Sustainability Working Group (SWG)

Exchanges and ESG Initiatives – SWG Report and Survey

23 July 2015

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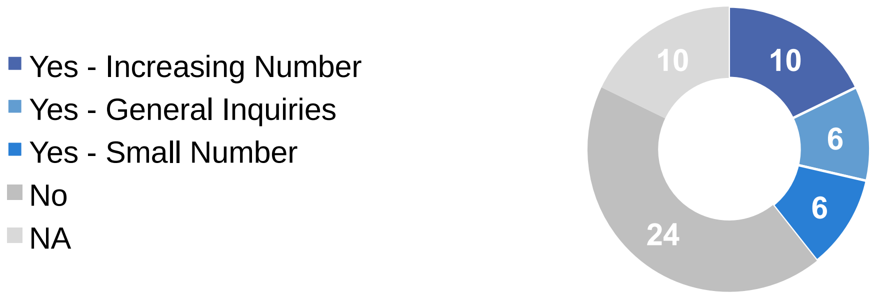
1. Introduction

Sustainability or ‘ESG’ (Environmental, Social and Corporate Governance) concerns are becoming increasingly widespread among global capital market participants. Such issues are clearly starting to have an important impact on investors’ decisions. Exchanges, situated as they are - at the sharp edge of change due to their critical infrastructure role for the financing of the real economy, can help promote responsible business and investment behaviour and so facilitate sustainable development and transparent ESG policies and practices.

Exchanges in recent years have received a number of questions from investors relating to their sustainability practices. Thirty nine percent[1] (22) of the respondents to the World Federation of Exchanges Sustainability Working Group Survey (SWG Survey) said they had been approach regarding sustainability and ESG issues, with 10 saying that the number of inquiries on these topics has been rising (see Figure 1).

Figure 1: Does your exchange receive specific queries from investors regarding sustainability reports of listed companies or sustainability-related indices or financial products?



Source: World Federation of Exchanges – SWG Survey

Exchanges need to respond to this heightened investor awareness of sustainability issues by ensuring the stability, fairness and transparency of their markets and at the same time nurture investor confidence by the provision of information. A number of possible ways have been suggested through which exchanges can contribute to addressing sustainability and ESG issues (UNCTAD 2014).

1. Conditional on regional and/or regulatory requirements, exchanges can encourage the disclosure of ESG information by the companies listed on their markets, whether on a mandatory or voluntary basis.

[1] 56 responses were received from WFE membership in regards to the World Federation of Exchanges - Sustainability Working Group Survey.

2. Exchanges or regulators can directly gather and/or compile ESG metrics submitted by listed companies.

3. Sustainability-themed financial products can provide incentives to issuers and create opportunities for capital allocation to ESG leaders or appropriate projects.

4. As companies themselves, individual exchanges should themselves consider producing a sustainability report.

5. Participation in sustainability-related initiatives and events, relevant engagements with stakeholders and collaboration with sustainability experts in their markets.

This report sets the scene for the further work which the WFE Sustainability Working Group (SWG) intends to undertake by examining the extent to which WFE members already engage with sustainability initiatives or not and what the prospects are for closer involvement by the exchanges with such projects in the near future.

This report takes into account the diverse economic and regulatory environments in which exchanges operate and takes into account that a ‘one-size-fits-all’ approach will neither be possible nor effective. In spite of this, most exchanges are keen on pushing for better ESG practices in their markets while recognising the importance of protecting these markets from inappropriate or overly burdensome regulation.

Most of the data and graphs cited in this report have been taken from a recent survey of WFE member exchanges prepared by the SWG. Selective reference is made to reports and literature on the issue, although this does not reflect the full range of the literature that now exists on the topic.

This report will be split into three sections: an introduction and consideration of the importance of ESG issues for exchanges; an analysis of survey responses and concluding remarks and potential further steps.

2. Why are ESG issues so important to exchanges?

The increased focus on sustainability and ESG issues clearly has its roots in now widespread perceptions of long-term climate change, increasing economic instability and poverty (UNCTAD, 2014). The prevalence of such views have persuaded some investors to make environmental impact, social sustainability and corporate governance key criteria in guiding their decisions. This has led to increased pressure on firms to make a habit of disclosing such information. Research by CK Capital highlights seven of the most broadly disclosed sustainability-performance metrics: energy, greenhouse gas (GHG) emissions, water, waste, lost-time due to injuries, payroll costs and employee turnover rates (Capital, 2012). That said, there is a range of additional factors across the ESG spectrum.

Sustainability and good stewardship are essential to continuing prosperity in the years to come. This is obvious in terms of environmental sustainability, natural resources are finite and will need to be carefully managed.

Social and governance issues also affect corporate sustainability and other potential investments. Issues such as fair pay and employee turnover have a significant impact on the social environment in which potential investments are situated. The social environment can be degraded if pay structures are inequitable and/or employee turnover is high and this can undermine the operational stability of companies and so the potential for growth and more inclusive wealth creation.

For the above reasons, and many more not discussed here, there has been increased demand for sustainability disclosure (UNCTAD, 2014). Disclosure allows for more informed decision making on investments and facilitates more accurate assessment of long-term investment potential. Research suggests a positive relationship between ESG disclosure and a company's share price (Z. Zuraidaa, M. Nurul Houqeb & T. van Zijlc;, 2014). Despite these increasingly clear bottom-line benefits of disclosure, one study shows "only 3% of the world's large companies … and 0.04% of the world's small companies" provide complete first generation sustainability disclosure to their stakeholders (Capital, 2013).

Exchanges are well-placed to encourage sustainability and ESG disclosure. Stock exchanges, although diverse in terms of their legal status and revenue streams (Research, 2012), provide the infrastructure for markets and as such are, in most instances, able to influence the behaviour of market participants via rule-making, implementation of national legislation, policies and regulations (Research, 2012) or by the use of other tools and incentives as may be appropriate.

