ICGN
International Corporate Governance Network

Investor Network on Climate Risk
Listing Standards Drafting Committee
Consultation
99 Chauncy Street
Boston, MA 02111

By email ONLY:
Tracey Rembert: rembert@ceres.org
Erica Scharn: scharn@ceres.org

Date: 30th April 2013

Dear Ms. Rembert and Drafting Committee,

Re: INCR Listing Standards Drafting Committee Consultation
Paper: Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges

The International Corporate Governance Network (ICGN) is a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US$18 trillion. The mission of the ICGN is to contribute meaningfully to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: https://www.icgn.org. We are pleased to comment on the Consultation on Sustainability Listing Standards for Global Stock Exchanges. In this letter we set out our general remarks and have included the answers to your questions in the Appendix.

We commend the INCR Listing Standards Drafting Committee for its work on developing the draft standards and its continued dialogue with NASDAQ OMX. Navigating the evolving landscape of sustainability disclosure is tricky and we want to acknowledge the committee's hard work to align the draft standards with the various sustainability disclosure initiatives that already exist.

The stated purpose of this consultation is to '*help build global investor support for a listing standard for stock exchanges on corporate sustainability disclosures'*. The ICGN strongly supports efforts to drive more comprehensive disclosures by companies comprising governance and sustainability aspects. To this effect the ICGN established its integrated Business Reporting Committee (IBRC) and published the ICGN Statement and Guidance on Non-Financial Business Reporting (2008).

The ICGN is a strong supporter of the evolution towards Integrated Reporting, the notion that companies should provide a concise account of how they create and sustain value, taking into account sustainability and governance factors. We believe that long-term value creation requires the effective management of multiple forms of capital including financial, human and natural capital. As a provider of capital to corporations we expect fair, accurate, comparable and timely reporting on how all forms of capital are employed to generate sustainable economic returns. The ICGN's Chairman is a member of the International Integrated Reporting Committee (IIRC) Council and several ICGN members, including the Chairman of the IBRC, are part of the IIRC working group and/or the investor network.

Stock Exchange Listing Standards are an important tool to govern the interaction between issuers and capital providers, and hence disclosures should be useful for shareholders, specifically investors, as the primary audience. Our response is from the perspective of a large general investor seeking information to support its investment decisions in mainstream portfolios.

When drafting this response, intense discussions within the IBRC brought to light the ambiguity that is inherent to the consultation document. It allows for very different readings and interpretations of what the initiative aims to achieve.

While the document makes reference to 'the integration of financial and ESG information' it does not explicitly endorse the concept of integrated reporting. As a result, the proposed standards are perceived to be somewhat divorced from taking an 'integrated' perspective on financial and sustainability factor disclosures, albeit integrated reporting. As they stand, we are concerned that the proposed standards may contribute to the continued separation of sustainability and financial disclosures. If the goal is ultimately to enhance companies' overall performance, including upon social and environmental issues, as well as to facilitate better informed investment decisions, then establishing a culture of *integrated thinking* within companies that allows boards and/or management to base their decisions on a broader set of information, is of utmost importance. In our view, integrated reporting, (whereby e.g. natural resource and human capital aspects are woven into the fabric of general reports to create a comprehensive picture of how a company creates and sustains value), will both drive integrated thinking and provide the highest value disclosures to investors. A draft framework for Integrated Reporting has been issued by the IIRC for consultation, and as such cannot yet function as a definitive guidance document. However, this should not prevent this initiative from taking the concept as the guiding principle.

