

WFE ESG Guidance and Metrics

Revised June 2018



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Introduction

At the end of 2015, the World Federation of Exchanges (WFE) published its [Exchange Guidance and Metrics](#). The document was intended to supplement the Sustainable Stock Exchange's [Model Guidance](#) and to identify specific metrics exchanges may wish to encourage companies to disclose as baseline indicators. The intention was not to duplicate existing disclosure frameworks or standards but rather to provide a reference point for exchanges looking to introduce, improve or require ESG reporting in their markets. The objective is to contribute to improving the availability and quality of ESG disclosure.

In identifying the 33 baseline metrics that formed the basis of the original document, the WFE considered:

- Exchange guidance (or requirements) already enacted around the world—either by the exchanges themselves, or local market regulators, or reporting frameworks that were most prevalent in a variety of markets;
- The ubiquity of certain indicators across multiple reporting frameworks;
- Investor opinions about the correlation of certain metrics to overall company health, strategic advantage, and/or expected returns as well as increased investor demand for comparable indicators across companies and jurisdictions;
- The research, guidance, and counsel of key investor advocacy groups, most notably Ceres; and
- A reasonable analysis of available resources at companies of all sizes to track and report on these issues.

Purpose of document

Since the publication of the SSE Model Guidance and the WFE's Guidance and Metrics, over 35 stock exchanges around the world have issued or committed to issuing ESG reporting guidance for their listed companies. This document seeks to update the WFE's 2015 Guidance and Metrics by:

- Recognising new sustainability developments, such as the UN [Sustainable Development Goals](#) and the [Task Force on Climate Related Financial Disclosures \(TCFD\) Recommendations](#);
- Incorporating feedback received from investor groups on the initial WFE Guidance; and
- Adjusting the metrics based on the implementation experience in certain markets.

This has resulted in the following revisions to the 2015 Guidance and Metrics:

- The specification that investors are the target audience for listed company ESG disclosures and that exchanges' primary focus should therefore be on ensuring the availability of investor-relevant, decision-useful information.
- The provision of greater guidance around report preparation including:
 - responsibility and oversight;
 - the need to provide clear links between reported information and business value; and
 - how to approach materiality and useful definitions of materiality.
- The adjustment of the metrics, including:
 - the renaming of certain metrics to align with the TCFD Recommendations;
 - the removal of certain metrics that tended to not be reported, or investors indicated these were less important;

- the provision of guidance around certain metrics to specify a reporting methodology; and
- the introduction of new metrics related to oversight/management of climate-related issues.

Scope and structure of document

The WFE member exchanges acknowledge their mandate to provide orderly and fair markets that enable proper price discovery. They also recognise as part of this, the need to ensure the markets they operate are sustainable, transparent, and inclusive. As investors increasingly understand the impact that environmental, social and governance (ESG) factors may have on the ability of companies to create value over the long-term, exchanges are encouraging their listed companies to consider and disclose relevant ESG information.

Given the exchange mandate, and the emphasis on disclosure by listed issuers, this Guidance identifies investors as the key stakeholder group for exchange-led ESG disclosure and focuses on ensuring the availability of baseline investor-relevant, decision-useful information. The WFE however acknowledges the importance of environmental and social issues more broadly and supports calls for greater transparency by all companies (listed and unlisted) about their impact in these areas.¹

The Guidance and Metrics is structured in the following way: the first section (contained in this document) focuses on more qualitative aspects of report preparation, including oversight, link to business value, determination of materiality, and quality and frequency of reporting. The second section (contained in an excel workbook entitled “WFE ESG Metrics June 2018”) sets out the proposed metrics.² The headings in the qualitative section are a combination of the SSE Model Guidance and the TCFD Recommendations and should be read in conjunction with those. The content of this document is not intended to be prescriptive, nor comprehensive but rather to provide a summary of emergent best practice and investor preference. Exchanges should view this as a baseline document to apply in their market as they see fit.

