‘For most of history, man has had to fight nature to survive; in this century he is beginning to realize that, in order to survive, he must protect it.’

Jacques-Yves Cousteau
Leaders, governments and organizations around the world are recognizing that the time to take action for a sustainable future is now. Setting sustainable development goals is at the core of strategic planning, taking actions to confront global challenges such as climate change, other natural disasters, poverty, biodiversity loss, overpopulation, infectious diseases, to mention only a few, has never been more critical than at this present time.

The financial sector has a key role in the global economic sustainability action plan and so do capital markets and their flagship institutions: the stock exchanges. Together with the financial industry, exchanges around the world promote sustainable finance, the incorporation of environmental, social and governance (ESG) factors into investment decision-making, and the allocation of capital towards sustainable assets.

The Budapest Stock Exchange is no different from its peers in that regard. In 2018, BSE joined the United Nations Sustainable Stock Exchanges initiative declaring its commitment to meet the UN Sustainable Development Goals (SDGs) by 2030. In addition, we work closely with the Federation of European Securities Exchanges (FSE) in its Sustainable Finance Task Force and pay intense attention to the parallel efforts of the World Federation of Exchanges (WFE). BSE defined its most important focus areas as follows:

• improve the sustainability reporting and ESG data sharing of listed companies
• draw investor attention to sustainable and green instruments listed on the exchange
• develop marketplace for the new, ESG compliant and green investment products

The ways stock exchanges can influence these areas can be numerous. First and most, it is imperative to include ESG principles into their own strategies to act as role models for listed companies. Further, exchanges should take part in creating a supporting regulatory environment to build an adequate European and domestic regulatory framework and adopt and apply their own stock exchange rules supplementing these rules of law.

Exchanges also play an important role in education, and they may become think tanks, information hubs of ESG-related topics and concentrate as much attention to them as possible. BSE is organizing expert events, conferences, educational events to spread the notion of sustainability to as broad a public as possible.

ESG awareness can further be improved by product developments (dedicated market segments, promoting green investment products, etc.) and by guiding listed issuers in their efforts to develop their ESG reporting routines and provide the market with quality information. The latter is the purpose of this present Guide.

Richárd Végh
CEO
Budapest Stock Exchange
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Introduction
Introduction

What is the purpose of this guide?

The global environmental and social challenges the world is facing are now clearly apparent for governments, corporations, and households as well. Investors and analysts on capital markets expand their corporate valuation models currently in use involving sustainability criteria, recognising the fact that in successful long-term investments investor focus must go beyond mere financial profit maximization. Investors expect companies to adjust their long-term strategies to include ESG principles and to follow up their adherence thereto in a transparent way. Therefore, public companies increasingly feel the pressure to disclose more and more non-financial, sustainability-related information to satisfy investors’ expectations.

On the other hand, the regulatory framework that will drive Europe to a more resilient and sustainable future economy is forming just now. As for the reporting requirements, some disclosure obligations are already in place (e.g. The Non-Financial Reporting Directive (NFRD), The Sustainable Finance Disclosure Regulation (SFDR) – to be discussed in the Regulatory and Policy Landscape Chapter), with the bulk of the regulations, technical standards in the pipeline, expected to come into force in the upcoming years.

The Non-Financial Reporting Directive, which came into effect on January 1, 2017, already requires ESG related matters (such as employment, board diversity, human rights, anti-corruption and bribery issues) to be disclosed by specified large corporates, including banks and insurance companies. The Directive is currently under review as part of the European Green Deal, so further alignments, standardizations and improvements to the reporting process can be expected, which will be most likely manifested in more stringent transparency obligations (see the Regulatory and Policy Landscape Chapter for further information).

ESG reporting from investee companies is at the core of all ESG transparency efforts, ratings and ESG disclosures of financial market participants addressed in the SFDR build substantially on this information, and investors seeking out green investment targets also rely on these reports. But unfortunately, as the Green Finance Report issued by the Central Bank of Hungary in 2021 points out, only a few Hungarian companies, institutions provide adequate ESG data even among the exchange-listed companies, and the extent and quality of these reports deviate greatly. Reporting forms and chosen standards (if any) also vary. Some of our issuers prepare high-level, integrated or stand-alone sustainability reports, but many are not aware of the importance of this matter and lag behind.

This Guide has been issued to help BSE-listed companies to have a basic understanding of the ESG approach in general, the importance of ESG reporting, the basic terms, actors and processes involved, the roadmap that leads to the implementation of a stable reporting regime.

It is also important to underline that – especially with the regulatory environment so hectically evolving – this Guide cannot give answers to all the outstanding questions regarding sustainability reporting, nor can it provide a complete list of the multifaceted ESG rules and regulations at this moment. Moreover, our focus is on reporting duties and improved transparency, so certain ESG aspects – such as for instance sustainability risk management – will not be discussed herein.

It is also not possible within the scope of this document to outline a detailed overview of the various ESG standards and recommend the use of one over another, as these should be tailored to individual issuer needs and goals.

This Guide tries to set some minimum expectations, recommendations to help BSE-listed issuers get started with their ESG reporting routine. It is our strong intention to regularly update it as needed, incorporating future regulatory changes, experience and feedback from market participants. We hope it shall pave the road to a more transparent and more sustainable operation for our issuers and maybe also those who are contemplating going public and getting stock exchange listed in the near future.

“... Our transformation to a carbon-neutral economy means that people need more information from the companies they are investing in. As things stand today, there is currently a sustainability reporting gap that is hampering progress towards a sustainable financial system. The needs of investors for corporate sustainability information are growing faster than any improvements in company reporting. So we welcome all views on how best to improve this Directive.”

EC vice-president Valdis Dombrovskis
ESG Reporting Guide for Issuers of the Budapest Stock Exchange

What you will learn from this document

Basic information on ESG reporting
• What does ESG mean?
• Why is it important?
• Are there any benefits of ESG reporting for issuers?

Getting started
• Identifying stakeholders of the company and their preferences
• Material information that sustainability reporting should cover

How to prepare your organization for reporting
• Content, quality and reporting format to be followed
• Disclosure channels to use
• How to build and advance your reporting capacities

Regulatory aspects
• What are the most important rules of law regulating this area?
• What further measures are expected?

Reporting standards and rating
• What are the most popular reporting standards to choose from?
• Why follow a reporting standard and how to find the best fit?
• Why is rating important?

BSE recommendations
• Non-binding minimum reporting practices suggested by BSE
• Suggested gradual development levels from basic to advanced issuer reporting

What is ESG?

Sustainability and ESG are often used as synonyms. In a strict sense, sustainability refers to processes or practices which have a positive – or at least neutral – environmental impact, but in a broader sense it also extends to certain social issues as well as corporate governance practices.

