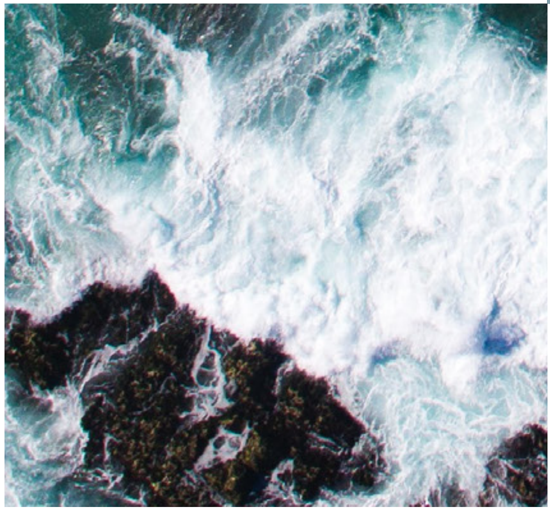



# ESG Reporting Guide

## TARGET 1.5°C

# Summary

# Foreword

## Anthony Attia

*Global Head of Primary Markets and Post-Trade*

### **OUR PURPOSE:** To shape capital markets for future generations

In line with Euronext's "Fit for 1.5 degree" commitment, one of the key pillars of our 2024 strategic plan "Growth for Impact", this guide aims to help companies engage into climate change mitigation policies with the support of investors – and grab the associated opportunities.

Building on the successful launch of our ESG Guide to issuers in 2020 and drawing on the model guidance[1] developed by a dedicated advisory group of the UN Sustainable Stock Exchanges initiative of which Euronext is part, this revised edition is enriched with contributions from our issuers on best practices in terms of ESG reporting and takes into account the latest developments in climate-related standards and initiatives, including those conducted by investors. I would like to take this opportunity to thank the issuers who contributed to this guide and all those who will engage with us and use the guide going forward.

Regulation plays a significant role in ESG reporting, especially in Europe where Euronext operates seven regulated markets. Bearing in mind the developments announced by the European Commission on the introduction of EU sustainability-related standards from 2024, we believe our guide can help fill a gap in the next two years, before the introduction of detailed ESG disclosure rules. It also aims to support SMEs as they navigate this rapidly-evolving environment, by taking into account the challenges of first-time disclosure preparers, in particular at small and mid-cap companies.

Beyond compliance aspects, companies now have an opportunity to demonstrate leadership and management excellence by aligning their policies and reporting to the highest climate-related standards, in a way that fits their strategic plans and enhances their purpose and mission. This guide is intended to help them on this journey.

To walk the talk, Euronext as a listed company and a key financial market infrastructure provider has already committed to science-based targets with a 2030 time horizon and to develop a full suite of climate-related products and services.

Our "Fit for 1.5 degree" commitment is intended to make a real difference in shaping financial markets for future generations.

[1]See the UN SSE website for further information on the "Model Guidance on Climate Disclosure: A template for stock exchanges to guide issuers on TCFD implementation" (sseinitiative.org)

# Who is this guide for?

## 1.1.
## COMPANIES AT DIFFERENT STAGES OF THEIR ESG JOURNEY: ASSESSING THEIR NEEDS

**This guide is intended to help Euronext issuers and private companies to:** [2]

- **identify and prioritise the Environmental, Social and Governance (ESG) opportunities and risks** that are of greatest significance to their company results and their most important stakeholders
- **report efficiently** on their management of and performance in areas of ESG risks, defined in accordance with their own needs and those of their stakeholders
- **navigate, comply with and stay ahead of regulations** that require disclosure of financially material ESG information
- **differentiate themselves in terms of their ESG approach,** ensuring their relevance in the new competitive sustainable environment

[2] The use of the Euronext's ESG Reporting Guide is voluntary for companies. Companies that apply these guidelines may include the following statement in their annual report and/or their separate ESG report: "We follow the Euronext's ESG Reporting Guide".

There is increasing awareness that material ESG factors affect a company's long-term value. The largest global investors are allocating capital to companies that are well equipped to benefit from the transition to a green and sustainable economy. They also increasingly seek to protect their portfolios against ESG risks. This trend is growing as an increasing number of companies and institutions commit to taking action to limit global warming to 1.5°C and achieving the goal of net zero by 2050 set by the 2015 Paris Agreement[3,4].

In light of the above, corporates should integrate and explain the relevance of ESG factors in their business models and strategies. This exercise should allow companies on the one hand to manage and mitigate ESG risks, but also to think about how they can benefit from ESG. Beyond a pure compliance requirement, the transition to a more sustainable economy can be approached as a way of accessing new value-creating business opportunities.

Whether your company is considering organising its Initial Public Offering (IPO), a bond issuance, a capital increase or regular updates for its investors and ordinary stakeholders, an integrated strategic approach will boost your company's ability to attract and retain long-term investors and develop strategic long-term partnerships.

[3]At the COP26 UN climate conference, banks, insurers and investors representing approximately $130 trillion committed to invest in net-zero aligned projects. Source: Jessop, Simon and Andrea Shalal, "COP26 coalition worth $130 trillion vows to put climate at heart of finance", Reuters, 3 November 2021, reuters.com.

[4]In a 2019 publication, Morgan Stanley estimates that the transition to a net-zero emissions economy will require about $50 trillion in investment by 2050. Source: "Decarbonisation: The race to zero emissions", Morgan Stanley, December 2019.

# 1.2. PRIVATE COMPANIES

The growing impact of ESG is not limited to public companies. Global private market investors are increasingly expressing the need to have more information on the ESG strategies of assets in their portfolio, with a particular focus on carbon intensity, and whether private companies in their portfolios are aligned with their own long-term sustainable investment strategy.

In Europe, pursuant to the Sustainable Finance Disclosure Regulation (SFDR), every Alternative Investment Fund Manager (AIFM) is required to disclose environmental, social or governance risks for each fund it manages. Portfolio managers are therefore required to identify and properly manage the sustainability risks of their portfolios. This requires them to have access to data, information, benchmarks and ratings to allow them to measure the sustainability risks relative to each single investment. Fund managers are required to monitor their portfolio companies, and assess whether their ESG goals are being met, in order to report to third-party investors (limited partners or LPs) on whether ESG issues are being properly managed. Meetings and site visits allow them to assess the scope of the company's ESG activities and projects, verify disclosures and thus demonstrate their commitment.

Industry standards are emerging to help fund managers with ESG monitoring and disclosure. For example, Invest Europe, the world's largest association of private capital providers, including private equity, venture capital and infrastructure investment firms, defines the industry standards shaping the principles of ethical behaviour and governance and provides guidelines, tools and concrete examples of responsible investments and risk measurement.

Beyond the pure disclosure aspect, managing ESG risks is of particular importance for private market investors, as private companies tend to be smaller than listed companies, without extensive internal ESG expertise and often with limited resources to adequately manage complex risks across multiple levels in their supply chain. Finally, private markets are relatively illiquid, so divestment to avoid reputational or other ESG-related issues may be a costly option for investors – an additional reason for more detailed due diligence and engagement.

Beyond the growing investor demand for ESG information, the vast majority of private companies operate in the supply chain of larger companies that require their suppliers and stakeholders to comply with ESG mandates, so that the upstream business can demonstrate a positive approach to sustainability.

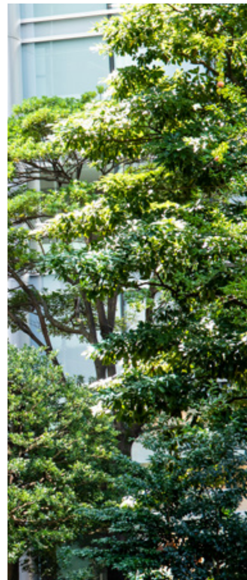
Euronext supports private companies with a dedicated offering of pre-IPO programmes, all with a specific focus on ESG.

## 1.3.
## LISTED SMES

Although endowed with more limited resources, SMEs must build expertise in ESG in order to increase their visibility with investors.

SMEs should explain which ESG factors they see as most relevant or material to their business and how these may affect their strategy and financial and operational performances. In doing so, they should demonstrate resilience to risks and readiness to explore market opportunities.

When presenting this information to investors, SMEs need to understand what information and data investors are looking for. They need to provide evidence to investors as to how the company is equipped to benefit from the transition and manage the associated risks. In this approach, SMEs must rely as much as possible on the international standards and frameworks that are beginning to emerge. Global frameworks provide an essential tool to allow investors to analyse and compare ESG risks across companies and sectors (see section 2.4. for further information about the international standards and reporting frameworks). In this regard, the adoption of global standards and frameworks will help SMEs move sustainability into their mainstream dialogue with investors, increasing the availability, consistency and reliability of their information.



