Sustainable Stock Exchanges Initiative

Sustainable Stock Exchanges 2014

Report on Progress

A paper prepared for the Sustainable Stock Exchanges 2014 Global Dialogue

Prepared by

UNITED NATIONS UNCTAD

PRI Principles for Responsible Investment

THE GLOBAL COMPACT

UNEP Finance Initiative
Changing finance, financing change

Note

Acknowledgements

This report was prepared by with inputs from: Sarah Bostwick (UN Global Compact); Danielle Chesebrough (Principles for Responsible Investment & UN Global Compact); Élodie Feller (UNEP Finance Initiative); Nick Kootnikoff (UNCTAD); Anthony Miller (UNCTAD); Sudeep Rathee (UNEP Finance Initiative); William Speller (UNCTAD); and Susan Tart (UNCTAD – University of Geneva Sustainability Research Centre).
Special thanks to Mark Nicholls (MRG Comms) for his valuable assistance in preparing this report, and to Steve Waygood (Aviva Investors) and Richard Bolwijn (UNCTAD) for comments and advice.

About this report

The Report on Progress has been prepared by the United Nations Sustainable Stock Exchanges (SSE) initiative. The report serves as a background document for the SSE's flagship event, its biennial Global Dialogue. The 2014 SSE Global Dialogue takes place in Geneva, Switzerland, on 14 October 2014 as part of the UNCTAD World Investment Forum.
This biennial report provides a periodic picture of sustainability initiatives implemented by stock exchanges and regulatory bodies around the world. The report also seeks to highlight current best practices, trends, opportunities and challenges in order to foster the sharing of lessons learned between stock exchanges, securities regulators, policymakers and investors.
The UN SSE Initiative is co-organised by UNCTAD, the UN Global Compact, the UN-supported Principles for Responsible Investment and the UNEP Finance Initiative. Launched in 2009 by UN Secretary-General Ban Ki-moon, the SSE Initiative is a peer-to-peer learning platform for exploring how exchanges (in collaboration with policymakers, regulators, investors and companies) can promote responsible investment for sustainable development. Stock exchanges around the world are invited to join the initiative by signing a voluntary public commitment to promote sustainable business practices in their market.

www.SSEinitiative.org

Contents

July 2013 - UN Secretary-General Ban Ki-moon welcomes New York Stock Exchange to the SSE initiative.

Executive summary

Stock exchanges are well positioned to play a crucial role in facilitating more sustainable financial markets, promoting improved corporate performance on environmental, social and governance (ESG)[1] issues, and promoting investment to help meet the expected UN Sustainable Development Goals (SDGs). The Sustainable Stock Exchanges (SSE) initiative brings together exchanges, policymakers and other key stakeholders to help them collaborate to this end.

This biennial report from the SSE initiative offers a snapshot of the state of play as far as exchange sustainability initiatives are concerned. It also reviews the context in which these initiatives sit, and highlights new guidance that can help exchanges move towards best practice.

Exchange sustainability initiatives typically take one or more of three forms: promoting sustainability reporting by companies; providing guidance and training on ESG issues to companies and investors; and producing sustainable investment products.

A review of sustainability initiatives at 55 exchanges finds substantial progress and engagement in all three areas – but clear potential for the sector to do more:

- Over forty per cent of the exchanges reviewed offer at least one index integrating social and/or environmental issues;
- Over one-third of the exchanges provide either sustainability reporting guidance or training to the listed companies on their exchange;
- Twelve of the 55 exchanges require aspects of environmental and social reporting for at least some of their companies, with 7 of those exchanges requiring such reporting for all listed companies.

[1]This report uses sustainability and ESG interchangeably. For the former, it uses the term "sustainability reporting" in the same way as the United Nations Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, which treats sustainable development reporting as reporting on environmental and social impact (United Nations, 2013:24).

This illustrates an emerging set of best practices among exchanges regarding promotion of sustainability reporting and sustainable business practices more generally. **The policy landscape is also supportive: 19 members of the G20 have at least one regulation in place requiring disclosure of some social and/or environmental metrics by companies.**

Securities regulators are also increasingly involved in the promotion of sustainability reporting. **Of the 32 regulators represented on the board of the International Organization of Securities Commissions (IOSCO), for example, more than one-third have introduced a sustainability reporting initiative.**

While a 'new mainstream' is emerging among policymakers, regulators and exchanges, the sustainability challenges the world faces remain enormous. **Further progress by exchanges and their regulators is particularly important given the wider sustainable development context, and the expected introduction of the UN Sustainable Development Goals in 2015.** At present, financial markets are not set up to channel sufficient funds towards sustainable development objectives.

Obstacles to investment in sustainable development include: the failure of markets and investors to price negative social and environmental externalities; a lack of transparency on ESG performance; misaligned pay and performance incentives; and regulation and accounting standards that promote a short-term focus to the detriment of long-term sustainable development projects.

These obstacles could be overcome by, among other things, introducing mechanisms such as carbon pricing and better aligning corporate incentive structures, reporting requirements and credit rating assessments with public policy goals. There is also potential to reform financial regulations and accounting standards, discourage short-term trading, and better integrate sustainability considerations into investors' fiduciary duties and corporate governance practices. Integrating the reporting of ESG issues with financial reporting would also help align corporate performance with sustainable development objectives.

While many of these broader challenges lie outside their remit, there are practical measures that policymakers and stock exchanges can take to promote sustainability. Guidance produced by UNCTAD offers suggestions as to how exchanges and policymakers considering sustainability reporting initiatives might proceed. While recognizing that there is no 'one-size-fits-all' solution, the guidance considers which institutions might be best placed to introduce sustainability reporting initiatives, and the regulatory and competitive landscape in which exchanges find themselves. It also considers what might be included in the policy, what model of disclosure might be pursued, and how exchanges and regulators might best implement a reporting policy. Additional resources on corporate reporting are also available from the UN Global Compact and other leading organizations.

Stock exchanges around the world continue to join the SSE initiative as Partner Exchanges to work on these practical measures, to share experiences, overcome common challenges and engage with key capital market stakeholders. The SSE has seen its membership triple from its original five members to sixteen just over two years later. At the time of press, more than 17,000 companies, with approximately $36 trillion in market capitalisation, are listed on SSE Partner Exchanges, which represents over half of the market capitalisation in the 2014 Report on Progress analysis.

June 2014 - UNCTAD Secretary-General Mukhisa Kituyi welcomes London Stock Exchange to the SSE initiative.

January 2014 - Executive Vice President of Borsa Istanbul Mustafa Kemal Yilmaz opens workshop on new sustainability index.

1. Sustainability reporting in the international context

At the United Nations Conference on Sustainable Development, also known as Rio+20 (Rio de Janeiro 2012), and specifically as part of paragraph 47 of the outcome document entitled The Future We Want, member states acknowledged the importance of corporate sustainability reporting, and encouraged companies, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. In 2013 the UN's High-Level Panel of Eminent Persons on the Post – 2015 Development Agenda proposed that "in future –- at latest by 2030 – all large businesses should be reporting on their environmental and social impact - or explain why if they are not doing so." (United Nations, 2013:24). Some investor and civil society organizations (e.g. the Aviva-led Corporate Sustainability Reporting Coalition) are encouraging member States to consider making sustainability reporting an aspect of the sustainable development goals in the context of the post-2015 development agenda. And governments around the world have joined the "Friends of Paragraph 47" to promote the adoption of sustainability reporting (see Box 1).

Against the backdrop of this broad international consensus on the importance of sustainability reporting, there remains the on-going challenge of promoting uptake among companies and integration of this information into the practices of investors and other capital market participants. The United Nations General Assembly, in the outcome document from Rio, encouraged "industry, interested governments and relevant stakeholders, with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting." This is the common challenge presented by world leaders to industry, including stock exchanges, investors and companies. And this forms the basis of the SSE's on-going work to provide support for policymakers and exchanges interested in facilitating action in this area.

For exchanges specifically seeking to introduce sustainability reporting initiatives, and the regulators that oversee them, UNCTAD, with the involvement of a broad range of international experts, produced a voluntary guidance document in response to the Rio+20 call for action on sustainability reporting (Figure 1). The guidance recognizes that there is no 'one-size-fits-all' approach to sustainability reporting, and instead offers a roadmap to navigate the types of questions that policymakers and exchanges could usefully ask when designing their approach. The guidance builds on four fundamental considerations to help guide policymakers and exchanges in the introduction of a sustainability reporting initiatives. These are:

Institution

Which institution (or group of institutions) is best positioned to introduce a sustainability reporting initiative? What are the implications that arise from the roles of different institutions?

Scope

What is the appropriate scope of application (i.e. does the reporting initiative apply only to certain sectors or types of companies)? What is the scope of subject matter (i.e. the sustainability issues being addressed)?

Disclosure model

Which disclosure model should be used (e.g. voluntary versus mandatory)? What are the implications of each, and what are best practice examples of implementation?

Design and implementation

Is the initiative aligned with international standards? Does it incorporate compliance promotion mechanisms? What measures can ensure that initiatives are maximally effective and produce the desired policy outcomes?

As a starting point, the guidance suggests that those designing policy should consider the capacity of companies to report on sustainability issues, and should focus on the disclosure of information that is material to investors and other stakeholders. Among other recommendations, it suggests focusing on enterprises with the greatest sustainability impacts, while introducing more appropriate requirements for smaller companies that do not put an undue burden on their capacity. It also recommends carefully considering the burden placed on listed versus private companies, to avoid discouraging private companies from listing or listed companies from delisting. Stock exchanges and regulators should also consider including sustainability issues in their definitions of the material information that listed companies must disclose.