The acronym ESG comprises the following abbreviations:
• ‘E’ stands for the environmental criteria, such as climate change, pollution, resource scarcity, energy consumption, waste release, greenhouse gas emission, biodiversity loss, etc.
• ‘S’ stands for the social facet, demonstrating the connection between business and society, highlighting the ways a company influences the life of its employees and the surrounding local communities. Issues related to public health, education, equality and diversity, health and safety, community support are among the most important aspects.
• Finally, ’G’ gives the aspect of corporate governance covering a broad range of corporate activities including board and management structures, corporate culture, information disclosure, auditing and compliance, remuneration, to mention only a few.

In the EU regulatory framework, the two terms (sustainability and ESG) are used quite interchangeably.

Some similar definitions are also in use, such as SRI and CSR.
• Sustainable & Responsible Investment (SRI) defines investments in general which take into account sustainability factors (environmental, social, economic, ethical, etc.) in the selection and retention of investments. The investment is considered “socially responsible” due to the nature of the business the company conducts.
• Corporate Social Responsibility (CSR) is a term used by the companies to describe their interactions with society and the environment. It mostly refers to a business model, which enables the company to operate in a way that protects and enriches society and environment.
What are the benefits of ESG reporting for issuers?

The growing demand for socially responsible investments and the tightening regulatory environment undoubtedly presents a great challenge for companies, especially for SME issuers with more modest organizational capacities. On the other hand, sustainability reporting may bring new opportunities and significant benefits to corporates.

### 1. Financing benefits – better access to capital

**Better valuation from investors, enhanced performance in financial markets,**

Providing ESG data to the investors improves the company’s transparency. Improved transparency lowers portfolio risks, resulting in better valuation for the enterprise, and in the long run, better stock performance in the market. Higher valuation due to ESG factors not only impacts equities but also other asset classes, especially corporate bonds.

Certain ESG Reporting Standards, inter alia SASB and CDP were developed with the information needs of investors in mind. The standards contain the specific ESG issues that potentially impact the financial performance of the companies, enabling the disclosures to support the decision-making of investors in particular.

### 2. Operational benefits

ESG disclosure requires data gathering in various areas, often beyond the generally monitored performance indicators. This data gathering, the following data and risk analysis and eventually year-on-year monitoring and competitor comparability enables the company to realise operational benefits.

**Attracting new types of investors**

In addition to achieving better transparency and thus better valuation, ESG reporting enables the company to attract a new type of long-term investors: the responsible investor. There is a noticeable shift in the focus of institutional investing towards environmental and social issues. The United Nations Principles for Responsible Investment (PRI) were launched in April 2006 at the New York Stock Exchange. The PRI has grown consistently since its beginning, the six below principles of ESG compliant investments during the investment procedure is voluntary for institutional investors to follow:

1. Incorporate ESG issues into the investment analysis and decision-making process
2. Incorporate ESG issues in ownership policies and practices
3. Seek appropriate ESG disclosure from companies
4. Promote the principles within the industry
5. Work together to enhance the implementation of the principles
6. Report on the activities and the progress regarding the implementation of the principles

The number of signatories has grown from 100 to over 3000 since the launch of PRI and doubled in the past four years increasing exponentially, indicating serious investor commitment.

**Financing benefits**

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<th>Benefits</th>
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<tbody>
<tr>
<td>• More diverse investor base, possibly lower cost of capital</td>
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<td>• New types of financing alternatives, issuance of green products</td>
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**Operational benefits**

<table>
<thead>
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<th>Benefits</th>
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<tbody>
<tr>
<td>• Improved, long-term risk management</td>
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<td>• Better understanding of own organization</td>
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<tr>
<td>• More informed decision-making and strategic planning</td>
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<tr>
<td>• Investments in green products</td>
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<tr>
<td>• Opportunities in sustainable finance or business development goals</td>
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**Business opportunities**

<table>
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<tr>
<th>Benefits</th>
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<tr>
<td>• ESG approach helps communication and cooperation with stakeholders and market participants</td>
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<tr>
<td>• Better corporate reputation among stakeholders and market participants</td>
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**Advanced communication and reputation**

<table>
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<tr>
<th>Benefits</th>
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<tr>
<td>• Tax or social security exemptions, reductions or other incentives might be associated with green operation and investments in the future</td>
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**Other potential benefits**

<table>
<thead>
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<th>Benefits</th>
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<tbody>
<tr>
<td>• Investments in green products</td>
</tr>
<tr>
<td>• Opportunities in sustainable finance or business development goals</td>
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</table>

### ESG Disclosure Growth

![Assets under management (US$ trillion) vs. Number of Signatories](chart.png)

Source: UN PRI
Possible areas of operational benefits include:

- improved strategic planning and decision-making
- alignment to future markets – better product and service development goals
- cost savings and increased productivity
- improved risk-management
- advantages in employee recruitment and retention

3. Business opportunities

Sustainability reporting and overall knowledge of mid- and long-term ESG developments will enable companies to react more quickly on business opportunities in green areas. In most sectors it can be a definitive competitive advantage for those who get into this area sooner than their peers and are able to identify and take chances quickly. Some industries (e.g. oil and gas) and certain consumer groups (environment-conscious, solvent millennial generation) have already surpassed this level and set ESG awareness and compliance as minimum expectations.

4. Advanced communication and reputation

The ESG reporting process starts with the identification of the company’s main stakeholders, their interests, motives and material information needs, so communication with them may become more efficient and result in deeper engagement and enhanced overall cooperation with investors and all other stakeholders.

Finding adequate metrics to measure the adherence to sustainability goals may be difficult at times, but not necessarily. For instance, employee turnover is an easily accessible metric which might give valuable feedback on employee satisfaction and loyalty and signal internal problems or inefficiencies worth paying attention to. Reporting ESG data enables management to gain insight and better understand more complex internal processes and tendencies.

In addition, high-level sustainability commitment usually signals long-term strategic thinking and reliability, improving company reputation on the market in general.

5. Other benefits

As Sustainable Development Goals set by the UN in 2015 (more on that in the Regulatory Landscape Chapter) must be reached by 2030, which is a dedicated undertaking of 193 countries, including Hungary, green transition must be accelerated almost everywhere. It can be expected that green transition, operation and sustainable investments will be incentivised and supported by various taxing (social security) advantages, grants and other financial and non-financial aids by governments, which will represent either new business opportunities or the possibility to reduce the costs of transition. To fully exploit these benefits, companies must comprehend the basic processes related to ESG reporting.