## 1.4.
## LARGE LISTED ISSUERS

Large corporates are called upon to inspire and drive the transition. International initiatives have emerged that aim to encourage the transition of companies towards a sustainable economy. For example, in March 2022 the UN Global Compact launched the CFO Coalition for the SDGs, which aims to facilitate dialogue between global Chief Financial Officers, investors, financial institutions and UN agencies with the aim of developing principles, frameworks and recommendations to integrate the UN's Sustainable Development Goals (SDGs) into corporate finance and create a market for mainstream SDG investments[5].

Through their central role within the economy, large firms can be catalysts for the necessary transformation. One company, taken together with the whole of its supply chain, can have a significant impact on the development of innovation, environmental progress, the promotion of human rights, and anti-corruption policies. For companies with a good understanding of their supply chain, this is a great opportunity to engage with their partners and improve their overall performance.

Managing ESG factors in supply chains brings both operational and financial short-term and long-term results, from managing risks to improving competitive positioning. A faster response to new regulations or legal obligations that engage supply chain responsibility can help avoid the loss of government contracts, as public procurement processes increasingly include ESG criteria, and can reduce the risk of corruption. It also contributes to better protecting human rights, avoiding the use of child labour, and finally helps manage the use of controlled materials such as conflict minerals. Such an approach improves business continuity, lowers reputational risks and reduces costs through better financial risk management, minimising supply chain disruptions, fines, litigations and insurance premiums. On the other hand, attention to ESG factors increases stakeholders' confidence, including customers, lenders, employees and communities, thereby improving corporate image as well as long-term trusted partnerships with all stakeholders.

[5]The CFO Coalition for the SDGs has developed four principles which complement the ten principles of the UN Global Compact. These recommend that companies: (i) develop their SDG impact thesis as well as indicators to measure the progress made, (ii) define strategic objectives and investment criteria that take the SDG impact thesis into account, (iii) develop a comprehensive SDG corporate finance approach and (iv) adopt a proactive approach to communicate with investors about the SDG impact thesis, strategy and investments. More information available at: cfocoalition.org

*"We are also aware that as a large group we have a role to play in promoting ESG best practices in our supply chain. Having resilient and sustainable suppliers is essential to quantifying our impact and meeting our decarbonisation and electrification commitments. We have integrated sustainability criteria into all of our procurement selection and monitoring processes as well as our tendering processes. We require our suppliers to comply to specific pre-requisites in terms of health and safety, environment and human rights in order to make sure that working conditions at its suppliers are dignified. We have also launched several initiatives to encourage our suppliers to follow best practices in terms of human rights, working conditions, occupational health and safety, and environmental responsibility. One of them is the Supplier Development Program, launched in 2020, under which small and medium-sized suppliers with growth prospects and operating in sectors identified as strategic for ENEL can benefit from various services such as advisory, finance, or training offered by selected partners."*

# Why report on ESG considerations?

**Beyond the pure compliance aspect, reporting on how sustainability initiatives relate to strategy, financial performance and valuation allows a company to communicate on how it is addressing some of the world's most pressing challenges, including poverty, education, climate change and biodiversity. Addressing these challenges fosters more prosperous economic systems that benefit everyone and create a more stable and resilient economy.**



## 2.1. SUPPORTING LONG-TERM STRATEGY AND RESILIENCE

More specifically, climate-related reporting is essential to direct capital effectively towards investments that offer solutions to climate change and therefore contribute to a more sustainable economy. Climate reporting is all the more essential as a growing number of organisations and companies have committed to reaching net zero and setting objectives compatible with limiting the global temperature increase to 1.5 °C.

Companies that report climate-related information can benefit directly from providing quality disclosure to their stakeholders: this can lead to increased awareness and understanding of climate-related risks and opportunities within the company, better risk management, and can contribute to securing a lower cost of capital and a more diverse investor base.

From an operational perspective, the process of compiling this information can strengthen internal reporting systems. The extra-financial reporting process itself can help companies develop the internal infrastructure needed to link strategic objectives to the business model, risks, opportunities, operational indicators and financial performance. Sustainable reporting thus equips a company with internal tools to identify and manage risk, and to evaluate and measure success, as well as identify future challenges and opportunities.

## 2.2. ADDRESSING ESG ISSUES AS A KEY COMPONENT OF INVESTOR RELATIONS RESILIENCE

A large and growing proportion of assets managed globally sits with asset managers and asset owners that have incorporated or are incorporating ESG considerations into their investment processes.

In 2021, the United Nations-supported Principles for Responsible Investment (PRI)[6] had more than 3,800 signatories representing $121 trillion in assets under management (AUM), up from 800 signatories with $22 trillion AUM in 2010. For these investors, ESG information provides insight into the quality of corporate management and helps investors predict company performance by providing a more comprehensive view of the company. Effective analysis of relevant ESG factors has become a fundamental part of assessing the value of an investment for many investors. As a result, investors are asking companies to communicate on how they manage ESG-related risks and opportunities and, more recently, on how their activity has a sustainable impact on the real economy.

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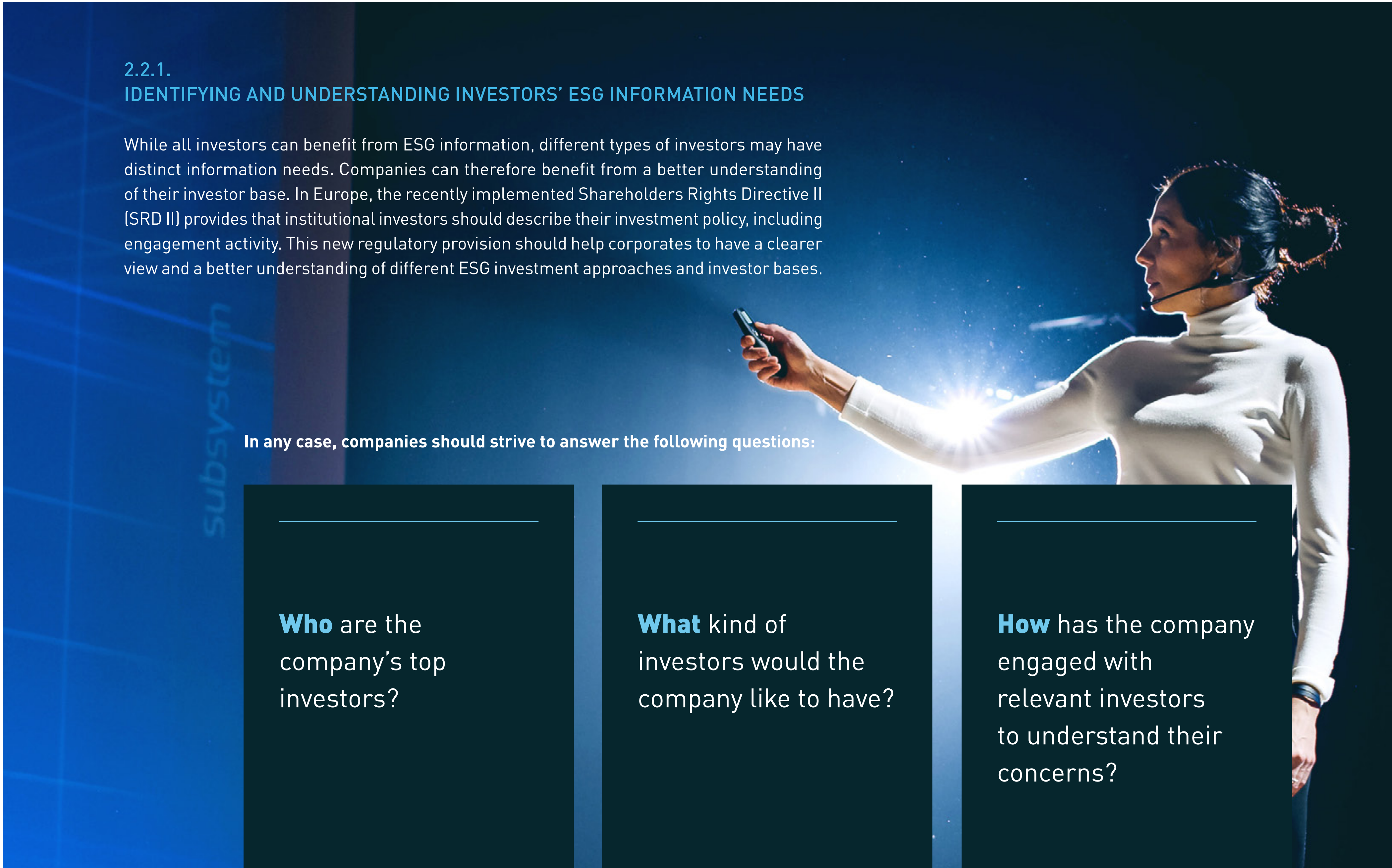
*"Requests for interactions from investors on ESG topics have quadrupled in the last four years.*

*ESG themes have become mainstream and portfolio managers are taking these aspects into account in their valuation processes, whereas until recently they were the prerogative of a small group of specialists within the investment teams.*

*Each type of investor then has a dominant theme, whether it is climate change, biodiversity, energy transition, or protection of human rights within supply chains.*

*Investors can sometimes still have an overall approach to ESG. We try to bring them a more concrete vision."*

[6] Further information available on the UN PRI website unpri.org/pri/about-the-pri.




