WORLD FEDERATION OF EXCHANGES

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Response: CDSB Social Disclosure Framework

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Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over $95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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CDSB Social Disclosure Framework

The WFE welcomes the general direction of this disclosure framework regarding corporate reporting on social issues. Whilst ESG has become a mainstream topic, there are certain aspects (ie the E and the G) which have received greater prominence to date. Recent years, however, have seen a growth in the importance of social issues to companies, investors and regulators. COVID-19 has forced[1] long-standing social issues such as inadequate health and safety processes, wealth inequality, poor diversity practices and human rights abuses to the fore and highlighted the need for change. As we begin to 'build back better' major challenges remain around (i) how complex it can be to capture social issues; (ii) the difficulties in defining and quantifying social factors in comparison to environmental and governance factors; and (iii) how a lack of consistency and comparability in approaches risks impeding the drive towards more socially sustainable business activity and investing[2].

To this end, we support the role of the CDSB in developing guidance and in providing direction to assist companies in making decision-useful disclosures for investors. Importantly, the CDSB's approach to corporate disclosure is aligned with the TCFD and the IFRS and we support its focus on reporting issues that are material to companies and the promotion of disclosures that are comprehensive, rigorous and well-connected across sustainability and financial information.

The financial materiality of social issues and an examination of the risks and opportunities they pose is of growing interest to both users and preparers of accounts. Our members note that there is a clear link between environmental and social impacts that businesses can have—for example deforestation in the Amazon can displace local indigenous people. Just as climate was an immaterial risk several years ago, we can expect social issues to become just as important a consideration to issuers and investors in the coming years. Unfortunately, the financial or market implications of environmental impacts often appear to have a higher priority[3]. By building on its well-established disclosure frameworks for climate and environmental reporting, the CDSB acknowledges social, climate and environmental reporting are interconnected and cannot be reported on in isolation from one another.

Given the multitude of internationally recognized frameworks on social issues such as human rights, it may be helpful to map out the overlap between the CDSB Principles in accordance with those internationally recognized standards, as this would be helpful in preventing overlap and ensuring a common understanding and implementation of the principles. It is important that the CDSB is able to draw all of the existing frameworks together so that there are not multiple, nor conflicting, disparate sets of jurisdictional requirements. If the market has no appropriate regime around which to coalesce, there are risks of fragmentation and higher-than necessary compliance costs. We further encourage the CDSB to ensure that this framework is built into the forthcoming ISSB standards, noting that it will focus on broader issuers outside of climate in due course.

We have the following observations to make on the "Core Concepts" which underpin the basis for integrating social information into the CDSB Reporting Framework:

The expanded Scope of the CDSB Framework

We generally support the extended scope of the CDSB Framework. The WFE's Annual Sustainability Survey demonstrated that whilst governance continues to be an area where exchanges are focusing their sustainability resources, the pandemic has really increased the momentum around social issues. It is important that high quality information on material social issues is available to investors otherwise it can impede effective capital allocation

[1] The WFE's 2020 Annual Sustainability Survey highlighted this point.
[2] Accelerating the "S" in ESG: A Roadmap for Global Progress on Social Standards- IRSG
[3] Amplifying the "S" in ESG: Investor Myth Buster- White & Case

decisions. Issuers are equally exposed to risks[4] and don't have the ability to fulfil opportunities presented by material social issues. All of this frustrates long-term and sustainable value creation.
We are increasingly seeing regulation being used as a tool to drive better behaviour on social issues. Below are a few examples of these initiatives:

- At the EU level, compliance with minimum social safeguards under the EU Taxonomy are a condition for economic conditions to qualify as environmentally sustainable. The International Platform on Sustainable Finance is also consulting on measures for a social taxonomy.
- The Sustainable Finance Disclosure Regulation will require asset managers to explain how they address any human rights abuses in any funds they label as sustainable.
- The Non-Financial Reporting Directive (soon to be superseded by the Corporate Sustainability Reporting Directive) requires issuers to disclose information on environmental matters; social matters and treatment of employees; respect for human rights; and anti-corruption and bribery.
- The European Commission is considering a proposal on Sustainable Corporate Governance, which will introduce mandatory due diligence requirements across the supply chain.
- Focusing on a specific aspect of human rights, since 2017, the UK has focused on requiring issuers to publish Modern Slavery due diligence statements on their websites.
- The US Securities and Exchange Commission have recently approved new listing rules related to board diversity and disclosure and the Financial Conduct Authority have consulted on diversity requirements for premium listed entities.

