Revealing the full picture

Your guide to ESG reporting

Guidance for issuers on the integration of ESG into investor reporting and communication
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Introduction

Once upon a time, environmental, social and governance (ESG) factors were a niche interest among asset owners, asset managers, banks, brokers and investment consultants. No longer. Investors now routinely analyse information on ESG performance alongside other financial and strategic information in order to gain a better understanding of companies’ future prospects.

Issuers’ ESG performance on subjects such as resource use, human rights, health and safety, corruption and transparency is increasingly used to draw conclusions about the quality of their management, identify their exposure to business risks and assess their ability to leverage business opportunities. Therefore it is becoming more and more important for companies and other issuers to communicate with investors clearly and accurately on these aspects of their performance.

The intention of this Guidance is to help companies gain a clear understanding of what ESG information they should provide and how they should go about providing it. This is a task for which London Stock Exchange Group, as a leading international markets infrastructure provider connected to issuers, sell side and investors is ideally placed.

About London Stock Exchange Group

Sitting at a critical junction between issuers and investors, London Stock Exchange Group plays an essential role in supporting global sustainable economic growth.

With more than 2,700 companies listed on our markets, we seek to recognise and encourage dynamic companies that will drive long-term economic prosperity, helping them improve the sustainability of their business and enhance their ability to raise capital for growth and employment creation. At the same time, through FTSE Russell, our benchmarking and analytics business, we seek to support investors in making informed and sustainable decisions; providing them with the information and tools they need to assess issuers’ strategy, performance and governance.

60%

of assets managed for EU investors incorporate sustainable investment strategies

“Our Group plays an essential role in supporting sustainable economic development through a number of our businesses around the world. This ESG guide is an important new tool to encourage and assist issuers in providing ESG information that investors can use to inform their engagement with companies and their investment decisions. I hope this report helps improve transparency and disclosure in this increasingly important area.”

Who this Guidance is for

Institutional investors are interested in ESG issues for all of the entities they invest in, irrespective of whether they are large or small, equities or bonds, listed or unlisted, across all industries. And in our view, whatever the entity in question, the characteristics of high quality reporting and effective communication with investors are always broadly the same.

Therefore we believe that you will find this Guidance equally relevant to your organisation whether it is a large publicly listed issuer with a long track record of reporting, a smaller company, a privately held business, or a debt issuer.

How investors use ESG information is changing

In recent years, the views of investors in this area have matured significantly. ESG-related information has moved from a ‘peripheral’ to a ‘core’ part of investment analysis, across all asset classes.

Signatories to the United Nations-supported Principles for Responsible Investment (PRI) now represent $60tn in assets under management, up from $22tn in 2010. Almost all leading institutional investors of UK and Italian listed companies are PRI signatories. Recent research from the Global Sustainable Investment Alliance (GSIA) suggests that sustainable investing strategies now represent more than 60% of professionally managed assets for EU investors.

The need for issuers to respond to this demand for information is clear. By disclosing the information that investors want, issuers can provide reassurance that they are effectively managing business risks and identifying opportunities. There is growing evidence that issuers that publish high-quality information on the longer-term implications of ESG for their business are more likely to attract and retain long-term investors. These issuers can also reduce the cost of capital and increase their ability to raise new capital to finance sustainable projects.

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The aims of this Guidance are to:

— make companies more aware of the importance of providing high-quality ESG information, and engaging investors on sustainability-related issues;
— stimulate interest in the innovation opportunities opened by this new economic paradigm;
— help issuers and investors to navigate the complex landscape of ESG reporting;
— enable richer data flows and dialogue on ESG issues between issuers and investors;
— support the consolidation of sound global reporting standards; and
— enable investors to make better informed investment decisions.

$60tn$
Revealing the full picture
Towards deeper understanding between issuers and investors

Is ‘ESG’ the same as ‘sustainability’ and ‘corporate responsibility’?

Many companies use ‘sustainability’, ‘corporate responsibility’ or ‘corporate social responsibility’ to refer to strategies or programmes related to environmental, social or governance (ESG) activities. We make no particular recommendation concerning which term to use.

For the purpose of this Guidance, LSEG has chosen to use the term ‘ESG’ as it has become a commonly-used investment term. Other terms for this type of ESG reporting can include ‘non-financial’ and ‘extra-financial’ reporting.

We have a fiduciary duty towards our members and we are committed to protecting retirement savings from any potential investment risk within a long-term horizon. The best way to do this is to take not only financial and economic factors but also ESG performance into consideration.”

Maurizio Agazzi
Direttore Generale, Fondo Pensione Cometa

Towards deeper understanding between issuers and investors

In publishing this ESG Reporting Guidance, our aim is to help enable your company to effectively navigate the reporting landscape of today and tomorrow.

“ESG reporting is not just for larger companies. This is about all issuers, regardless of size, reporting relevant and material information to investors so that they can make better informed investment decisions.”

Mark Zinkula
CEO, Legal & General Investment Management

You don’t have to be big to be an ESG reporter

The ESG dimension is not something only larger companies need to concern themselves with. When a small or mid-sized issuer understands the value of ESG data and reporting, investors’ ability to see the full picture of its performance and prospects is enhanced just as much.

London Stock Exchange Group (LSEG) is the global market of choice for such smaller companies. Over 1,000 of them are quoted on AIM in the UK and Italy, more than 460 belong to our ELITE programme for dynamic private companies; and we also enable the issuance of corporate bonds by smaller companies.

The Guidance is intended to help both companies that have a long history of ESG reporting and those that are less experienced in it.

ESG data and information can be provided by a company to a wide range of stakeholders. This Guidance is specifically focused on the dialogue and information flows between issuers and investors.

In dealing with good practice in voluntary reporting to investors, the Guidance is in line with the UN-backed Sustainable Stock Exchanges initiative model guidance for exchanges. We believe that it is time to move beyond the debate around mandatory versus voluntary reporting. Issuers should now focus on innovation and relevance in the information they provide to investors – and ESG is part of that picture.
ESG reporting priorities

We have identified eight priorities for ESG reporting.

1. Strategic relevance
   What is the relevance of ESG issues to business strategy and business models?
   Page 8

2. Investor materiality
   What do investors mean by materiality?
   Page 12

3. Investment grade data
   What are the essential characteristics of ESG data?
   Page 18

4. Global frameworks
   What are the most important ESG reporting standards?
   Page 22

5. Reporting formats
   How should ESG data be reported?
   Page 28

6. Regulation and investor communication
   How can companies navigate regulations and communicate effectively?
   Page 32

7. Green Revenue reporting
   How can issuers get recognition for green products and services?
   Page 36

8. Debt finance
   What should debt issuers report and what are the emerging standards here?
   Page 40
Investors want to understand how issuers are responding to long-term and macroeconomic trends such as climate, demographic and technological change as well as political developments. A number of the world’s largest investors are allocating capital to companies that are well equipped to benefit from the transition to the green economy, and wish to protect their portfolios against downside environmental, social and governance (ESG) risks.

As an issuer, you should explain the relevance of ESG factors to your business model and strategy. You should make clear how your company is positioning itself, either to benefit from these factors or to manage and mitigate the risks associated with them.

Issuers should also explain how they intend to access the new opportunities and revenue streams generated by green and socially beneficial products and services.

01 Strategic relevance

What is the relevance of ESG issues to business strategy and business models?
GREEN ECONOMY EXPLAINED

Over the last 300 years there have been a number of economic cycles as new industries have emerged and revolutionised economies both nationally and globally. Previous cycles have been linked to the introduction of the steam engine, electricity, mass automation, and recently information technology and computing. A number of economists now suggest that we are rapidly moving into the next cycle of economic change linked to industrial changes to overcome climate change, environmental erosion and resource depletion. The Paris Agreement that entered into force in November 2016, marked an important turning point. It aims to keep a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Achieving its goals by meeting the signatories’ nationally determined contributions (NDCs) requires the growth of new products and new ‘green’ industrial sectors in areas including renewable energy, energy efficiency, waste processing and recycling. The green economy encompasses these sectors and services, and companies that demonstrate their contribution to the green economy are attracting investment.

How ESG issues can impact business models and strategies

The ESG issues and trends that can have a powerful impact on business models are varied. Some possible examples include:

— a confectionery company that sources cocoa from West Africa explaining their readiness for increased levels of drought;
— an integrated oil and gas business explaining how carbon costs and changing energy demands linked to carbon intensity would impact their reserve portfolio and how future pricing scenarios link into their exploration and production strategy; and
— a professional services outsourcing firm outlining the increasing international demand for highly skilled staff and explaining their approach to motivating, retaining and developing their workforce in order to reduce high turnover rates of skilled staff.

