

WFE Sustainability Principles



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Introduction

In the November 2017 UN Environment – World Bank Group Roadmap for a Sustainable Financial System¹ the authors note that “sustainable growth will be one of the greatest challenges of the 21st century” and that “the full potential of the financial system needs to be harnessed to serve as an engine in the global economy’s transition toward sustainable development”.

This recognition of both the size of the challenge and the role of the financial system in addressing it, has resulted in the emergence of a range of private sector initiatives, national policies and regulatory interventions and international programmes. Taken collectively, these are broadly aimed at achieving the following:

- Reorientation of investment flows to more sustainable outcomes including decarbonisation of investment portfolios;
- Raising finance to achieve the desired sustainable transition (funding long-term needs);
- Direct corporate engagement to encourage adoption of more sustainable energy pathways and more sustainable business practices;
- Policy advocacy/engagement to encourage governments to implement the Paris Agreement;
- Enhanced disclosure/greater availability of Environmental, Social & Governance (ESG) information/data;
- Greater standardisation/clarification of sustainability terms e.g. ‘green’.

As can be seen from the summary of just some of these initiatives set out in Annex A, the sustainable finance landscape covers nearly the full spectrum of financial market participants including asset owners and managers, insurance firms, the banking sector, industry associations, service providers, financial technology firms, securities market regulators and central banks (particularly as prudential regulators).

Stock exchanges - as a central point of contact for issuers, investors and market intermediaries - have long been identified as important vectors in the sustainability transition. And indeed, exchanges have already acknowledged this, as evidenced through, for example, the formation of the World Federation of Exchange’s (WFE) Sustainability Working Group (SWG), exchange support for the United Nations (UN) Sustainable Stock Exchanges (SSE) initiative and various efforts undertaken by exchanges in their markets.² With the support and guidance of the WFE SWG and other organisations, exchanges are playing an increasingly important role in promoting sustainable development. WFE member exchanges, representing an equity market capitalisation of over US\$85 trillion³, recognise both their potential impact and responsibility in this regard.

¹ Roadmap for a Sustainable Financial System, http://unepinquiry.org/wp-content/uploads/2017/11/Roadmap_for_a_Sustainable_Financial_System.pdf

² More information on these can be found in the annual sustainability surveys published by the WFE.

³ As at end 2017

This document represents the evolution of WFE members' engagement with sustainability and constitutes a formal declaration by the WFE and its membership to taking on a leadership role in promoting the sustainable finance agenda. In it, we set out the core sustainability principles (the Principles) that WFE member exchanges will seek to promote. Not all members will be in a position to address all of these. For some, it will be a journey, while the business models of others (e.g. where the member is a derivatives-only exchange) may limit their ability to ever address all of these. Nonetheless, the WFE encourages all exchanges to use these principles as the baseline for the development of their market-specific initiatives.

Over time, this document will be supplemented with supporting materials⁴ to assist WFE members in promoting these principles. The WFE plans to continue to act as a platform to promote and track member engagement on sustainability issues and the development of best practices, as well as encouraging bilateral and multilateral cooperation across the financial industry.

Methodology

For purposes of developing these principles, the WFE office and a sub-group of WFE member exchanges reviewed the existing sustainable finance literature and recommendations and shared lessons learnt from their own experiences. The intention was to identify where exchanges should engage to address gaps in, ensure alignment with, and amplification of, other sustainable finance initiatives. The group also identified specific areas where stakeholders believed exchanges could have the most impact in advancing the sustainable finance agenda.

The resulting Principles were reviewed by the WFE's Sustainability Working Group, and the WFE Board, before being formally published by the WFE membership at the WFE's Annual Meeting in Athens, October 2018.

Definition of Sustainable Finance

Words matter, and agreement as to what those words mean, matters even more. For purposes of this work we reviewed a range of sustainable finance definitions. We discovered a growing convergence around the term 'sustainable finance' and for purposes of this work, we used the UN Environment / World Bank definition of sustainable finance, namely:

A sustainable financial system is stable and creates, values, and transacts financial assets in ways that shape real wealth to serve the long-term needs of a sustainable and inclusive economy along all dimensions relevant to achieving those needs, including economic, social, and environmental issues; sustainable employment; education; retirement financing; technological innovation; resilient infrastructure construction; and climate change mitigation and adaptation.⁵

We believe that the Principles set out in this document contribute to the achievement of this vision of a sustainable financial system.