Figure 1 - UNCTAD voluntary guidance for policymakers and stock exchanges

Deciding between mandatory and voluntary disclosure frameworks is also covered in the guidance. It is noted that, although companies are more likely to report information if mandated to, well-designed voluntary approaches can also be an effective option. Even if the intention is to introduce a mandatory disclosure rule, beginning with a voluntary regime first can be an important practical step to allow companies to develop the necessary capacity.

The guidance also suggests adopting a 'comply or explain' framework, allowing companies to elect not to disclose, provided they give their reasons. The Australian and Johannesburg stock exchanges, for example, have both pursued such a model, which allows flexibility while still requiring companies to demonstrate they understand the relevant issues.

The guidance concludes with the following recommendations for stock exchanges and regulators in implementing sustainability reporting initiatives:

a. Introducing voluntary sustainability reporting initiatives can be a practical option to allow companies time to develop the capacity to prepare high-quality sustainability reports;

b. Mandatory sustainability reporting initiatives can be introduced on a comply or explain basis, to establish a clear set of disclosure expectations while allowing for flexibility and avoiding an undue burden on enterprises;

c. Stock exchanges and/or regulators may consider advising the market on the future direction of sustainability reporting rules. Companies should be allotted sufficient time to adapt, especially if stock exchanges or regulators are considering moving from a voluntary approach to a mandatory approach;

d. Sustainability reporting initiatives should avoid creating reporting obligations for companies that may not have the capacity to meet them. Particularly in the case of mandatory disclosure initiatives, one option is to require only a subset of companies (e.g. large companies or state-owned companies) to disclose on sustainability issues;

e. Stock exchanges and regulators may wish to consider highlighting sustainability issues in their existing definitions of what constitutes material information for the purposes of corporate reporting;

f. With a view to promoting an internationally harmonized approach, stock exchanges and regulators may wish to consider basing sustainability reporting initiatives on an international reporting framework;

g. Considerations for the design and implementation of sustainability reporting initiatives include using a multi-stakeholder consultation approach in the development process for creating widespread adoption and buy-in and creating incentives for compliance, including public recognition and investor engagement.

These best practice policy options and considerations for implementing a sustainability reporting initiative will form the basis of the SSE's capacity-building work going forward. The SSE will continue to facilitate an exchange of ideas to identify the ongoing evolution of best practices. Working with development partners, the SSE will seek to support policymakers and exchanges in developing countries that wish to implement similar sustainability reporting initiatives in their country.

Box 1: The Group of Friends of Paragraph 47

The Group of Friends of Paragraph 47 (GoF47) is a government-led initiative that was formed by Brazil, Denmark, France and South Africa in June 2012 during the United Nations Conference on Sustainable Development, known as Rio+20. The group seeks to advance the recommendations relating to corporate sustainability reporting put forward under Paragraph 47 of the Rio+20 outcome document The Future We Want (United Nations 2012). The group, which has since been joined by Argentina, Austria, Chile, Colombia, Norway and Switzerland, represents a range of developing and developed economies, bringing together governments with a variety of experiences and approaches to promoting sustainability reporting, creating a rich environment in which to exchange information and best practice. The UN Environment Programme and the Global Reporting Initiative support the Group in a secretariat capacity.

The GoF47 seeks to promote and maintain the sustainability reporting agenda globally in a number of ways, including through the exchange of experience on policies and initiatives in this domain, increasing the number of governments with policies and initiatives that promote reporting, raising its profile in international fora, and engaging with strategic stakeholders.

From 2013 to 2014, the Group has been focusing its efforts on the development of public policy case studies of the member countries, including recommendations that will be applicable for other interested governments. Within this context, specific attention is given to current sustainability reporting practices in state-owned enterprises and public agencies, and to public policies for reporting in the financial sector. The group is also actively participating in the intergovernmental discussion on the post-2015 development agenda.

Source: UNEP

2. Progress report: practices to promote corporate sustainability reporting

Stock exchanges

Stock exchanges provide a central point for the interaction between investors, companies, policymakers and regulators. Exchanges have traditionally played a crucial role in building transparent, regulated markets and promoting best practices in financial and corporate governance disclosure among listed companies. Today, exchanges are also well suited to help with the 21st century sustainable development challenge. They are uniquely placed to facilitate action as regards sustainable business, with a variety of measures at their disposal. These include listing requirements related to sustainability reporting, voluntary initiatives, guidance documents and training for both companies and investors, and sustainable investment products such as indexes that focus on ESG issues.

The diversity of stock exchanges around the world makes reviewing their sustainability initiatives a challenge. Comparability is difficult due to wide differences in the regulatory powers that exchanges possess, which can range from significant (comparable to securities regulators) to moderate to non-existent. In virtually all markets, however, exchanges maintain significant 'soft-power' in terms of their ability to influence market participants through voluntary schemes.

Exchanges have a number of motivating factors for the promotion of sustainability reporting initiatives. A 2013 survey of exchanges by EIRIS found that key motivations included:

- To improve the environmental, social and corporate governance performance of companies listed on their exchanges.

- To encourage and to help investors engage with companies on sustainability issues.

- To identify themselves in the marketplace as committed to sustainability.

- To foster improved company performance, with the aim of promoting the sustainable long-term viability of companies, and the market and stock exchanges themselves, and to that end an interest in the latest research that explores links between long- term financial performance and ESG issues.

Policymakers and regulators

The SSE's 2012 Report on Progress noted that, in addition to the efforts taken by individual stock exchanges to increase ESG disclosure among their listed companies, there is also a role for regulators, governments and other actors in advancing ESG disclosure and reporting requirements.

There is a recognized need for enhanced levels of corporate transparency on ESG, and exchanges are well positioned in most jurisdictions to encourage and perhaps even require listed companies to produce better sustainability information. But many exchanges in both developed and developing countries require assistance with this effort.

A range of capital market stakeholders are increasingly recognizing the need for more widespread and consistent ESG disclosure, and are looking to policymakers and regulators for potential solutions. With more than a decade of voluntary initiatives and thousands of large companies producing ESG reports, there is an increased focus on efforts to ensure that improved sustainability performance percolates down from leading companies to the majority who are yet to adopt ESG disclosure practices. There are an estimated 80,000 transnational corporations in the world and yet there are only about 5,000 to 10,000 companies producing ESG reports. There is also growing interest among investors and other report users to ensure that reports are issued consistently and with comparable information. Stock exchanges themselves, especially large internationally competitive exchanges, are expressing an interest in industry-wide solutions so as to avoid making ESG disclosure something that could potentially affect the competitive position of first movers. In sum, there is broad demand for the type of comprehensive approach traditionally offered by public policy. This Report on Progress therefore provides a snapshot of what policymakers (represented by G20 member States) and regulators (represented by IOSCO board members) are currently doing in this area.

The G20 countries account for two-thirds of the world's population, 85 per cent of its GDP and 75 per cent of global trade (G20 2014). Its members therefore have the influence to lead the way in ESG disclosure and reporting initiatives. The grouping also has the advantage of including both developed and developing countries. IOSCO, meanwhile, is the global standards setter for securities commissions and includes more than 120 securities regulators, who are responsible for regulating more than 95 per cent of the world's securities markets (IOSCO 2014). Securities commissions around the world are playing an increasing role in promoting sustainability disclosure. IOSCO therefore could be well placed to provide leadership in this area.

Other organisational developments

There is a growing discussion of sustainability and ESG disclosure requirements at the international level. This is reflected in the growth of the SSE initiative in terms of the number of partner stock exchanges and the extent of its engagement activities with other actors in this space such as investors, the private sector, and regulators and policymakers. It is also reflected in recent developments at the World Federation of Exchanges (WFE) with its Sustainability Working Group, and the International Integrated Reporting Council (IIRC) with its Corporate Reporting Dialogue. More details below.

2.1 Stock exchange initiatives: snapshot of WFE members and other exchanges

This report looked at 55 stock exchanges around the world (Table 2.1), including the members of the World Federation of Exchanges (WFE) (excluding those focused primarily on futures and options) as well as SSE partner exchanges that are not members of the WFE. Combined, these exchanges host more than 45,000 companies with over $65 trillion in market capitalisation. This analysis nearly doubles the number of stock exchanges reviewed in the 2012 Report on Progress and is intended to provide a snapshot of the exchanges' efforts towards introducing sustainability measures and products.

Sustainability indices

Sustainability indices remain the most popular type of sustainability initiative among stock exchanges, with 23 of the 55 exchanges offering at least one index integrating social and/or environmental issues (Figure 2). Two exchanges reviewed in the 2012 Report on Progress have since added sustainability indices: the Shenzhen Stock Exchange and SIX Swiss Exchange.

Training and guidance

Stock exchanges can help prompt the integration of sustainability information in investment decision making by offering guidance documents and formal training to their listed companies and investors. Over a third of the exchanges reviewed provide either guidance or training to the listed companies on their exchange. Of these, three also provide guidance documents to investors, and four provide investor training on the need to integrate sustainability into investment decisions.

Sustainability reporting

Of the 55 exchanges reviewed, seven require some environmental and social reporting for all their listed companies, while an additional five exchanges require such reporting for companies of a specific size or within a specific industry. In addition to these twelve exchanges, three others make strong recommendations to disclose such information and, in some cases, provide or refer to specific sustainability report guidance. In all, over a quarter of the exchanges reviewed either requires or recommends some environmental and social reporting for companies listed on their exchange.

September 2014 - Leadership of the Stock Exchange of Thailand announcing that SET will become first exchange in ASEAN region to join SSE initiative.