“Sustainability factors, such as climate change or demography, impact companies’ operating environments. It is therefore critical that companies provide a clear strategic view on the likely impact of such trends or factors on their business models. This will allow investors to understand how they are positioned, and provide confidence that they are resilient and can where possible exploit opportunities from a changing environment.”

Steve J. Berexa
Global CIO Equity and Global Head of Research,
Allianz Global Investors

It is important for any company to be able to explain how its core business models and strategies may be impacted by ESG trends, and how it is seeking to position itself either to benefit from them or manage and mitigate risks associated with them. This provides the context for ESG reporting and allows investors to assess how well prepared the company is strategically for changes in its operating environment.

A number of the world’s largest investors are allocating additional capital to companies that have higher green revenue exposure or are better equipped to fulfil sustainable goals.

Demonstrating resilience as well as readiness to transition to a sustainable and green economy is relevant for issuers across a number of industries and sectors. This means looking beyond the risks to new opportunities and revenue streams generated by green and socially beneficial products and services. These can drive value for the organisation and provide social and environmental solutions.

Integrating both financial and non-financial performance requires leadership and support from the Board and senior management. They play a central role in integrating sustainability into the business strategy, overseeing implementation across the business and communicating to investors. At a working level in larger companies, investor relations, finance functions and CSR or sustainability divisions will need to align to ensure the quality and consistency of information reported.

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To understand a company’s long-term prospects, investors will focus on those issues that they believe to be most relevant – or ‘material’ – to any particular business. However, different investors inevitably have different views on what they see as material.

Issuers should explain which ESG issues they see as most relevant or material to their business. They should explain how ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, licence to operate, legal action or stakeholder relationships. They should then explain how these impacts may affect business strategy and financial and operational performance.

When presenting this information to investors, it is important to understand what information and data your investors are looking for. This should include ensuring you are informed about what your industry peers globally are reporting on.
How to identify material ESG themes

There is no standard template for a successful materiality assessment and issuers need to find the approach that is appropriate for their organisation. There are a number of considerations that can help companies identify what is relevant to their business and what the critical issues are to report on:

1. **Align with what international standards recommend and peer companies report.** This facilitates comparability for investors globally.

2. **Use tools at your disposal.** ESG research and index providers have specific criteria and identified material themes for different companies and industrial sectors. FTSE Russell, a London Stock Exchange Group business, has a well-developed model which may be helpful in this regard. See more on pages 50 and 51.

3. **Explicitly link ESG performance, business strategy and financial and operational performance.**

‘MATERIALITY’ DEFINED

The International Accounting Standards Board defines ‘material’ information as that which could, if omitted or misstated, influence the economic decisions of readers relying on the financial statements. The UK FRC’s ‘Clear & Concise’ guidance to narrative reporting states that ‘information is material if its omission or misrepresentation could influence the economic decisions shareholders take on the basis of the annual report as a whole’.

Example

**Index membership:** FTSE 100
**ICB subsector:** Recreational Services

A FTSE 100 company in the travel and leisure sector conducts a materiality assessment every two years. This allows the business to update its understanding of the issues that influence stakeholder (including investor) perceptions and decision-making, and to respond effectively to sustainability-related opportunities and risks.

Its materiality assessment process involves:

— re-evaluating the previous assessment;
— reviewing relevant standards;
— engaging with internal and external stakeholders;
— benchmarking the strategy against industry and broader corporate best-practice; and
— reviewing operational impacts and sustainability trends.

The full list of issues is plotted on a matrix based on significance to the business and relative concern to stakeholders.

**Index membership:** FTSE Small Cap
**ICB subsector:** Software

A small-cap software business has a strong reliance on employees, reflected in its vision: ‘To enable outstanding people to create digital solutions that have a positive impact on people’s lives.’ Noting that employee retention is a key risk, the company includes data on its staff attrition rate and its ‘Best Companies to Work For’ rating in its KPIs.

“One size does not fit all when it comes to ESG data. Although there is a need for consistency, there is also a need to focus on investor materiality to ensure that the data being reported is of relevance to investors.”

James Bevan
CIO, CCLA Investment Management
1. CLIMATE CHANGE

The investment case
Investors often want to understand whether businesses can:
— successfully respond to climate change risks;
— demonstrate future stability and resilience, and
— achieve cost savings through efficiencies and identify opportunities through green revenue opportunities.

The sources of investment risks
Key sources of investment risk and opportunity:
— regulatory standards, taxes, carbon pricing,
— market demand for high-carbon goods, products and services, and decreased capital availability for high carbon products;
— increased demand for low-carbon goods, products and services;
— increased capital availability for low-carbon services and technologies;
— weather-related disasters and resource risks.

Example indicators of practice and performance
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative</td>
<td>Three years of total energy consumption data</td>
<td>All</td>
</tr>
<tr>
<td>Qualitative</td>
<td>GHG emissions per megawatt-hour</td>
<td>Conventional Electricity</td>
</tr>
</tbody>
</table>
| Qualitative| Board oversight of climate change:
  a. Evidence of board or board committee oversight of the management of climate change risks
  b. Named position responsible at Board level                              | All           |

2. TAX TRANSPARENCY

The investment case
Investors often want to understand whether businesses can:
— not only comply with tax arrangements, but also have a strong governance process and transparency around their tax policy and tax arrangements, and
— demonstrate commitment to transparency by engaging with stakeholders and the public to communicate their contribution to local economies.

The sources of investment risks
Key sources of investment risk and opportunity:
— regulatory risks of increased transparency which could affect any tax arrangements, referred to by some as ‘loopholes’ which would mean reduced margins and profitability of particular companies. In some cases it may even affect a company’s ability to operate in certain markets, and
— reputational risks caused by community relations and human rights issues.

Example indicators of practice and performance
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Applicability</th>
</tr>
</thead>
</table>
| Qualitative| Stakeholder engagement to verify human rights risks and impacts:
  a. Evidence of consultation taking place
  b. Documented meetings or reports of how results have been used            | All           |
| Qualitative| How the issuer addresses freedom of expression through:
  a. Having a statement/policy
  b. Being a member of a relevant industry initiative such as the Global Network Initiative | All           |
| Qualitative| Total amount of corporate or group donations/community investments made to registered risk-finance organisations | All           |

3. HUMAN RIGHTS & COMMUNITY

The investment case
Investors want businesses that:
— engage in active discussion around human rights and community issues,
— demonstrate operational resilience and reputational resilience by addressing their impact on the communities in which they operate, and
— have strong and positive relationships with communities.

The sources of investment risks
Key sources of investment risk and opportunity:
— regulatory risks associated with reputational compliance;
— increased regulatory risks in supply chains;
— reputational risks caused by community relations and human rights issues; and
— operations increased chance of operational shut-downs or relocation of facilities, if the local community resists or protests the presence of the business.

Example indicators of practice and performance
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  a. Having a statement/policy
  b. Being a member of a relevant industry initiative such as the Global Network Initiative | All           |
| Qualitative| Total amount of corporate or group donations/community investments made to registered risk-finance organisations | All           |

The ‘Exposure’ factor in FTSE Russell’s ESG Ratings

The ESG Ratings service operated by FTSE Russell identifies 14 Themes, spread across three ESG pillars, most of which include several relevant quantitative indicators. Its methodology includes ‘Exposure’, which categorises the materiality of the 14 Themes for a particular company as High, Medium, Low or Not Applicable. Based on a matrix, this categorisation considers business involvement across different countries and sectors, utilises a variety of robust, globally-accepted frameworks, and can help issuers discern which ESG Themes they are exposed to, and how to begin reporting on them. This can form a starting point for the potential ESG themes an investor may regard as material for a company.
When using ESG data to inform capital allocation and investment decision-making, investors want ESG information to be complete, consistent, reliable, comparable and clear.

Issuers should ensure that the data they provide is accurate, timely, aligned with the issuer’s fiscal year and business ownership model (i.e., aligned boundaries), and based on consistent global standards to facilitate comparability.

Raw as well as normalised data should be provided, and your company should offer a balanced view that highlights both positives and negatives in its performance.