⁴ Some of these, such as the WFE's ESG Guidance and Metrics, are already in existence, and will serve as a formal reference point for the relevant principles.

⁵ Roadmap for a Sustainable Financial System, pg. 24

Preamble

Acknowledging their central position in the financial system as a meeting venue for market participants, and recognising their role in contributing to the achievement of the 17 United Nations Sustainable Development Goals (SDGs) and the Paris Agreement's objective to limit the increase in the global average temperature to well below 2°C above pre-industrial levels (and ideally below 1.5 °C above pre-industrial levels), WFE member exchanges hereby acknowledge their role in fostering and promoting the development of a sustainable financial system, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, and promoting the transition towards an inclusive, and sustainable economy. They recognise the importance of integrating the long-term perspective into financial markets to reduce socio-economic and physical risks, and to contribute to enhanced financial stability.

WFE Sustainability Principles

WFE member exchanges, recognising they are at different stages of market development, with different opportunities and constraints, will seek to promote the following Principles progressively in accordance with their circumstances and priorities:⁶

Principle 1: Exchanges will work to educate participants in the exchange ecosystem about the importance of sustainability issues

Building an understanding and appreciation amongst market participants of the impact of ESG issues on the long-term health and performance of financial markets, and the important role that markets can play in enabling a transition to a more just and sustainable world, is core to enabling the transition to a more sustainable development pathway. Exchanges, given their central role in financial markets, can take the lead in developing this understanding.

WFE members will therefore aim to educate investors, issuers and market participants about sustainability challenges more broadly, and (more specifically) the risks and opportunities that (mis)management of ESG issues may present to financial markets. Over time, this education may expand to include elements of capacity-building to support the effective incorporation of sustainability considerations into the financial sector.

This education (capacity building) may be done independently or in collaboration with, for example, relevant academic institutions, industry associations, private sector institutions, not-for-profit organisations. Education may take the form of seminars and courses, case-studies, information sharing among market participants, and publication of research.

Principle 2: Exchanges will promote the enhanced availability of investor-relevant, decision-useful ESG information

It is by now well-accepted that Environmental, Social & Governance (ESG) factors may pose serious risks to the ability of companies and markets to generate returns over the long-run. To make informed investment decisions, and to ensure appropriate allocation of capital, investors need access to good quality information about how companies are managing material ESG risks (and potential opportunities). Exchanges, as front-line regulators of listed issuers, are well-placed to ensure greater, more effective ESG disclosure.⁷

⁶ Note: these Principles are not sequential, and some may be more feasible than others, depending on the market's level of understanding of sustainability issues. They are also intended to be mutually reinforcing – both of each other and of the broader sustainable finance objectives.

⁷ While in some jurisdictions, securities and/or other national regulators may play a primary role in setting disclosure standards for listed issuers, exchanges often have latitude to promote enhanced disclosure even in the absence of a formal legislative disclosure requirement.

WFE members will therefore aim to promote the disclosure of investor-relevant, decision-useful ESG information by their listed issuers. This may include:

- Issuing disclosure guidance to assist issuers in understanding what information to disclose and how best to present it; and/or
- Organising information-sharing and/or training sessions for issuers around ESG reporting.

Exchanges may implement disclosure requirements in phases, beginning with voluntary disclosure and moving eventually to mandatory/comply or explain disclosure (where possible, given the existing regulatory framework). To enable greater comparability and ensure the quality of the disclosure, exchanges should encourage/require disclosure in accordance with widely accepted international standards (adapted for local circumstances, if necessary) and against science-based indicators.

Principle 3: Exchanges will actively engage with stakeholders to advance the sustainable finance agenda

Achieving the vision of a sustainable financial system requires the active engagement of all relevant stakeholders and the existence of an enabling policy and regulatory framework. Exchanges - even in areas where they are not able to require specific action - may be able to exert influence through ongoing interaction, either individually or collectively.