## 2.2.1.
## IDENTIFYING AND UNDERSTANDING INVESTORS' ESG INFORMATION NEEDS

While all investors can benefit from ESG information, different types of investors may have distinct information needs. Companies can therefore benefit from a better understanding of their investor base. In Europe, the recently implemented Shareholders Rights Directive II (SRD II) provides that institutional investors should describe their investment policy, including engagement activity. This new regulatory provision should help corporates to have a clearer view and a better understanding of different ESG investment approaches and investor bases.

**In any case, companies should strive to answer the following questions:**

**Who** are the company's top investors?

**What** kind of investors would the company like to have?

**How** has the company engaged with relevant investors to understand their concerns?

## ESG investors

ESG investors will look at ESG indicators to evaluate a company's ESG risks and practices in addition to more traditional financial performance indicators. Mainstream ESG investors focus on identifying the factors (e.g. sustainability factors) which relate to companies' ability to create long-term value. In this regard, investors with a long-term investment horizon, for instance pension funds, may be particularly interested in ESG information affecting portfolio risks, such as assessments of how climate change may affect the company in the medium or long term. Other investors focus on ESG as an investment performance factor, for example by following ESG-related investment themes.

## Socially responsible investors

Socially responsible investors, on the other hand, actively choose their investments based on ethical guidelines, through the use of screening and exclusion tools as well as shareholder activism practices. Socially responsible investors will choose to exclude from their portfolios voluntarily companies specialising in sectors whose social or environmental impact is considered to be negative, for example armaments, tobacco, alcohol or oil.

## Impact investors

Finally, investors increasingly take ESG impacts into account in addition to risk-return considerations. Impact investing is an increasingly popular investment strategy that aims to generate specific social or environmental positive effects in addition to financial gains, according to the Global Impact Investing Network (GIIN)[7]. This form of investing goes beyond socially responsible investing. It is no longer just a matter of taking into account social and environmental criteria in addition to financial criteria. Impact investing places as much importance on the social and environmental impacts created by the activity as on the financial return generated.

[7] The Global Impact Investing Network (GIIN) is a non-profit organisation dedicated to increasing the scale and effectiveness of impact investing. The GIIN identifies four key characteristics for impact investing: (i) The intentionality to contribute to measurable social or environmental benefit; (ii) the expectation of a financial return; (iii) the range of return expectations which can vary from below market to above and asset classes; (iv) the commitment to measure the social and environmental performance of underlying investments in addition to financial performance. For further information, see thegiin.org.

# ESG Approach: risk, return and impact

| Financial-only | Responsible | Sustainable | Impact | | | Impact-only |
|---|---|---|---|---|---|---|
| **Limited or no regard** for environmental, social or governance practices | Mitigate risky environmental, social or governance practices in order to **protect value** | Adopt progressive environmental, social or governance practices that may **enhance value** | Adress societal challenges which **that generate competitive financial returns** for investors | Adress societal challenges which **may generate a below-market** financial return for investors | Adress societal challenges that **require a below-market financial return** for investors | Adress societal challenges that **cannot generate financial return** for investors |

**Deliver competitive financial results**

**Mitigating Environmental, Social and Governance risks**

**Pursuing Environmental, Social and Governance opportunities**

**Focus on measurable high-impact solutions**

Mainstream ESG investors focus on identifying the most important intangible factors (e.g. sustainability factors) which relate to companies' ability to create long-term value

## 2.2.2. ESG AS A COMPASS FOR RISK MITIGATION

The transition to a low-carbon economy will necessitate changes in climate policies. In parallel, the consequences associated with global warming lead to increased attention being paid to physical risks. The combination of these two elements is likely to prompt a revaluation of almost all financial assets. As such, it is essential for companies to fully understand the ESG risks to which they are exposed. Ongoing dialogue with stakeholders (including employees, communities, shareholders, relevant regulators, rating agencies, clients, etc.) can help companies understand where to focus their attention when it comes to ESG risk factors. As ESG becomes embedded in a company's strategy, the way risks are understood, measured, and then mitigated will evolve in line with strategic objectives.

Many components of a company's strategy can be viewed from an ESG perspective.

We can take as an example the ambition to promote employee well-being and happiness. This is reflected in the operational risk of high employee turnover, which can impact the continuity of client servicing and operational efficiency. However, the risk of high employee turnover may also have a strategic component, with impacts on attracting talent, corporate culture and client perception. The increased awareness resulting from considering both operational risks and strategic objectives can help companies allocate resources more effectively, thereby integrating ESG risks into their Enterprise Risk Management Framework.

Understanding and clearly disclosing ESG risks and the strategies employed to mitigate these risks assures investors of a company's resilience and capacity to transition towards a more sustainable economy.

Finally, a company may expose itself to reputational risk if it neglects this area, not due to poor ESG risk management per se, but rather due to poor disclosure and communication.

# 2.3. INTEGRATING REGULATORY REQUIREMENTS INTO YOUR ESG REPORTING STRATEGY

## 2.3.1. THE EVOLVING REPORTING LANDSCAPE

In the European Union, the 2018 Action Plan on Sustainable Finance and subsequent launch of the 2019 European Green Deal resulted in a series of initiatives and new regulations that significantly changed the ESG reporting landscape.

This evolution is structured around the following flagship regulatory texts that are relevant for issuers:

- The **Sustainable Finance Disclosure Regulation (SFDR)** published in the European Union Official Journal in December 2019;
- The **Taxonomy Regulation** published in the European Union Official Journal in June 2020; and
- The Commission's proposals for an **EU Green Bond Standard (EUGBS)**, **Corporate Sustainability Reporting Directive (CSRD),** and more recently for a **Corporate Sustainability Due Diligence Directive (CSDD)** which are currently being discussed.

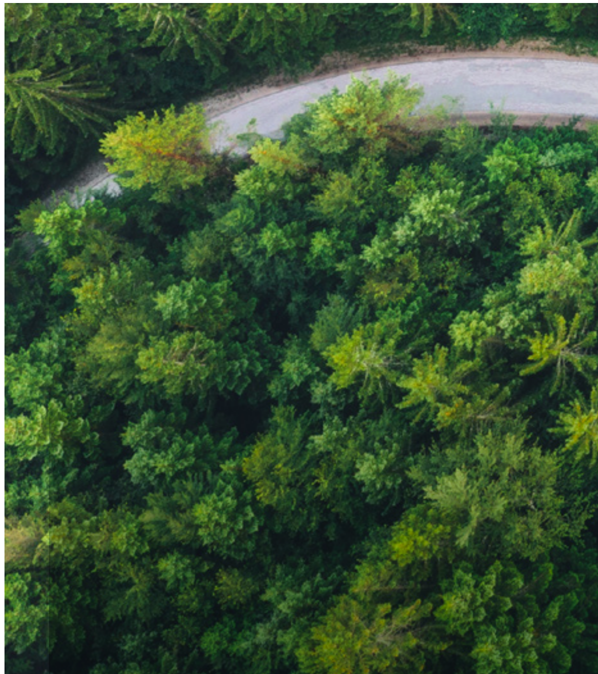
The SFDR, which came into force in 2021, introduced a major change, as it required the investment industry to adopt ESG policies and to report ESG information. As a result, most investors in the European Union now have to disclose ESG indicators both at the entity and investment product level, increasing the need for ESG data.

Additionally, it requires asset managers distributing funds in the EU that promote environmental characteristics to disclose the proportion of their assets under management that is aligned with activities that significantly contribute to the environmental transition in Europe, as defined in the Taxonomy Regulation.