To provide investors with a greater degree of confidence in their reported data, some issuers choose to have their ESG data assured.
Characteristics of Investment grade data

Accuracy: deploy rigorous data collection systems

Boundaries: align to the fiscal year and business ownership model

Comparability and consistency: use consistent global standards to facilitate comparability

Data provision: provide raw as well as normalised data

Timeliness: provide data to coincide with the annual reporting cycle

External assurance: consider strengthening the credibility of data by having it assured

Balance: provide an objective view including both favourable and unfavourable information

Accuracy

As an issuer, you should have rigorous data collection systems and processes for ESG. When preparing data collection, you should pay particular attention to:

— **Internal systems:** assess the ability of existing systems (for example internal audit and risk data control verification systems) to support data collection.

— **Internal assurance:** establish strong internal assurance processes, including having these overseen by or under the governance of the board audit committee.

— **Data quality:** ensure that the quality of the data collected is understood and documented. Issuers should collate information on how the data was compiled, what assumptions were made, and whether any uncertainties or limitations apply to the data. Data sources must be appropriate, reliable and evidenced. Any data challenges should be identified and the implications assessed.

— **Data reliability:** this should be tested through internal reviews and conducted by internal audit. Issuers can also consider engaging third-party assurance providers; and

— **Assumptions:** report key assumptions that underpin reporting.

Boundaries

Issuers need to take account of two distinct sets of boundaries: timeframes and operations.

— **Timeframes:** ESG data should match your fiscal year and hence match the time period for the annual report. This allows investors to cross-use the two different data sets, for example normalising certain ESG data by revenues or staff numbers.

— **Operations:** ESG data should cover 100% of the issuing entity and apply the same principles as financial data. If your company has partial ownership of certain subsidiaries (perhaps without operational control), the data should be reported on a percentage ownership basis in order to accurately reflect the proportional exposure the company has to these businesses, unless national reporting rules have different requirements.

In situations where parts of the business were acquired or sold during the reporting period, data should be provided on both a consolidated and separate basis.

Comparability and consistency

In order to allow comparability between peers, it is important to use consistent global standards when reporting. Issuers should use indications and metrics that are widely used within their sector, aiming to gather data in line with common practice and to report in a similar manner to sector peers. Issuers should consider using standard denominators when normalising data. The methods used to collect and calculate data should remain consistent year-on-year. If data compilation methodologies or underlying assumptions change, issuers need to explain the challenges that have been made. Where these changes have had a significant effect on results, data for previous years should be recalculated using the new methodology or assumptions to enable comparison.

Data provision

Generally, investors will prefer to normalise ESG data themselves so that they can apply their models consistently across companies. They therefore expect issuers to provide raw as well as normalised data. However, issuers should be aware of ways they can support investors in using and interpreting the results.

— **Contextual data:** investors are interested in putting data into context. Companies can help by providing, in a readily accessible manner, measures of financial activity such as turnover, the countries and markets in which they operate, the number of staff and contractors and, where relevant, the quantity, weight or volume of product outputs.

— **Normalised data:** interpretation of progress around targets that are set on a normalised basis can be useful for investors. This should be provided alongside — not instead of — raw data, and

— **Explanation:** issuers should supplement quantitative data with narrative explaining the factors that have influenced performance, whether positively or negatively. Further, where there are core business differences or client segments that explain performance relative to peers, these should also be explained.

Timeliness

It is best practice to provide ESG data at the same time as the annual report and accounts are published, or as soon as possible afterwards. A company may need to communicate sooner when a significant incident or controversy has taken place, or has been alleged. In these situations, investors do not expect to wait for the next annual reporting cycle.

External assurance

As an issuer you may seek to strengthen the credibility of your ESG data through external assurance. This can be conducted through the same processes as financial reporting, using qualified auditors. We recommend that the levels, scope and process adopted for external assurance are clearly described in the report.

Balance

Issuers should provide an objective picture of their performance, presenting both favourable and unfavourable information clearly and in full to aid the reader’s understanding. Efforts to avoid or obscure certain information or aspects of performance will inevitably lead to questions from investors and may create an environment of mistrust.

Data on more difficult subjects should be set out alongside explanations and commentary. Where influenced by unfavourable occurrences or market conditions, a full explanation detailing organisational learning and changes resulting from the experience will reassure investors.

“We are active users of ESG data in our investment process. The quality of data provided by issuers has improved and we would like to see momentum continue and build. ESG data influences how we invest. We therefore need companies to report on ESG with the same level of diligence, controls and precision as they do for the data provided in their annual report and accounts.”

Trevor Green
Head of UK Equities, Aviva Investors

Index membership: FTSE 100
ICB subsector: Industrial & Office REITs
A FTSE 100 Real Estate Investment Trust (REIT) reports its ESG performance data online, and through its annual reporting. The business’ sustainability strategy prioritises job creation, efficient use of natural resources and sustainable design, and its data disclosure aligns with these focus areas, offering highlights, raw numbers and discussion around performance.

As environment and energy data is considered to be of particular importance, the business reports against frameworks published by the Climate Disclosure Standards Board (CDSB) and the European Public Real Estate Association (EPRA). These standards commit them to reporting emissions both in absolute terms and in a format that enables investors to compare their data with others in the sector.

The company also provides a dedicated PDF presenting its environmental and energy data on an absolute and like-for-like portfolio basis for its properties, with comparisons to previous years. They also offer an energy reporting methodology document that explains their approach, boundaries, scope, reporting period, targets and measures. This data is also included in the ‘Business Analysis’ section of their annual report, with accompanying discussion and trend data.
To anyone unfamiliar with ESG reporting, the volume of standards, frameworks and data requirements can seem overwhelming. Even for more experienced issuers, it can be a challenge to identify the indicators and standards which are most relevant to their investors.

While we are some way from a global consensus on reporting standards, the frameworks developed by the following organisations (in no specified order) are the ones most widely cited by investors: the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), the UN Global Compact, the CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board, and the FSB Task Force on Climate-Related Financial Disclosures.

FTSE Russell has consolidated indicators from different global standards and developed an Exposure framework. This identifies indicator applicability for different types of company based on industrial and geographic presence.
Consistent global frameworks provide an essential tool to allow investors to analyse and compare ESG risks across companies and sectors." — Rod Paris, CIO, Standard Life Investments

Example

Index membership: FTSE MIB
ICB subsector: Utilities

A utility group operating in Europe and Latin America has significant exposure to stakeholders whose support is critical to its license to operate. The company addresses this challenge by clearly identifying and disclosing both the most significant ESG issues and its stakeholder engagement process, and by rigorously organising its sustainability report around the ESG issues thus identified. The company’s progress on its sustainability plan is mapped against the Sustainable Development Goals throughout the report. The report is prepared in compliance with GRI G4 guidelines (“in accordance – core option”), with references to this standard clearly guiding the reader through the various sections. ESG information is externally verified through limited assurance by independent auditors.

The leading global ESG frameworks

CDP (formerly the Carbon Disclosure Project)
CDP collects standardised information from companies on climate change and the use of natural resources such as water and soft commodities.
www.cdp.net

Climate Disclosure Standards Board (CDSB)
The CDSB Framework helps companies explain how environmental matters affect their performance and show how they are addressing associated risks and opportunities to investors in annual or integrated reports.
www.cdsb.net

Global Reporting Initiative (GRI)
GRI Sustainability Reporting Standards are the most widely used standards for reporting on ESG impacts globally, and have been developed over many years through multi-stakeholder contributions. GRI Standards aim to meet the information needs of all stakeholders, and the modular structure supports both comprehensive reports and selected disclosures.
www.globalreporting.org

Integrated reporting
The Integrated Reporting Framework helps companies to produce a concise, investor-focused report that looks at an issuer’s performance and prospects through the lens of six ‘capitals’ (financial, manufactured, human, natural, intellectual, social and relationships).
www.integratedreporting.org

Sustainability Accounting Standards Board (SASB)
SASB issues sustainability accounting standards that help public corporations disclose material and decision-useful information to investors in their mandatory filings, based on their industry, in line with the notion that under existing regulation material information should be disclosed in the Forms 10-K or 20-F.
www.sasb.org

UN Global Compact (UNGC)
The Global Compact requires companies to commit to a set of ten universal principles concerning human rights, labour, environment and anti-corruption.
www.unglobalcompact.org

Despite the improvements in the quality and quantity of ESG data being provided by companies, this data continues to be regarded as difficult to compare. We are in the middle stage of global standardisation, with many organisations – standard setters, issuers, investors – defining what it is they need from ESG data, how this data is to be used, how its quality is to be assured, and how it is to be presented or reported. Progress on standardisation will help to move sustainability into the mainstream dialogue between issuers and investors. Increasing use of global standards and frameworks by companies has a key role to play in making information more available, consistent and reliable. For example, according to KPMG’s 2015 Survey of Corporate Responsibility Reporting, 61% of European corporate responsibility reporters used the GRI framework. Furthermore, 93% of FTSE 100, 64% of the FTSE 350 and 43% of the top 100 on Borsa Italiana reported to CDP on climate change.