WFE members will therefore aim to foster dialogue and consensus-building on sustainable finance between capital markets participants and other relevant stakeholders. This may include:

- Engagement with regulators and policymakers to promote the creation of the necessary enabling environment;
- Contributing to the development of consensus around a sustainability taxonomy;
- Initiating or facilitating dialogue amongst capital market participants, such as issuers, investors and market intermediaries;
- Providing timely feedback and recommendations for supervisory bodies to support sustainable development; and/or
- Collaborating with other financial market participants to develop products or offerings to advance the sustainable finance agenda.

Principle 4: Exchanges will provide markets and products that support the scaling-up of sustainable finance and reorientation of financial flows

Meeting the sustainable finance agenda requires both the mobilisation of public and private finance to meet defined sustainability objectives (such as those elaborated in the United Nations Sustainable Development Goals or the UNFCCC Paris Agreement), and the reorientation of finance flows to more sustainable outcomes. On the first point, the funding requirements are enormous, with the International Energy Agency estimating the costs of transitioning to a lower-carbon economy at around \$1 trillion of investments a year until 2030⁸. On the second, the entire notion of a sustainable financial system is predicated on the reorientation of financial flows to more sustainable outcomes. Exchanges, through their provision of regulated, disclosure-based frameworks for listed products can contribute to the mobilisation and reorientation of sustainable finance.

⁸ International Energy Agency, World Energy Outlook Special Briefing for COP21, 2015 - available at: https://www.iea.org/media/news/WEO_INDC_Paper_Final_WEB.PDF

WFE members therefore aim to develop and/or enable the listing of sustainability-focused investment products. This could include:

- Creating frameworks for the listing of green, social and sustainability bonds;
- The development of sustainability indices;
- Supporting qualified green and/or social enterprises in obtaining financing via IPO and secondary offerings; and/or
- Working with third parties to develop sustainability ratings.

Principle 5: Exchanges will establish effective internal governance and operational processes and policies to support their sustainability efforts

The organisations that have shown themselves to be most effective at supporting the sustainable finance agenda are those that have embedded sustainability into their governance, strategy and organisational structures. While it is possible for exchanges to have a positive impact even if they have a purely external focus, this impact is magnified if it is supported with a clear understanding of purpose and outcomes, and ongoing investment in the sustainable finance agenda.

WFE members will therefore seek to ensure they have the necessary governance and other frameworks to support the shift to a more sustainable financial system. This could include:

- Leading by example through incorporating ESG disclosure into the exchanges' own sustainability reporting;
- Educating staff about sustainability risks and opportunities;
- Developing mechanisms to stay abreast of, and evaluate, emergent sustainability issues and incorporating these into the exchanges' existing and future activities, as required;⁹ and / or
- Establishing clear board and senior management oversight of the exchange's own management of ESG risks and opportunities.

⁹ Gender equality is an example of a specific ESG issue where exchanges have responded to growing awareness of the importance of this issue through introducing requirements around ESG disclosure.