The consultation seeks to develop Global Listing Standards. We set out below our preference for a mandatory 'comply-or-explain' approach to such disclosures; however, in many markets defining these may not necessarily be within the remit of the Stock Exchanges, (regardless of whether the disclosure itself is mandatory), or of the Regulators.[1] Similarly, the monitoring of company disclosures often sits with

[1] A January 2011 World Bank paper outlined four regulatory models under which exchanges could be broadly
classified on a spectrum of regulatory oversight from a 'Government Model', with centralised governmental
regulation (e.g. the UK model), to an 'Independent Self-Regulating Organisation Model'. The Australian

regulatory entities and not with the exchanges. Furthermore, in many markets Stock Exchanges are (listed) for-profit-entities.[2] In its 2012 Progress Report, the Sustainable Stock Exchanges (SSE) initiative found that the majority of the Stock Exchanges it had surveyed are strongly committed to advancing ESG disclosures by listed companies, and have actively provided guidance or encouragement to this effect. To build on this momentum and given the great diversity of legal and regulatory structures, we consider it most effective to push for the development of a common disclosure requirement that exchanges could adopt and promote in a manner suited to their own set-up. This should be enforced on a mandatory 'comply or explain' basis.

As discussed above investors ultimately desire that boards consider all aspects of performance, including governance and sustainability, when making decisions about their business model, strategy and value creation proposition. Therefore, these issues entail entry into the boardroom and disclosures to investors. Requiring companies, on a mandatory comply or explain basis, to report on which, and how, they have identified, assessed and considered governance and sustainability issues in strategy discussions and decisions will be most conducive to that goal. In our view, being more prescriptive would foster a compliance mentality.

With regard to the specific proposals made, we do not support mandating the inclusion of (a link to) the GRI Index in annual filings. These disclosures do not necessarily address the need of capital market participants, and we are not in favour of prescribing a format. We strongly recommend that companies and investors contribute to the development of industry-specific standards, for example by SASB, along with piloting the integrated reporting framework.

In our view, one ought to take a broader view of ESG disclosures beyond annual filings, and exchanges should encourage their listed entities to provide regular updates and continuous disclosures, including on governance and sustainability matters.

As mentioned earlier, it is not necessarily the exchanges who review the (financial) disclosures of listed companies. In line with our firm belief that sustainability and governance disclosures should be treated as part and parcel of financial disclosures, responsibility for reviewing the former should be assigned to the entity/market regulator tasked also with reviewing the latter.

In summary,

- We are strongly supportive of the drive to improve disclosures by listed companies in order to create a more comprehensive picture of company

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Securities Exchange is classified as a 'strong SRO model'. The Hong Kong Stock Exchange (HKEx) meanwhile
is a 'limited SRO model', since the Hong Kong Securities and Futures Commission is the principal regulator
but HKEx does nonetheless have some "front-line" SRO duties, including control of listings functions.

[2] The WFE now groups its members into five categories: listed companies, mutual associations, private companies, demutualised, and 'other' (including government, or quasi-government owned). As of November 2011, almost half of WFE members were listed entities.

performance that encompasses sustainability and governance aspects, and believe that exchanges have a very important role to play.

- Any such disclosure requirement should be formulated within the context of integrated reporting whereby companies present a concise value creation story, encompassing sustainability and governance factors. Therefore, we do not support the notion of mandating standalone sustainability disclosures.
- We suggest a common disclosure requirement that exchanges should adopt and promote in a manner suited to their own legal and regulatory set-up. Such a requirement should focus on bringing governance and sustainability issues into strategy discussions and mandatory reporting on a 'comply or explain' basis.
- Translating the above to your specific consultation questions, we do not support M2 but believe that M1 and M3 have the right intention. However, the way they are currently formulated, we find them too prescriptive to support them as such, and would strongly prefer alternative wording as set out above.

If you would like to discuss any of the above points, please do not hesitate to contact Kerrie Waring, ICGN's Acting Head of Secretariat, by phone at +44 207 612 7079 or by email at kerrie.waring@icgn.org. We look forward to the outcomes of this consultation.

Yours sincerely,

Claudia Kruse
Chairman, ICGN Integrated Business Reporting Committee

Michelle Edkins
Chairman of the ICGN Board of Governors

C c: ICGN Board Members
ICGN Integrated Business Reporting Committee

Appendix 1

Q1: Are there any strong reasons not to mandate the materiality discussion?