61% of European sustainability reporters use GRI
The UN Sustainable Development Goals

The 17 Sustainable Development Goals – and 169 associated targets – were adopted by the General Assembly of the United Nations in September 2015 to inform a global action plan on ‘people, planet and prosperity’ through to 2030. The value of the framework that the SDGs set out lies in its universality and bottom-up nature, reflecting the fact that it stems from an agreement reached after a long process of international negotiations and consultations involving governments, businesses and civil society. The 17 SDGs can provide a useful and internationally recognised framework to shape and prioritise business plans and associated reporting. They are consistent with a number of the leading global ESG reporting frameworks and are reflected in a growing number of ESG assessment frameworks including FTSE Russell’s ESG Ratings Model. Measuring progress against relevant sustainable development goals and targets enables the harmonisation and comparability of sustainability investments and actions on a global scale. A summary of the SDG framework is presented graphically. For more information, please visit the UN Sustainable Development Knowledge Platform at https://sustainabledevelopment.un.org.

The Financial Stability Board Task Force on Climate-related Financial Disclosures

Background

In December 2016 the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) published its recommendations. This initiative was set up following a request from the G20 in order to avoid potential negative impacts on the stability of financial markets. The rationale for this was that appropriate disclosures were needed for financial firms to manage and price climate-related risks and to tackle lending, investment or insurance underwriting decisions based on their view of low-carbon economy transition scenarios. Effective disclosure of climate-related financial risks will help avoid an abrupt repricing of risk and impacts on market stability. The task force has developed a set of recommendations for consultation that aim to support consistent, comparable, reliable, clear and efficient climate-related disclosures by financial and non-financial companies.

New contributions to global standards

Among the frameworks which are likely to define the next decades of global reporting and disclosure are:

— the Sustainable Development Goals (SDGs) specified in the UN’s 2030 Agenda for Sustainable Development; and

— the recommendations of the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures.

Although coming from very different directions and starting points, both initiatives could play a significant role in the global harmonisation of ESG measurement to the benefit of both issuers and investors.

The task force’s recommendations very closely align with our Guidance for ESG Reporting although the scope of our guidance is more broadly applicable across all ESG themes. Whilst the TCFD is focused on material risks and opportunities from climate change and the transition to a green economy many of its principles are applicable to other sustainability themes too.

Recommendations

The task force recommends that climate-related financial disclosures should be made in public financial filings such as annual reports. They believe that since climate change often poses material risks their framework provides a useful basis for complying with legal obligations in many jurisdictions, for listed companies to disclose material risks. To ensure robust information, the task force recommends governance controls such as review by Chief Financial Officers and audit committees. The task force recommendations set out ‘Principles for Effective Disclosures’ which closely align with those set out here in Chapter 03, Investment Strategy.

The more specific disclosures that are recommended fall into four categories: Governance, Strategy, Risk Management and Metrics. The task force high level specific disclosure recommendations are summarised in the table above across all four of these categories.

The task force also places some importance on scenario analysis and has published a technical standard setting out the use of scenario analysis, related considerations, analytical choices, climate-related scenarios and use of leading public climate scenarios. LSEG welcomes the TCFD recommendations

London Stock Exchange Group welcomes these recommendations and sees them as an important step in driving improved global consistency in voluntary global reporting standards. Please review the full guidance on www.fsb-tcfd.org.

The recommendations have many implications for our business: for our own reporting as a listed company, for our work with issuers including this Guidance, and for our information services to issuers, including benchmarks. LSEG and FTSE Russell, in particular, intend to play a critical role enabling the flow of information envisaged by the TCFD. FTSE Russell’s Climate Change Criteria (which form part of the ESG Model) in many cases map to the recommended disclosures, and as an important step, FTSE Russell is reviewing them closely to identify new indicators and to align existing ones. The TCFD also cover disclosure of opportunities related to green products. This supports FTSE Green Revenues data model and aligns with Chapter 07 of this Guidance. LSEG is also well positioned to support and facilitate the further refinement of metrics through collaboration with issuers and investors, and looks forward to exploring with the TCFD how to support this important work.

Non-Financials: Energy, Transportation, Materials and Buildings, and Agriculture, Food and Forest Products.

LSEG welcomes the TCFD recommendations —
05. Reporting formats

How should ESG data be reported?

Companies can report ESG information in their annual report, in a standalone sustainability report or in an integrated report. The choice of reporting formats may involve trade-offs between breadth and depth, between focusing on material issues and covering a wider horizon that addresses the relationship between ESG and business strategy. It is often unclear which of these is most useful to investors.

Issuers can take practical steps to ensure that their ESG disclosures are relevant to their investors. You can ensure that your reported data is of investment-grade quality, set out your views on materiality, and explain the strategic relevance of these ESG issues to your business. There are different advantages to each type of reporting, and each issuer should consider which approach will best suit their own needs and those of their investors. Remember that reporting is just one part of the wider dialogue you have with your investors. You should see ESG reporting, irrespective of the specific format, as providing a basis for dialogue with your investors, not as a replacement for this dialogue.
Annual report, standalone sustainability report, or integrated report?

Annual report
It is increasingly common for larger listed companies to include explicit references to ESG themes within their annual reports. The integration of ESG issues into annual reports allows the process of gathering and verifying this data to be integrated into the processes and information controls that are already in place. It also means that ESG data is readily available to investors at the same time as wider information about the company. In practice, due to concerns about length and complexity, companies tend to discuss relatively ESG-related content may not fit the flow and structure of the annual report. These issues can be addressed by publishing methodologies, policies and historical data online, leaving just the key information pertaining to the previous year and to future strategies, plans and targets in the annual report.

Standalone sustainability report
Introducing a standalone sustainability or CSR report is an approach favoured by many issuers. In 2015, 726 non-financial reports were published in the UK is an approach favoured by many issuers. In 2015, 726 non-financial reports were published in the UK and 309 in Italy. These reports provide a clear ‘home’ for ESG content, consolidating the information in a single location. In addition, a standalone sustainability report does not necessarily need to align with the style of the annual report; issuers can adopt a style of presentation for raw data, tables and charts best suited to ESG information. The separation can imply that sustainability information is considered separate from the core business of the company. This can be addressed by aligning key areas of the annual report and sustainability report. For example, if a performance trend or external driver is highlighted in the annual report, it should also be addressed in the standalone sustainability report.

Integrated report
The concept of an integrated report is that ESG information and data are presented in an integrated manner within the annual report. This model has been promoted by the International Integrated Reporting Council (IIRC) and aims to offer investors a more rounded, concise and holistic insight into business performance and impact over the short, medium and long term. Integrated reporters should beware of the implications of reducing the information made available to investors. Although brevity is welcomed by many investors and enables a focus on the most business critical ESG-areas, it may mean that investors do not get the breadth of information they need. Investors are diverse and have different ESG needs. Some of them review published reports directly, whereas others access company information (including within analytics, research tools and indexes) through third party data and research providers and index providers. This means that data needs to be easily collectable by these intermediaries – and as a result, integrated reporting should be supplemented by additional, more detailed ESG information delivered via the company’s website or through associated published data appendices.

Reporting as a complement to dialogue
Reports enable public distribution of ESG information concurrently to all existing and prospective investors. This can complement direct dialogue with investors; and also provide a basis for such dialogue – something which can in turn help shape and determine the content of future reports. In other words, high-quality reporting should support deeper and more effective direct dialogue with the investor community, not replace it. An end to survey fatigue
Publishing well considered reports that provide high quality ESG information and data, and placing other relevant information such as policies online, will make it increasingly feasible for you to point those requesting responses to ESG surveys towards your published materials instead.

Optimising communication
There are a number of steps that you can take to ensure your report is of the greatest possible value to investors.

1. Separate out policies, processes and methodologies
   - Annual or sustainability reports featuring large amounts of detail around policies and methodologies can obscure new information and key messages; and
   - Incorporate standing information (‘boilerplate’) repeated every year in an appendix or separate document, and signpost it from the report.

2. Make it easy to find and access
   - Ensure that the report is prominent. Promote it on the corporate website, including the investor relations section, include a link within news releases to the markets and summarise findings in investor presentations; and
   - Provide data in spreadsheet format, hyperlink to corresponding financial statements; or further ESG information if producing a report online. Data can also be tagged in XBRL, so that it can more easily be pulled out and aggregated by specialist applications. XBRL is a type of extensible markup language used for organising and defining financial data in a standardised way, applying tags to unify and compare different accounting standards.