In addition to this, international organizations have set out principles and expectations for companies around the world on social matters[5]. It is clear that we are not lacking regulations or international norms to report against. However, they serve different purposes, and their varying coverage of social factors can create obstacles for shareholders in being able to compare company performance and hold issuers to account. Alongside these regulations and international norms, we have seen a proliferation in the market-led voluntary frameworks and standards that are designed to enhance the management and disclosure of social issues.

This variety of standards can also frustrate reporting efforts given their different users, reporting channels and ambitions for information[6]. Whilst they individually serve the needs of different users, they can raise issues of potential overlap and duplication—particularly where companies are using a combination of standards. It is unfortunate that to date there has been little attempt to mainstream these issues in the same way that we have seen innovation around climate-related reporting under the Task force for Climate-related Financial Disclosure (TCFD). Going forward, the CDSB framework should attempt to reconcile these differences. Ideally one set of principles, metrics and standards would be beneficial in reducing existing challenges.

Stakeholder Engagement
We recognize and welcome the emphasis on stakeholder engagement within this revised draft. We agree that a company's approach to identifying and addressing social impacts should, wherever possible, be informed by engagement with affected stakeholders or their legitimate representatives. Whilst we agree with the proposed breakdown into four categories of affected stakeholder groups[7], we feel there could be further guidance on how companies should seek to undertake engagement. For example, the UK Corporate Governance Code was recently

[4] This could include, for example, human rights abuses which may go unaccounted for within supply chains.
[5] For example, the UN Guiding Principles on Business and Human Rights set out how human rights risks should be governed and managed. The OCED Guidelines for Multinational Enterprises lay out expectations for responsible business practices and encourage reporting on company performance relating to: human rights, employment and industrial relations.
[6] For example, the Global Reporting Initiative focusses on a multi-stakeholder approach whilst the SASB standards and metrics are designed to cater for the information needs of investors.
[7] The organisations workforce, the workforce of entities in the organisation's upstream and downstream value chain, community members that can be affected by the organisation, and consumers.

updated to include a greater focus on this area, and proposed the following methods of engagement with the workforce:

- A director appointed to the workforce;
- A formal workforce advisory panel;
- A designated non-executive director.

A recent report published by the UK Financial Reporting Council in conjunction with the University of London demonstrated that FTSE350 annual reports appear to downplay the importance of stakeholder engagement. Engagement should help organizations in identifying the full range of actual and potential social risks, including those that could rise to the level of materiality. So focusing on the substance of engagement as opposed to approaching it as a tick-box exercise is crucial.

A few examples in the last year have demonstrated the importance of stakeholder engagement. Boohoo, a UK retailer, was awarded an investment-grade ESG rating despite unethical labour rights abuses being discovered within its supply chain. Meanwhile, a number of high-profile institutional investors failed to participate in the Initial Public Offering (IPO) of Deliveroo over concerns that workers were not being paid the living wage. Better disclosure on stakeholder engagement, as well as more effective investor stewardship, could have helped to bring these concerns to light in a timely manner. We therefore believe there is merit in the CDSB framework specifying methods of engagement and asking for disclosure on activities undertaken by companies and the outcomes achieved.

Material Social Information by Default: Living Wages

The CDSB note that while there are various facets to inequality, a "particularly central contributor, which frequently affects other forms of inequality and is directly tied to business practices is the payment of living wages". The framework notes that this issue should be treated as material and reported in all cases. We believe that this is an issue which most companies are already reporting on, with some jurisdictions requiring mandatory reporting in the case of pay differentials[8]. Having existing, publicly disclosed data available should help alleviate challenges to investors around the lack of consistency and comparability in reporting.

As part of its Roadmap for Global Progress on Social Standards, the International Regulatory Strategy Group[9] (IRSG) propose that a single social principle should be championed to drive momentum on social issues to give it the same profile and visibility as climate-related reporting. To this end, the IRSG recommends modern slavery due its "pervasiveness (it is an issue that affects economies of all sizes and at all stages of development), its pernicious nature, and the existence of significant existing work on which to draw from". There is scope to draw on the work that the OECD have done in implementing the UN Guiding Principles, and as discussed above, some countries have introduced specific legislation on Modern Slavery due diligence assessments.

Given the current limitations in capturing data on social issues, it may be helpful to begin by encouraging reporting on more than one issue which is "material by default". In this case, this should include the living wage and modern slavery. As the IRSG suggest, a social framework such as the CDSB's could also benefit from public support from a respected flagbearer.

[8] For example, the UK has required reporting on the Gender Pay Gap since 2017.

[9] A practitioner-led body comprising leading UK-based figures from the financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.