Finally, while beyond the specific scope of this document, the WFE encourages exchanges to position disclosure as the result of a process, rather than an end in itself. This may entail helping listed issuers to understand that effective, high-quality, investor-relevant reporting starts with companies identifying the issues that are relevant to their organisation, the potential impact of these and how the company intends to manage them (policies, processes, systems).

¹ A useful reference source in this regard is the UN Global Compact and GRI reporting guidance on the UN Sustainable Development Goals

² The workbook includes the original metrics with the proposed revisions, as well as the updated metrics.

WFE ESG Guidance: Guidelines for report preparation

Investors are the primary stakeholder group for disclosure by listed issuers and companies should ensure that their ESG reporting provides investor-relevant, decision-useful information. The following guidelines aim to assist issuers in achieving this objective.

Governance / Responsibility and Oversight

Investors increasingly wish to understand the oversight and management of ESG-related risks and opportunities within the firm. This allows them to assess how the organisation thinks about these issues and to what extent they are incorporated into the organisation's overall approach to business.

At an oversight level, this often translates into a desire to see board-level oversight of the relevant issues. Reporting issuers may therefore wish to include a board statement setting out:

- How the organisation has determined which issues are material for monitoring, management and reporting purposes and what time frames these determinations apply to;
- The stakeholders the organisation considers to be significant;
- How the board and/or board committees (e.g., audit, risk, or other committees) are informed about ESG-related issues;
- How these are embedded in the organisation's strategy, including risk management policies, budgeting, etc.; and
- How the board reviews progress against goals and targets.

Clarity of purpose/clear link to business value

Investors are not interested solely in disclosure of ESG data, but want to see that reporting firms understand which specific ESG issues present risks and opportunities for the firm. Thus, reporting should not be for the sake of reporting alone. Rather, issuers should articulate which ESG issues they are concerned with, and how the issues they have identified translate into possible value creation/destruction over the long-run.

Building on the TCFD recommendations, this should include showing the possible impact of selected ESG issues on:

- Products and services
- Supply chain and/or value chain
- Investment in research and development
- Operations (including types of operations and location of facilities)

Materiality

It is beyond the scope of this document to define materiality for issuers listed on WFE member exchanges. Materiality is often locally determined and different investors may have different perspectives on what they would consider to be material. As indicated above, it is clear however that investors wish to understand:

- How the firm determines materiality and who was involved in determining which issues are material;
- Which issues the firm believes are material;
- How the company has decided that these are material (process, timeframe, relevant legal framework, etc); and

- How the identified issues are integrated into corporate strategy and what impact they could have on value creation.

If exchanges wish to provide specific guidance on materiality in the absence of a local regulated definition, they may refer to some of the below definitions:

Definitions of materiality

- The [International Accounting Standards Board](#) defines ‘material’ information as that which, if omitted, misstated or obscured, could influence the economic decisions of readers relying on the financial statements.
- The [International Integrated Reporting Council \(IIRC\)](#) suggests an issue is material if it is relevant (is likely to have an impact on value creation) and is sufficiently important in terms of its known or potential effect on value creation with reference to magnitude of the matter’s effect and, likelihood of occurrence.
- For purposes of reporting, the [Global Reporting Initiative \(GRI\)](#) suggests the report should cover aspects that:
 - Reflect the organisation’s significant economic, environmental and social impacts; or
 - Substantively influence the assessments and decisions of stakeholders.
- The [Sustainability Accounting Standards Board \(SASB\)](#) uses the US Supreme Court definition of materiality namely, information is material if there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”

Quality and frequency of reporting

When looking at ESG disclosure, investors are demanding information that is consistent, clear and comparable. When reporting, issuers should have regard to:

- Accuracy of data reported.
- Comparability and consistency of the information, at least within the firm. Ideally, firms should report according to one of the internationally recognised reporting standards (such as GRI, the IIRC, or SASB), adapted to the local context as needed.
- Timeliness: as firms should be reporting material information, which speaks to value creation, reporting should, if not integrated into the firm’s annual report, align with the annual reporting cycle.
- External assurance: firms may wish to consider having their ESG reporting assured by an independent third party.