and other non-financial aspects of reporting. Moreover, ICGN is launching in June 2016 its Global Stewardship Principles, which provide a global framework for investors, companies and regulators with regard to stewardship practices. One of our seven principles of stewardship relates to promoting long-term perspectives through the inclusion of ESG factors in the investment process, so we believe that our work complements what WFE is trying to achieve. ICGN would be delighted to meet with WFE to compare notes on these issues and to explore possible areas of synergy. Please do feel free to contact ICGN Policy Director George Dallas in th context (details noted above).