In 2020, the Central Bank of Hungary launched a program for loans financing energy-efficient real estate developments, investments, which introduced significantly reduced capital requirements for these loans. Such programs are expected to increase in the years to come.

With ESG reporting, the company applies a set of indicators that helps to comply with ESG standards and to better understand its own operation.

ESG and corporate governance reporting

Corporate governance is the focus area of ESG which goes back to a longer history having a very definite and direct connection to shareholder (investor) rights and interests. Corporate governance reporting standards have developed in the past decades almost everywhere, most countries have corporate governance codes for listed companies. These codes are not fully harmonised on EU level, and there are differences across the different jurisdictions regarding the setting, supervision and monitoring of the codes and the issuer reports. Most codes use the ‘comply or explain’ principle for compliance: deviation from the recommendations is not penalized but must be transparently presented in the individual reports. In case the company is not following one particular recommendation or guidance, it has to explain to the investors why. It is also stipulated in Commission Recommendation 2014/208/EU that ‘efficient monitoring of the compliance with the corporate governance codes is required at a national level within the framework of the existing monitoring system’.

The Corporate Governance Recommendations of the Budapest Stock Exchange were first published in 2004 and last amended in 2018. In Hungary, the maintenance of the code as well as the monitoring of the issuer reports is performed by the Exchange and the Corporate Governance Committee, established by BSE, but operating independently.

With the issuance of this ESG Reporting Guide the parallel system of corporate governance reporting will not cease, however, the two will likely merge in some form in the years to come.
Stakeholders and Materiality of Reporting
Stakeholders and Materiality of Reporting

Key steps in developing reporting ability are the identification of stakeholders and material topics. The two tasks are connected and together they support report content development. For purposes of the present guidance, stakeholder and materiality assessment is described closely linked to the requirements of the Global Reporting Initiative.

Stakeholders

The company’s stakeholders are the various constituents (institutions, businesses, interest groups or people) who directly or indirectly influence the operation of the company and vice versa.

To create a proper ESG strategy and reporting regime, the first step for the company is to identify these stakeholders or stakeholder groups. Stakeholder assessment is needed for the development of the report content, as ESG reporting serves to inform stakeholders on their reasonable expectations and interests.

Typical stakeholder categories that the company should address are shown on the following figure. These categories and groupings are only examples, customised stakeholder mapping must be prepared for each company individually.

Investors

The investors are the owners of the company, ideally, their interest revolves around the most important issues from profitability through compliant and safe operation to sustainability matters. Investors can be broken down into different types depending on the

- level of influence on the company (majority shareholders versus minority shareholders)
- level of expertise in core business and in investments in general
- purpose of investment
- their ESG involvement, etc.

The company should carefully consider its investor composition to streamline ESG concepts. In recent years, investors have become more conscious about ESG performance and indicators, therefore, this aspect has an increased weight in investment decisions.

Employees

Employees’ interests regarding sustainability matters may have multiple aspects:

- they expect their immediate working environment to be safe and pleasing (e.g. green offices, clean air);
- they are also increasingly conscious about the social/labour conditions of their workplace (staff turnover, training and qualifications, gender equality/diversity, physical working conditions, social dialogue, rights of workers, trade union rights, health and safety, etc.);
- they are getting progressively concerned about their macro environment; therefore, the more employees identify with their company, the more important its social responsibility efforts are becoming for them.

These questions may easily become value propositions and make the difference for some people when they select between jobs.
Governments, regulators

Governments worldwide take serious measures, create economic and other programs to increase environmental consciousness and take immediate steps to stop climate change and improve world ecosystem as a whole. Therefore, regulators everywhere urge companies to provide quality ESG data in structured form. The Non-financial Reporting Directive in Europe (2014/95/EU) requires certain companies to include ESG contents in their annual reports. These trends and the regulatory framework are expected to intensify in the years to come (for more information, on this topic please refer to the Regulatory and Policy Landscape Chapter).

Exchanges

Exchanges around the world can be catalysts of sustainability efforts and help listed companies to live up to stakeholder expectations. As a result of the work in UN Sustainable Stock Exchanges (SSSE), many exchanges issued ESG Reporting Guides to orient companies and help improve their non-financial reporting routines.

Suppliers, customers

ESG reporting and transparency is becoming more important in supply-chains as well. Companies seriously engaged in social responsibility matters require their suppliers to comply with the same standards and values (e.g. ethical sourcing). ESG compliance can be an important selection criterion.

Customers, end-users of services and products are also conscious about buying from businesses that focus more on product safety, environmental protection and social problems. ESG attentiveness can be a competitive advantage, especially in certain industries.

Intermediaries (rating agencies, data providers, rankings, indexes)

In the past decade, many firms got specialised in developing ESG standards and ratings (for further details on this topic, please refer to the Main ESG rating agencies and the importance of rating Chapter). It is also becoming a commonly accepted fact that companies with high ESG rating usually outperform their peers in economics as well, benefiting even strictly for-profit investors. ESG ratings therefore play an important role in analysis and company evaluations.

Potential interest groups

Certain Non-Governmental Organizations (NGOs) also highly engage in environmental and social responsibility affairs. These may be international or local organizations, some of them evolved to be quite influential in recent years (UN Environment Programme, UN Women, etc.) and shape the ESG landscape.

Media, public

Sustainability gets superior media and public attention in recent years. Especially for listed companies, who are constantly in the public eye, there is significant pressure to conduct socially responsible operation. Transparency in non-financial area improves positive media attention in general. further, certain news agencies rank businesses based on their ESG strategy which can be an added value for them.

ESG reporting are guiding and controlling the process through the materiality principle.

Both the materiality of sustainability issues and the materiality of financial issues have been considered at company level, however the assessment of their relation and their effect on each other was uncommon. The concept of materiality in most non-financial reporting standards, as well as the EU Regulation builds on double materiality, i.e. financial materiality and environmental and social materiality. Financial materiality in this approach includes the consideration of the effect of climate change on the company – information particularly useful for investors. This approach can be seen in the TCFD recommendations. Whereas, environmental and social materiality considers the company’s impact on the climate, the environment and the society. In certain cases, the company’s impact on the climate may be considered financially material.

**Materiality**

The concept of materiality is at the centre of ESG reporting. It builds on the accounting materiality principle, which defines decision-useful information. As the content of non-financial reporting is defined less strictly in regulations than that of financial reporting, the task of determining the subject of the disclosure falls on the reporting organisation itself. The standards of ESG reporting are guiding and controlling the process through the materiality principle.