3. Consider language
   - Ensure the language used, and its accessibility, meet the needs of your investor base.

4. Combine data tables and include historical information
   - Retain three to five years’ worth of historical information and data. Where there are significant corporate changes such as acquisitions and de-mergers, the reports and information pertaining to the previous entities should also be retained wherever possible.

THE DIFFERENT FORMS OF ‘CAPITAL’

Capitals (also referred to as ‘resources and relationships’) are stocks of value or assets that can be enhanced, or diminished, by the activities of a business. The International Integrated Reporting Council lists six capitals in its framework.

- **Financial**: internal and external funds available to a business;
- **Manufactured**: for example, buildings, equipment and infrastructure;
- **Intellectual**: knowledge-based intangibles, for example brands and patents;
- **Human**: people and their capabilities and experience;
- **Social and relationship**: stakeholder and network relationships; and
- **Natural**: environmental resources, such as air, water and land.
The volume of regulation concerning ESG reporting has increased substantially in recent years. If regulators in different countries and regions set different reporting requirements and standards, this can be problematic for both issuers and investors.

As a result of this level of activity in ESG reporting, over 80% of the world’s top economies by GDP in 2016 mandated ESG reporting in some form. Well-crafted disclosure regulation can aid issuers and investors by improving data consistency, availability and reliability, and by helping focus attention on key ESG issues.

Issuers should see regulation as a starting point for reporting. However, rather than taking a minimum compliance approach, you should use regulatory requirements as an opportunity to develop an investor-focused approach to reporting. It is important that, as an integral part of the reporting you’re required to produce, you identify and report on what you see as your most material issues.

**Regulation and investor communication**

How can companies navigate regulations and communicate effectively?


The UK’s implementation of the EU Non-Financial Reporting Directive builds on earlier provisions to require companies and groups with over 500 employees that are classed as public interest entities (i.e. entities whose activities are of significant interest to the public, and include banks, insurers and quoted companies) to disclose a fuller range of non-financial information in their strategic reports. This requires eligible companies to disclose information on environmental, employee, social and human rights. The framework also requires disclosures on anti-corruption and anti-bribery matters. There is a further requirement for quoted companies to include a description of their diversity policy and how it has been implemented or to explain why one is not relevant.

If the company does not have a policy in relation to any of these matters the company should provide a clear and reasoned explanation as to why it would not be relevant. The first reports under the new requirements should be published in 2018, for financial years commencing in 2017. There is flexibility on how to report and companies can draw on relevant international, European or national guidelines. The Italian transposition of the Directive in addition requires issuers to adopt global standards whenever possible, or to explain why the company decided to develop its own disclosure approach. Disclosure has also to cover a minimum set of parameters, including energy use from renewable and non-renewable sources, also to cover a minimum set of parameters, including energy use from renewable and non-renewable sources, impact on health and safety, and measures aimed at implementing international gender diversity frameworks.

The non-financial statement can be part of the annual report, or be a separate document, and it has to be externally verified either by the company’s legal auditors or by an auditing firm specially appointed. The statement has to be submitted to the Italian capital markets authority Consob, who is also in charge of monitoring compliance.

Getting value from regulation

Rather than taking a minimum-compliance approach, issuers should use the regulating requirements as an opportunity to enhance their reporting to investors. It is critical to move beyond the areas covered in regulation and towards identifying your business’s most material ESG themes and the underlying indicators based on global standards. Only then will you be able to produce ESG reporting that aligns closely with your own material issues, and that enables a richer data flow and dialogue with investors to take place.

Going forward, we may see the financial community sharing the responsibility of disclosing alignment with ESG considerations. Article 373 of France’s Energy Transition for Green Growth Law which came into effect in early 2016 requires issuers to outline how they factor ESG criteria into their investment decisions. As this effectively forces ESG engagement and integration from both sides, it adds still more momentum to the drive for consistency, standardisation and recognition of the global context influencing reporting.

Key ESG reporting regulations: Italy, the UK and the EU

<table>
<thead>
<tr>
<th>Country</th>
<th>Institution</th>
<th>Year</th>
<th>Title</th>
<th>Type</th>
<th>Status</th>
<th>Commentary</th>
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<tbody>
<tr>
<td>Italy</td>
<td>Market Participants Associations &amp; Borsa Italiana</td>
<td>2015</td>
<td>Italian Corporate Governance Code</td>
<td>Non-Government Suggested Corporate Governance Ministers, Voluntary</td>
<td>Issued</td>
<td>The Italian Corporate Governance Committee included ESG risks and governance considerations in its review of the Code issued in July 2015.</td>
</tr>
<tr>
<td>Italy</td>
<td>Government</td>
<td>2007</td>
<td>Legislation decree No.52/2007</td>
<td>Transparency Directive 2003/36/CE and Article 242 of the Italian Civil Code</td>
<td>Government Imposed Corporate Environmental Governance, Mandatory</td>
<td>Issued</td>
</tr>
<tr>
<td>UK</td>
<td>IRC</td>
<td>1992, most recently updated in 2016</td>
<td>UK Corporate Governance Code</td>
<td>Industry Body Led Corporate Governance, Suggest or explain</td>
<td>For Premium companies listed on the Main Market, the code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders, on a comply or explain basis.</td>
<td></td>
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<tr>
<td>UK</td>
<td>Government</td>
<td>2015</td>
<td>Modern Slavery Act</td>
<td>Government Imposed Corporate Environmental Governance, Mandatory</td>
<td>Issued</td>
<td>Section 5% of the Modern Slavery Act 2015 requires certain organisations to develop a slavery and human trafficking statement each year.</td>
</tr>
<tr>
<td>UK</td>
<td>Government</td>
<td>2008, revised 2013</td>
<td>Changes to the Companies Act 2006 (Strategic Report and Director’s Report)</td>
<td>Government Imposed Corporate Environmental Governance, Mandatory</td>
<td>Issued</td>
<td>Investors’ ambassador, human rights, and diversity reporting required by all listed companies in the Director’s Report.</td>
</tr>
<tr>
<td>All EU</td>
<td>National governments</td>
<td>2016</td>
<td>Transposition of the EU Non-Financial Reporting Directive 2014</td>
<td>Government Imposed Corporate Environmental Governance, Mandatory</td>
<td>Issued</td>
<td>Applies from January 2017 to all listed companies with more than 500 employees, and mandates disclosure of environmental, social (including diversity and human rights) and anti-corruption issues.</td>
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<td>— Transposed in the UK through the Companies, Partnerships and Growth (Accounts and Non-Financial Reporting) Regulations 2015 n. 1245</td>
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<td>— Transposed in Italy through Legislative Decree 30 December 2016 n. 245</td>
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</table>

Governments around the world, responding chiefly to broader societal awareness around sustainability, have introduced a number of mandatory reporting instruments. In just three years, over 100 new mandatory instruments have been introduced across 64 countries. As a result of this level of activity in ESG reporting, over 80% of the world’s top economies by GDP in 2016 mandated ESG reporting in some form. However, this can often mean that companies will face differing requirements, while investors will be unable to compare data on companies globally.

Reporting standards are still evolving and whilst issuers need to report in a way that is consistent with regulatory reporting requirements, they can also innovate and should aim to report in a manner that is most useful to investors. This can sometimes mean going above and beyond regulation.

UK and Italian regulation

The 2015 update of the Italian Corporate Governance Code, which is applied on a comply-or-explain basis, recommends that the boards of listed companies should take into account any risk that may affect the sustainability of the business in the medium-long term when assessing the company’s risk profile. In addition, the Code recommends that the largest companies, namely the constituents of the FTSE Mib index, should consider whether or not to set up a board committee tasked with supervising sustainability issues related to the company’s business.

The UK government and reporting framework encourages reporting of ESG and non-financial matters through the Guidance on the Strategic Report and Corporate Governance Code requirements for disclosure of principal risks and uncertainties and a viability statement. The 2015 update to the UK Companies Act 2006 included a number of ESG reporting provisions. UK incorporated quoted companies i.e. those with equity shares listed on London Stock Exchange Main Market, EEA regulated, NYSE or NASDAQ, are expected to explain how they are managing issues such as environmental performance, human rights, social and community involvement and diversity. They are also expected to report on certain statistics, for example Scope1 and 2 CO2 emissions and gender diversity at Board, senior management and whole-company level.