The following report is based on a survey of the World Federation of Exchanges (WFE) members. The WFE has a membership of 64 exchanges of differing sizes and structure from around the globe. The results of the survey therefore cover a wide range of regulatory situations and highlight the breadth and diversity in the disclosure of sustainability and ESG metrics.

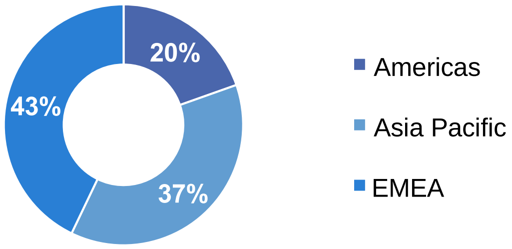
3. Results of the survey

This section is split into five parts: a general overview of responses; how to encourage ESG disclosure; sustainability products; initiatives and events and, to conclude, the feasibility of a sustainability report.

3.1 General Overview

Fifty six responses were received, representing 93% of WFE members[2].

Figure 2: Responses by Region



Source: World Federation of Exchanges – SWG Survey

The following exchanges responded:

Americas (11)	Asia – Pacific (21)	EMEA (24)
• Bermuda Stock Exchange • BM&FBOVESPA • Bolsa de Comercio de Buenos Aires • Bolsa de Comercio de Santiago • Bolsa de Valores de Colombia • Bolsa Mexicana de Valores • CBOE Holdings, Inc. • CME Group • Intercontinental Exchange, Inc. • Nasdaq • TMX Group	• Australian Securities Exchange • BSE Limited • Bursa Malaysia • China Financial Futures Exchange • Colombo Stock Exchange • GreTai Securities Market • HoChiMinh Stock Exchange • Hong Kong Exchanges and Clearing • Indonesia Stock Exchange • Japan Exchange Group • Korea Exchange • National Stock Exchange of India Limited • NZX Limited • Shanghai Securities Exchange	• Abu Dhabi Securities Exchange • Amman Stock Exchange • Athens Exchange • BME Spanish Exchange • Borsa Istanbul • Bourse de Luxembourg • Cyprus Stock Exchange • Deutsche Börse • Dubai Financial Market • Irish Stock Exchange • Johannesburg Stock Exchange • Kazakhstan Stock Exchange • Malta Stock Exchange • Moscow Exchange • Muscat Securities Exchange • Oslo Børs • Qatar Stock Exchange • Saudi Stock Exchange (Tadawul) • SIX Swiss Exchange

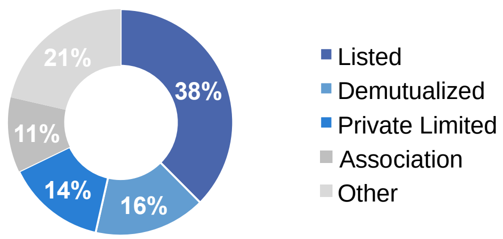
[2] When the survey was conducted in 2014, the World Federation of Exchanges had 60 member exchanges.

	• Shanghai Futures Exchange • Shenzhen Stock Exchange • Singapore Exchange • Stock Exchange of Thailand • Taiwan Futures Exchange (Taifex) • Taiwan Stock Exchange • Zhengzhou Commodity Exchange	• Stock Exchange of Mauritius • Tel-Aviv Stock Exchange • The Egyptian Exchange • The Nigerian Stock Exchange • Wiener Börse

Distribution by legal status:

Of the 56 respondents 21 (38%) were publically listed companies, 16% were demutualised entities and 14% private limited companies, mainly owned by their members.

Figure 3: Respondents by legal status



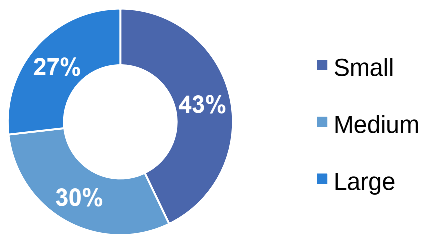
Source: World Federation of Exchanges – SWG Survey

Distribution by Size:

There was a relatively even distribution of respondents by size of exchange as defined by annual revenues. 43% of respondents were small exchanges, 30% were medium-sized and 27% were large exchanges. Size was determined by annual revenue distributions, using the following classification:

- Revenues<100million USD
- 100million USD<Revenues>500million USD
- 500 million USD<Revenues

Figure 4: Respondents by size of exchange

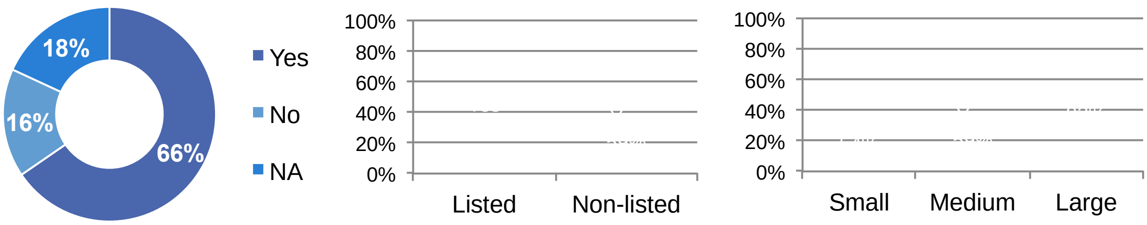


Source: World Federation of Exchanges – SWG Survey

3.2 Sustainability initiatives or events

Of the total 56 respondents, 37 (66%) said they had participated in an initiative or event prior to the survey. Listed and large exchanges were more likely to have participated in a sustainability initiative.

Figure 5: Has your exchange participated in sustainability initiatives or events?



Source: World Federation of Exchanges – SWG Survey

WFE members have been involved in a wide variety of ESG initiatives. The Global Compact Joint Initiative, the Sustainable Stock Exchanges (SSE) initiative and the WFE Sustainability Working Group were the most frequently cited. Twenty-one WFE member exchanges are presently part of the WFE Sustainability Working Group and 17 Exchanges are SSE Partners.