Both the materiality of sustainability issues and the materiality of financial issues have been considered at company level, however the assessment of their relation and their effect on each other was uncommon. The concept of materiality in most non-financial reporting standards, as well as the EU Regulation builds on double materiality, i.e. financial materiality and environmental and social materiality. Financial materiality in this approach includes the consideration of the effect of climate change on the company – information particularly useful for investors. This approach can be seen in the TCFD recommendations. Whereas, environmental and social materiality considers the company’s impact on the climate, the environment and the society. In certain cases, the company’s impact on the climate may be considered financially material.

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**Financial Materiality**

To the extent necessary for an understanding of the company’s development, performance and position...

**Environmental & Social Materiality**

...and impact of its activities

**Companys Impact on Climate can be financially material**

**Recommendations of the TCFD**

**Primary audience:** Consumers, Civil Society, Employees, Investors.

**Non-Financial Reporting Directive**

Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements.

Source: Guidelines on reporting climate-related information, TCFD

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*Footnotes:


Materiality in ESG reporting serves as a tool to identify the most relevant topics of importance from the perspective of the given organisation. The materiality approach of the respective reporting schemes vary and so do the resources required by companies. However, materiality is at the core of all disclosure standards.

Materiality may be considered an analogue to the relative importance of the different topics, which can be vastly different for one business or another. Defining the materiality of the different ESG issues helps determine which elements should be included in the report and thus entail an essential task.

One approach in defining materiality is considering its influence on stakeholder assessment and decisions (external factor) as well as the social, environmental and economic significance of their impact (internal factor). Upon evaluating all relevant ESG issues according to the two factors, the materiality assessment needs to define the threshold of materiality, i.e. the level of significance in both the external and the internal aspects, above which the issue is considered material, therefore must be included in the report.

MOL Group, for instance, uses the above-mentioned external-internal analysis for defining material topics. The materiality matrix of MOL Group is included below as an example. Topics highlighted with green are considered material.

MOL Group’s materiality assessment is based on the requirements of the Global Reporting Initiative (GRI), however there are other approaches. The World Federation of Stock Exchanges (WFE) tries to help exchanges and reporting entities with a closer definition of materiality in its WFE Guidance and Metrics (revised June 2018) as follows:

- The International Accounting Standards Board8 defines ‘material’ information as that which, if omitted, misstated or obscured, could influence the economic decisions of readers relying on the financial statements.
- The International Integrated Reporting Council (IIRC)9 suggests an issue is material if it is relevant (is likely to have an impact on value creation) and is sufficiently important in terms of its known or potential effect on value creation with reference to magnitude of the matter’s effect and likelihood of occurrence.
- The Sustainability Accounting Standards Board (SASB)10 uses the US Supreme Court definition of materiality namely, information is material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”

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Materiality of relevant topics

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<thead>
<tr>
<th>Materiality assessment</th>
<th>Internal Materiality Matrix</th>
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<tr>
<td>ETHICS, TRANSPARENCY AND GOVERNANCE</td>
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<td>Biodiversity</td>
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<td>Eco-efficiency</td>
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<td>Spills and leakages</td>
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<td>Occupational health and safety</td>
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<td>Product safety, Crisis management</td>
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<td>Human rights</td>
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<td>Customers</td>
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<td>Suppliers</td>
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<td>Labour Practices</td>
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<tr>
<td>INTERNAL FACTORS</td>
<td></td>
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<tr>
<td>Significance of economic, environmental, and social impacts</td>
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Source: MOL Group Integrated Annual Report - 2019

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10 https://www.sasb.org/standards-overview/materiality-map/
Content, Quality, Format and Frequency of Reporting
Content, Quality, Format and Frequency of Reporting

Environmental, social and governance principles are a framework of standards by which a company and its investors can measure the wider impact of its operations and long-term strategy. The main intention of reporting on ESG principles is to demonstrate the way in which ESG issues are integrated into decision-making, therefore information presented in ESG reports should correspond to the information actually used by managers and officers of the company to make business decisions.

To start with, reporting companies should determine the internal roles and responsibilities within the company that are relevant to ESG assessment and reporting. Like many other tasks, it is recommended that ESG reporting starts from the bottom up. Different departments such as finance, investor relations, communications, core business, risk, environmental, HR, purchasing, legal need to be involved to ensure their input is integrated into the report. Most of the larger companies now have a separate sustainability division which plays an essential and integrating role in ESG reporting; however, ESG assessment and reporting should not be considered as their own exclusive duty. It is recommended that ESG factors are embedded into the everyday job duties of directors so that they can become an integral part of the business strategy, organisational culture and operational practices of the company.

The management and the board of directors should also have an essential role in the integration and oversight of ESG reporting.

Content of reporting

Besides identifying the material topics, which significantly affect the content of the ESG report, stakeholders and reporting standards may have additional expectations towards the report content.

- Build on reliable data gathering
  Gathering reliable and complete ESG data is imperative. The quality of available data significantly affects decision-making capabilities and performance. Data gathering is a demanding task, which should be addressed by the reporting and preparation timeline accordingly. Internal systems such as audit, risk and data control and verification systems may serve as great sources of ESG information. Should the internal capability assessment deem existing systems insufficient for providing reliable, comparable and coherent ESG data, companies may decide to invest in improving reporting capacity. Data collection gaps should be addressed and explained in the reports.

- Include context
  Organisations disclosing ESG information represent a wide variety of industries, are different in size and location, therefore, context of ESG information is especially important to enable stakeholders to understand and evaluate the data properly.

- Reflect on significant economic, environmental, and social impacts
  The information contained in the report should provide a balanced view of the environmental, economic and social impacts of the organisation, both positive and negative impacts, enabling the stakeholders to evaluate ESG performance.

- Be accessible for all stakeholders
  It is recommended that ESG reports:
  - build on reliable data
  - include context
  - reflect on significant economic, environmental, and social impacts
  - be accessible for all stakeholders

Quality of reporting

Investors seek to understand how ESG information is linked to the company’s business strategy and financial performance, and they prefer comparisons to historical company and industry trends, corporate goals, relevant ratios, industry averages and financial results/performance in ESG reports. The indicators chosen may be generic, industry-specific or company-specific and reporting companies may want to use widely accepted indicators developed via a credible process.
ESG reports explain the changes in the applied indicators year-to-year, and it is recommended that the company also include its perception of how this might change in the future. Reports are also to explain methodologies for data collection and reasoning why they were used. The company should point out the correlation between ESG metrics and financial performance and illustrate how ESG initiatives complement to growth, productivity and risk management in monetary terms, where possible. It is recommended that comparable quantitative information should be provided for the previous three financial years.

It is recommended that information included in ESG reports are:

Accurate
Balanced
Comparable and consistent
Timely
Reliable

Accurate
Information should be accurate enough to enable the investors and other stakeholders to evaluate the results of the company’s activities and operations.