Figure 2: Sustainability indices remain most popular sustainability initiative
Summary of 55 stock exchanges' sustainability initiatives. Units equal number of exchanges found to have initiatives in place

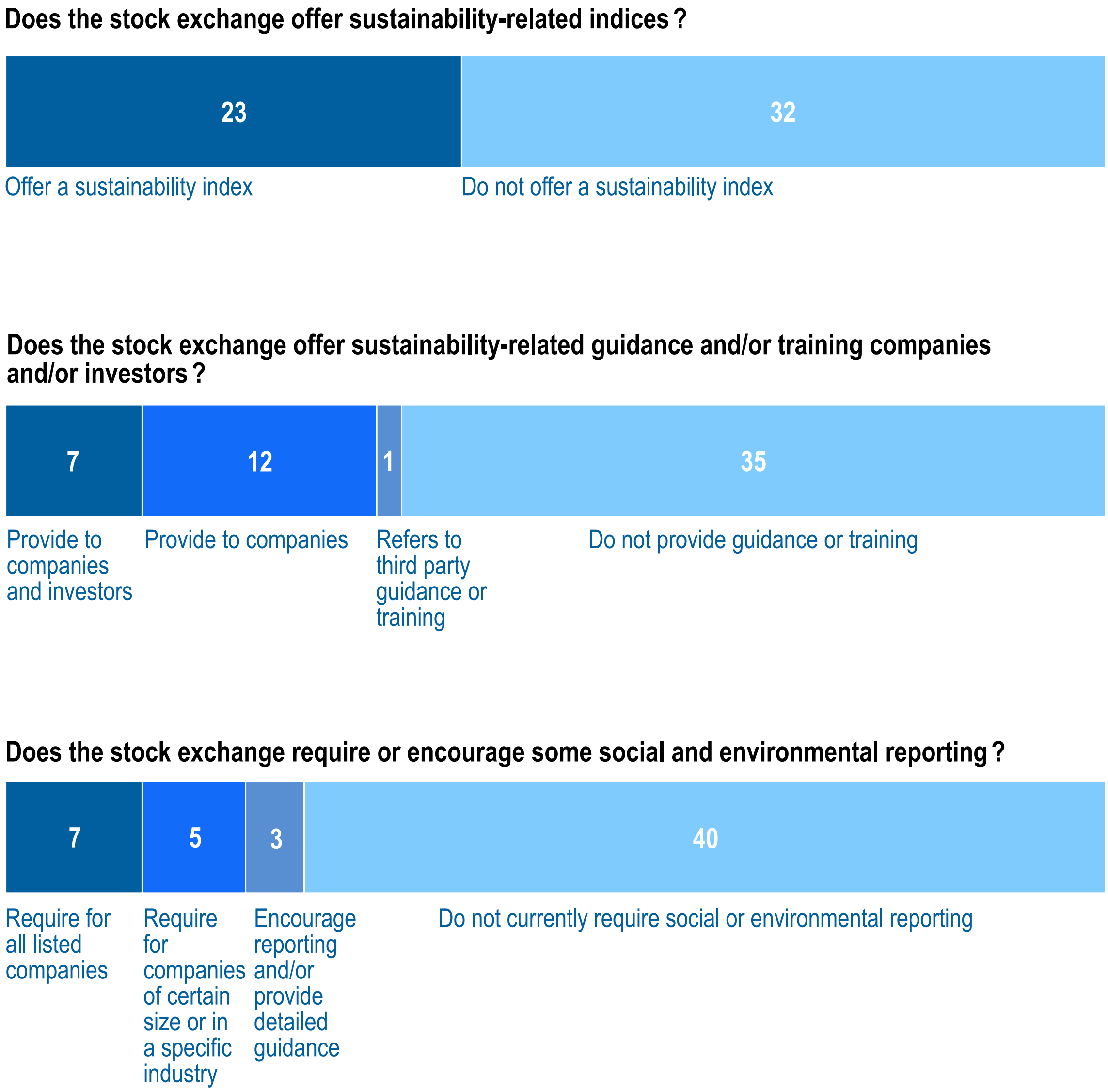


Table 2.1: Stock exchanges' sustainability measures becoming more widespread
A snapshot of sustainability measures in 55 stock exchanges[1]

Country of Primary Business or Headquarters Location	Stock Exchanges	Number of listed companies	Market Cap in USD millions
Argentina	Bolsa de Comercio de Buenos Aires	104	53,105
Australia	Australian Securities Exchange	2048	1,365,958
Austria	Wiener Börse AG	104	117,671
Bermuda	Bermuda Stock Exchange	58	1,566
Brazil	BM&FBOVESPA S.A.	366	1,206,426
Canada	TMX Group Inc.	3,873	2,113,822
Chile	Bolsa de Comercio de Santiago	307	265,150
China	Shanghai Stock Exchange	964	2,615,035
China	Shenzhen Stock Exchange	1,575	1,452,154
Colombia	Bolsa de Valores de Colombia	78	202,693
Cyprus	Cyprus Stock Exchange	95	2,105
Egypt	The Egyptian Exchange	213	73,372
Germany	Deutsche Börse AG	720	1,936,106
Greece	Athens Exchange	251	82,594
Hong Kong, China	Hong Kong Exchanges and Clearing Limited	1,657	3,100,777
India	BSE India Limited	5305	1,138,834
India	National Stock Exchange of India Limited	1,683	1,112,952
Indonesia	Indonesia Stock Exchange	483	346,674
Ireland	Irish Stock Exchange	50	177,514
Israel	Tel-Aviv Stock Exchange	495	203,301
Jamaica	Jamaican Stock Exchange	57	4,648
Japan	Japan Exchange Group, Inc.	3,416	4,668,219
Jordan	Amman Stock Exchange	237	26,538
Kazakhstan	Kazakhstan Stock Exchange	80	26,359
Korea, Republic of	Korea Exchange	1,815	1,234,549
Luxembourg	Bourse de Luxembourg	274	78,641
Malaysia	Bursa Malaysia	909	500,387
Malta	Malta Stock Exchange	37	13,180
Mauritius	Stock Exchange of Mauritius	94	9,300
Mexico	Bolsa Mexicana de Valores	143	526,016

Notes for Table 2.1

[1] The 55 stock exchanges were selected based on the World Federation of Exchanges (WFE) membership with the exclusion of exchanges focusing in options and futur exchanges that are not part of the WFE are also included in this table.[3] Recommendation to disclose and/or voluntary guidance is given or referred to.
[2] Recommendation to disclose and/or voluntary guidance is given or referred to.[5] Top 100 companies are required; voluntary for remaining companies.
[3] Companies must disclosure environmental and social issues immediately if deemed to be material in nature and/or companies require greenhouse gas reporting.
[4] Specific companies must disclosure environmental and social issues with a recommendation for other companies to voluntarily disclose.
[5] Top 100 companies are required; voluntary for remaining companies.
[6] 500 firms are required to report on their GHG emissions and energy usage.

SSE Partner Exchange	Requires comprehensive sustainability reporting?	Offers sustainability guidance or training for companies?	Offers sustainability guidance or training for investors?	Provides sustainability-related indices?
	No[2]	No[2]		
				Yes
Yes	Yes	Guidance, Training	Guidance	Yes
	Yes[3]	Guidance, Training	Training	Yes
	No[2]			
	Yes[4]	Guidance		Yes
		Guidance		Yes
Yes		Training	Guidance	
Yes				Yes
Yes	No[2]	Guidance, Training		Yes
		Guidance, Training		
Yes	Yes[5]	Guidance		Yes
	Yes[5]	Guidance		Yes
				Yes
Yes				
				Yes
	Yes[6]			Yes
				Yes
	Yes	Guidance, Training		
Yes		Training		Yes

Table 2.1 continued

Country of Primary Business or Headquarters Location	Stock Exchanges	Number of listed companies	Market Cap in USD millions
Morocco	Bourse de Casablanca	75	53,831
Netherlands (HQ) & others[7]	Euronext	1,067	3,623,096
New Zealand	NZX Limited	147	83,919
Nigeria	The Nigerian Stock Exchange	196	117,126
Norway	Oslo Børs	214	265,377
Oman	Muscat Securities Market	167	36,767
Peru	Bolsa de Valores de Lima	271	80,978
Philippines	Philippine Stock Exchange	260	312,321
Poland	The Warsaw Stock Exchange	895	203,903
Qatar	Qatar Exchange	43	152,576
Russian Federation	Moscow Exchange	271	661,097
Saudi Arabia	Saudi Stock Exchange (Tadawul)	163	467,366
Singapore	Singapore Exchange	774	744,413
South Africa	Johannesburg Stock Exchange	378	942,812
Spain	BME Spanish Exchanges	3245	1,116,561
Sri Lanka	Colombo Stock Exchange	295	21,938
Switzerland	SIX Swiss Exchange	311	1,540,700
Thailand	Stock Exchange of Thailand	596	448,761
Turkey	Borsa Istanbul	423	269,268
United Arab Emirates	Abu Dhabi Securities Exchange	65	109,639
United Arab Emirates	Dubai Financial Market	65	7,184
United Kingdom (HQ) & Italy	London Stock Exchange Group	2,732	4,428,975
United States (HQ) & others[9]	NASDAQ OMX	2,649	6,084,970
United States	NYSE / Intercontinental Exchange, Inc.	2,423	18,507,192
Viet Nam	HoChiMinh Stock Exchange	302	39,800

Notes for Table 2.1 continued

[7] Euronext also operates in the following countries: Belgium, France, Portugal, and the United Kingdom.
[8] Legislation was adopted in April 2013 requiring large companies to provide information on how they integrate environmental, social, and governance issues.
[9] NASDAQ OMX also operates in the following countries: Denmark, Finland, Iceland, Sweden, Latvia, Estonia, Lithuania, Armenia, Norway, and the United Kingdom.