In addition to joining groups and committees, many exchanges mentioned hosting and participating in ESG-related educational events and developing ESG tools for their markets. Raising awareness by hosting educational for or developing tools to help listed companies discover best practices, etc. is also widespread. Several exchanges mentioned they were providing, sponsoring or participating in educational initiatives. Such initiatives are sometimes organised in collaboration with regulators and can be accompanied by Listed Companies Awards.

Below are just a few examples from the SWG Survey of events and initiatives that WFE members have been involved in:

- Latin-American Sustainable Investment Forum Conference with Sustainalytics, the Dutch Embassy and Deloitte - topics included responsible investment, sustainable indices, social risk, environmental and corporate governance analyses, sustainability and capital analyses;
- Climate Summit with the UNPRI and Integrated Reporting Roundtable Program;
- Participation in the International Forum on Sustainability;
- Annual ESG Investor Briefing;
- Support for an annual Sustainability Reporting Award;
- Developing an Environmental and Social Primer, the most recent version with the country's CPA, to help issuers understand the ESG landscape and the resources available to them;
- Market opens for ESG-related initiatives and education events to raise the profile among the issuer community;

- Support for sustainability rankings and workshops
- Responsible Investor Asia Conference and annual listed company award for companies promoting women's interests.

As evidenced by the list above, many of the exchanges are already acting as a kind of nexus between listed companies and market participants on the one hand and ESG experts. These events and tools, individualized for each exchange's market, help educate companies new to the ESG space and serve as vehicles to encourage, recognise and celebrate the efforts of many companies already active in the area.

Finally, a large number of exchanges have signed local or global social responsibility charters, such as UN Global Compact or UN PRI and have engaged in environmental protection projects in their communities, such as planting trees, organizing a charity event to encourage recycling and green and low-carbon lifestyles or participating in anti-desertification projects.

More generally, exchanges feel they have an important role to play in promoting and improving transparency on global capital markets. For example, Deutsche Börse Group has created a dedicated transparency standard – the "Prime Standard"[3] – which offers companies access to the capital market via a premium segment. These companies have to meet a higher international transparency requirement.

[3] The Prime Standard for shares is part of the EU-regulated market and provides access to companies which would like to attract international investors: in addition to the legal minimum requirements of the EU-regulated market, companies listed in this segment must also meet international transparency requirements. Admittance to the Prime Standard for shares is a prerequisite for joining the DAX®, MDAX®, TecDAX® and SDAX®. The Prime Standard for corporate bonds offers large and mid-cap companies which operate on an international basis the possibility to raise debt capital at Deutsche Börse. In order to do so, companies must meet increased transparency requirements before and after bond issuance.

Special Focus on the World Federation of Exchanges Sustainability Working Group

The Sustainability Working Group (SWG) was created in March 2014. Recognising that exchanges are a legitimate engine for promoting improvements in sustainability and ESG, the group is best positioned to create best practice standards in this area, and to suggest sustainability recommendations to the WFE membership as a whole. In its first months, the SWG has managed to achieve many of its goals. First and foremost, the formation of a forum for the discussion of sustainability and ESG concerns that is private, candid, and specific to the needs of stock exchanges. Participation in this group is large with more than 50 participants across 11 time zones, representing the 21 member exchanges. Current members are:

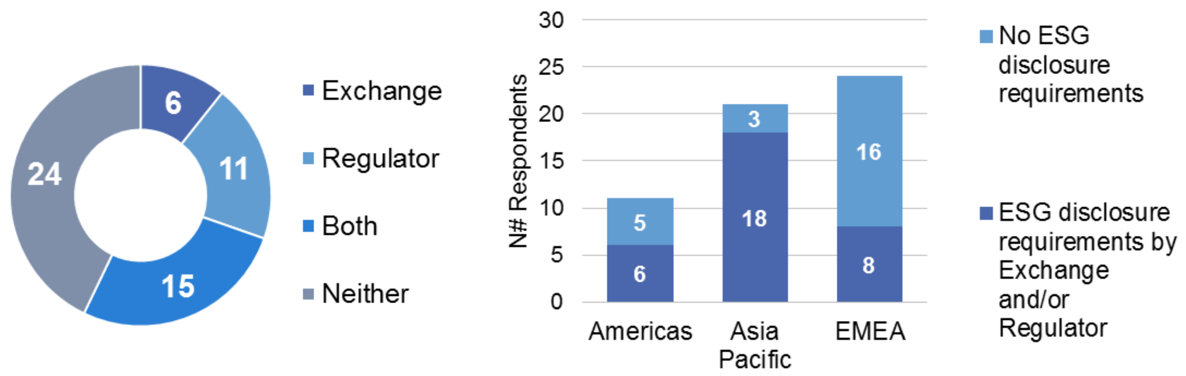
- BM&FBOVESPA S.A.
- Bolsa de Valores de Colombia
- Borsa İstanbul
- BSE India Limited
- Bursa Malaysia
- CBOE Holdings, Inc.
- CME Group
- Deutsche Börse AG
- Intercontinental Exchange, Inc.
- Japan Exchange Group, Inc.
- Johannesburg Stock Exchange
- Korea Exchange
- Nasdaq
- National Stock Exchange of India Limited
- Shenzhen Stock Exchange
- Singapore Exchange
- Stock Exchange of Mauritius
- Stock Exchange of Thailand
- Taiwan Stock Exchange Corp.
- The Egyptian Exchange
- TMX Group Inc.

In addition to the SWG, a number of the members are also members of other high-profile campaigns on sustainability and ESG disclosure. This makes this an influential and dynamic working group, pushing for change on these key issues.