Balanced
Reporting companies should employ the same principles to ESG data as to financial data. Data used in ESG reports should also contain how the data was compiled, and if there are any uncertainties or limitations to the data. The company should also keep evidence how data sources were used. Key assumptions are to be also clearly presented. Raw as well as normalised data can be used in the reports.

Comparable and consistent
The information in the report should enable readers to evaluate the company’s performance over time and to compare it with other organisations.

Timely
ESG reports and data used therein are recommended to coincide with the annual reporting cycle and align to the fiscal year of the company. Investors and stakeholders can cross-use the two different data sets, for example normalising certain ESG data by revenues or staff numbers.

Reliable
Reporting companies should apply strong internal assurance processes, information included in the report should be overseen by the board of directors, the supervisory board and the audit committee and this fact also should be mentioned in the report.

External assurance by qualified and independent auditors is also highly recommended to strengthen the credibility of the ESG data. The scope and process used for external assurance should be described in the report.

A dedicated, standalone report most probably provides a greater degree of flexibility and clarity and the specific information is easier to retrieve on its own, it does not necessarily need to align with the style of the annual report. Companies that are just starting non-financial reporting might find it easier to prepare a standalone report. A standalone report allows companies to freely select the style of presentation for ESG data, tables and charts they prefer without taking other methods used in the financial report into account. As a disadvantage, the separation can imply that the company considers sustainability or other ESG related topics separated from the core business, so this should be addressed carefully, for example with cross references. Material data or factors in the annual report should also be addressed and referred to in the standalone ESG report.

If the report is separated from financial disclosure, then both types of disclosures should cover the same period so that financial information can be considered and analyzed within the context of ESG information. It is also important to ensure consistency among the different communication channels.
The Hungarian Accounting Act (Act C of 2000 on accounting) requires large companies to integrate non-financial information into their annual financial statements and the company may decide to include further ESG information in the company’s financial disclosure even if it is not mandatory by rules of law. The key advantage of integration of ESG topics into regular annual reports is that ESG data gathering, processing and verifying is integrated into processes and controls the company already applies. It is also a benefit that ESG data is available for investors at the very same time as the financial information on the company. As a disadvantage, length and complexity of an integrated report might be a concern, which can lead to including fewer ESG issues. Moreover, ESG topics may not always fit fluidly the structure of the annual report.

Most probably the future standard for the format of ESG reporting will be the integrated report, where financial and non-financial information is integrated into one single report. Larger listed companies might want to choose this format and direction. The concept provides investors a more complete and concise insight into the performance of the company. Again, length can be an issue with integrated reports as well; however, reporters should be careful when reducing the information making sure that the most critical ESG areas are not missed. Reporters should also keep in mind that investors and other stakeholders reading their reports may have different ESG needs.

Companies also might want to supplement their integrated reports by additional and more detailed ESG information via the company’s website or through other publication channels.

Similar to financial reporting, it can be helpful to use XBRL, a digital reporting language for reporting ESG information that structures data consistently to improve analysis.

Disclosure channels

The proper disclosure channels should be chosen so that stakeholders can access the reports easily and in a timely manner. Companies should be familiar with their target audiences’ preferred ESG information sources and update them regularly. These information needs might be different so companies might want to use different communication channels to ensure that the entirety of a company’s target audience receives the information. The channels for ESG disclosure also depend on a company’s regulatory context and business and communication strategy. Choosing a language widely spoken by international investors is recommended in addition to a national language. Rather than publishing the ESG reports periodically without any follow-up communication, reporting companies should see ESG reporting as a continuous dialogue with stakeholders, and they should regularly address the key demands of investors and answer their questions.

Roadmap of reporting

Achieving the different levels of reporting maturity requires varying resources. Report development requires significant amount of time. The following two examples outline the reporting roadmap for developing and for advancing reporting capabilities.

Building reporting capacity

The content of ESG reports is governed by the standard the company chooses to use and greatly limited by the data gathering possibilities. For companies new to ESG reporting, gathering data in accordance with disclosure standards may encounter significant difficulties. Therefore, a data gathering system gap assessment should be conducted. The results of the data gathering system assessment should identify the improvement opportunities and needs of data gathering in order to fulfill the standard requirements. After the gap analysis, a basic report may be created in the first year, after intensive data gathering and report writing processes. Upon implementing the identified developments to the data gathering system, the second report may be a standardized report. However, assurance poses a new layer of requirements and understanding, the management of which requires further resources. Assurance may be the aspiration of a three-year-long capacity building roadmap.

Advancing reporting capabilities

Companies on more mature stages of reporting, having assured standardized or integrated reports may consider further advancements to the content or channels of ESG performance communication. ESG ratings may be the advancement on reporting capability of the company. After deciding on the ESG rating approach of the company, the first year may serve as a baseline for rating, upon which results, new data gathering needs and disclosure opportunities may be identified. The result reviewing the first ESG rating should inform the second year reporting process.

Reporting frequency

It is general market practice that ESG reports are published at least on an annual basis. In case of listed companies the ideal delivery of such reports are together with the financial report referring to the same year. Some industrial sectors cover 2 years in one report. Non-listed companies typically prepare their reports at the beginning of a calendar year, and publish it at autumn. When defining frequency however, it might be necessary to communicate sooner when a significant incident or controversy has taken place through ad-hoc disclosures rather than to wait for the next annual reporting cycle. The report content may be adapted for the different reporting frequencies.
Regulatory and Policy Landscape
ESG disclosure regulations already in force

The Non-Financial Reporting Directive (NFRD)\(^\text{12}\) (Directive 2014/95/EU on the disclosure of non-financial and diversification information) requires large public interest companies (with more than 500 staff) to disclose certain information on the way they operate and manage social and environmental challenges in order to help investors, consumers, policy makers and other stakeholders to evaluate the non-financial performance of these companies and encourages the reporting companies to develop a responsible approach to business (specifically related to employment, board diversity, human rights, anti-corruption and bribery issues). Companies are required to include non-financial statements in their annual reports from 2017 onwards.

The obligation to prepare a non-financial statement (as part of their annual financial statements) in accordance with the NFRD was implemented to the Hungarian Accounting Act in 2016. It applies only to large companies of public interest. As per the Accounting Act, the non-financial statement shall include:

- a brief description of the business model of the company;
- description on policies applied by the company regarding environmental protection, social and employment aspects, anti-corruption measures, also outlining the internal and/or external assurance thereof;
- results of the above policies;
- material risks regarding the above topics and description on risk management;
- key non-financial data.