Requirements differ for companies of different sizes and listed status. For example while all companies are expected to disclose principal business risks, medium-sized companies are not expected to include an analysis of non-financial KPIs. Furthermore, only listed companies are required to contain an overview of the business strategy and model as well as environment, employee, social, community, human rights and diversity information in the strategic report.
Revealing the full picture

07. Green Revenue reporting

Around the world, investors want to understand issuers’ exposure to green products and services. However, there is limited consistent information available on how issuers are deriving revenue and growth from providing environmental solutions.

As an issuer you should proactively communicate your exposure to the green products and services that enable the transition to the green economy. To do this, you need to identify the parts of your business that manufacture or provide goods, products and services delivering environmental solutions, quantify the associated revenues, and talk about how your investments in innovation and R&D will drive your business’s future growth.

Green Revenue reporting

How can issuers get recognition for green products and services?
Climate risk and rewards

Investors need to understand how companies in their portfolios are changing their exposure to green revenues subsectors and therefore need issuers to provide more detailed revenue breakdown, at a green sub-segment level, to measure this. Some of the world’s largest investors are actively allocating additional capital to companies with higher green revenue exposure; so better reporting can directly lead to greater investment flows. This requires you as an issuer to:

1. Understand opportunities in the transition to a green economy
   Identify parts of the business that manufacture or provide goods, products and services driving value for the business and delivering environmental solutions.

2. Identify green revenues
   Provide details of the revenues resulting from ‘green’ goods, products and services.

3. Connect to your own climate impacts
   Ensure that reporting on green revenues is integrated with both wider financial reporting and with carbon strategy, emissions data and performance reporting.

4. Talk about where the future lies
   Discuss how investment in innovation and R&D will support the transition to a green economy.

Example

Index membership: FTSE 100
ICB subsector: Speciality Chemicals

A UK chemicals company breaks its revenues into specific sub-segments, enabling investors to understand precisely how much of those revenues make a contribution to the green economy.

For example, it has a segment named ‘Precious Metal Products’, which it breaks down into two sub-segments, ‘Recycling’ (revenue gained from providing recycling services) and ‘Other activities’ (revenue gained from refining and developing paint coats and other products). This allows investors to see that the recycling segment contributes to the green economy, whereas the ‘Other activities’ do not. Each of these sub-segments is furnished with a separate published calculation sheet.

Index membership: FTSE 100
ICB subsector: Fixed Line Telecommunications

A FTSE 100 telecommunications company has reported its aim as being to ‘have helped our customers cut their carbon emissions by at least three times our own end-to-end carbon impact’ by 2020. This 3:1 ambition is based on the company’s products and services having a carbon abatement effect at least three times the impact of its own emissions (Scope 1, 2 and 3).

By quantifying and reporting the abatement affects of products such as video-conferencing and cloud computing services, the business demonstrates how it is not only prepared for the transition to the green economy but will benefit directly as a result.

RENEWABLE FUNDS

An emerging asset class associated with the transition to a green economy is represented by renewable infrastructure funds. Renewable infrastructure funds listed on London Stock Exchange are worth a combined £3.4bn and have raised £2.7bn since 2013. For investors to be able to report on the impact of these funds on the exposure of their portfolios to the green economy, clarity and details regarding the type of assets these funds are invested in are extremely useful. These could include the renewable energy generation capacity and the equivalent estimated GHG emissions avoided through the infrastructure projects that are financed or in which the funds are invested.

“Certain segments of global markets will undergo significant change as the world moves towards Green Revenues. Companies that offer comprehensive reports on the environmental solutions they provide, send a strong signal to capital markets that they are aware of the business opportunities that come with long term trends like the transition to Green Revenues. Companies disclosing their ‘green revenues’ can benefit through greater investment from funds such as ours.”

Maurice Versaevel
Investment Strategist, PGGM
Investors are increasingly interested in the ESG characteristics of fixed income issuers. They recognise these issues as sources of risk and of opportunity. In addition, with the growth of the green bond market, investors are also interested in financing that is linked to specific activities and projects delivering environmental benefits.

The rest of this Guidance is also applicable at an entity level to issuers of bonds considering their ESG reporting. Issuers may also wish to consider issuing green bonds to access new sources of capital. However, this requires a number of criteria to be satisfied. Issuers need to ensure that proceeds are fully directed towards green projects, that there are clear criteria for project selection and evaluation, that proceeds are only used for green projects, and that information on the use of proceeds is published regularly.

To be included on the London Stock Exchange green bond segment, an issuer also needs to use an external reviewer.

Debt finance

What should debt issuers report and what are the emerging standards here?
As investors increasingly need ESG information at entity level for all corporate bond issuers, the previous sections of this Guidance are also relevant for fixed income issuers. However, the data needs are likely to be subtly different for bond investors, especially with regard to materiality. The materiality lens for a bond investor is typically tighter than for equities, as only ESG factors that could potentially impact the likelihood of a bond issuer paying interest or capital repayment at the end of the bond’s duration would be material, while for equity investors a wider range of factors can impact company value and share price returns.

Standards for information on fixed-income reporting are also developing around green finance through the relatively new concept of ‘green bonds’. The standards for green bonds relate to reporting on the use of proceeds with respect to positive green impacts. There is also the early emergence of social bonds which, in a similar manner, consider the use of proceeds with respect to positive social impacts.

Green bonds: bringing green finance to scale

There is significant momentum behind ‘green bonds’ – fixed-income instruments that are designed to help fund environmentally friendly projects. Major global institutions, industry bodies and policy makers, including the G20, have backed the development of this market. In June 2015, London Stock Exchange (LSE) became the first exchange globally to launch a comprehensive dedicated green bond offering. According to the Climate Bonds Initiative’s State of the Market 2016 report15, over $42bn of green bonds were issued in 2015. Furthermore, 82% of the green bond market is investment grade (BBB rated or higher) and more than half of that is AAA rated.

In parallel to this sharp growth, concerns have arisen about definitions and transparency. Which projects meet sufficiently ‘green’ standards? How can investors be sure that their funds will achieve impact? There are emerging approaches to meeting this need for clarity in the market. The biggest step came with the publication of the Green Bond Principles in 2014. Focusing on transparency and disclosure, these aim to provide issuers with the key components required for listing on the green bond market.

G20 Green Finance Study Group (GFSG)

Chaired by China and the UK, the G20’s Green Finance Study Group convenes a group of countries and institutions including the United Nations Environment Programme to explore the potential for green finance to contribute to sustainable development, overcome barriers and create an enabling environment for change. China is one country transforming its financial system to facilitate green instruments, including green bonds, green credit, green equity, index products and carbon finance.

To be admitted on these segments, issuers are required to submit an external review document verifying the ‘green’ nature of the bonds. Ongoing disclosure and impact reporting are also encouraged to enable investors to make their own investment assessments regarding these instruments.

The UK already has some of the highest standards of disclosure and regulating oversight. Not only does this benefit issuers by associating them with a strong reputation for quality, but it benefits investors too – ensuring greater transparency. The additional certification on the green bond segments is vital to attracting more investors who can then have confidence in the integrity of the bond and its green proceeds.

The first green bond in London was listed in 2012 by the Nordic Investment Bank. As of January 2017, there were 40 green bonds listed across LSE’s Main Market and Professional Securities Market (PSM). Issued by 15 different institutions, including supranationals, local governments, and municipalities as well as corporates, they have raised over $10.5bn in seven currencies through a range of transactions, many of which are world firsts in terms of currency, geography or structure.

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82% of the green bond market is investment grade (BBB rated or higher)

Example

Index membership: FTSE Small Cap
ICB subsector: Waste & Disposal Services

A FTSE Small Cap company active in the waste management sector publishes a corporate responsibility report that analyses the environmental and social performance of its business by operating divisions, based on GRI standards. A very clear summary table of performance indicators and five-year targets is followed by deep-dive sections dedicated to environmental performance (10 KPIs), Health & Safety (8 KPIs) and people (17 KPIs). All narrative sections clearly identify the link between specific sustainability themes and the company’s business model. More detailed KPIs are provided in a separate document available online, which also reports on the use of the proceeds raised through a green bond issuance. The report describes the initial proposed allocation of funds to the sustainable projects specified in the green bond issuance documents, and the actual allocation of funds. For every project an overview of the associated environmental benefits is provided.

“We see ESG factors as very important investment considerations in all asset classes: green bonds is a way for issuers to show investors that they hardware ESG into the capital structure. As such, we look not only into expanding green bond exposure per se, but also to issuers that issue green bonds.”