3.3 Encouraging ESG losure

The SWG Survey questioned participants on the level of ESG disclosure demanded of listed companies by exchanges or regulators. Fifty seven percent of respondents (32 out of 56) mentioned that listed companies on their markets were required to disclose some ESG information beyond corporate governance (see Figure 6). More specifically, WFE members were asked if the exchange or local regulator required any kind of ESG disclosure (beyond corporate governance), whether mandatory or voluntary, by listed companies. Among the 32 members who mentioned having requirements in place, nearly half of them (15) said that both the regulator and the exchange required ESG disclosure in some form. There was some regional disparity here, though, as is seen in the figure below.

Figure 6: Organisations which require ESG disclosure (beyond corporate governance) by listed company

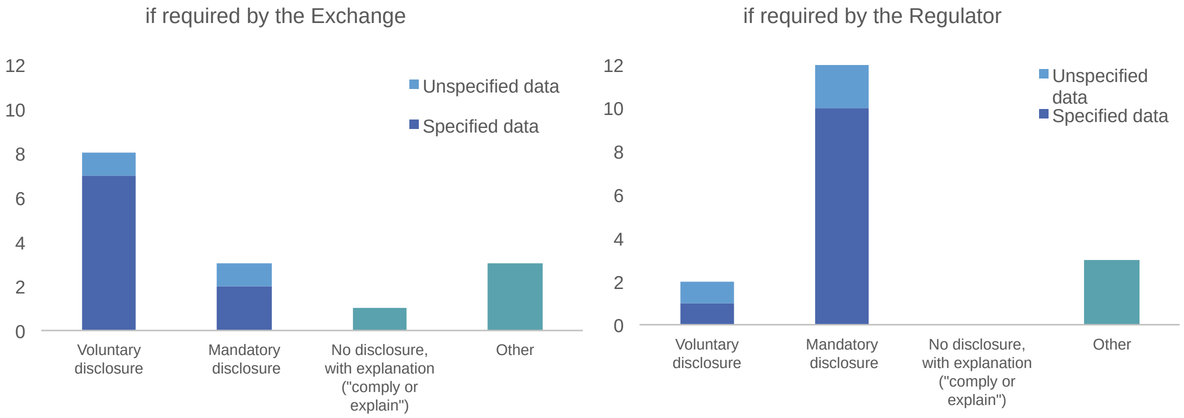


Source: World Federation of Exchanges – SWG Survey

Exchanges were also asked how listed companies comply with the ESG disclosure requirement of exchanges. Eight exchanges had voluntary disclosure policies in place, while three exchanges required mandatory disclosure (see Figure 7).

By contrast, for ESG disclosure required by a regulator, 12 out of 17 respondents replied that *mandatory disclosure* was required for listed companies. There were fewer voluntary disclosure requirements, with 14% of regulators' requirements being voluntary, compared to 73% of exchanges' requirements.

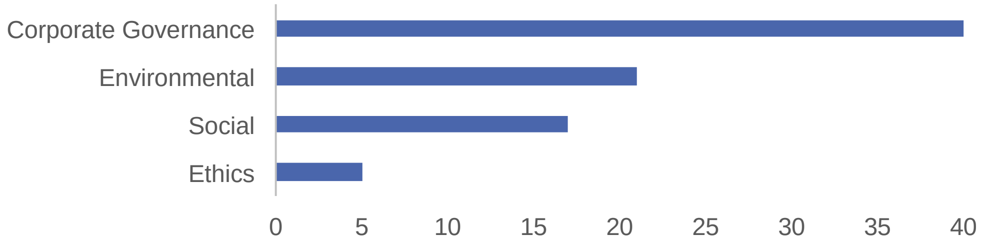
Figure 7: How listed companies comply with ESG disclosure required by exchanges or regulators



Source: World Federation of Exchanges – SWG Survey

The type of data or information most frequently requested for disclosure, beyond corporate governance, related to environmental issues, with 20 exchanges requiring some form of disclosure. Nevertheless, most sustainability disclosure requirements, when they go beyond corporate governance, are covering the three ESG dimensions i.e. Environmental, Social and Corporate Governance. 18 exchanges said that in their jurisdiction, listed companies were only required to disclose corporate governance information.

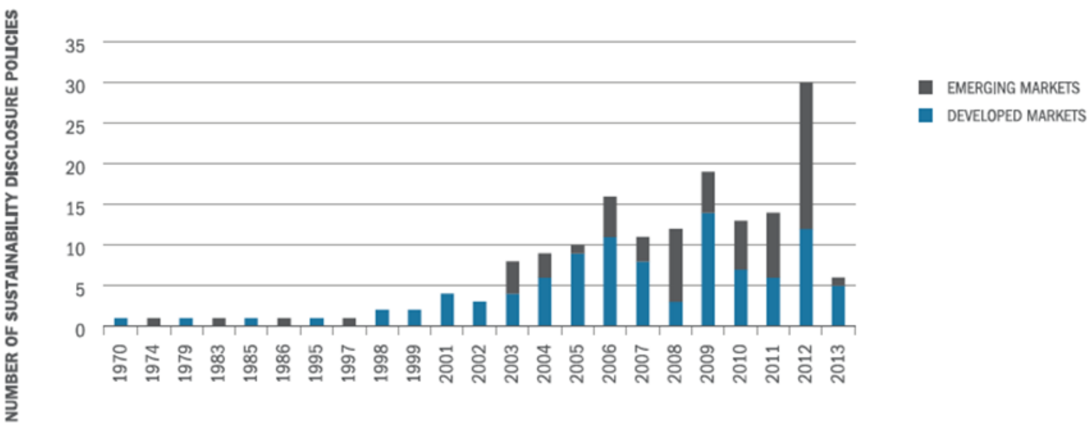
Figure 8: Types of Information required for disclosure



Source: World Federation of Exchanges – SWG Survey

Further to this, according to a report by CK Capital: “The number of disclosure policies increased significantly in the early and mid-2000s, reaching a peak of 30 policies in 2012. In total, 100 of the 167 policies (60%) were enacted in developed countries, with the remainder (67 of 167, or 40%) implemented in emerging market countries” (Capital, 2012). The chart below demonstrates the continued growth in sustainability disclosure policies.