In line with the NFRD approach, in case a company does not have one or more of the above policies, the Accounting Act requires the company to explain (comply or explain principle). Also, information may be left out of the report in case the company deems disclosure is detrimental to its legitimate business interests, as long as the missing information does not represent a misleading picture on the company’s performance, development and activities.

The Shareholder Rights Directive (SRDII)\(^\text{15}\) (Directive 2017/828/EU) can also be listed among sustainability regulations, as, effective from June 10, 2019, it introduces ESG investment strategy, corporate engagement and disclosure obligations on the buy-side. SRDII was implemented in Hungary by Act 67 of 2019\(^\text{16}\).

The Sustainable Finance Action Plan

Recent ESG regulations derive from the Sustainable Finance Policy\(^\text{17}\) issued by the European Council, which is complemented by several Green Finance Initiatives\(^\text{18}\), such as the Sustainable Finance Action Plan\(^\text{19}\). The SFAP has four key elements:

- The Sustainable Finance Disclosure Regulation
- The Taxonomy Regulation
- The Climate Benchmarks Regulation
- The (proposed) EU Green Bond Standard

The Sustainable Finance Disclosure Regulation (SFDR)\(^\text{20}\) (Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector), entered into force on 10 March, 2021, lays down harmonised rules for financial market participants (portfolio managers, fund managers, certain insurance

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\(^{12}\) EUR-Lex - 32014L0095 - EN - EUR-Lex (europa.eu)
\(^{13}\) EUR-Lex - 32016R0828 - EN - EUR-Lex (europa.eu)
\(^{14}\) EUR-Lex - 32017L00828 - EN - EUR-Lex (europa.eu)
\(^{15}\) EUR-Lex - 32014L0095 - EN - EUR-Lex (europa.eu)
\(^{16}\) EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)
\(^{17}\) Sustainable Finance Policy (European Council)
\(^{18}\) Sustainability Finance Innovations (European Commission)
\(^{19}\) Sustainable Finance Action Plan (European Commission)
\(^{20}\) Financing the climate transition - Sustainable Finance Action Plan (European Commission)
understandings and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. The SFDR requires investment firms to disclose the environmental sustainability of an investment and the provenance of any ESG claims made, the risks investments present to ESG factors and the risks ESG factors present to investments. The preparation of accurate and comprehensive information on ESG will necessitate significant system and control changes, and a material allocation of resource for many firms.

On 11 December 2019, the Commission presented the European Green Deal, a growth strategy aiming to make Europe the first climate neutral continent by 2050. As part of the Green Deal, the Commission presented on 14 January 2020 the European green deal investment plan, which will mobilise at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.

The Taxonomy Regulation 4 (Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment) establishes the criteria for determining whether an economic activity qualifies as sustainable investment (i.e., meets the criteria for each environmental objective through specific technical screening criteria for each environmental objective under the Regulation). This means that affected companies will have to start gathering data and making all necessary preparations so that they can comply with this legal requirement in respect of the business year 2021.

The Regulation requires financial market participants to classify investments based on the NFRD reports and disclose ESG and Taxonomy related analysis. The Taxonomy Regulation tasks the Commission with establishing the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective through delegated acts, such delegated acts are still under preparation. The Taxonomy Regulation shall apply generally from 1 January 2023, however, from 1 January 2022 large companies of public interest subject to an obligation to publish non-financial information shall include in their non-financial statement the proportion of their turnover derived from products or services associated with climate change mitigation and climate change adaptation, as well as the proportion of their capital expenditure and the proportion of their operating expenditure related to assets or processes associated with climate change mitigation and climate change adaptation. The Regulation obliges the administrators to issue a statement whether their benchmarks qualify as one of these categories and they should also publish the methodology that they use for the calculation of those benchmarks.

Local regulatory measures

Beside the already mentioned Accounting Act and the mandatory implementation of EU regulations, the Central Bank of Hungary and other institutions also try to help market participants in their ESG compliance efforts.

The Central Bank of Hungary will most probably help market participants with implementation guidelines and explanatory notes where relevant. BSE is trying to help issuers with this Guide and with educational events, conferences.

It is also worth mentioning that the Association of Hungarian Investment Fund and Asset Management Companies is also issuing a recommendation to help align the classification of funds with SFDR.

Further developments

As already mentioned in the introduction, at this point of time, it is impossible to give an exhaustive and all-inclusive review of all ESG-related regulations. In the following years, a vast amount of Level II rules (implementing regulations and technical standards) are scheduled to come out to complement the above Level I regulations with necessary details and fill in the gaps.

The new EU Climate Transition Benchmarks Regulation 5 (Regulation (EU) 2019/2089 - CTBR) sets up two types of benchmarks in accordance with the impact investing, the EU Paris-Aligned Benchmarks and the less strict EU Climate Transition Benchmarks and lays down the minimum requirements for each of those benchmarks. The Regulation obliges the administrators to issue a statement whether their benchmarks qualify as one of these categories and they should also publish the methodology that they use for the calculation of those benchmarks.

Timeline of ESG Regulations in the order of effective date

Some important EU initiatives on the way:

- **EU Green Bond Standard**: building on current best practices, and within the framework of the Prospectus Regulation, the Commission issued a Green Bond Standard Report 6 with recommendations for a proposed standard for green bonds.
- **NFRD review**: there is an ongoing revision of the NFRD in 2021, which aims at the standardization of non-financial reporting practices and regulations.
- **Sustainable Corporate Governance**: a new initiative which suggests that corporate governance reporting should be extended to more ESG aspects (social) and would replace current comply or explain practices with more specific and stricter regulations, and move from reporting to mandatory compliance in certain issues. This concept is currently under consultation and triggered debate among market participants.
- **IFRS consultation**: a 5-yearly review of the IFRS regulations was conducted last year, with ESG reporting in the focus, evaluation of the consultation and announcement of subsequent steps can be expected soon.

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4 European Green Deal (European Commission (unspecified))
5 EU-lux - 2019/0852 - EN - EU-lux (unspecified)
6 EU-lux - 2020/0852 - EN - EU-lux (unspecified)
Introduction to ESG Reporting Standards
Introduction to ESG Reporting Standards

BSE does not recommend one specific standard to use from the many ESG standards available for reporting but rather provides a list of standards that could be applicable for issuers.

Prior to selecting a reporting standard, the company should get information from the organisations developing the particular standard or advice from subject matter expert advisors.

Global reporting standards to start with

The two most popular standards used by BSE listed companies are GRI and the SASB. The standards have been developed to provide ESG information to stakeholders.

GRI disclosure provides information on how the company’s actions are likely to impact the external environment to a broad group of stakeholders including investors, while SASB is targeted specifically at investors, communicating about the ESG issues likely to impact the companies’ financial performance.

