A Perspective From Investors: opportunites for exchanges & regulators to PROMOTe SustAInable capital MArkets

Markets are driven by information. If the information available is short term and incomplete, then these characteristics will define the world’s financial markets.

Exchanges and securities regulators play a central role in defining disclosure requirements for companies through listing requirements and the guidance they provide on these rules. As such, exchanges and regulators are well positioned to promote transparency, and ultimately performance, on environmental, social, and corporate governance (ESG) issues. Corporate disclosure of material ESG issues is an essential part of creating a stable financial system that advances sustainable economic growth.

While there has been progress, there is still significant headway to be made to improve the state of ESG information provided to investors by companies for investment decision-making purposes. In order to direct investment towards the creation of more sustainable economies, companies will need to enhance reporting – focusing on long-term value generation, addressing material ESG issues as well as financial information.

**As such, exchanges and regulators are asked to consider taking the following actions to promote transparency in their markets:**

* Issuing guidance for companies on ESG disclosure and introducing incentives aimed at encouraging voluntary reporting on ESG issues
* Highlighting ESG issues in existing definitions of what constitutes material information for the purposes of corporate reporting.
* Encouraging corporate boards to disclose the approach to determining the company’s material ESG issues and time horizon for this assessment.
  + Developing systems to obtain investor feedback on the quality of the existing disclosures, in order to better inform future work plans.
* Offering trainings, workshops and other events to facilitate education, communication and engagement on sustainability issues; targeted participants could include, companies, investors, exchanges, regulators and other issue experts and priority stakeholders.
* Encouraging the creation of financial products that promote ESG issues, such as sustainability indices.
* Participating in SSE activities, and becoming a SSE Partner Exchange.

As investors need comparable and timely information, if voluntary mechanisms are not leading to all companies reporting on material ESG information, in a timeline that aligns with the release financial reports, it is requested that exchanges and regulators work to:

* Establish a mandatory reporting requirement for the disclosure of material ESG information; this can be introduced on a “comply or explain” basis, which can help establish a clear set of disclosure expectations, while providing companies flexibility.

While these requests may be complex in their implementation, they represent important next steps toward creating more sustainable capital markets.

**Background: The SSE initiative and SSE IWG**

The Sustainable Stock Exchanges initiative works as a partnership between the UN and affiliated organizations, stock exchanges, investors, companies, regulators and governments, to create more sustainable capital markets. The PRI, UNCTAD, the UN Global Compact and UNEP-FI act as the core organizers of the SSE. The SSE Investor Working Group is an investor collaboration, representing over USD 6.8 trillion AUM, that supports the SSE’s main objective by engaging exchanges and regulators on issues related to corporate sustainability and responsible investment, as well as providing strategic guidance to the SSE on its core activities. This statement was created by the SSE IWG to better inform the exchange and regulatory community on what investors are looking for from exchanges in regards to promoting transparency in their markets.

Figure1: The Structure of the Capital Market[[1]](#footnote-1)

1. Aviva Roadmap to Sustainable Capital Markets (2014) [↑](#footnote-ref-1)