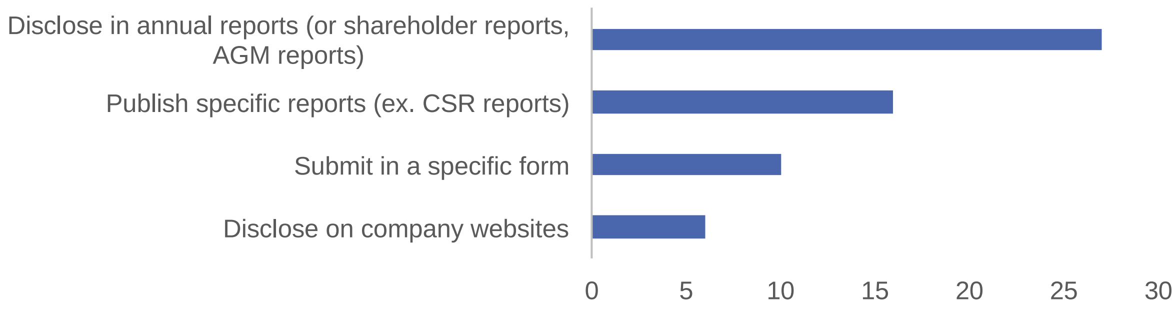
Figure 13: Sustainability disclosure policies by year and country classification



Source: CK Capital

When asked how listed companies provide ESG data, answers varied. 27 respondents said listed companies provided the data using annual reports, with 16 providing the data in a specific report and an additional 10 using a form system. Six respondents said the data was provided through the company’s website. Disclosure on company websites is generally used in addition to annual reports and/or specific reports.

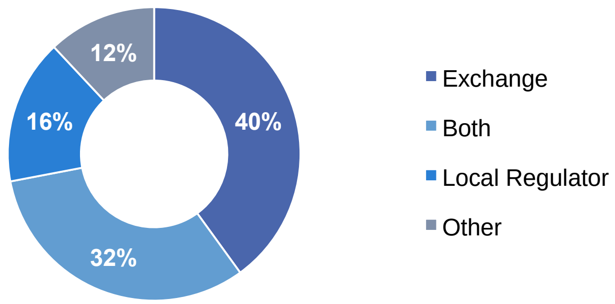
Figure 9: How do listed companies provide ESG data?



Source: World Federation of Exchanges – SWG Survey

Moreover, when asked whether the exchange or local regulator gather or maintain records of ESG metrics, 22 exchanges reported that either or both the regulator and the exchange recorded or collected this data from listed companies. Exchanges appear to be in charge of gathering and/or archiving ESG data more often than regulators. As such they have a key role to play in the harmonization and publication of ESG data from companies listed on their markets.

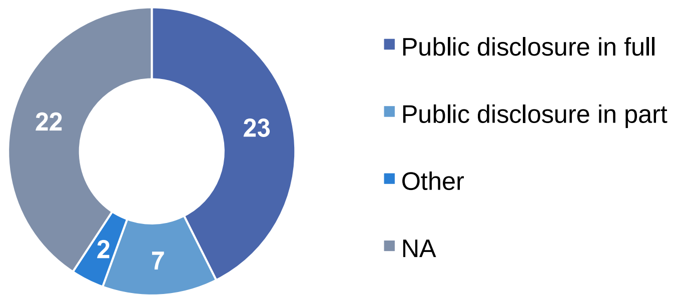
Figure 10: Does the exchange or local regulator directly gather and/or maintain records of ESG metrics submitted by listed companies?



Source: World Federation of Exchanges – SWG Survey

When asked to what extent listed companies are expected to make their ESG disclosures public, 30 respondents said that disclosures are expected to be public in part or in full, with the majority being expected to make their ESG and Sustainability disclosure in full (see Figure 11). No exchange said listed companies are expected to make private disclosure to an exchange or regulatory body.

Figure 11: What extent are listed companies expected to make their ESG disclosures public?



Source: World Federation of Exchanges – SWG Survey

Deutsche Börse's information portal for sustainable securities is an example of a publicly accessible online portal where the exchange gathers and disseminates ESG Data. The portal[4] provides market participants with ESG data for around 1,800 companies from all over the world as well as specific Carbon Disclosure Project data and potentially allows companies to be selected based on ESG criteria or on the weighting of these criteria.

The disclosure of non-financial information has evolved over the past two decades in different ways. Issues such as transparency and materiality are becoming a new paradigm for businesses and exchanges are exploring different ways of incentivising disclosure.

For example, initiatives such as BM&FBOVESPA's "Report or Explain for Sustainability or Integrated Reports" (See Special focus on the Brazilian Experience below), as well as the start of the disclosure of answers from companies belonging to BM&FBOVESPA's ISE Index are useful tools currently available inside BM&FBOVESPA to deal with these new challenges. Since 2012, the Corporate Sustainability Index (ISE) has requested companies to take part in the authorization process for dissemination of the questionnaire responses. Over the years, the number of companies in the ISE portfolio has grown as well as the number of companies that authorize the publication of their answers. Currently, in the 2015 Portfolio, 85% of the total of the new portfolio have disclosed their responses.

Similarly, the Johannesburg Stock Exchange's listing requirement that companies must report annually on the extent to which they apply the principles of the Third King Code on Governance, or to explain any deviations from the Code, is an example of a combination of mandatory and voluntary approaches that have been very effective in encouraging greater transparency and enabling investor engagement on company disclosures. In terms of voluntary disclosure, the JSE SRI Index moved to assessing only publicly available data from 2013 to enable greater data accessibility for investors.