While these disclosure requirements are consolidating the business case and incentives for ESG disclosure by investee companies, policymakers are also pushing for more detailed and prescriptive disclosure requirements on companies, both listed and private.

The CSRD is a review of the Non-Financial Reporting Directive (NFRD) published in October 2014. Under the NFRD, large undertakings which are public interest companies[8] are required to report the proportion of their revenues, capital expenditure and operating expenditure associated with products and services as defined by the EU Taxonomy and to publish information on environmental, social and employee matters, diversity, respect for human rights and on anti-corruption and bribery matters. The Commission's proposal on CSRD will strengthen companies' existing ESG disclosure regimes. The scope of companies subject to ESG disclosure requirements and the content of such ESG requirements will be amended to align the ESG reporting framework with the Taxonomy Regulation and ensure that data is readily available for investors and other stakeholders. The legislative process is still underway. Mandatory EU Sustainability reporting standards are expected to be introduced and complement the (voluntary) recommendations included in the Guidelines on Non-Financial Reporting (2017/C215/01), updated in 2019 to factor in climate-related information (2019/C209/01).

The CSDD proposes to foster the respect of human rights and the environment by businesses operating in the single market, in their own operations and through their value chains. Companies will be required to improve their corporate governance practices, be accountable for adverse impacts due to their activities and improve access to remedies for those affected.



[8] Companies subject to the Non-Financial Reporting Directive (NFRD) are large undertakings which are public interest entities (listed companies on regulated markets, credit institutions, insurance undertakings and companies of public relevance) exceeding on their balance sheet dates the criterion of an average number of 500 employees during the financial year.

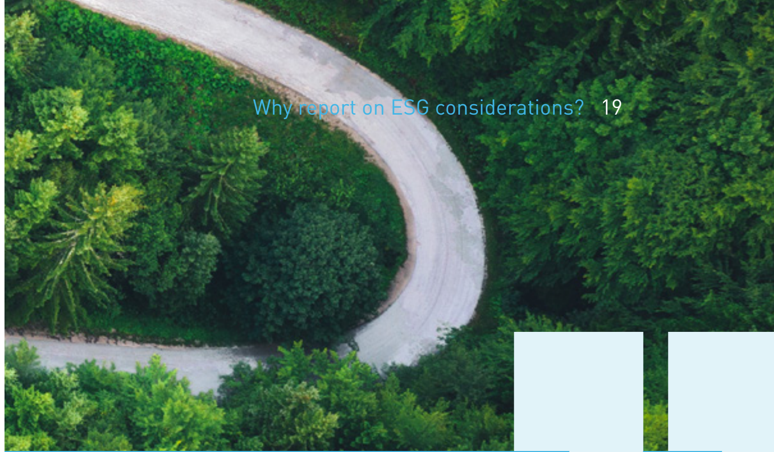
In parallel, other regulatory changes have been introduced to complete the new regulatory framework for sustainable finance. The Markets in Financial Instruments Directive (MiFID II) has been modified in order to integrate the sustainable dimension of investments in clients' questionnaires. The Regulation of November 2019 on sustainability-related disclosures for benchmarks requires index providers to disclose a set of ESG indicators for their ESG indices, and the European Banking Authority has developed ESG disclosures (so-called 'pillar 3 ESG disclosures') for banks. The proposal currently under discussion for an ESAP regulation (European Single Access Point) will provide a centralised public access to all regulatory information, including non-financial information. Finally, the proposal for an EU Green Bond Standard (EUGBS) aims to set an international standard to encourage the growth of the green bond market.

The EU ESG regulatory framework is still under construction:

- Co-legislators are still in the process of finalising EUGBS, CSRD and CSDD (Level 1 legislation)
- Technical standards for the implementation of SFDR have not yet been adopted, nor have the CSRD level 2 standards on which the European Financial Reporting Advisory Group (EFRAG) is currently working and which will enable a reliable and auditable reporting framework (Level 2 legislation).

In any case, this is a profound evolution which will ultimately have consequences on the direction of funding flows.

A more detailed description of the key ESG reporting regulations in Euronext Exchange jurisdictions at the date of publication can be found in the Appendix to this guide.



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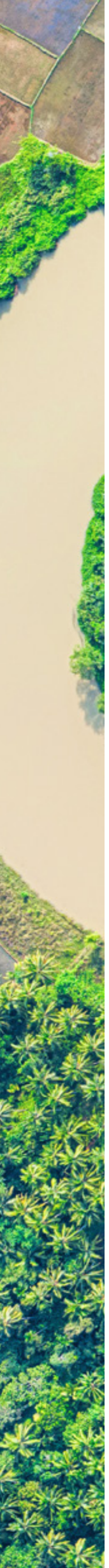
*"For ESG reporting data to be relevant, it is paramount for companies to report on comparable information derived from a similar or identical methodology.*

*The European Commission's Sustainable Finance Action Plan has introduced a range of legislative measures which will impact ESG reporting for listed companies, specifically the Taxonomy Regulation and the Disclosure Regulation. Listed companies should be preparing themselves actively for these major changes.*

*Comparable data allows investors to have a clear overview of a company's ESG credentials, and provides the company itself with a reliable benchmark to prioritise key topics and measure its progress in its ESG journey."*



### 2.3.2. HOW TO TAKE ESG REPORTING REQUIREMENTS INTO ACCOUNT

Disclosure requirements are an important component of a company's ESG reporting efforts. Compliance considerations can drive investments in reporting tools and resources and incentivise the implementation of rigorous data collection and auditing processes. However, compliance only guarantees that all companies make available to the public a minimum set of ESG information. In this regard, mandatory disclosures should not be considered as an end in themselves, but rather as a basis from which to build a comprehensive ESG reporting strategy. For example, mandatory reporting on gender diversity on a company board should be viewed as one component of a broader diversity strategy.

The compliance aspect should thus form one element among others that together serve a wider ESG reporting strategy. This should be defined by analysing the information needs of the target audience, both external and internal.

## 2.4. NAVIGATING THE LANDSCAPE OF SUSTAINABILITY REPORTING FRAMEWORKS AND ESG STANDARDS

### 2.4.1. OVERVIEW OF THE MAIN REPORTING FRAMEWORKS AND ESG STANDARDS

Many frameworks have emerged to guide companies on how to assess and disclose their sustainability-related information. This area is constantly evolving, which can be confusing for companies starting their ESG journey and looking to select the framework with which they are going to align.

**See below for a non-exhaustive list of the most widely used ESG governing goals and principles and existing ESG reporting standards that may be of relevance for issuers in furthering their transparency and disclosure with regards to non-financial information.**

The United Nations **Sustainable Development Goals (SDG)** is a collection of 17 goals adopted by the UN member states to achieve the 2030 Agenda for Sustainable Development. These goals form an action plan to free humanity from poverty and put the planet back on the path to sustainability. They reflect the three dimensions of sustainable development which are the economic, social and ecological aspects. In order to monitor progress, the 17 goals have been broken down into 169 objectives, which are themselves broken down into 242 global indicators.

The **Greenhouse Gas Protocol** provides accounting and reporting standards to measure and manage the greenhouse gas (GHG) emissions from private and public sectors, value chains, products, cities and policies. GHGs are typically categorised into Scopes 1, 2, and 3 based on the source of the emissions. It is the most widely used tool to track GHG emissions.

The **Principles for Responsible investment (PRI)** provide a voluntary framework which is aimed at the financial sector and encourages investors to integrate Environmental, Social and Governance (ESG) issues into their portfolio management. Investors signing the PRI commit to respect six principles to promote sustainable investment and should notify annually the PRI on compliance with their commitments.

Mandated by the UN, the **Global Compact** is a voluntary initiative based on CEO commitments to implement ten universal sustainability principles and to communicate annually on the progress made. The Global Compact aims to translate the UN SDGs into 'business' language and thus to help companies to gradually integrate them into their approaches.

The **Global Reporting Initiative (GRI)** is an independent international organisation providing companies with a global common language to communicate on their impacts. It provides the world's most widely used set of standards for sustainability reporting – the GRI Standards.

**The Sustainability Accounting Standards Board (SASB)** is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors. The Standards identify the subset of issue most relevant to financial performance in each industry. This American reporting standard may be useful for companies that report in accordance with Form 20-F[9].

**CDP**, formerly called the Carbon Disclosure Project, is a UK-based not-for-profit organisation whose objective is to quantify the efforts made by investors, companies and cities to reduce their carbon impact. To do this, CDP relies on reporting questionnaires, the most frequently used of which relates to climate change and is aligned with the TCFD recommendations.