Besides being one of the most popular standards among BSE listed companies, GRI was created as a universal disclosure standard for a diverse group of companies, with additional sector specific disclosures applying specific metrics. Thus, the topics cover a wide range of issues, whose relevance vary for the disclosing company. GRI is one of the most widely used ESG disclosure standard globally, however its pertinence in certain industries, especially ones with less mature sustainability disclosure practice, may be limited.

SASB, as mentioned previously, is targeted at investors specifically. The standard contains 77 industry specific sets of ESG metrics, potentially having financial implications for the company. This allows for a more focused disclosure, yet it is important to note, that SASB was developed with a strong emphasis on financial materiality, therefore it builds on financial information.

Both standards are using international and American terminology, consequently some definitions are harder to apply and understand from a European and Hungarian perspective. This may lead to confusion on the data servicing side and on the surface analogous but truly incomparable data. To ensure the technical adequacy of indicators, both local and subject matter knowledge is required.

Although GRI and SASB have different purposes, they can be and are in many cases used together. The two standards are not competitive, but complementary frameworks, using different definitions of materiality for different purposes.

For more information on the two standards, please consult the Annex.

Issue specific global disclosure and target setting schemes

Besides the complex, overarching reporting standards addressing economic, environmental, social and governance aspects of company performance, due to the growing interest and investor demand for action against climate change, issue specific disclosure and target setting schemes arose.

There are various commitment and reporting schemes in place aiming at assessing and evaluating the short-, medium- and long-term impacts of climate change and safeguarding future interests of investors. There are several policy directions, guidance documents and global platforms such as UN SDGs, UNGC and UN PRI in the area of ESG. BSE recommends three central and widely known disclosure and target setting schemes below. Notably, certain industries have developed ESG performance assessments and benchmark databases to guide monitoring and reporting efforts of companies. One great example is the GRESB Assessments in the real asset investment industry. The assessments are focusing on investor requirements and are aligned the aforementioned international reporting frameworks as well as the Paris Climate Agreement, regional and country specific disclosure guidelines and regulations.

Integrated reporting to enhance transparency and address interconnectivity

Existing non-financial reporting may be strengthened by implementing an integrated reporting approach. Integrated reporting enables the company ESG communication to report in a cohesive way, reducing duplication and miscommunication between business areas.

Guiding Principles and Content Elements govern the content of integrated reports according to the IIRC Framework, however, they often build on disclosures according to the GRI or SASB standards.

BSE recommended ESG reporting global disclosure and target setting schemes for specific issues

1. Task-Force on Climate-related Financial Disclosures (TCFD)
2. Climate Disclosure Standards Board (CDBS)
3. Carbon Disclosure Project (CDP)

For more information on these, please consult the Annex.

Another notable target setting scheme is the Science Based Targets Initiative (SBTi), which focuses on climate action through emission reduction target setting.

BSE recommended Integrated ESG Reporting Framework

1. International Integrated Reporting Council (IIRC)

For more information on the framework, please consult the Annex.

Please note that in 2021, ESG reporting standards are expected to become more harmonised, coupling with various fields with each other. Therefore, standard specific information included herein should be double checked on the respective webpage of the standard provider.
ESG Data from Collection to Issuer Ratings
Main ESG rating agencies and the importance of rating

The increasing prominence of sustainability, environmental, social and governance considerations for evaluating a company’s performance brought the need for objective assessment of ESG performance and thus the emergence of different rating agencies. These ESG rating agencies are specialised in assessing the environmental, social and governance performance according to their respective methodologies. The methodologies applied by the ESG rating agencies vary, frequently using publicly available data (such as media sources and annual reports).

ESG rating agencies aim to inform interested parties and enhance financial decision-making processes. ESG performance may influence credit rating positively.

As suggested by several studies, ESG criteria has turned out to be highly valuable, with ESG portfolios continually outperforming traditional portfolios. At companies that focused on sustainability, operational performance was improved, translating to higher cash flows. Companies that score well on ESG metrics are believed to better anticipate future risks and opportunities, be more disposed to long-term strategic thinking, and focused on long-term value creation.

It should be noted that ratings provided by different agencies are not consistent. The proliferation of different standards and rating agencies already raised the need for standardisation across the sector in the future by many, but currently this inconsistency must be taken into consideration.

The main ESG rating agencies globally are:

- Arabesque: Arabesque S-Ray assesses company performance and sustainability based on ESG and financial metrics. Currently covers approximately 7,000 companies, but applies no minimum limit to companies in size, region, sector or other aspects for inclusion in assessment.

- ISS: ISS provides ESG rating for corporations and countries as well. The corporate ESG rating uses general and industry specific criteria to assess ESG performance. ISS is a SASB alliance organizational member.

- MSCI: MSCI ESG rating aims to identify and assess ESG related risks in company operations. The rating uses publicly available data. The ESG rating combines weighted percentage of risks according to their impact, and is normalised relative to industry peers. MSCI includes approximately 8,500 companies, primarily equity issuers that are constituents of MSCI market capital indexes and fixed income issuers covered in the Barclays Global Aggregate Indexes.

- Refinitiv: Refinitiv ESG score provides information on the relative ESG performance of the companies. Refinitiv collects ESG data from annual reports, NGO websites, CSR reports, company websites, stock exchange filings and news sources. The rating covers over 7,000 companies globally.

- Robeco: RobecoSAM Smart ESG scores include financially material and industry specific ESG issues. The ESG rating and benchmarking services are now owned by and operating from S&P Global. The rating covers almost 5,000 companies worldwide.

- Sustainalytics: The ESG rating of Sustainalytics is to be integrated into Morningstar Equity Research. The rating focuses on ESG risks, enabling cross-industry comparison between companies. The rating covers 12,000 companies.

As mentioned above, ESG rating agencies are often connected to and considered by global credit rating agencies, such as S&P, Moody’s, Fitch and DBRS.

The rating may be on an “invitational” basis, based on capital market value, or on voluntary basis, depending the Rating Agency.

In Hungary, currently four corporations – MOL, Magyar Telekom, Richter Gedeon and OTP Bank – receive ESG ratings from major ESG rating agencies, such as Arabesque, ISS ESG, MSCI, RobecoSAM and Sustainalytics.
BSE Recommendations
BSE acknowledges the importance of ESG issues and aims to support issuers in effectively addressing and communicating them.

Guiding principles for issuers in developing their ESG approach:

1. Develop understanding of ESG issues
2. Incorporate ESG issues into decision-making
3. Define roadmap for continuous improvement in addressing ESG issues
4. Disclose ESG relevant issues

Besides respecting and implementing the guiding principles, BSE issuers are recommended to perform certain tasks related to ESG reporting.