ESG disclosure can also be encouraged with Best Practice Guides provided by Exchanges. For example, Deutsche Börse Group released a Best Practice Guide[5] in September 2013 for the integration of sustainability-related information in a company's capital market communication. It was considered necessary to encourage and support small and medium-sized enterprises in integrating sustainability-related information in their capital market communication. The Guide reinforces the idea that ESG information goes beyond a company's financial figures to illuminate other facets of a particular company and is therefore significant to its well-founded evaluation and reliable assessment of the risk/return profile of an investment. The guidelines were developed by market participants for market participants and therefore take a capital market perspective. Adherence to the Guide is voluntary; it contains no specifications on topics/indicators because the selection and weighting of particular ESG issues by the management provides important information to investors/analysts.

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[4] http://www.boerse-frankfurt.de/en/sustainable+securites

[5] http://xetra.com/xetra/dispatch/en/binary/gdb_content_pool/imported_files/public_files/10_downloads/33_going_being_public/10_products/Communicating_sustainibility/Communicating_sustainibility.pdf

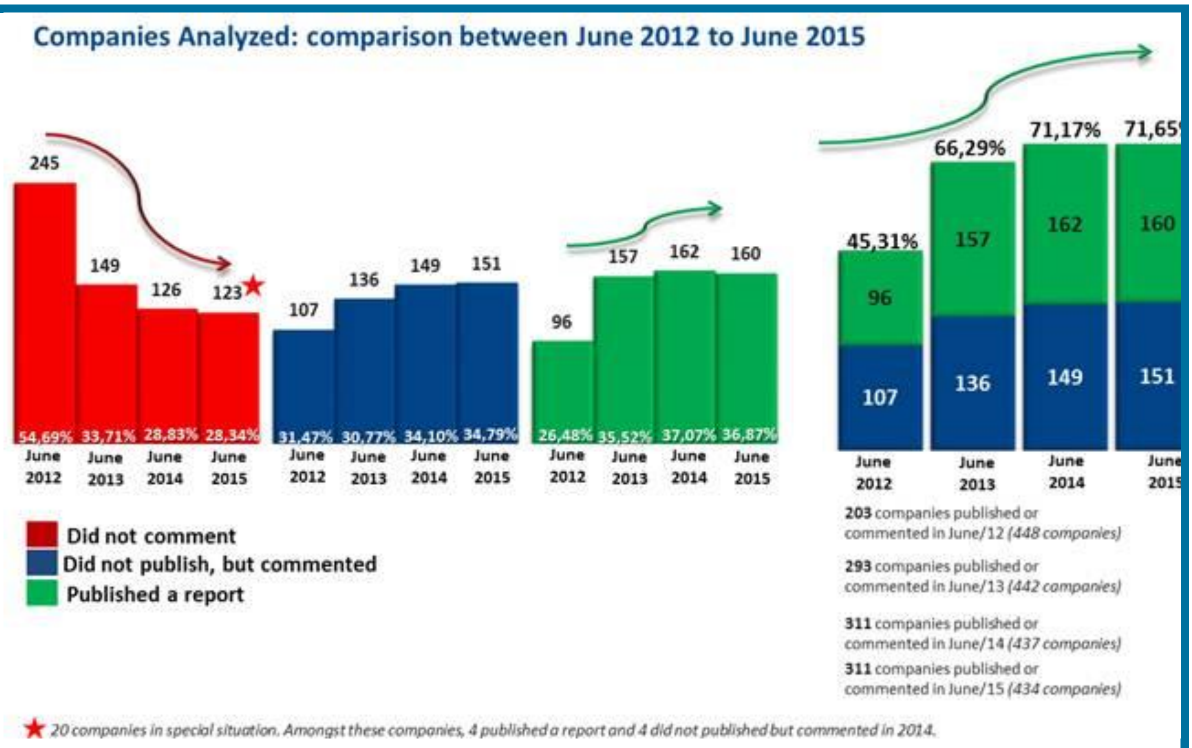
Special Focus on the Brazilian Experience

The Brazilian example is a good illustration of how successful an exchange can be in promoting ESG disclosure on a voluntary basis. Indeed, Brazil has been very successful in its transparency initiatives and voluntary disclosure of non-financial information. BM&FBOVESPA's approach is to make recommendations and encourage the voluntary adoption of best practices, while monitoring the listed companies and providing all the support and tools they require, always focusing on the medium term. At BM&FBOVESPA, listed companies are not required to pay any fee if they do not publish sustainability reports and there is no obligation or enforcement mechanism to force Brazilian companies to publish such information.

Aiming to provide investors and other interested parties quick access to ESG information, BM&FBOVESPA in 2012 launched a recommendation entitled "Report or Explain for Sustainability or Integrated Reports" which encouraged all listed companies to file a document promoting accountability of listed companies in the capital market. If the listed company wants, it can say whether it publishes a regular sustainability report, or explain why it doesn't. After that, BM&FBOVESPA is responsible for collecting available information and compiling a list to publish to the market.

CVM, the Brazilian Securities and Exchange Commission, has established a mandatory rule for E&S disclosure in 2009 and created an item in the Reference Form, which made disclosure on environmental policy and environmental costs mandatory for companies listed on the Brazilian stock exchange. From 2016 on, companies must comply with the new topics of the Reference Form and must, in relation to sustainability practices, make public (i) if the company discloses sustainability practices; (ii) the methodology adopted; (iii) if this information is audited or revised by independent entities; and (iv) the website where this information can be found. The new rule also includes an item of risk factors related to sustainability issues.

In line with that, the fourth annual update of the "Report or Explain for Sustainability or Integrated Reports" database shows how this issue has remained on the agenda of listed companies. These companies continue to publish non-financial information or explain why not, 311 firms are adhering to the initiative, representing 71.65% of all of the companies listed on the exchange (see graph 1 below). The 2015 database contains the titles of the companies that had responded through the "Formulário de Referência" (Reference Form) by May 31.