**Task Force on Climate-Related Financial Disclosures (TCFD):** The TCFD is an industry-led group set up in 2015 by the G20's Financial Stability Board (FSB). It helps investors understand their financial exposure to climate risk and works with companies to disclose this information in a clear and consistent way.[10]

The **Science-Based Targets initiative (SBTi)** is a joint project from CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It aims to encourage companies to set reduction targets for greenhouse gas (GHG) emissions in line with scientific recommendations. It aims to promote strategies aligned with the level of decarbonisation required to keep the increase in global temperatures to well below 2°C and pursue efforts to limit warming to 1.5°C, compared to pre-industrial temperatures, in accordance with the recommendations of the Intergovernmental Panel on Climate Change (IPCC) and the Paris Climate Agreement.

[9] See SASB website for further information (sasb.org)

[10] See FSB TCFD website for further information (fsb-tcfd.org)

Efforts are underway to harmonise the different standards and frameworks. In 2020, five major standard-setting organisations — CDP, CDSB, GRI, IIRC and SASB – announced a shared vision to work together to achieve a comprehensive corporate reporting system. In parallel, the International Business Council of the World Economic Forum released a set of core and expanded stakeholder capitalism metrics, which are the result of a consultation with more than 200 stakeholders. These aim to improve the consistency of reporting and allow progress to be tracked against the SDGs[11]. Finally, the International Financial Reporting Standards Foundation Trustees announced in November 2021 the creation of a new standard-setting board – the International Sustainability Standards Board (ISSB) – to achieve a comprehensive corporate reporting framework with sustainability standards.

These standards and reporting frameworks represent a useful base for companies that are starting their ESG journey. They are not mutually exclusive and may sometimes even be complementary. Companies can use different frameworks and standards to build a disclosure system tailored to their needs.

[11]See World Economic Forum website for further information (weforum.org/stakeholdercapitalism/our-metrics)

## 2.4.2.
## THE 1.5°C REPORTING FRAMEWORK

The 2018 IPCC Special Report on Global Warming of 1.5°C insisted on the need to limit the global increase in temperature to 1.5°C compared to pre-industrial levels in order to avoid the catastrophic consequences of global warming. This requires GHG emissions to be halved by 2030 and reach net zero by 2050. Based on the observation that companies have a key role to play in reducing these emissions, a call-to-action named 'Business Ambition for 1.5°C: Our Only Future' was launched in June 2019 by a group of corporates, civil society and UN agencies in partnership with the UN Race To Zero[12], which called on companies across the world to commit to setting science-based targets in line with the 1.5°C trajectory and achieving net-zero emissions by at least 2050. As of 8 April 2022, 1391 companies had signed the Business Ambition for 1.5°C[13]. The Glasgow Pact signed at the end of COP26 renews the ambition of the Paris Agreement to limit global warming to 1.5°C.

Against this backdrop, the SBTi works on translating the IPCC scenarios and trajectories into materials that companies can use as a basis to set science-based net-zero targets aligned with the overall goal of limiting temperature rise to 1.5°C. In this regard, it has published sectoral guidance providing some tailored approaches as well as a new framework called the Corporate Net-Zero Standard. This framework encourages companies to (i) focus on actions that rapidly reduce the emissions of their value chain[14], (ii) to set both short-term and long-term goals, (iii) to declare net-zero only when long-term targets have been reached and finally (iv) to make investments aimed at reducing emissions outside their value chain.

Companies willing to set targets that comply with the 1.5°C trajectory can commit to SBTi. A simplified procedure exists for SMEs.

[12] The Race To Zero is the UN-backed global campaign rallying non-state actors – including companies, cities, regions, financial and educational institutions – to take rigorous and immediate action to halve global emissions by 2030 and deliver a healthier, fairer, zero-carbon world in time.

[13] According to the UN Global Compact. The full list of companies that have signed the Business Ambition for 1.5°C is available **here**.

[14] The SBTi Net-Zero Standard encompasses the entire value chain of companies and as such it covers the emissions produced by their own processes (scope 1), those resulting from purchased electricity and heat (scope 2), and those generated by suppliers and end users (scope 3).



## 2.5.
## EMBEDDING YOUR CLIMATE STRATEGY IN YOUR EQUITY STORY AND STRATEGIC PLAN

While the maturity and expertise of investors in the field of ESG are very varied, investor relations managers and other top management should be able to describe and discuss their company's sustainability journey. The granularity and transparency of ESG disclosure is becoming a central element in retaining shareholders and attracting new investors.

A sustainability roadmap, including objectives and achievements, should be included in the presentation to investors of the company's strategic plan and equity story. This also applies to companies that are in the process of going public.

Listed companies should communicate on long-term ESG objectives, but should not neglect milestones that involve the management currently in place. Finally, it is important that ESG reporting refers to non-financial risks, including climate and environmental impacts, but also to opportunities. ESG should be viewed as an essential element to maximise the value creation process.

# Guiding principles when preparing your statements

## 3.1. RESPONSIBILITY FOR AND OVERSIGHT OF THE STATEMENTS

The initial stages in the preparation of the non-financial reporting provide an opportunity for the company to determine who, within the company, should be involved.

As a practical first step, it is useful to determine the roles, responsibilities and capacities that are relevant to sustainable reporting, including identifying appropriate staff and coordinating between them. Different departments (such as finance, investor relations, communication, legal, sustainability and each business unit) should be involved in the drafting of the report. The team in charge of reporting should have access to all the company's functional divisions, as they may be engaging with different stakeholders and managing issues that could be material. The board of directors plays an essential role in integration and oversight. Integrating sustainable considerations into the company's strategy is an important aspect of the board's role, since it is responsible for strategic oversight. Even if the process of drafting and filing the non-financial statement is managed by operational teams, the ultimate responsibility for the timely issuance and the content of the statement lies with the directors. In this regard, the profile of directors needs to evolve and they must now have ESG skills.

It is thus worthwhile for companies to define their ESG objectives and especially to set the objectives for their climate-related disclosures with their boards of directors, and to provide governance mechanisms to ensure that these factors are endorsed at all levels of the organisation. By embedding sustainability and climate into their decision-making process, directors can ensure that these are integrated into the company's strategy, its values, the business policy, organisational culture, and operational practices in a way that supports the long-term profitability and viability of the company.

**Companies may find it beneficial to issue a statement that clarifies how the board determined:**

| | | |
|---|---|---|
| **how ESG fits into the long-term strategy of the company and the importance of different stakeholders within this.** | **which ESG factors were selected and how.** | **the timeframe envisaged.** |

Signify

*"From an organisational aspect, we have a dedicated team that coordinates our ESG actions and commitments. We have also developed a network of sustainability champions, as we consider that sustainability is embedded in every job. On the manufacturing side, we organise training for employees to achieve our goal to send zero manufacturing waste to landfill.*

*More generally, we believe employee engagement around sustainability is essential as it lies at the core of our corporate strategy. Our ongoing commitment to ESG is also an element of attractiveness in our recruitments. In this perspective, we organise employee engagement campaigns each quarter focusing on sustainability topics such as Climate action, Circular economy and Health and safety. The idea behind these initiatives is to embed sustainability in our daily working lives and have fun while doing so! For instance, we organised a sustainable commuting challenge, a zero-waste challenge, and we encouraged our employees to join the Human Race for Climate Action organised by the UN.*

*We also launched a #ShareYourPower challenge where we asked our employees to share how they contributed to Signify's sustainability efforts as part of their daily work.*

*We learned important lessons with these challenges: first, that collaboration is key to achieving success. We therefore need to ensure that we onboard on these programmes employees with different backgrounds, and who are representative of the entire company.*

*Second, a creative engagement opportunity can transform simple daily tasks such as commuting into activities that raise awareness about sustainability and get employees more engaged.*

*Finally, and probably the most important lesson, everyone can contribute at their own level!"*

## 3.2. RELEVANCE AND MATERIALITY

The materiality of information and its relevance for investors is a key consideration in determining the scope and content of a company's reporting.

Identifying relevant information is a starting point for identifying material factors. From an accounting perspective, a piece of information is considered to be 'relevant' if it influences the opinion or decision of users by helping them to evaluate past, present or future events, or by confirming or correcting their past evaluations. In this regard, understanding the reporting audience is critical to determining what information should be included in a report. When defining relevant information, it can be useful to gauge how much an issue might potentially affect the company's ability to create value over time.