SSE Partner Exchange	Requires comprehensive sustainability reporting?	Offers sustainability guidance or training for companies?	Offers sustainability guidance or training for investors?	Provides sustainability-related indices?
				Yes
Yes				
	Yes[8]			
Yes				Yes
		Guidance		
Yes		Guidance		Yes
		Guidance, Training	Guidance	
Yes	Yes	Guidance	Training	Yes
		Training		Yes
	Yes			
				Yes
Yes	Yes	Guidance, Training	Training	
Yes		Guidance, Training		
Yes	Yes	Training	Training	Yes
Yes				Yes
Yes				Yes

Source: Sustainalytics, PRI, UNCTAD

To see more detailed fact sheets on these leading stock exchanges, please visit the fact sheet section on the SSE website at www.SSEinitiative.org

2.2 Government initiatives: snapshot of the G20 Member States

Governments around the world have recognized the importance of sustainability reporting and many of them have introduced initiatives in this area. This section examines the practices of G20 member States where 19 of 20 member States have some sort of initiative in place regarding aspects of social and/or environmental reporting. The analysis is based on four questions:

- Which institutions are implementing the initiatives (source of the initiative);
- to which companies does it apply (scope of application);
- does it cover both social and environmental issues (scope of subject); and
- does the disclosure model rely on a mandatory, a mandatory 'comply or explain', or voluntary approach?

This analysis highlights that while social and environmental reporting instruments are relatively common among governments, the need for harmonization and standardization of this reporting is required. A key characteristic of government reporting initiatives is that many of them are focused on a single metric or limited set of topic specific metrics (e.g. greenhouse gas emissions). It remains rare for governments to promote or require use of a comprehensive sustainability reporting framework that includes a broad range of social and environmental indicators. This is in part reflected in the analysis of the source of the initiative. The majority of sustainability measures originate within government bodies such as environmental or labour ministries that have a specific focus, rather than securities regulators or ministries of commerce or finance that might introduce more broad based corporate reporting frameworks. Opportunities exist to further simplify sustainability reporting by integrating various single issue requirements into one comprehensive social and environmental disclosure framework.

Source of initiative

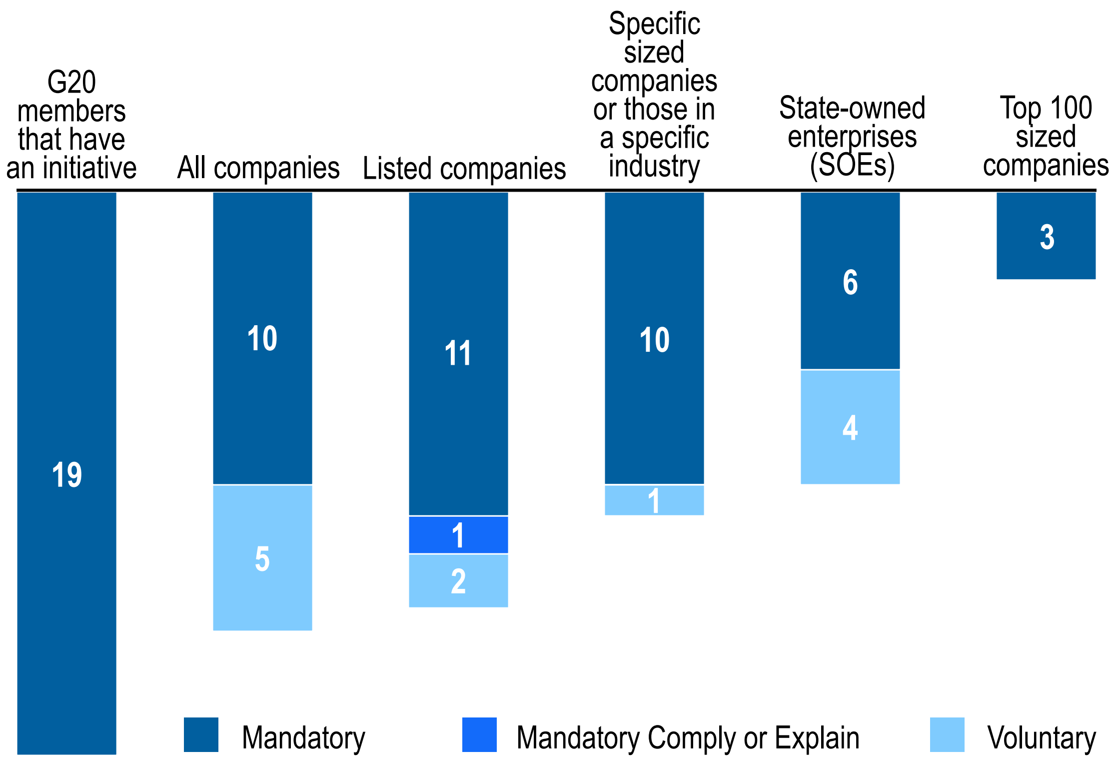
Securities regulators in almost half of the G20 membership have already introduced regulation for disclosure of at least some social or environmental issues. Sixteen members have other bodies of government such as environment or labour ministries that require some disclosure. Combined, all but one member of the G20 require disclosures of at least some sustainability issues.

Scope of application

Fifteen G20 member States have either a mandatory or voluntary sustainability initiative that applies to all companies. Twelve members target their listed companies with a mandatory approach, with two members using voluntary initiatives. Ten members implemented mandatory initiatives that target specific industries and companies with high energy usage, requiring them to report on specific metrics such as greenhouse gas emissions (Figure 3). Some countries, for example China, India and Italy, initiate measures by requiring their top 100 companies to make social and environmental disclosures, while allowing smaller companies to disclose on a voluntary basis.

Figure 3: Initiatives can target different types of companies

Number of G20 members, type of initiative and scope of application



Scope of subject matter

Almost all G20 members have initiatives on at least some aspects of social and environmental disclosure with fifteen currently requiring some information. In addition, four members have specific initiatives requiring environmental disclosures. As noted above, many disclosure requirements are focused on single issues (e.g. greenhouse gas emissions) and it remains rare for governments to require disclosure against broad standardized set of social and environmental indicators.

October 2013 - On the sidelines of the World Federation of Exchanges annual general meeting, the CEO of Nigerian Stock Exchange, Mr. Oscar Onyema is welcomed to the SSE initiative by Mr. James Zhan, Director of UNCTAD's Investment and Enterprise Division.

Disclosure Model

G20 members use a combination of mandatory and voluntary initiatives with at least some mandatory reporting rules in almost every country. It should be noted that the number of initiatives introduced by a country is not necessarily an indicator of the overall effectiveness of its ESG disclosure: initiatives can vary widely in terms of their scope of application and scope of subject matter covered. But the number of initiatives can give a sense of the relative activity around sustainability reporting, and perhaps also the growing need for a single harmonized standard that might simplify the reporting process for companies.

Table 2.2: Diversity of approaches to sustainability reporting

Review of G20 Member States: Existence of broad, social & environmental reporting initiatives[1]

G20 member states	Source of Sustainability Reporting Initiative				Scope	
	Other Government bodies	Securities Regulators	Stock Exchange	Professional Associations	All	Listed
Argentina	M[2]			V	M[3] V	
Australia		M	M C/E		M	M C/E
Brazil	M M[2] V	M	M V	M V	V	M V
Canada	M	M	M			M
China	M V V[2]		M V		M V	M V
European Union	M C/E V				M V	
France	M C/E V				M V	
Germany	M V		V		M V	V
India	M V	M			V	M
Indonesia	M C/E	M				M C/E
Italy	M V			V	M V	
Japan	M V		V		V	V
Korea, Republic of	V	M			V	M
Mexico	M V				M V	
Russian Federation	M	M			M	M
Saudi Arabia						
South Africa	M V		C/E		M V	C/E
Turkey		M				M
United Kingdom	M C/E V		M		V	M C/E
United States	M	M V				M V

Notes for Table 2.2

[1]This table compiles information about G20 reporting initiatives implemented since the United Nations Conference on Environment and Development (UNCED), or Rio Summit in 1992. It is not a fully comprehensive list and may omit some existing or new initiatives, and may contain initiatives affected by subsequent revision of legislation.
[2]Initiatives implemented by a subnational government
[3]Companies with a specific number of employees
[4]Policies directed towards SMEs, or companies who have received public financial support
[5]Companies emitting a specific GHG, using a specific amount of energy, or selected due to size of company

Key :

M **Mandatory Initiatives** C/E **Mandatory Comply or Explain Initiative** V **Voluntary Initiatives**

of Application			Scope of Subject Matter		Disclosure Model	
Top 100	SOEs	Other	Social	Environmental	No. Of Mandatory Initiatives	No. of Voluntary Initiatives
			M V	M V	2	
			M C/E	M C/E	4	
	M	M[4, 5]	M V	M V	6	5
		M[5]	M	M	3	
M	V	M[5] V[6]	M V	M V	4	5
	M V	M[5, 6] C/E[3, 6]	M C/E V	M C/E V	5	2
	V[3]	C/E[3, 7] V[3]	M C/E V	M C/E V	2	2
			M V	M V	1	2
M	V	M[6, 7]	M V	M V	4	2
	M		M C/E	M C/E	3	
M	V	M[6] V[4]	M V	M V	4	5
		M[5]	V	M V	2	3
		M[6]	V	M V	1	2
				M V	1	1
	M			M	3	
	M		M C/E	M C/E V	6	1
			M	M	1	
		M[5]	C/E	M C/E V	5	1
	M	M[6]	M	M V	4	1

Source : UNCTAD

[6]Companies in a specific industry, or specifically identified by government body
[7]Companies with a specific revenue amount
[8]Includes Hong Kong

To see more details on these measures, visit the SSE website at www.SSEinitiative.org

2.3 Regulator initiatives: snapshot of IOSCO board members

Of the 32 IOSCO board members, more than one third (12) belong to an agency that has introduced a sustainability reporting instrument, either a regulatory initiative or a best-practice guideline.[2] In total, these members have implemented 17 different instruments since 2001. Only one of these policies is voluntary in nature, while the rest are either mandatory or include a mandatory comply or explain element. These sustainability instruments have been introduced in both developed and developing economies. In different countries the scope of the instruments can vary significantly. Some policies are geared toward all listed companies, while others are more targeted in nature, e.g. focused on specific industries or the top 100 companies by market capitalisation. Sustainability reporting instruments also differ in the types of issues they address: nearly half address both environmental and social issues; six address only environmental issues, and three address only social issues (Figure 4).