This year, “Report or Explain” mapped the methodologies adopted by companies to prepare their reports. According to the table below, 81 companies already prepare their reports according to the GRI G4 methodology (one year before the G4 had definitively substituted the previous versions of the GRI); of these companies, 9 companies published the Integrated Reporting. In addition, this year “Report or Explain” counted the titles used by the companies for the document. Results show that a wide variety of titles is still being adopted: the majority of the companies (65) use “Sustainability Report”, followed by “Annual Report” (43) and “Annual and Sustainability Report” (26).

Methodology of the report	Number of companies
GRI G4	72
Without information	41
GRI G3.1	34
GRI G4 and IIRC	9
GRI	3
COP (Global Compact)	1
Total	**160**

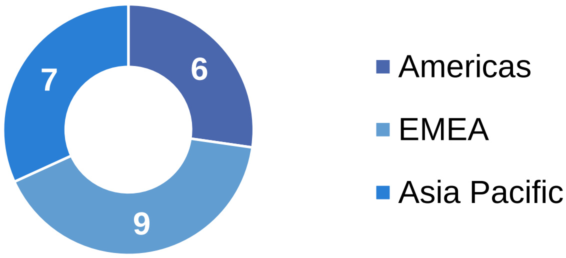
Name of the report	Number of companies
Sustainability Report	65
Annual Report	43
Annual and Sustainability Report	26
Social and Environmental Responsibility Report	7
Social Report	6
Integrated Reporting	5
Social and Environmental Report	2
Integrated Report	1
Others	5
Total	**160**

The complete list of the “Report or Explain for Sustainability or Integrated Reports” is available on BM&FBOVESPA website:
http://www.bmfbovespa.com.br/en-us/bmfbovespa/sustainability/at-companies/report-or-explain.aspx?Idioma=en-us

3.4 Exchanges and Sustainability and ESG index creation

Respondents disclosed that at least 22 different sustainability- and ESG-related indices have been created by members of the WFE. Four new indices were launched in 2014 by WFE members. There are also a number of indices planned for the near future. Five exchanges mentioned they are working on launching an ESG Index. The region with the most sustainability-related indices is EMEA, with 41% of sustainability-linked indices found in this region.

Figure 12: Number of sustainability or ESG indices by region



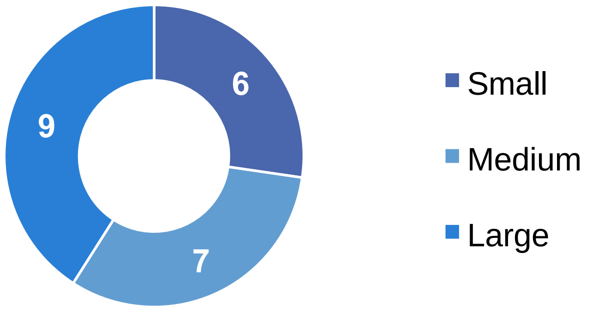
Source: World Federation of Exchanges – SWG Survey

Organization	Index Name	Launch Date	Number of companies
CME Group	Dow Jones Sustainability indices	1999	~1,000
Johannesburg Stock Exchange	JSE SRI Index	2004	82
BM&FBOVESPA	Corporate Sustainability Index (ISE)	2005	40
Shenzhen Stock Exchange	Taida environmental index	2007	40
BME Spanish Exchanges	FTSE4Good IBEX	2008	
Intercontinental Exchange, Inc.	NYSE Bloomberg Clean Energy Indices, Other Indices	2008	Various
Indonesia Stock Exchange	SRI - KEHATI Index	2009	25 Stocks
Korea Exchange	SRI Index	2009	70
The Egyptian Exchange	S&P/EGX ESG	2010	30
Nasdaq	Green Family	2010	50
Taiwan Stock Exchange	Taiwan RAFI® EMP 99 Index / Taiwan HC 100 Index	2010 & 2014	99 / 100
Bolsa Mexicana de Valores	IPC Sustentable	2011	28
Deutsche Börse AG	STOXX Global ESG Leaders Indices	2011	339
Japan Exchange Group	S&P/TOPIX 150 Carbon Efficient Index	2011	150
BSE Limited	S&P BSE Carbonex and S&P BSE Greenex	2012	
Shanghai Stock Exchange	SSE Environmental Protection Industry Index	2012	40
Bourse de Luxembourg	Lux RI Fund Index	2013	20
Qatar Stock Exchange	QE Al Rayan Islamic Index	2013	18
Borsa Istanbul	BIST Sustainability Index	2014	15
TMX Group	S&P/TSX 60 ESG Index	2014	60
SIX Swiss Exchange	SXI Sustainability 25 Index	2014	25
Wiener Börse	VÖNIX and CEERIUS	NA	NA

Source: World Federation of Exchanges – SWG Survey

All types of exchanges, whatever their size is in terms of revenues, are producing ESG or Sustainability indices. Indeed, 27% of ESG indices are produced by small exchanges.

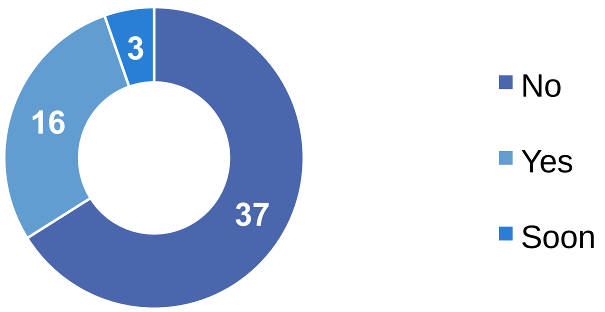
Figure 13: Number of ESG or Sustainability indices by size of exchange



Source: World Federation of Exchanges – SWG Survey

When asked whether the exchange currently offers any other ESG- or sustainability-related financial products, 19 respondents said they did or that they had plans to do so in the near future. Among the ESG or sustainability products quoted, the most frequent were ETFs based on ESG indices or other SRI investment funds and issued products.