## 3.3. FORWARD-LOOKING INFORMATION: DISCLOSING TARGETS AND TRAJECTORIES

While companies have traditionally focused on aligning ESG information with financial information over a given reporting period, new disclosures have been called for by investors, shareholders and other stakeholders to give reassurance around the long-term viability of a business. This emphasis on forward-looking information helps users assess the future positioning of a company's business.

There are many types of forward-looking disclosure, some of which will already be familiar to many data analysts. The table below provides a high-level overview of the most widely used forward-looking disclosure types:

| Disclosure categories | Description, rationale and examples | References |
|---|---|---|
| **1. Strategies** | Whether business or ESG-specific, the disclosure of a strategy will provide readers with insights into a company's rationale in taking certain steps and measuring certain variables. | GRI standard<br>TCFD |
| **2. Objectives and commitments** | Objectives and commitments translate a company's business or ESG strategy into priorities for action and investments. While they are measurable, they are not necessarily quantitative in nature: for example, committing to assess a company's exposure to fossil fuels and explore alternatives over a certain period of time. | GRI |
| **3. Targets** | Targets are time-bound, measurable and quantitative. For example, a company sets a target to reduce its absolute Scope 1 and 2 GHG emissions by 5% over the following year. | SBTi<br>CDP |
| **4. Action plans and policies** | By describing concrete actions that will be implemented to achieve a strategy or the rules that have been introduced to drive a company's decisions and behaviours, companies provide their stakeholders with a tool for measuring progress. | GRI |
| **5. Capital expenditure** | Investments which will generate revenues or change (for example in energy consumption) in the future give stakeholders an important insight into the planned transformation of the company. For example, a company investing now in the retrofitting of its facilities will set itself on a better energy efficiency trajectory over the next few years, even though its current energy efficiency profile may not be optimal. | EU Taxonomy |
| **6. Scenario analysis** | Scenarios are narratives about future states of the world in a distant future against which companies can test the viability of their strategic plans and business models. They can be developed by the company or provided by third parties. Typically, for climate-related considerations, companies can use those developed by the IPCC or the International Energy Agency. | SBTi<br>IEA |
| **7. Risk analysis** | Depending on the timeframe specified in a company Enterprise Risk Management (ERM) process, the risk analysis performed by a company can provide more or less insightful information about future risks. In particular, long-term emerging risks are valuable indicators of a company's preparedness to address future threats. | COSO |

## 3.4.
## REPORTING ON OUTCOMES AND IMPACTS: CHALLENGES AND EXPECTATIONS

Another important trend in ESG reporting is the growing interest in reporting on the outcomes and impacts of a company's policies, moving away from the traditional focus on a company's efforts and expenditures (the so-called inputs).

This is particularly true as we move closer to the deadlines of the SDG framework and many climate-related policy commitments, i.e. 2030. As a result, investors are paying increased attention to the social and environmental impacts of a company's activities, regardless of the efforts made.

For example, beyond the actions taken by a company to replace incandescent lighting with LED solutions, the question asked by investors would often be whether these investments will bring the company closer to a 1.5°C trajectory. In this case, alignment with a temperature scenario is the impact of a climate policy..

Some of the concepts that build on the notion of outcome and impact reporting are described in the table below.

| Disclosure categories | Description, rationale and examples | References |
|---|---|---|
| **1. Double materiality** | In the EU, for every disclosure topic, companies should assess the material impact of the issue on the company and the impact that a company's business model has on the issue. The latter can be called societal and environmental materiality. | Guidelines on Non-Financial Reporting (2019/C209/01). |
| **2. Due diligence** | To assess the adverse impact of a company on society and the environment, companies are increasingly expected to perform due diligence on their operations and their supply chain. | UN Guiding Principles on Business and Human Rights<br>OECD Guidelines |
| **3. Adverse impacts** | SFDR requires investors to measure and mitigate the adverse impacts of their investment via a series of indicators (see appendix for more detail). | SFDR |
| **4. Benchmarking** | To understand a company's progress, rather than reporting on best efforts, it is useful to compare results with absolute reference points or benchmarks. These can be science based, as in the case of the EU Taxonomy, or based on industry best practices. | EU Taxonomy |
| **5. Temperature trajectories** | Climate scenarios are associated with specific temperature increases in the context of the Paris Agreement. As a result of its climate strategy and GHG emissions reduction targets, a company could for example claim to be on a 1.5°C trajectory. The temperature alignment is a short way for stakeholders to gauge the real impact of a company's climate strategy. | Paris Agreement<br>SBTi |

# ESG reporting process

**The reporting process set out below is based on the Global Reporting Initiative's standards for ESG reporting (GRI Standards). Other guidelines also exist and can be relevant for issuers, as outlined in section 2.4.**

The process of carrying out a materiality analysis and the associated operational management, communication and annual updates, will be largely the same across industries and companies. It comprises four key steps:

# 4.1.
# MATERIALITY ANALYSIS:
# IDENTIFICATION AND PRIORITISATION

## 4.1.1.
## IDENTIFICATION

The non-financial reporting process should start with the identification of the company's most important stakeholders and their primary areas of interest, as well as a materiality analysis mapping the opportunities and risks the company faces. This will give the company a good starting point for identifying its most business-critical areas, and will provide direction regarding the relevant indicators that should be monitored.

The work of mapping a company's most important stakeholders and their expectations can be based on existing analysis and knowledge within the organisation. Which employees to involve will depend on the key stakeholders identified. If information about some groups of stakeholders is lacking or is incomplete, these stakeholders should be contacted directly.

**Potential stakeholders:**

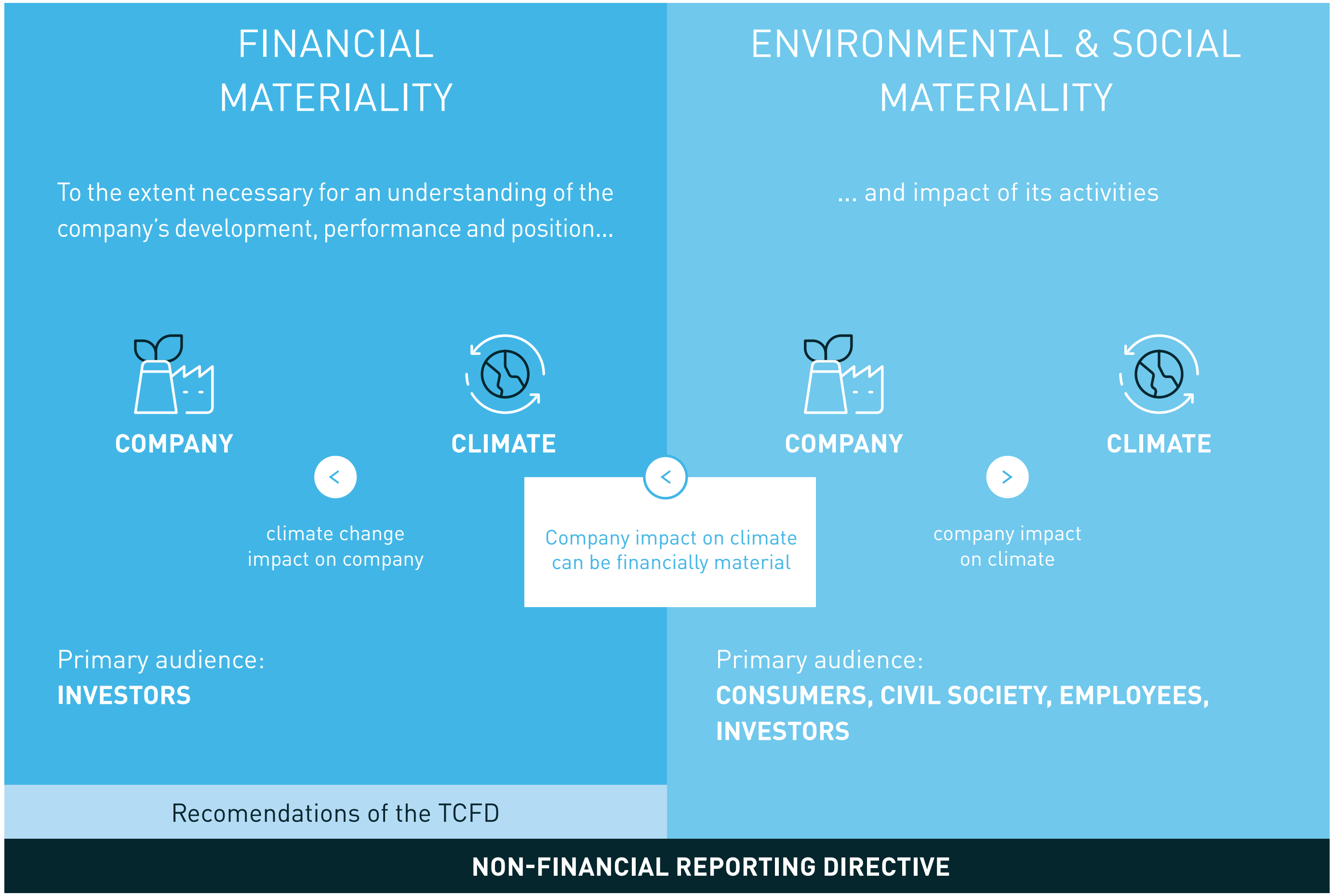
## 4.1.2. PRIORITISATION

Effective reporting covers non-financial considerations that are relevant or material to business strategy and illustrates the link to both long-term and, when possible, short-term value.