It is important to note that not all securities commissions have the same functions or regulatory powers. In some jurisdictions, government ministries have traditionally played the role of introducing sustainability reporting instruments, while in other jurisdictions, individual stock exchanges are taking the lead in this respect. According to a study into sustainability disclosure carried out by CK Capital, securities regulators were responsible for just 5 per cent of the 167 sustainability disclosure policies introduced in developed countries, compared with 68 per cent introduced by governments and 19 per cent by stock exchanges (CK Capital, 2013).

November 2013 - NASDAQ hosts special event with SSE to promote new research on sustainability reporting by Corporate Knights

[2] This analysis does not include current proposals or consultative papers written by the securities commissions which are not yet approved; nor does it include actions taken by non-IOSCO Board members. Inclusion of both of these would increase the number of instrument tools used, and provide additional insight into forthcoming instruments and activities in a broader range of economies.

Figure 4: Securities regulators take action on sustainability reporting
Number of IOSCO Board Members and an analysis of their 17 sustainability reporting initiatives by disclosure model and scope

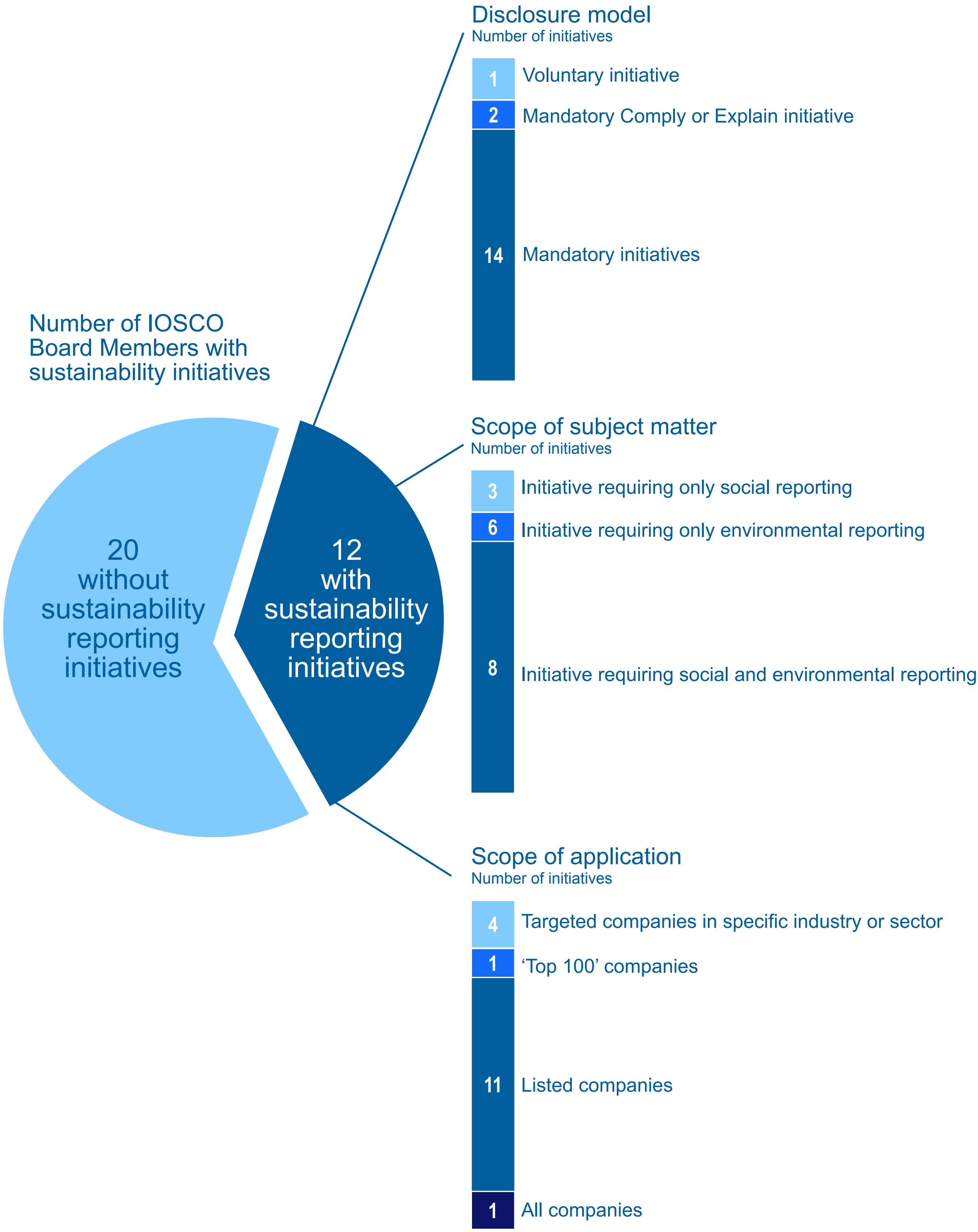


Table 2.3 Over a third of IOSCO's 32 Board Members have implemented sustainability measures
IOSCO Board Members by country with initiative details

Country of Board Member	Source of Initiative	
	Institution	Law / Initiative
Australia	Australian Securities and Investments Commission	The Corporations Act 2001
Brazil	Brazilian Securities and Exchange Commission (CVM)	The ANEEL Requirements for Annual Sustainability Report (Despacho 3034/2006)
Brazil	Brazilian Securities and Exchange Commission (CVM)	Instruction 480
Canada	Provincial securities regulators	National Instrument 51-102 Continuous Disclosure Obligations
Canada	Canadian Securities Administrators (CSA)	CSA Staff Notice 51-333: Environmental Reporting Guidance
China	China Securities Regulatory Commission with the Ministry of Environmental Protection	Green Securities Law
India	Securities and Exchange Board of India (SEBI)	Quarterly compliance report, 2003
India	Securities and Exchange Board of India (SEBI)	Annual Business Responsibility Reporting (ABRR): Clause 55 of the Listing Agreement
Korea, Republic of	Financial Services Commission	Green Posting System
Korea, Republic of	Financial Supervisory Service	Social Contribution Performance Posting System
Malaysia	Securities Commission	Corporate Governance Blueprint
Pakistan	Securities and Exchange Commission (SECP)	Companies (CSR) General Order: SRO 983(I)
Singapore	Monetary Authority of Singapore (MAS)	Code of Corporate Governance
Spain	Securities and Exchange Commission (CNMV)	Corporate Governance Code
United States	Securities and Exchange Commission (SEC)	Regulation S-K
United States	Securities and Exchange Commission (SEC)	Interpretive Guidance on Disclosures Related to Climate Change
United States	Securities and Exchange Commission (SEC)	Dodd-Frank Wall Street Reform and Consumer Protection Act

To see more details on these measures, visit the SSE website at www.SSEinitiative.org

Disclosure Model		Scope of Subject Matter		Scope of Application
Type of Initiative:	Policy Type	Social	Environmental	Types of Companies Affected
Regulation	Mandatory	Yes	Yes	All companies that file a director's report
Regulation	Mandatory	Yes	Yes	All Energy Utility Companies
Regulation	Mandatory		Yes	All Listed Companies
Regulation	Mandatory	Yes	Yes	All Listed Companies on the Toronto Stock Exchange
Guidance	Mandatory		Yes	All Listed companies
Regulation	Mandatory		Yes	Companies in heavily polluting industries
Regulation	Mandatory	Yes	Yes	All Listed Companies
Regulation	Mandatory	Yes	Yes	Top 100 Listed on BSE & NSE in terms of market cap
Regulation	Mandatory		Yes	500 firms and all listed companies
Regulation	Mandatory	Yes		Insurance companies
Regulation	Mandatory	Yes	Yes	All Listed Companies
Regulation	Mandatory	Yes	Yes	All Listed Companies
Regulation	Comply or explain	Yes	Yes	All Listed Companies
Regulation	Comply or explain	Yes		All Listed Companies
Regulation	Mandatory		Yes	All Listed Companies and Foreign Private Issuers
Guidance	Voluntary		Yes	All Listed Companies
Regulation	Mandatory	Yes		All Listed Companies Dealing with Conflict Minerals and Making Payments to Governments for Other Natural Resources

Source: UNCTAD

2.4 Other institutional developments

2.4.1 Growth of the SSE initiative

Since the 2012 Global Dialogue (held as part of the 'Rio+20' United Nations Conference on Sustainable Development in Rio de Janeiro, Brazil in June 2012) the SSE has seen its membership more than triple from its original five members to sixteen just over two years later (Box 2). The Bombay Stock Exchange joined shortly after the Global Dialogue in 2012. The following year saw three exchanges join, including the New York Stock Exchange. By August 2014, seven additional partner exchanges had joined with several others showing interest in the lead-up to the 2014 SSE Global Dialogue. At the time of publication, more than 17,000 companies with approximately $36 trillion in market capitalisation are listed on these 16 Partner Exchanges (Figure 5).