Recommendations for BSE issuers:

All BSE issuers should be able to disclose their ESG performance at least annually, starting in 2023 at the latest, disclosing information on the year 2022. The report should be publicly available. The disclosures of issuers are categorised into three levels based on the following criteria:

<table>
<thead>
<tr>
<th>ESG categorisation</th>
<th>Entry level</th>
<th>Intermediate level</th>
<th>Advanced level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure</td>
<td>Standalone ESG disclosure</td>
<td>Standalone ESG disclosure</td>
<td>Integrated reporting</td>
</tr>
<tr>
<td>Frequency of disclosure</td>
<td>Annual report</td>
<td>Annual report</td>
<td>Annual report and quarterly ESG update</td>
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<td>Reporting format</td>
<td>Basic report</td>
<td>Standardised report</td>
<td>Integrated (standardised) report</td>
</tr>
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<td>Report assurance</td>
<td>Not required</td>
<td>Not required</td>
<td>External assurance required</td>
</tr>
<tr>
<td>Target setting</td>
<td>Not required</td>
<td>ESG target</td>
<td>Target set and monitored according to target setting scheme</td>
</tr>
<tr>
<td>Improvement</td>
<td>Should advance to intermediate level in 2 years</td>
<td>Should perform all aspects in 2 years and advance to advanced level in 3 years</td>
<td>Should perform all aspects in 3 years</td>
</tr>
</tbody>
</table>

In line with Principle 3 above, issuers should aim to improve their approach of addressing ESG issues, for which they are recommended to prepare and publish a roadmap for meeting the BSE recommendations and improving their categorisation according to them. The roadmap should be prepared by 31st December 2021, and should cover but is not limited to:

- the schedule of adapting the BSE recommendations,
- the desired ESG category for each year between 2022 and 2025,
- the planned advancements to achieve ‘advanced level’

Issuers are expected to publish at least a standalone ESG disclosure in 2023 (covering year 2022) in order to meet ‘entry level’ classification, and then gradually move to the next levels.

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25 External assurance can be reasonable or limited and may include both not modified assurance according to ISAE 3000 standard.

26 Issuers listed after this date are recommended to prepare the roadmap at the time of their listing or as soon as possible after the first day of trading.
In 'entry level', issuers publish at least a standalone, non-standardised ESG disclosure, may it be a CSR, sustainability or ESG report. Since the report is not prepared according to any international standard, no assurance is necessary. However, in line with the principle of continuous improvement, ‘entry level’ issuers are recommended to advance to ‘intermediate level’ within 2 years.

Advancement between categories takes place in case the issuer performs at least one of the next level requirements. In case of ‘entry level’ advancement, this is either target setting or publishing a standardised report.

Intermediate level issuers should be able to report on their ESG performance in accordance with an acknowledged reporting standard annually. They are recommended to set medium- or long-term (i.e. annual to 5 year) ESG targets. Intermediate level issuers should perform all intermediate level requirements in 2 years and move to advanced level in the third year. To reach advanced level, the issuer are expected to perform at least one of the advanced level requirements.

Advanced level issuers should publish an assured integrated report on their financial and ESG performance in accordance with an acknowledged reporting standard annually. ESG updates should be shared quarterly. Medium- or long-term (i.e. annual to 5 year) ESG targets should be defined in line with target setting scheme(s). Advanced level issuers should perform all requirements in 3 years.

"We have historically relied on the GRI, as our sustainability report grew over the years as we sought to meet the increasing demand for ESG information from all stakeholders. In 2019 however we decided to rethink not only the report itself but also what kind of reporting standard we would prioritize going forward. We introduced SASB as we transitioned from a narrative-driven sustainability report to a more financially material data-driven report supported by concise narrative. For the 2020 Annual Report climate related disclosures are produced in accordance with the core elements of the TCFD.”

Mikkel Skougaard
Group ESG Reporting Senior Expert
MOL GROUP
<table>
<thead>
<tr>
<th>Name</th>
<th>Global Reporting Initiative</th>
<th>Sustainability Accounting Standards Board</th>
<th>International Integrated Reporting Council (and Framework)</th>
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<tbody>
<tr>
<td>Short name</td>
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<td>SASB</td>
<td>IIRC &lt;IR&gt;</td>
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<tr>
<td>Focus</td>
<td>ESG, wider environmental,</td>
<td>ESG, industry and wider</td>
<td>ESG, value creation for organisations</td>
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<tr>
<td></td>
<td>social and governance</td>
<td>environmental and governance</td>
<td>through sustainable reporting</td>
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<td></td>
<td>objectives</td>
<td>objectives</td>
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<td>Foundation</td>
<td>Global, not-for-profit organization</td>
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<td></td>
<td>(founded in Boston in 1997)</td>
<td></td>
<td>London</td>
</tr>
<tr>
<td>Format</td>
<td>CSR report</td>
<td>SEC Form 10-K, 20-F filings</td>
<td>Stand-alone or integrated report</td>
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<td>Mission</td>
<td>GRI’s mission is to help</td>
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<td>The International Integrated Reporting</td>
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<td>companies to understand</td>
<td>Reporting Council (IRC) is a global coalion of</td>
<td>Reporting Council (IRC) is a global coalion of</td>
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<td>and communicate</td>
<td>regulators, investors, companies,</td>
<td>regulators, investors, companies,</td>
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<td>their impact on critical</td>
<td>standard setters, the accounting</td>
<td>standard setters, the accounting</td>
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<td>profession, academia and NGOs. The</td>
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<td></td>
<td>such as climate change,</td>
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<td></td>
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<td>about value creation as the next step in the evolution</td>
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<td></td>
<td>and social well-being.</td>
<td>of corporate reporting. The IRC’s mission</td>
<td>of corporate reporting. The IRC’s mission</td>
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<td>is to establish integrated reporting and</td>
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<td>thinking within mainstream business</td>
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<td>practice as the norm in the public and</td>
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<th>Carbon Disclosure Project</th>
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<td>TCFD</td>
<td>CDP</td>
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<td>English</td>
<td>English</td>
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<td>Organization governed by 31 members selected by FSB</td>
<td>CDP Worldwide is regulated by the Charity Commission for England and Wales</td>
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<td>-</td>
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<td>integrated report</td>
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<td>Mission</td>
<td>CDSB’s mission is to align the global mainstream corporate reporting</td>
<td>Help companies to understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors’ needs.</td>
<td>CDP wants to see a thriving economy that works for people and planet in the long term. To achieve this, it focuses on investors, policymakers, companies, cities, states and regions on taking urgent action to build a truly sustainable economy.</td>
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