Ulf Erlandsson
Senior Portfolio Manager, AP4.
Green Bond Principles – what investors need to know

The Green Bond Principles (GBP) define green bonds as any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing Green Projects, and which are aligned with the four core components of the GBP.

GBP core components can be summarised as:

1. Use of proceeds – measuring green impact
   Proceeds should be fully directed towards ‘Green Projects’. That is, they will address key areas of environmental concern such as climate change, evolution of natural resource depletion, biodiversity loss and/or pollution.
   These categories are purposefully broad and non-exhaustive. The GBP’s website provides examples on what projects qualify, but acknowledges that definitions can vary.

2. Process for project evaluation and selection
   Issuers should be transparent in how they determine the eligibility of their projects, outlining how they will meet critical environmental sustainability objectives.
   In practice, this means articulating targets for the environmental benefits that the projects will achieve, for example reductions in CO₂ and water emissions.

3. Management of proceeds
   Issuers should transparently track net proceeds, allocating them in a segregated sub-account, sub-portfolio or otherwise. The Principles recommend auditing as an additional level of robustness.
   Alignment with this Component requires confirmation that the proceeds from the green bond are used only for the nominated projects.

4. Reporting
   Information on the use of proceeds, including the amounts allocated at project level and the impacts achieved and expected, should be published annually until full allocation and processing thereafter.
   Overall, issuers are recommended to use an external reviewer. The external review can take the form of a consultant review, verification, certification, and/or rating.
   Transparency and access to information are central to mobilising private sector money and mainstreaming environmental risks. One of the great challenges for green bonds is the further development of impact reporting standards as there are no universally agreed metrics or formulas for quantifying or calculating the environmental impact of the underlying projects.

Climate Bonds Initiative

Climate Bonds Initiative is an investor-focused, not-for-profit organisation whose purpose is to mobilise capital markets for climate change solutions. Its Climate Bonds Taxonomy has been one of the first attempts to provide broad guidance for prospective green bond and climate bond issuers and investors by encouraging common definitions across global markets, in a way that supports the growth of a cohesive thematic bond market.

Eight specific ‘climate bond’ sectors have been identified for which detailed eligibility criteria have been developed. Sector specific standards currently exist for solar, wind, low carbon economy buildings, geothermal and low carbon economy transport whilst standards for water, bioenergy and agriculture and forestry are also under development.

The Climate Bonds Standard (v2.0), which fully integrates the Green Bond Principles, consists of a certification process, pre- and post-issue requirements and a set of sector-specific eligibility and guidance documents. Bonds are accorded the status of Certified Climate Bonds when they are verified as adhering to the Climate Bonds Standard, providing investors with assurance about their contribution to the delivery of a green economy.

The certification process is summarised as:

1. Identify qualifying projects and assets, based on the Climate Bond Standards criteria.
2. Arrange an independent review.
3. Track and report, the value of the assets must stay equal to, or greater than, the value of the bond, and reporting to investors must take place each year.

‘Climate-aligned’ bonds

According to the Climate Bonds Initiative’s State of the Market 2016 report, ‘climate-aligned’ bonds have reached a total value of $64bn. These bonds include not just labelled green bonds but those that are financing low-carbon and climate adaptation infrastructure, and are issued by companies with over 95% of revenue derived from climate-aligned assets.

Social bonds

ICMA and the Green Bond Principles have published guidance for issuers aiming to finance projects with social objectives. Focused on populations that are living under the poverty line, excluded, and/or vulnerable, social projects can include providing development infrastructure and services such as sanitation, clean drinking water, affordable transport, education and healthcare as well as affordable housing, employment projects, food security and socioeconomic advancement.

As with green bonds, social bond issuers should apply the four core components of the GBP (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting), and external reviews.

Charity bonds

In July 2014, London Stock Exchange launched a dedicated ‘retail charity bond’ segment on the Order book for Retail Bonds (ORB) in response to increased investor demand for instruments with an ethical impact. ORB is London Stock Exchange’s flagship electronic retail bond market, offering issuers a primary market for the issuance and distribution of retail-eligible bonds as well as a liquid, transparent secondary market for investors.

A total of 56 dedicated issues raised approximately £60m between 2010 and 2016.

In June 2015, in order to support future issuances, London Stock Exchange waived admission fees for charity bonds issued on ORB. Since the launch of the retail charity bond segment, London Stock Exchange has welcomed three Retail Charity Bonds raising a total of £6m. Issuers include Golden Lane Housing, Hightown Housing Association and Charities Aid Foundation.
Summary

With data on ESG data now frequently being used alongside other financial and strategic information in investment analysis and decision making, there is a compelling case for companies strengthening their reporting and communication by incorporating ESG issues.

Investors want to understand how well companies are managing the risks associated with ESG issues, seeing this as a key test of management quality. They are also interested in the opportunities presented by the green economy — and increasingly, they are allocating capital to companies that are well equipped to benefit from this.

To respond to the growing interest, issuers should provide investment-grade data and information. Specifically, they should:

1. Explain the relevance of environmental, social and governance factors to their business models and strategy. These factors should not be ‘bolt-on’ but an integrated component of business drivers and considerations.

2. Explain how ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, licence to operate, legal action or stakeholder relationships, and how these impacts may affect business strategy and financial and operational performance.

3. Explain how they intend to access the new opportunities and revenue streams generated by green and socially beneficial products and services. In this context they should explain how their investments in innovation and R&D will drive future growth for the business.

4. As the most important part of the above, identify the parts of the business that manufacture or provide goods, products and services delivering environmental solutions and supporting the transition to a green economy; and break down and quantify the associated revenues.

5. Provide data that is accurate, timely, aligned with their fiscal year and business ownership model, and based on consistent global standards to facilitate comparability.

6. Recognise that reporting is just one part of the wider dialogue they have with their investors. ESG reporting, irrespective of the specific format, provides a basis for dialogue with investors but is not a replacement for it.

How LSEG supports ESG reporting and communication

Beyond its contribution to public policy discussions on driving global standardisation of ESG reporting, LSEG supports issuers and investors in making ESG communication effective.

1. Capacity building and supporting issuers in reporting:
   - We provide training, including through our Academy, and host events that clarify good practice in corporate reporting.
   - Through our unique open access technology platform ELITE Connect, we allow listed companies to manage their local and global investor relations efforts and to improve their communications with their shareholders and intermediaries. This platform enables issuers to showcase their company story and ESG activities through digital meetings and webcasting.
   - In 2008 Borsa Italiana established the STAR segment which includes mid-cap companies with high corporate governance standards, and Borsa Italiana regularly organises thematic road shows to facilitate dialogue between listed companies and investors. Sustainability topics are increasingly part of these initiatives.

2. Profiling issuers on our markets with green or other sustainability attributes:
   - London Stock Exchange has developed one of the world’s first green bond segments based on strict admission criteria to support the growth of this market segment; and
   - On Borsa Italiana, listed companies can include information on sustainability strategies, targets and performance as an integral part of their company profiles.

3. Providing investors with ESG data, analytics and indexes:
   - FTSE Russell has pioneered ESG indexes for over 15 years since the launch of the FTSE4Good Index Series and now provides a comprehensive range of ESG ratings and data.
   - We collect ESG data from public sources and contact over 4,000 companies to check that information with them directly.
   - We track the proportion of companies’ revenues that derives from products and services serving the transition to a green economy through FTSE Green Revenues data model; and
   - We support stock exchanges including Madrid, Johannesburg and Malaysia in creating dedicated ESG indexes for their markets.

4. Contributing to global policy development and dialogue:
   - We contribute to consultations on ESG reporting. Recent responses have included those regarding the EU Non-Financial Reporting Guidance, the FSB Task Force on Climate-Related Financial Disclosures, the United States Securities and Exchange Commission’s consultation on material disclosures, and the UK Government consultation on the amendments to the Companies Act; and
   - We play an active role in a number of global associations including the UN-backed PRI and Sustainable Stock Exchanges initiative, bringing together a wide range of sustainable investment association;
   - We promote good standards in the UK and set the Italian corporate governance code. In 2016, we published ‘Creative Tension? 25 Years On’, a collection of essays on corporate governance by leading industry figures; and
   - We convene market participants, issuers and investors to improve data, dialogue, and, ultimately, capital flows.
Appendices
## Appendix i – Materiality by sector

Quantitative indicators to consider reporting against. These are drawn from the FTSE Russell ESG Ratings Model and their materiality for different ICB16 Industries is highlighted as either ‘likely’ or ‘possible’. Note that these indicators themselves draw from a wide variety of pre-existing established standards such as GRI and CDP.