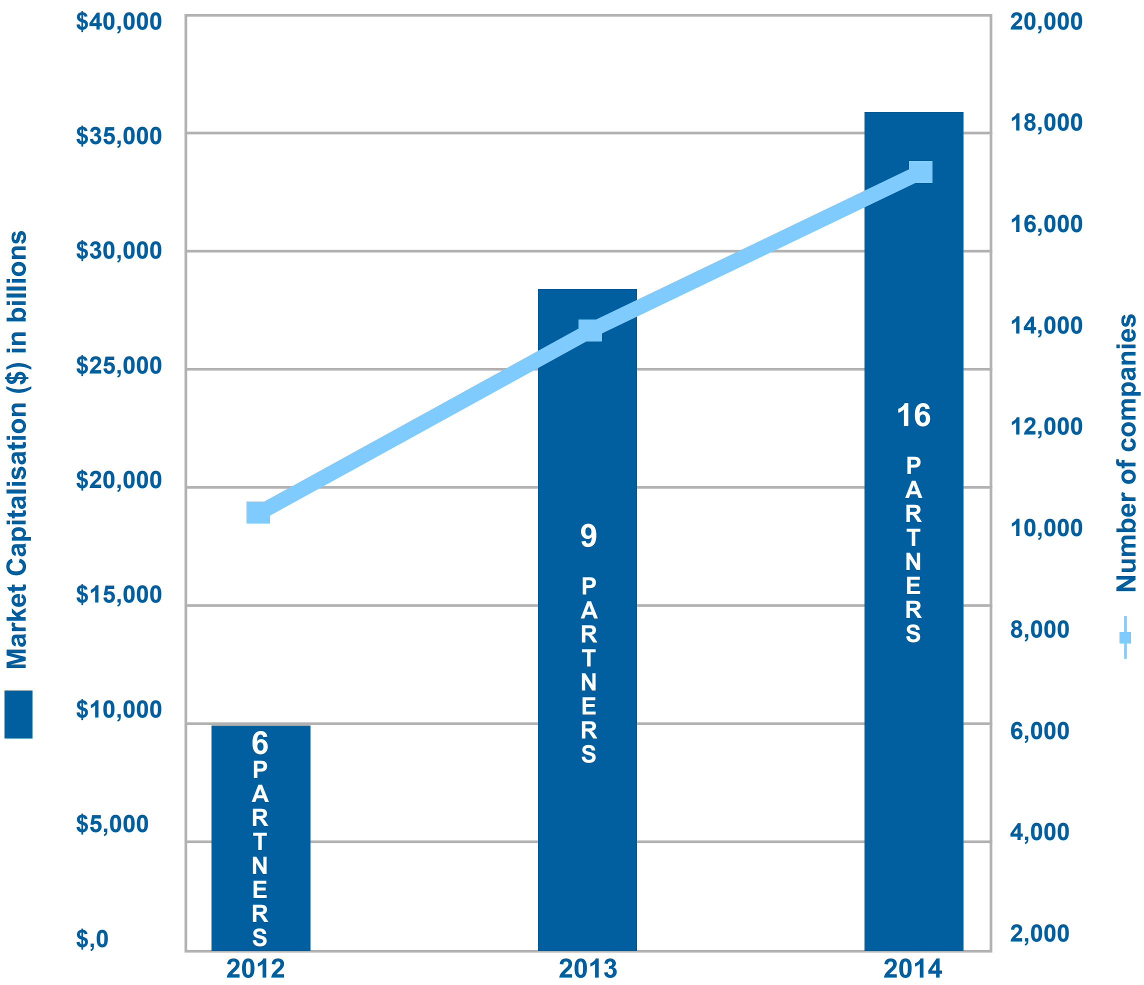
Box 2: Timeline of SSE Partner Exchange Membership

Name	Country	Commitment Signed
Deutsche Börse AG	Germany	10 Sep. 2014
Jamaica Stock Exchange (JSE)	Jamaica	28 Aug. 2014
Lima Stock Exchange (BVL)	Peru	19 Aug. 2014
Mexican Stock Exchange (BMV)	Mexico	15 Aug. 2014
Colombian Securities Exchange (BVC)	Colombia	22 July 2014
Stock Exchange of Thailand (SET)	Thailand	14 Jul. 2014
London Stock Exchange (LSE)	United Kingdom	1 May 2014
Warsaw Stock Exchange (WSE)	Poland	17 Dec. 2013
Nigerian Stock Exchange (NSE)	Nigeria	24 Oct. 2013
New York Stock Exchange (NYSE)	USA	24 Jul. 2013
Bombay Stock Exchange (BSE)	India	25 Sep. 2012
NASDAQ OMX	USA	18 Jun. 2012
Johannesburg Stock Exchange (JSE)	South Africa	18 Jun. 2012
Egyptian Exchange (EGX)	Egypt	18 Jun. 2012
Borsa Istambul	Turkey	18 Jun. 2012
BM&FBOVESPA	Brazil	18 Jun. 2012

New developments within the SSE Initiative

In addition to the growth of partner exchanges, the SSE is broadening its activities and engaging new stakeholders in the sustainability discussion. As part of the 2014 Global Dialogue, the SSE initiative is to announce the formation of the SSE Corporate Working Group, which will be coordinated by the United Nations Global Compact. The SSE Corporate Working Group will focus on the integration of sustainability in corporate strategy formation, and the further integration of ESG issues into corporate disclosure and reporting standards. This working group will focus on the private sector and mirror the efforts of the SSE Investor Working Group, which has been coordinated by the United Nations-supported Principles for Responsible Investment (PRI), and chaired by Aviva Investors since 2009. Currently the Investor Working Group is composed of a number of PRI signatories representing over $1.8 trillion in assets under management.

Figure 5: The economic footprint of SSE Partner Exchanges
Growth in SSE Partner Exchanges and the potential economic influence measured in market capitalisation & number of companies (based on 2014 figures)



New and enhanced Partner Exchange voluntary commitments will also be announced at the 2014 Global Dialogue. These are expected to include the announcement of national and regional dialogues hosted by the exchanges themselves, in close consultation with the SSE secretariat. These will build on the 2014 Global Dialogue, allowing for the dissemination of the international sustainability discussion to the regional and national levels. The SSE secretariat also aims to work closely with Partner Exchanges to address the needs of smaller exchanges, particularly in developing countries, and provide them with the expertise, guidance, and toolkits needed to build capacity within the exchange and among its listed companies, as well to provide technical assistance wherever requested to relevant policymakers and regulators.

2.4.2 Creation of WFE sustainability working group

In March 2014, the World Federation of Exchanges (which represents 60 regulated exchanges around the world) launched a sustainability working group. The working group's mandate is to "build consensus on the purpose, practicality, and materiality of ESG data". Specifically, the working group will promote debate around ESG issues among WFE members, carry out and disseminate original research, and make recommendations to member exchanges (WFE 2014). At launch, the working group included BM&FBOVESPA, Borsa Istanbul, Bursa Malaysia, CBOE, CME Group, Deutsche Börse, Johannesburg Stock Exchange, NASDAQ OMX, National Stock Exchange of India, Shenzhen Stock Exchange and New York Stock Exchange. Since then, a number of other WFE members have joined.

> *"The overwhelming interest among our members for ESG issues is a good indication for constructive future collaboration in this group, which will transcend competitors and regions in order to tackle key issues and promote best practices."*
>
> Ravi Narain,
> Chairman, WFE Working Committee

2.4.3 The Launching of Corporate Reporting Dialogue

Over the past fifteen years, the demand for corporate sustainability reporting has led to the development of a number of reporting frameworks and standards. The various frameworks include those developed by the Global Reporting Initiative (see Box 3), the International Integrated Reporting Council and the Carbon Disclosure Standards Board, among others. While these are often complementary, their proliferation can present challenges for regulators, companies and investors in terms of understanding their relevance and use.

In June 2014, the International Integrated Reporting Council (IIRC) launched the Corporate Reporting Dialogue (CRD), bringing together a number of organisations involved in corporate reporting frameworks and standards, with a view to better aligning their activities in the interest of higher-quality and more consistent corporate reporting (IIRC 2014).

In addition to the IIRC, the organisations initially involved are:

- Carbon Disclosure Project (CDP)
- Climate Disclosure Standards Board (CDSB)
- Financial Accounting Standards Board (FASB)
- Global Reporting Initiative (GRI)
- International Accounting Standards Board (IASB)
- International Public Sector Accounting Standards Board (IPSASB)
- International Organization for Standardization (ISO)
- Sustainability Accounting Standards Board (SASB)

BOX 3 : Global Reporting Initiative

The Sustainability Reporting Guidelines from the Global Reporting Initiative (GRI) are the most widely used, comprehensive and up-to-date sustainability reporting guidelines worldwide. The aim of the guidelines is to help organisations make robust and purposeful sustainability reporting standard practice.

The guidelines are being increasingly relied on by policymakers, such as governments and market regulators. Research has found that sustainability reporting influences managerial practices and improves sustainability performance (Ioannou, Serafeim 2011). This leads to higher levels of available data which can be used by investors and other stakeholders to inform their decision-making. GRI aspires that its guidelines become the main point of reference for policymakers who take a proactive stance on reporting. Among the most important recent policy developments is the draft 2014 European Union Non-Financial Reporting Directive, which references the GRI framework. The organisation is reviewing its governance system and standards development due process, to ensure it is recognised as a standard-setting body, and that its reporting framework further strengthens its position as a reliable reference point for policy and regulation.