In financial reporting, 'materiality' is usually defined by reference to a threshold value that may influence the financial decisions of users of the company's accounts, for example, investors. In corporate responsibility reporting, a materiality assessment takes into account a broader range of stakeholders and the impact of the company.

In this context, the concept of double materiality needs to be taken into account. The company should not only report on information "to the extent necessary for an understanding of the undertaking's development, performance, position"[15], but also on information necessary for an understanding of the impact of the undertaking's activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

**The double materiality perspective of the Non-Financial Reporting Directive in the context of reporting climate-related information**




*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.

[15]The NFRD requires companies to disclose information "to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities."

Source: extracted from the European Commission Guidelines on non-financial reporting: Supplement on reporting climate-related information, Communication from the European Commission published in the Official Journal of the European Union on 20 June 2019

The process of mapping material topics should include the opinions of an internal interdisciplinary group and will also often involve the company's executive management. Salient considerations may include:

- What is important in order to create shareholder/stakeholder value?
- What does the board of directors consider to be important?
- What are the difficult items on the executive management team's agenda?
- Do the board and executive management have sufficient knowledge of corporate responsibility?

The results of the materiality analysis must be compiled in an appropriate manner to demonstrate what is significant to both the company and its stakeholders. In order to determine the company's material risks and opportunities, the different topics identified should be assessed along two dimensions: 'Significance to the company's stakeholders' and 'Significance for the company's economic, social and environmental impacts'.

Aspects to consider when assessing the two dimensions of risks and opportunities:

**'Significance to the company's stakeholders'**

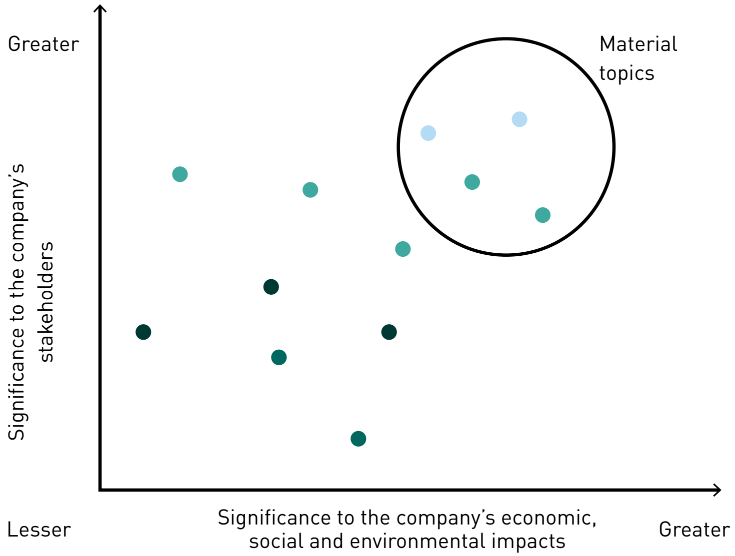
- To what extent does the topic affect stakeholders economically, socially or environmentally?
- To what extent might the topic influence stakeholders' decisions and their assessments of the company's products, services or reputation?

**'Significance for the company's economic, social and environmental impacts'**

- To what extent is the topic relevant for the company's economic, social and environmental impacts? This can be important for the company's ability to achieve its strategic and business goals.
- To what extent does the topic affect the company's ability to operate over the short and the long term?
- Which international standards and agreements is the company expected to comply with?

The risks and opportunities that are assessed to be significant both to the company's stakeholders and in terms of the company's economic, social and environmental impacts should be defined as material, and thus prioritised in the company's work and reporting on corporate responsibility. The findings in terms of material risks and opportunities should form part of the company's public reporting. The information can be presented in many ways (matrix, table, list, etc.), and companies should choose the most appropriate method for them.

The following is an example of how to present a materiality analysis:




The risks and opportunities contained in the circle are the most important ones for the company to report on.

KERING

*"In setting our priorities, we took into account the characteristics of our group: we operate in the luxury market, with supply chains that are structured in a very specific way: thousands of mostly small suppliers, highly fragmented market, with a high level of craftsmanship, essentially based in Europe and Italy. Our environmental footprint is most significant upstream of the supply chain, during the extraction and processing of our raw materials.*

*Therefore, in order to have an impact, it is essential that we set good sustainable development practices both at the level of our direct operations, and with our suppliers and various partners.*

*We developed our strategy building on our materiality assessments and consultations with our stakeholders."*

# 4.2. IMPLEMENTATION AND OPERATIONAL MANAGEMENT

**Material risks and opportunities impact companies' profitability over the long term, and should therefore be managed accordingly. This means that companies should:**

### Include material risks and opportunities in operational management

The topics that the company has defined as most significant to report on should be included in the company's risk management, business development and strategy processes. The ESG reporting should also include a high-level description of the identified material topics as well as the risks mitigants, and how these are integrated into the operational management of the company, including its business development and strategy.

### Define targets and indicators for material topics

The company should also define specific targets and performance indicators for material topics and disclose them in order to demonstrate progress. Companies should explain why the targets and indicators are relevant and how they are monitored. The indicators can be both quantitative and qualitative. They may be generic, industry-specific or company-specific. Relevant indicators will depend on the company's industry and geographic exposure. Companies are recommended to use widely accepted indicators developed via a credible national or international process. See section 2.4 for an overview of the most widely used standards and reporting frameworks.

### Set up robust internal ESG data collection and management processes

Better data leads to better decision-making and better performance. Rather than creating new channels, companies can use existing internal audit, risk management and data control verification systems. If internal systems are not sufficient, the company may decide to invest to increase its capacity in this area. If data collection gaps are identified, companies can explain them in their report.

KERING

*"We have developed a monitoring tool to help us implement our sustainable development strategy: this is our Environmental Profit & Loss Account, or EP&L. Created in 2012 and extended to the entire group in 2015, this tool allows us to measure the environmental footprint of our activities on six different dimensions (CO2 emissions, water consumption, water pollution, land use, air pollution, waste generation) from the moment the raw materials we are going to use are extracted to the moment the final products are in the store and then the use and end of life phases. In other words, it allows us to identify the main drivers for reducing our environmental footprint and based on the monetisation of our impacts, we can, more adequately, focus our sustainability strategy, improve our processes and sourcing circuits, and adapt our technology choices.*

*Initially designed as an internal management tool, we have chosen to make it public and available in open source. It is an evolving tool; for example, in 2020 we integrated the measurement of the footprint of our activities downstream of our value chain. The methodology is public and accessible to all. A dashboard is also available to monitor our progress against the objectives of our 2025 Strategy."*

# 4.3. DRAFTING AND PRESENTATION

## 4.3.1. QUALITY OF THE INFORMATION

Reporting should be transparent and should enable the reader to track performance from year to year.

The report should describe how the information has been defined, gathered and compiled. To measure the evolution of the company's performance, comparable quantitative information should be provided for the last three financial years where appropriate.

When reporting on specific targets and performance indicators for material topics, investors appreciate having background information, including comparisons with:

- historical company and industry trends
- related corporate goals
- relevant ratios
- industry averages
- financial results/performance.

Where a target has been set for an indicator, information should be provided on whether the target has been achieved. If not, an explanation should be given. The content and format of the report should be structured in a way that makes it easier for stakeholders to locate the information.

The reported information must be:

**Accurate**: to enable the company's stakeholders to make a detailed evaluation of the results of the company's activities;

**Balanced:** the report should describe both the positive and negative impacts of the company's activities;

**Comprehensible:** information should be clear. It can be useful, for example, to describe the company's value chain in order to show where the company has the greatest impact;

**Comparable:** information should be presented in a manner that enables stakeholders to evaluate the company's performance over time and to compare it with other organisations, where relevant;

**Timely:** reporting should follow the same timetable as the annual financial reporting;

**Reliable:** reported information should be gathered, recorded and compiled in a way that can be verified.

An internal audit committee or group of individuals, independent of the division responsible for measuring and collecting the information, may review the disclosures. An internal audit can also ensure that internal data collection systems are robustw and organised.