Annex A: Summary of Sustainable Finance Initiatives

United Nations (UN) Sustainable Stock Exchanges (SSE) Initiative	The UN SSE initiative is a peer-to-peer learning and capacity building platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can promote investment in sustainable development and advance corporate performance on environmental, social and corporate governance issues. The SSE is a UN Partnership Programme of the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Program Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI).
UN Principles for Responsible Investment	Promoting incorporation of ESG issues into investment practice - includes encouraging appropriate ESG disclosure.
The Task Force on Climate-Related Financial Disclosures (TCFD)	<p>The TCFD, established by the Financial Stability Board (FSB), seeks to develop recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, and efficient, and provide decision-useful information to lenders, insurers, and investors.</p> <p>The TCFD's 32 members were chosen by the FSB to include both users and preparers of disclosures from across the G20's constituency covering a broad range of economic sectors and financial markets.</p>
Global Investor Statement on Climate Change	Focus is on enabling investors to act to help keep global temperature rise below 2° Celsius. Focus areas are: investment, corporate engagement, investor disclosure, and advocacy. Facilitated by the UNEP FI Climate Change Working Group.
Climate Action 100+	Initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. To date, 256 investors with \$28 trillion in assets under management have signed on to the initiative.
Portfolio Decarbonization Coalition	The Portfolio Decarbonization Coalition (PDC) is a multi-stakeholder initiative focused on asset owners/managers that seeks to drive GHG emissions reductions by mobilising a critical mass of institutional investors committed to gradually decarbonising their portfolios. Focus is on encouraging portfolio decarbonisation i.e. withdrawing capital from particularly carbon-intensive companies, projects and technologies in each sector and re-investing that capital into particularly carbon-efficient companies, projects, and technologies of the same sector.
Sustainable Digital Financial Alliance	<p>Started by Ant Financial Services Group and UN Environment, the overall objective of the Alliance is to leverage digital technologies & innovations to enhance financing for sustainable development. To achieve this objective, the Alliance focuses on driving change in the following three outcome areas:</p> <ul style="list-style-type: none"> · Content: Improving the knowledge-base through research and analysis of leading sustainable digital finance practice and potential. · Community: Creating a network of fintechs, financial players, policy makers and other stakeholders that collaborate and promote sustainable digital finance practices at national and international levels. · Country: Supporting action at the country level to pilot innovative approaches and take successes to scale.
Green and Sustainable Finance Cluster Germany	The Green and Sustainable Finance Cluster Germany was launched in April 2018, bringing together Deutsche Börse Group's Accelerating Sustainable Finance Initiative and the Green Finance Cluster Frankfurt of the Ministry of Economic Affairs for Hesse. The initiative aims at making more efficient use of financial market expertise in the area of sustainable finance, based on broad dialogue and, most importantly, to develop and implement specific approaches to ensure the sustainability of national and international financial market structures in the future.

Green Finance Initiative	<p>UK (City of London) based initiative that brings together international expertise from across the financial and professional services sector. It aims to:</p> <ul style="list-style-type: none"> · Provide public and market leadership on green finance · Advocate for specific regulatory and policy proposals that might enhance the green finance sector worldwide · Promote London and the UK as a leading global centre for the provision of green financial and professional services
Green Finance Committee	<p>The Green Finance Committee of China Society for Finance and Banking, established in April 2015, is a professional committee dedicated to academic research and coordination of member institutions. Its mandate covers green finance research, promoting innovative green investment and financing products and services, increasing awareness of green investment among institutional investors, strengthening capacity building, and helping to implement green finance policies.</p> <p>As of April 2018, the Green Finance Committee has 40 executive member institutions, 159 general member institutions and 22 special member institutions. The financial asset under management of member institutions amounts to RMB 178 trillion, accounting for roughly 73% of the total asset of China's financial industry.</p>
Guidelines for Establishing the Green Financial System	<p>Jointly released by seven ministries in China including the People's Bank of China in 2016, it details a comprehensive set of initiatives to be undertaken to green the financial system in China, including:</p> <ul style="list-style-type: none"> · Vigorously develop green lending · Enhance the role of the securities market in supporting green investment · Launch green development funds and mobilise social capital through Public and Private Partnerships (PPP) · Develop green insurance · Improve environmental rights trading market and develop related financing instruments · Support local government initiatives to develop green finance · Promote international cooperation in green finance · Prevent financial risks and strengthen implementation
Hub for Sustainable Finance	<p>The German Hub for Sustainable Finance (H4SF) was launched in summer 2017 as a means for the German Council for Sustainable Finance and Deutsche Börse Group to pool resources and coordinate joint activities regarding sustainable finance. The H4SF aims at jointly promoting a concrete change in economics and politics and thereby drive the transformation essential to a sustainable financial system more vigorously.</p>
Reporting Exchange	<p>Joint initiative by the World Business Council on Sustainable Development, the Carbon Disclosure Standards Board and Ecodesk. Designed to help business navigate the world of corporate ESG reporting, the Reporting Exchange summarises and connects ESG reporting requirements and resources from across 60 countries and 70 sectors.</p>
Carbon Pricing Leadership Coalition	<p>CPLC is a voluntary partnership of national and sub-national governments, businesses, and civil society organisations that agree to advance the carbon pricing agenda by working together towards the long-term objective of a carbon price applied throughout the global economy by:</p> <ul style="list-style-type: none"> · Strengthening carbon pricing policies to redirect investment commensurate with the scale of the climate challenge · Bringing forward and strengthen the implementation of existing carbon pricing policies to better manage investment risks and opportunities · Enhancing cooperation to share information, expertise, and lessons learnt on developing and implementing carbon pricing programmes through various 'readiness platforms'