At the global level, GRI has joined forces with the United Nations Global Compact and the World Business Council for Sustainable Development to develop private sector guidance in order to advance the Sustainable Development Goals (SDGs) agenda among companies. This will help companies enhance their sustainability management and reporting with a view to supporting the global SDGs and targets. The three organisations endorse common objectives and commitments, and have developed a joint work plan, to which each contributes its own specific expertise.

Source : Global Reporting Initiative

July 2014 – Colombia Stock Exchange joins SSE initiative

3. The context: equity markets and the sustainable development challenge

Stock exchanges have the opportunity to play an important role in the broader objective of refocusing the working of financial markets towards supporting sustainable development. Much of what needs to be done is beyond the purview of any individual actor within the capital markets, be it stock exchanges, capital market regulators, investors or companies. Concerted action and public policy coordination on many levels will be required. This chapter looks at the broader sustainable development context to facilitate a discussion on what exchanges and capital market policymakers can do, and where they can facilitate greater collaboration among key capital market stakeholders.

In 2015, the United Nations member states are expected to adopt a set of Sustainable Development Goals (SDGs) intended to galvanise action worldwide to reduce poverty, promote food security, human health, education and climate change mitigation, and meet a range of other objectives across the economic, social and environmental pillars. The SDGs will have significant resource implications across the developed and developing world. UNCTAD, in World Investment Report 2014, estimates global investment needs for realisation of the SDGs on the order of $5 trillion to $7 trillion per year; estimates for developing countries alone range from $3.3 trillion to $4.5 trillion per year.

Private sector contributions to investment in sustainable development will be an indispensable part of the financing challenge and must be scaled up. But the structure and operation of the global economic and financial system does not adequately serve the needs of sustainable development. A range of price signals, incentives, regulations, market failures and information asymmetries act as constraints to investment in sustainable development, and systematically work against projects that could contribute positively to the SDGs. These constraints can be found both at the systemic level and at the level of individual actors in the system and their interactions. Achievement of the SDGs will thus require a fundamental reorientation of markets and policy at many levels, as well as changes in the behaviour and investment strategies of a wide range of institutions.

3.1 Responsible investment and the investment chain

Mobilisation of capital for sustainable business and development will occur in the context of the flow of funds through the global financial system. Its participants allocate capital between ultimate sources (broadly, governments, household savings, and corporate earnings) and the end-users of capital which invest directly in projects in SDG sectors (Figure 6). The salient feature of this chain is that each link involves institutions and individuals who face regulations and incentives that shape investment decisions and, in the context of sustainable development, determine whether their choices contribute to or hinder attainment of improved ESG performance, sustainable business and, ultimately, the attainment of the SDGs. Policy interventions can thus target specific links in the chain and/or specific types of institutions to ensure that financial markets are better geared towards sustainable outcomes than is currently the case.

Most household, corporate and government savings are channelled to end-users via financial intermediaries, such as banks, asset managers, pension funds, insurance companies and sovereign wealth funds. The role of these institutions in the allocation of capital to end-users is therefore of paramount importance.

Institutional asset managers play a critical role because they offer an intermediary function (as well as advice) not only directly to households, firms and governments, but also to other financial intermediaries, notably pension funds and insurance companies. Sources of capital and financial intermediaries rely on guidance from a variety of external advisors in determining investment decisions and how capital is allocated.

Stock exchanges play a crucial part in this investment chain. They offer a means for companies to access the widest possible pool of investors. They provide transparent, regulated and liquid markets for those investors to buy and sell shares in tens of thousands of the world's largest companies. As organisations, stock exchanges are sensitive to the needs of both the companies who typically pay to list on their bourses, and to the investors who pay to trade on them. They also fulfil (to varying degrees in different jurisdictions) a vital regulatory and supervisory role. In order to list on an exchange, companies are required (either by the exchange, securities commission or other government body) to meet certain levels of disclosure and standards of governance. These listing requirements offer an opportunity to scale up practices that are in the interest of investors as well as public policy more generally.

January 2014 – Workshop in Istanbul co-organized by Borsa Istanbul, Sabanci University and the SSE initiative.

Figure 6: Directing investment to the SDGs
The investment chain and key actors involved

Principal institutions

Sources of capital
- Governments (e.g. ODA)
- Households/ individuals, e.g.:
- Retail investors
- High-net-worth individuals
- Pensions
- Insurance premia
- Firms (e.g. reserves/ retained earnings)
- Philanthropic institutions or foundations
- Other institutions with capital reserves (e.g. universities)

Assets pools
(or primary intermediaires)
- Banks (~100 trillion)
- Pension funds (~35 trillion)
- Insurance companies (~25 trillion)
- Mutual funds (~25 trillion)
- Sovereign wealth funds (~5 trillion)
- Hedge funds (~2.5 trillion)
- Endowment funds (~1.5 trillion)
- Private equity (~1.5 trillion)
- Venture capital (~42 billion)
- Impact investors (~36 billion)
- ...

Markets
- Equity
- Corporate debt
- Sovereign debt
- Other markets/ financial instruments

Intermediaries
- Investment banks and brokerage firms
- Institutional asset managers

Advisors
- Financial advisors
- Wealth managers
- Investment consultants
- Rating agencies

Users of capital for SDG investment
- Governments
- International Organizations/ Development Banks...
- Public and semi-public institutions
- Multinational and local firms/ entrepreneurs
- NGOs
- Impact investors
- ...

Source: UNCTAD 2014 World Investment Report

3.2 Obstacles to investment in sustainable development

Market failures in global capital markets contribute to a misallocation of capital away from projects that could contribute positively to meeting the SDGs. The failure of markets and holders of capital to properly price negative externalities into their capital allocation decisions means that the cost of capital that investors incur to finance investment projects reflects solely the private cost. Profit-maximising investors insufficiently take into account environmental and social costs when evaluating potential investments because these costs are often not recognized as materially affecting their cost of capital, earnings or profitability. Thus companies and investors are often caught in the middle of mixed messages, with market price signals saying one thing and public policy goals saying something else.

A lack of transparency around ESG performance further precludes the consideration of such factors in the investment decisions of financial intermediaries and their advisors (and the ultimate sources of capital, such as households). For example, households rarely have sufficient information about where and how their pensions are invested in order to evaluate whether they are being invested responsibly and in line with the SDGs. Similarly, asset managers and institutional investors often do not have sufficient information on a company's ESG practices to be able to make informed investment decisions which might take into account the company's contribution to sustainable development. Greater accountability and transparency on sustainability issues is needed across the entire investment chain, including investment allocation decisions, proxy voting practices and advice of asset owners, asset managers, pension funds, insurance companies, investment consultants and investment banks.

The incentives that individuals and firms receive in terms of pay, performance and reporting also influence investment allocation decisions. The appointment, monitoring and performance of most participants within the investment chain is based on short-term relative performance. The short-term view among market participants rewards investment decisions which provide short-term financial gains, regardless of the long-term costs and benefits associated with those investments. The broad effects of these incentive structures are three-fold:

1. an excessive short-term focus in investment and portfolio allocation decisions;

2. a tendency towards passive investment strategies and herding behaviour in financial markets; and

3. a focus on financial returns rather than the consideration of broader social or environmental risk-return trade-offs.

These market incentives and their effects have knock-on consequences for real economic activity, including the activities of publicly listed transnational corporations.

3.3 Solutions to overcome constraints

The mobilisation of funds for SDG investment occurs within a global financial system with numerous and diverse participants. Efforts to promote sustainable business practices and direct more financial flows to SDG-beneficial investments need to take into account the different challenges and constraints faced by all actors. The remainder of this chapter summarises potential policy solutions, based on the more detailed discussion in UNCTAD's 2014 World Investment Report.

Get the prices right

Effective pricing mechanisms for social and environmental externalities are essential to align market signals and public policy goals. The most effective and yet most challenging way to ensure that global capital allocation decisions are aligned with the needs of sustainable development would be to ensure that negative social and environmental externalities are factored into the price signals that investors receive.

A prime example is the failure of global markets to price the externalities associated with carbon emissions. Current carbon pricing mechanisms still result in a price that is well below estimates of the social cost (the price that would be required to internalise the externalities of carbon emissions) and well below firms' own calculations of the social cost of their emissions.