We consider it most effective to require companies, on a mandatory 'comply or explain' basis, to report on which, and how, they have identified, assessed and considered governance and sustainability issues in strategy discussions and decisions, which will be most conducive to that goal. This implies that companies will have to report on their approach to materiality. However, we consider that M1 is overly prescriptive and in the proposed format more suited for inclusion in separate sustainability disclosures rather than in an integrated report.

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

We would expect companies to consider issues that are and/or can be material in the short-, medium- and long-term. Beyond that time period, disclosures will be too lengthy and of little value to capital market participants.

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

See Q1. In some jurisdiction the MD&A or the Chairman's Letter provides a good place for a strategic discussion on governance and sustainability issues.

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.

In the experience of investors, GRI-based disclosures cannot sufficiently inform investors' views of a company and investment decisions. If any specific disclosure guidance was mandated it should be capital markets-led. However, neither of this is yet available. In general, we do not favour any overly prescriptive requirement.

In our view, there is greater value, at this stage, in asking companies, on a mandatory 'comply or explain' basis, to report on which, and how, they have identified, assessed and considered governance and sustainability issues in strategy discussions and decisions.

Companies, and investors, should actively contribute to initiatives such as SASB to develop sector-specific KPIs, and make use of existing KPI-based frameworks such as the one developed for example, by EFFAS.

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

See above.

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

See Q1 and Q4.

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

We expect companies to review their ESG-related disclosures on an ongoing basis, and at least annually. Given our comments on Q3 and Q4 we do not see the need for exchanges to review the GRI Index.

Q8: Should the exchanges, rather than the issuers', determine the format and location of the sustainability reporting?

No. In our view company disclosures on sustainability issues should fit in with their general approach to reporting, and companies should be given flexibility to determine their own format and location.

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

We broadly agree that these topics are of importance and expect that companies would cover them in their deliberations. However, it is important to highlight that these factors may not impact or be relevant for all sectors (i.e. they may not be cross-cutting.)

We are unclear as to how the term performance data is used. We expect companies to disclose their performance against time-bound goals and objectives.

"*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*."

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

In principle, we support the notion that reporting timeframes for financial and other disclosures should be aligned. However, we refer to our introductory comment concerning the feasibility of a globally applicable listing standard in light of the different regulatory and legal set-ups.

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

We cannot think of any situation where this would be the case.

Q12: Is an assurance requirement appropriate for all markets?

No. There is not yet sufficient capability of assurance providers and data collection in all but a few companies, is not yet at a stage that it could be assured. In line with the disclosure requirement that we have proposed above, we wish to add that increased and better quality narrative ESG disclosures are also of great value. Mandatory assurance at this point in time would stifle ESG disclosures, particularly in less advanced markets. Although, In the long term, it is desirable.

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

This depends on individual markets.

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

No.

Q15: Should small companies be granted additional time, and if so, how much is sufficient?

Any requirement should be brought into synchronisation with phased approaches taken to disclosure requirements on e.g. financials, as practiced in a given market.

Q16: Is the proposed timeframe reasonable (two years followed by every three years)? If not, what timeframe do you recommend for reviewing disclosures?

As we set out in our introductory remarks, exchanges are not necessarily the entity that reviews disclosures by listed companies, and governance and sustainability disclosures should be reviewed in conjunction with financial disclosures. Hence, the most important requirement is to include governance and sustainability disclosures in the review cycle of financial disclosures, whoever is the reviewing body.

We see great value in the reviewing bodies and/or the stock exchanges reporting on a bi-annual basis more broadly, about trends on ESG disclosure in their markets, in order to identify good practices and share these across capital markets through for example, the WFE.

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

The entity/market regulator that monitors financial reporting should also assess sustainability-related disclosures. This is vital in order to avoid discrepancies between disclosures and drive consistency. It is also in line with the evolution of corporate reporting towards integrated reporting.

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

Actively involve investors and other capital market participants in the monitoring process.

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