**FTSE Russell quantitative ESG data points**

<table>
<thead>
<tr>
<th>Indicator sub code</th>
<th>Indicator description wording</th>
<th>Basic Materials</th>
<th>Consumer Goods</th>
<th>Consumer Services</th>
<th>Financials (&amp; Real Estate)</th>
<th>Health Care</th>
<th>Industrials</th>
<th>Oil &amp; Gas</th>
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<td>ECC23</td>
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<td>Percentage of sites covered by recognised environmental management systems such as ISO14001 or EMAS</td>
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<td>Percentage of water recycled (non-potable) for use in own operations</td>
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<td>SHR17</td>
<td>Total amount of corporate or group donations / community investments made to registered not-for-profit organisations</td>
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<td>Percentage of sites with OHSAS 18001 certification</td>
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<td>SHR13</td>
<td>Number of staff trained on health and safety standards within the last year</td>
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<td>SHR15</td>
<td>Lost-time incident rate, over last three years</td>
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<td>SHR38</td>
<td>Number of work-related employee fatalities</td>
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<td>SHR40</td>
<td>Number of work-related contractor fatalities</td>
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<td>SL12</td>
<td>Full-time staff voluntary turnover rates</td>
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<td>SL125</td>
<td>Percentage of employees that are contractors or temporary staff</td>
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<td>SL128</td>
<td>Amount of time spent on employee development training to enhance knowledge or individual skills, using a) Total hours as a company, or b) Average hours per employee</td>
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## Appendix ii – FTSE Green Revenues Definitions

### FTSE Green Revenues Classification System

<table>
<thead>
<tr>
<th>Overview</th>
<th>Green Revenues Subsector</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Energy Generation</strong></td>
<td>EQ Bio/Fields</td>
<td>Companies generating power through the use of crops, plants and other organic materials as fuels where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
</tr>
<tr>
<td></td>
<td>EQ Clean Fossil Fuels</td>
<td>Companies generating power using fossil fuels such as coal, oil or gas where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
</tr>
<tr>
<td></td>
<td>EQ Geothermal</td>
<td>Companies generating power through the utilisation of natural geothermal heat sources created by planetary accretion or radioactive decay either above or below ground where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
</tr>
<tr>
<td></td>
<td>EQ Hydro</td>
<td>Companies generating power through the management of stored or reducted water within a controlled environment where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
</tr>
<tr>
<td></td>
<td>EQ Integrated Energy Generation</td>
<td>Companies whose activities include more than one EQ subsector.</td>
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<tr>
<td><strong>Energy Equipment</strong></td>
<td>EQ Bio/Fields</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the use of crops, plants and other organic materials as fuels where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
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<td>EQ Clean Fossil Fuels</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the use of fossil fuels such as coal, oil or gas where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
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<td>EQ Geothermal</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the utilisation of natural geothermal heat sources created by planetary accretion or radioactive decay either above or below ground where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
<td></td>
<td>EQ Hydro</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the management of stored or reducted water within a controlled environment where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
<td></td>
<td>EQ Integrated Energy Equipment</td>
<td>Companies whose activities include more than one EQ subsector.</td>
</tr>
<tr>
<td><strong>Energy Management</strong></td>
<td>EQ Bio/Fields</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the use of crops, plants and other organic materials as fuels where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
<td></td>
<td>EQ Clean Fossil Fuels</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the use of fossil fuels such as coal, oil or gas where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<tr>
<td></td>
<td>EQ Geothermal</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the utilisation of natural geothermal heat sources created by planetary accretion or radioactive decay either above or below ground where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<td></td>
<td>EQ Hydro</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the management of stored or reducted water within a controlled environment where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<td>EQ Integrated Energy Equipment</td>
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<td><strong>Energy Efficiency</strong></td>
<td>EQ Advanced Materials</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable the generation of power through the use of crops, plants and other organic materials as fuels where the reduction of greenhouse gas emissions is a significant function of the power generation process either on a life-cycle analysis basis or at the point of generation.</td>
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<td>EQ Buildings &amp; Property</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable new and refurbished properties to be built, refurbished or operated on the basis that they are less resource intensive and also reduce their impact on the environment at all levels of their operation in accordance with internationally recognised standards such as LEED, Energy Star and BREEAM where applicable.</td>
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<tr>
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<td>EQ Industrial Processes</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable new and refurbished properties to be built, refurbished or operated on the basis that they are less resource intensive and also reduce their impact on the environment at all levels of their operation in accordance with internationally recognised standards such as LEED, Energy Star and BREEAM where applicable.</td>
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<td>EQ Integrated Energy Efficiency</td>
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<td><strong>Energy &amp; IT Processes</strong></td>
<td>EQ Advanced Materials</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable new and refurbished properties to be built, refurbished or operated on the basis that they are less resource intensive and also reduce their impact on the environment at all levels of their operation in accordance with internationally recognised standards such as LEED, Energy Star and BREEAM where applicable.</td>
</tr>
<tr>
<td></td>
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<td>EQ Integrated Energy Efficiency</td>
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<tr>
<td></td>
<td>EQ IT Processes</td>
<td>Companies providing goods, products and services including components, specialist materials, bespoke manufacturing and maintenance processes, design and operational support capabilities that enable new and refurbished properties to be built, refurbished or operated on the basis that they are less resource intensive and also reduce their impact on the environment at all levels of their operation in accordance with internationally recognised standards such as LEED, Energy Star and BREEAM where applicable.</td>
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Appendix iii – ESG investors overview

The adoption of ESG approaches in investment is a growing force in global financial flows. Due to the complexity of this market, there have been various attempts to classify investors into categories according to their strategy. These could be grouped according to their capital focus and motivations, from ESG-risk based on an ESG framework to ESG-returns based on an ESG framework.

These could be grouped according to their capital focus and motivations, from ESG-risk based on an ESG framework to ESG-returns based on an ESG framework.

Appendix iv – References

1 UNPRI Annual Report 2016 http://annualreport.unpri.org –
2 UNPRI Annual Report 2016
4 The Global Sustainable Investment Alliance and the Japan Social Investment Forum.
5 The 2015 ‘Insights from PRI Signatories’ report written by Accenture and PRI in collaboration with PRI states that 38% of CEOs believe they are able to accurately quantify the business value of sustainability initiatives – yet just 7% of investors agree.
9 For example see the Report by the GRI together with the UN Global Compact and MSCI. See http://www.unpri.org/about/pri-teams/policy/responsible-investment-review-2014 written by the Global Sustainable Investment Alliance and the Japan Social Investment Forum.
10 Data from Corporate Register, October 2016.
12 FRC, UK Corporate Governance Code, April 2016.
17 Global Sustainable Investment Alliance (GIIA), 2012 Global Sustainable Investment Review
18 The Group can trace its history back to 1698.
19 Impact Investing: Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to market-rate, depending upon the circumstances.
20 Sustainability themed investment: Investment in themes or assets linked to the development of sustainability. Theme funds focus on specific or multiple issues related to ESG.

Diversity

Best-in-Class investment selection: Approach where leading or best-performing investments within a universe are selected or weighted based on ESG criteria. Engagement and voting on sustainability matters: Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. Engagements are a long-term process, seeking to influence behaviour or increase disclosure. Exclusions: An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors or countries.

Impact Investing: Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to market-rate, depending upon the circumstances.

Integration of ESG issues: The explicit inclusion by asset managers of ESG risks and opportunities in their traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. Norms-based screening: Screening of investments according to their compliance with international standards and norms. Sustainability themed investment: Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific of multiple issues related to ESG.

Appendix iv – References

1 UNPRI Annual Report 2016 http://annualreport.unpri.org –
2 UNPRI Annual Report 2016
4 The Global Sustainable Investment Alliance and the Japan Social Investment Forum.
5 The 2015 ‘Insights from PRI Signatories’ report written by Accenture and PRI in collaboration with PRI states that 38% of CEOs believe they are able to accurately quantify the business value of sustainability initiatives – yet just 7% of investors agree.
9 For example see the Report by the GRI together with the UN Global Compact and MSCI. See http://www.unpri.org/about/pri-teams/policy/responsible-investment-review-2014 written by the Global Sustainable Investment Alliance and the Japan Social Investment Forum.
10 Data from Corporate Register, October 2016.
12 FRC, UK Corporate Governance Code, April 2016.
16 Global Sustainable Investment Alliance (GIIA), 2012 Global Sustainable Investment Review
18 The Group can trace its history back to 1698.
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Glossary

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Your guide to ESG reporting

Guidance for issuers on the integration of ESG into investor reporting and communication