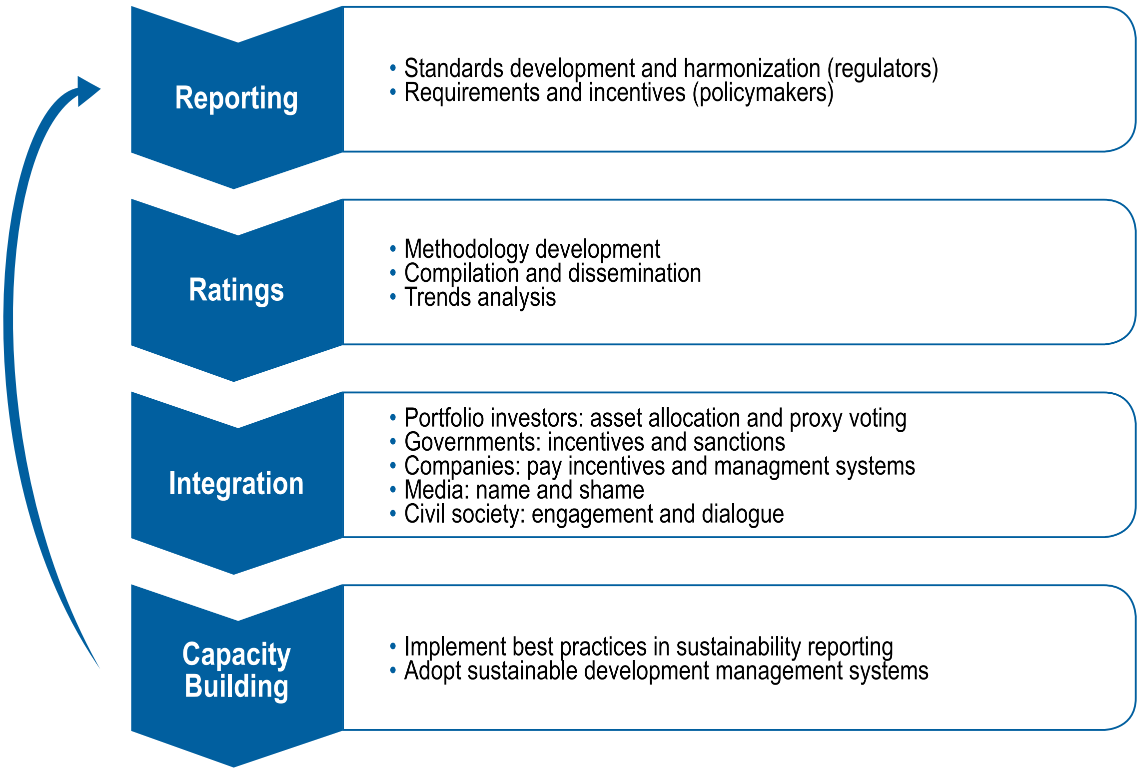
Pricing mechanisms are of fundamental importance because of the pervasive impact that prices have on the global allocation of capital. The price signals that financial market participants and direct investors (including transnational corporations) receive are what drive their investment decisions and, in turn, determine whether capital is allocated to sustainable or non-sustainable economic activity.

Get the incentives right

It is important to align corporate incentive structures with public policy goals. This covers a range of instruments that can shape management and company behaviour, including executive compensation, corporate reporting rules and corporate ratings.

Pay and performance structures should be aligned with long-term sustainable performance objectives rather than short-term relative performance. For instance, compensation schemes for asset managers, corporate executives and a range of financial market participants could be paid out over the period during which results are realised, and compensation linked to sustainability targets and fundamental drivers of long-term value conducive to sustainable development.

Figure 7: Closing the reporting loop: connecting reporting, ratings, integration and capacity building



Source: UNCTAD 2014 World Investment Report

Reporting requirements could be revised to reduce pressure to make decisions based on short-term financial or investment performance. Reporting structures such as quarterly earnings guidance can over-emphasise the significance of short-term measures at the expense of longer-term sustainable value creation. Integrating environmental and social issues into corporate reporting can provide a deeper look into a company's longer term economic viability and its contribution to sustainable development.

Rating agencies have an important influence on asset allocation decisions. In order to invest in SDG-beneficial firms and projects, investors need access to ratings that assess the relative sustainability performance of firms. For several years, Dow Jones, MSCI and Standard & Poor's have been incorporating ESG criteria into specialised sustainability indices and ratings for securities. Further work can be done to mainstream these ESG ratings. Such ratings can also play an important role in a multi-stage process of reporting, integration into investment decisions and capacity building (Figure 7).

Promote long-term responsible investment

Policymakers and regulators should ensure that regulations and standards encourage long- term responsible investment in sustainable development. This requires globally co-ordinated solutions covering a range of standards and practices.

Financial regulation and accounting standards. Regulators and accounting standard setters should ensure that regulations and standards incentivise rather than deter investment in the SDGs, without compromising financial stability objectives. Extensive work is being undertaken in international fora to address in particular the risk of adverse incentives to long-term investment created by the Basel III regulations for banks and the Solvency II regulations for insurers and pension schemes.

Reducing transactional culture. Regulation of financial institutions has a role to play in moderating frequent trading and transactional cultures in capital markets. Regulatory policy could support the role of equity markets in financing long-term investments and disincentivise short-term transactional approaches to investment (e.g. high-frequency trading) that have contributed to the excessive financialisation of the global economy.

Integrating sustainability considerations into fiduciary duties. The fiduciary responsibilities of financial institutions and intermediaries should be reinterpreted such that they integrate sustainability factors into asset valuation and investment decisions. Capital market participants such as pension fund trustees, investment consultants and asset managers observe fiduciary standards in their relationships with their clients and customers. These fiduciary standards should be broadened beyond the usual obligation to maximise financial returns to shareholders to also include additional social and environmental obligations to all stakeholders.

Integrating sustainability considerations into corporate governance. Asset managers have a key role in exercising voting rights that can be a powerful tool to influence corporate behaviour and ensure that corporate governance mechanisms are used to promote sustainable development. At present, voting practices are heavily influenced by a small number of proxy firms that advise asset managers how to vote their shares. Asset managers and proxy advisory firms should be more transparent in terms of how they exercise their voting and, in particular, they should be explicit as to how, if at all, they incorporate ESG and sustainability factors into their voting or voting advice.

Promote integrated reporting

Data on corporate performance with regard to ESG issues is a prerequisite for asset managers and others to be able to make informed investment decisions which take into account a firm's alignment with sustainable business practices and the SDGs. Without proper measurement, verification and reporting of financial and ESG information, capital markets participants cannot be expected to sufficiently factor these issues into decision making. Integrated reporting provides a holistic view of financial and ESG performance, including only the most salient or material metrics. This should in turn facilitate corporate and investor resource allocation decisions that contribute to sustainable, long-term value creation.

The importance of sustainability reporting has been recognised throughout the process leading up to the formation of the SDGs. In the outcomes of the Rio+20 United Nations Conference on Sustainable Development, member States called on governments and other stakeholders "to develop models for best practice and facilitate action for the integration of sustainability reporting" (United Nations, 2012). Building on these developments, in 2013 the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda proposed that "in future – at latest by 2030 – all large businesses should be reporting on their environmental and social impact – or explain why if they are not doing so." (United Nations, 2013). In 2014, the 28 member states of the European Union adopted a directive which will require the disclosure of environmental and social information by large "public-interest" companies (that is, those with 500 or more employees).

The content of and approach to the preparation of sustainability reports is influenced by a number of initiatives actively promoting reporting practices, standards and frameworks. These include: UN Global Compact; the Global Reporting Initiative; Carbon Disclosure Project; International Integrated Reporting Council; Accounting for Sustainability; and the Sustainability Accounting Standards Board, among others. As noted in chapter 1 of this report, UNCTAD has also provided guidance on the implementation of sustainability reporting initiatives via its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) .

3.4 Concluding Remarks

The SSE initiative can work with policymakers and exchanges, convening international expertise and facilitating the sharing of best practices, to support them in the design and implementation of tailor made sustainability reporting initiatives. United Nations development partners are also invited to engage with the SSE initiative as a platform for capacity building in the capital markets. Capacity building in this area will seek to fulfil the vision set forth by member States in paragraph 47 of the Rio+20 outcome document The Future We Want, to meet the aspirations on sustainability reporting set out by the UN's High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, and support the implementation of the forthcoming SDGs.

December 2013 - Chairman of Warsaw Stock Exchange formally submits commitment letter to SSE representative to join the SSE initiative

December 2013 - SSE initiative presentation to Warsaw Stock Exchange

References

CK Capital. (2013). *Trends in sustainability disclosure: Benchmarking the world's stock exchanges.* Retrieved from http://static.corporateknights.com/StockExchangeReport2013.pdf

EIRIS. (2013). *Sustainability initiatives: insights from stock exchanges into motivations and challenges.* Retrieved from http://www.eiris.org/publications/#emerging-themes

G20. (2014). *G20 Members.* Retrieved 29 August 2014 from https://www.g20.org/about_g20/g20_members

IIRC. (2014). Press release: *"Corporate reporting dialogue launched, responding to calls for alignment in corporate reporting".* Retrieved 29 August 2014 from http://www.theiirc.org/2014/06/17/corporate-reporting-dialogue-launched-responding-to-calls-for-alignment-in-corporate-reporting/

Ioannou, I, Serafeim, G. (2011). "The Consequences of Mandatory Corporate Sustainability Reporting", Working Paper 11-100. Boston, MA, Harvard Business School. Retrieved from http://www.iabc.com/education/pdf/HBSConsequofMand.pdf

IOSCO. (2014). *About IOSCO*. Retrieved 29 August 2014 from http://www.iosco.org/about/

Sustainable Stock Exchanges Initiative. (2012). *Sustainable stock exchanges, a report on progress.* Retrieved from : http://www.sseinitiative.org/publications

UNCTAD. (2014) *"Best practice guidance for policymakers and stock exchanges on sustainability reporting initiatives"* New York and Geneva: United Nations. Retrieved from http://unctad.org/en/PublicationsLibrary/diaeed2013d6_en.pdf

UNCTAD. (2014) *World Investment Report 2014, Investing in the SDGs: an action plan.* New York and Geneva: United Nations. Retrieved from http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

UNEP, GRI, KPMG, CCGA. (2013). *Carrots and Sticks: Sustainable reporting practices worldwide – today's best practice, tomorrow's trends.* Retrieved from: https://www.globalreporting.org/resourcelibrary/carrots-and-sticks.pdf

United Nations. (2012). *Resolution adopted by the General Assembly on 27 July 2012, 66/288, The future we want.* Retrieved from http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N11/476/10/PDF/N1147610.pdf?OpenElement

United Nations. (2013). *A New Global Partnership: Eradicate Poverty And Transform Economies Through Sustainable Development. The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda.* New York and Geneva: United Nations. Retrieved from http://www.un.org/sg/management/pdf/HLP_P2015_Report.pdf

WFE. (2014). Press release: *WFE launches sustainability working group.* Retrieved 30 August from http://www.world-exchanges.org/insight/reports/wfe-launches-sustainability-working-group

www.SSEinitiative.org