Figure 14: Does your exchange currently offer any other ESG or sustainability-related financial products?



Source: World Federation of Exchanges – SWG Survey

A number of academic studies[6] have considered the economic effects of corporate sustainability performance. Most of them have highlighted a positive influence of sustainability performance on economic performance. However the direction of the causality is not clear and other empirical papers such as Ulrich Oberndorfer, Marcus Wagner and Andreas Ziegler (2011)[7] also implied that stock markets may penalize firms selected for inclusion in sustainability stock indices.

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[6] Hart and Ahuja (1996), Waddock and Graves (1997), Konar and Cohen (2001), King and Lenox (2001), Thomas (2001), Wagner et al. (2002), Rennings et al. (2003), Filbeck and Gorman (2004)

[7] "Does the Stock Market Value Inclusion in a Sustainability Stock Index?" - Ulrich Oberndorfer, Marcus Wagner and Andreas Ziegler (2011)

Overall, it seems that there is a lack of empirical / academic information providing an absolute view on the impact of good ESG practices on share price performance.

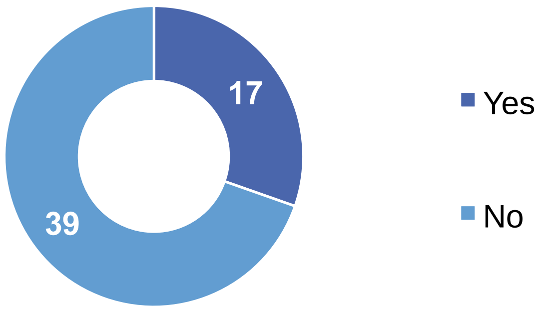
In 2014, the STOXX® Europe Sustainability index had a better performance (+6.2%) than the benchmark index STOXX® Europe 600 (+4.4%) while in the United States, the DJSI U.S. also performed better (+10.8%) than the Dow Jones Industrial Average (+7.5%).

3.5 Exchanges Producing Sustainability Reports

Many, if not most, exchanges produce their own sustainability. 30% of WFE members currently produce a sustainability report, with 65% using a GRI[8] or GRI-influenced framework. The survey asked whether the respondent produced its own sustainability report. 17 respondents replied that they did, while 39 said they did not.

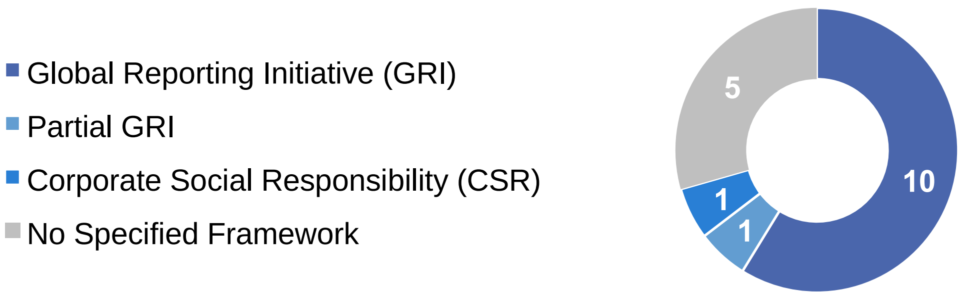
Of the 17 respondents that did produce their own sustainability report, 11 based their report on the GRI framework; one used the Corporate Social Responsibility framework whilst 5 others did not use any specific framework.

Figure 15: Is your exchange producing a sustainability report?



Source: World Federation of Exchanges – SWG Survey

Figure 16: If so, does it follow a specific reporting framework?



Source: World Federation of Exchanges – SWG Survey

8 The GRI framework stands for Global Reporting Initiative and provides the basis for sustainability reporting by organisations. It is designed to create a standardised framework for sustainability reporting, therefore improving organisational transparency and increasing credibility. The framework sets out principles for the disclosure of economic, environmental and social performance and impacts.

4. Conclusion and Next Steps

It is clear from our analysis of the survey results that many exchanges are eager to learn more about—and play a role in the promotion of—sustainability and transparency on ESG issues. Most stock exchanges, well beyond the examples provided in this report, could testify to the shifts that are being experienced in their various markets in terms of the growing awareness of the sustainability imperative and the need for greater availability of information. The WFE and its member exchanges stand ready to respond.

Despite this affirmation, a lot of work remains to be done. Over the past year the SWG has sought to forge an industry-wide consensus on the role exchanges should play in this regard. Given there is a large degree of support for such a consensus, we should now go further. It is our task to advise on the range of approaches that could be pursued at industry level. WFE SWG members will work together to present the broader WFE membership with such an industry-level view and intends to play catalysing role in the implementation which should follow.

After publication of this paper, the SWG will turn its attention to a detailed ESG recommendation. We expect to present this document to the WFE board, and the entire WFE membership, this year. This recommendation will consist of 4 parts:

1. An “exchange-level” materiality assessment of ESG data;
2. An overview of the expected business impacts of exchange involvement in this space;
3. A list (with explanations) of core ESG metrics essential to understanding a listed company’s strategy, structure, and sustainability; and
4. Other methods of achieving more sustainable capital markets, including indices, financial products, and data transparency.

The recommendation will not, by design, make any recommendations regarding how the data should be acquired and whether this should be an obligatory requirement on companies. The latter will be left to the discretion of individual exchanges and their regulators. Exchanges will not be obliged to enact a program or plan based on WFE’s recommendation; it merely serves as a benchmark of best practice, should they wish to follow it.

Finally, the SWG and its leadership intends to make a transition to an active reference body for WFE members. We will assist exchanges directly (and privately) on specific market or regulatory issues related to ESG. If necessary, we will provide talking points, undertake original research, or facilitate conversations between investors, exchanges, and other stakeholders. These stakeholders include both large investment firms, agenda-based investors (SRI), and retail investors.

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