Art. 173 (France)	Climate risk reporting obligation introduced in France - requires institutional investors to report on the integration of both physical risks and 'transition' risks caused by climate change on their activities and assets.
OECD Centre on Green Finance and Investment	Proposition is that investment in the green economy needs to take place on a far greater scale over the coming decades if we are to achieve the Sustainable Development Goals and the ambition of the Paris Agreement. The Centre's mission is to help catalyse and support the transition to a green, low-emissions and climate-resilient economy through the development of effective policies, institutions and instruments for green finance and investment.
Climate Bonds Initiative	Climate Bonds Initiative is an international organisation working to mobilise the global bond market, for climate change solutions. Initiatives include: <ul style="list-style-type: none"> · Market tracking and demonstration projects · Standards development · Providing policy models and advice
International Investor Group on Climate Change	Members are long-term institutional investors representing more than \$22 trillion in assets. IIGCC pursues its mission through two strategic objectives: <ol style="list-style-type: none"> 1. Changing market signals by encouraging the adoption of strong and credible public policy solutions that ensure an orderly and efficient move to a low carbon economy, as well as measures for adaptation 2. Informing investment practices to preserve and enhance long-term investment value
Investor Group on Climate Change	The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focusing on the impact that climate change has on the financial value of investments. The IGCC represents institutional investors, with total funds under management of around \$2 trillion, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders. The organisation aims to: <ul style="list-style-type: none"> · Raise awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors · Encourage best practice approaches to facilitate the inclusion of the impacts of climate change in investment analysis by the investment industry · Provide information to assist the investment industry to understand and incorporate climate change into the investment decision
Global Investor Coalition on Climate Change	The GICC represents seven partner organisations: Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment and UNEP Finance Initiative.
Asia Investor Group on Climate Change	Initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy.

Green Loan Principles	Developed and published in 2018 by the Loan Market Association and the Asia-Pacific Loan Market Association. Set of voluntary standards aimed at promoting and developing the green loan market. Modelled on the Green Bond Principles and focus on Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, Reporting.
Banking Environment Initiative	Established in 2010 and convened by the University of Cambridge Institute for Sustainability Leadership (CISL). Initiatives include work on Sustainable Agricultural Supply Chains, engagement on financial regulation, a vision for banking in the low-carbon economy, and Fintech and Sustainability
Principles for Sustainable Insurance	Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.
Green Finance Study Group	<p>Established under the China Presidency of the G20 and adopted by the G20 Finance and Central Bank Deputies meeting on 15 December 2015 in Sanya, China. The Study Group is co-chaired by China and the United Kingdom, with support from UN Environment as secretariat. Objective of the G20 Green Finance Study Group (GFSG) is to “identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilise private capital for green investment”. Key options identified are:</p> <ol style="list-style-type: none"> 1. Provide strategic policy signals and frameworks 2. Promote voluntary principles for green finance 3. Expand learning networks for capacity building 4. Support the development of local green bond markets 5. Promote international collaboration to facilitate cross-border investment in green bonds 6. Encourage and facilitate knowledge sharing on environmental and financial risk 7. Improve the measurement of green finance activities and their impacts
International Network of Financial Centres for Sustainability	<p>The FC4S Network is structured as a partnership between financial centres and the United Nations Environment Programme. The objective of the network is to exchange experience and take common action on shared priorities to accelerate the expansion of green and sustainable finance. The Network works across five thematic areas:</p> <ul style="list-style-type: none"> · Strengthening Strategic Commitment: stimulating strategic action by financial centres through guidance, assessment tools and data systems. · Boosting Market Integrity: bringing clarity and convergence on key definitions, taxonomies and classifications, as well as endorsing international standards. · Building Capacity: strengthening the capacity of developing country financial centres, supporting implementation, and strengthening the skills base of financial practitioners. · Fostering Innovation: pooling experience on critical issues, such as how to leverage fintech and digital finance solutions for sustainable finance markets. · Serving the Real Economy: exploring models to connect financial centres with real economy needs, such Green Finance Zones.

Annex B: Acknowledgements

In addition to the WFE's Sustainability Working Group (SWG), who led the development of these Sustainability Principles, we would like to specifically acknowledge the following:

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Content

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