Companies can appoint their statutory auditors or audit firms to ensure the quality of their sustainability reporting. A clear and visible statement that this has been done should then be inserted in the report. CSRD proposes to make the external audit of ESG reporting mandatory.

## 4.3.2.
## FORMAT OF THE PRESENTATION

The report should be included in the board of directors' statement, satisfy all relevant legal requirements and be easily available on the company's website.

There are a few overarching best practices to keep in mind:

- **Reporting period:** sustainability disclosure should follow the same reporting period as financial disclosure. This allows investors to consider financial information within the context of ESG information. Cross-references within these documents are encouraged to ensure connectivity and accessibility of information.
- **Consistency across channels:** it is important to ensure consistency between all the sustainable information provided by the company across different communication channels. For example, if one channel emphasises the critical nature of an issue to a company's business, the company should pay attention not to omit discussing that issue on another communication channel.
- **Accessibility of information:** information should be easy to find. For example, companies can produce an online content index with hyperlinks to boost digital accessibility indicating where all existing sustainable information can be found.
- **XBRL reporting language:** as for the financial reporting, companies should use XBRL, a digital reporting language for reporting sustainable information. XBRL taxonomies are available from CDSB, CDP and GRI.
- **Clear and relevant presentation:** overall, reporting is most effective when the language used and the way the information is presented is clear and relevant for investors and is clearly linked to a company's ability to create value in the short, medium and long term.

## 4.3.3.
## MAKING YOUR ESG INFORMATION ACCESSIBLE

Sustainability information should be included in the management report. To accommodate varying information needs and interests, it may be relevant to use other communication channels also, including websites, regulatory filings, sustainability reports and other company brochures. Using more than one communication channel can be an effective way to ensure that all of a company's target audience receives the necessary information.

To make the information more accessible to international investors, companies may also wish to publish their sustainable information in a language widely spoken globally in addition to a national language.

## 4.4. REPORTING AS A CONTINUOUS DIALOGUE

It is best to engage with stakeholders on ESG factors early on, as stakeholders can help a company identify, mitigate, and manage ESG risks and opportunities before any issue arises. Stakeholder engagement can also be a source of innovation, future opportunities and new partnerships that can fuel strategic growth.

Systematically engaging with stakeholders allows the company's ESG information to be better received and understood. Executed properly, stakeholder engagement is likely to:

- result in an improved understanding by the company of its strategic partners and resources;
- strengthen relationships with stakeholders;
- increase stakeholders' confidence in the company's actions and reporting.

ESG disclosure and narratives should be tailored to the needs of the different type of stakeholders. This Guide is mainly dedicated to a specific category of stakeholders, i.e. shareholders, and more generally, investors, describing what is relevant for them in terms of data disclosure and dialogue.

Depending on the type of investor being targeted, ESG approaches could take on different nuances, for example by placing more emphasis on risk, returns or impact. Companies can perform a shareholder base analysis to have a clear picture of their own shareholder base, whether actual or potential, which may be useful to better target ESG disclosure efforts. This helps the company manage its relationship with investors, both in relation to annual general meetings (AGMs) and voting, and as part of an ongoing dialogue. It can also make the ESG journey more efficient, which is particularly important for smaller companies with limited resources.

*"The ability to measure our impact on the planet and society is the most important driver when setting our targets. In terms of monitoring, we have a long-standing experience since we have been publishing sustainability reports since 2006. More precisely, the sustainability report we publish is compliant with the "In Accordance - Comprehensive" reporting option of the Consolidated Set of Sustainability Reporting Standards (international Global Reporting Initiative (GRI) Standards).*

*However, since 2020 we have gone one step further by introducing our net zero strategy and the ESG Scorecard, which aims to provide maximum disclosure on ESG aspects and assess SNAM's performance in meeting defined targets. This new tool sets 23 three-year objectives by 2022 and 2025 in line with the business plan horizon covering social, governance and environmental aspects and monitors them annually with specific KPIs based on the main existing standards.*

*Thus, on the environmental aspect, for instance, we identified four priority areas, each of them linked to one or more SDGs. We then defined a set of KPIs for these. Our first focus area relates to natural gas emissions, which link back to SDG 13 on climate action. KPIs for this focus area are the percentage of reduction of total natural gas emissions vs 2015 and the percentage of natural gas recovered from maintenance activities.*

*Other examples of target areas and KPIs include, on the Social (S) aspect of ESG: employee engagement (KPI: percentage employee engagement index), gender diversity (KPI: percentage of women in executive and middle-management roles) and responsible supply (KPI: percentage spending to local suppliers on total procurement); and on the Governance (G) aspect: governance functioning and structure (KPI: percentage of Board of Directors' time dedicated to ESG matters in strategy meetings and introduction sessions) and sustainable finance (KPI: share of ESG financing out of the total committed funding)."*

# 4.5.
# INVESTOR ENGAGEMENT:
# ISSUER-INVESTOR DIALOGUE

## 4.5.1.
## ACTIVE OWNERSHIP AS AN INVESTMENT STRATEGY

Institutional investors' core ESG strategies, based on negative or positive screening, remain the most common way through which institutional investors implement their ESG strategies; but a growing number are also adopting so-called broad strategies, which involve integrating ESG factors into their overall investment culture, policy and process.

This allows institutional investors to keep a wider investable universe, with clear benefits in terms of portfolio optimisation. It is also based on the conviction that dialogue is a powerful way to influence companies' behaviour, with investors seeking to support companies in their transition toward a more sustainable economy. This is especially true when it comes to climate transition.

A clear active ownership strategy allows institutional investors to engage with companies in a systematic and proactive way, both by making their voice heard through voting at AGMs, and by encouraging a continuous and coherent dialogue.

**ESG Investment strategies**

### Core Strategies

**Screening** strategies with impact on portfolio construction

Negative Screening/Exclusion Criteria

- Ethical or Moral orientation
- Norm based

Positive Screening/Exclusion Criteria

- Best in class
- Thematic

### Broad Strategies

**Integration** of ESG factors in investment process

Integration ESG Criteria

Active Ownership

Active Shareholding Policy

Engagement Policy

- Direct
- Collective
- Initiatives Participation

Investors engage with companies by attending one-to-one meetings and discussing with them ESG-related issues and strategies. Sometimes investors approach companies directly but, more often, they meet with them during roadshows organised by brokers.

When a particular ESG-related issue is perceived as commonly critical for a given company by a group of investors, collaborative engagement can increase investors' influence in terms of assets represented and can improve the efficiency of the engagement process by sharing workload and costs. The UN's Principles for Responsible Investment (PRI) provides its signatories with a platform for collective engagement[16].

In recent years, groups of investors have also launched specific initiatives, in particular to address climate-related issues, through a variety of actions. Climate Action 100+ is one of the most well known in this respect. It is made up of 617 global investors who manage more than $60 trillion across 33 markets. Participating investors engage directly with companies, individually or collaboratively, with a view to encouraging them to significantly reduce their emissions in order to meet the Paris Agreement objectives[17].

[16] See collaborate.unpri.org for further information.

[17] The Climate Action 100+ business case provides that "to mitigate investment exposure to climate risk and secure ongoing sustainable returns for their beneficiaries, investors are ensuring the businesses they own cut emissions to help achieve the goals of the Paris Agreement and accelerate the transition to net-zero emissions by 2050 or sooner". See more at Climate Action 100+ website climateaction100.org/business-case.

## 4.5.2. EVOLVING LANDSCAPE

ESG engagement appeared and developed mainly between large listed companies and their equity investors, actual or potential shareholders, and often without the mediation of financial analysts. This remains the core engagement activity; but the landscape is gradually widening.

ESG bondholders are also starting to engage with companies, driven by the need to ensure that the green and social bonds they invest in are backed by a sound and consistent ESG strategy at issuer level. Furthermore, fixed income product innovation is moving from proceeds-driven solutions towards purpose solutions, forcing investors to focus on issuers' strategies.

Engagement is also becoming relevant for investors in small- and mid-cap companies. Direct dialogue with small- and mid-caps can overcome the lack of availability of ESG data and poor coverage by ESG data providers. Investors in smaller issuers tend to be companies specialised in small- and mid-caps, with fundamental investment strategies and portfolio managers with a strong interest in the equity story. For this reason, it is important that a company's ESG objectives

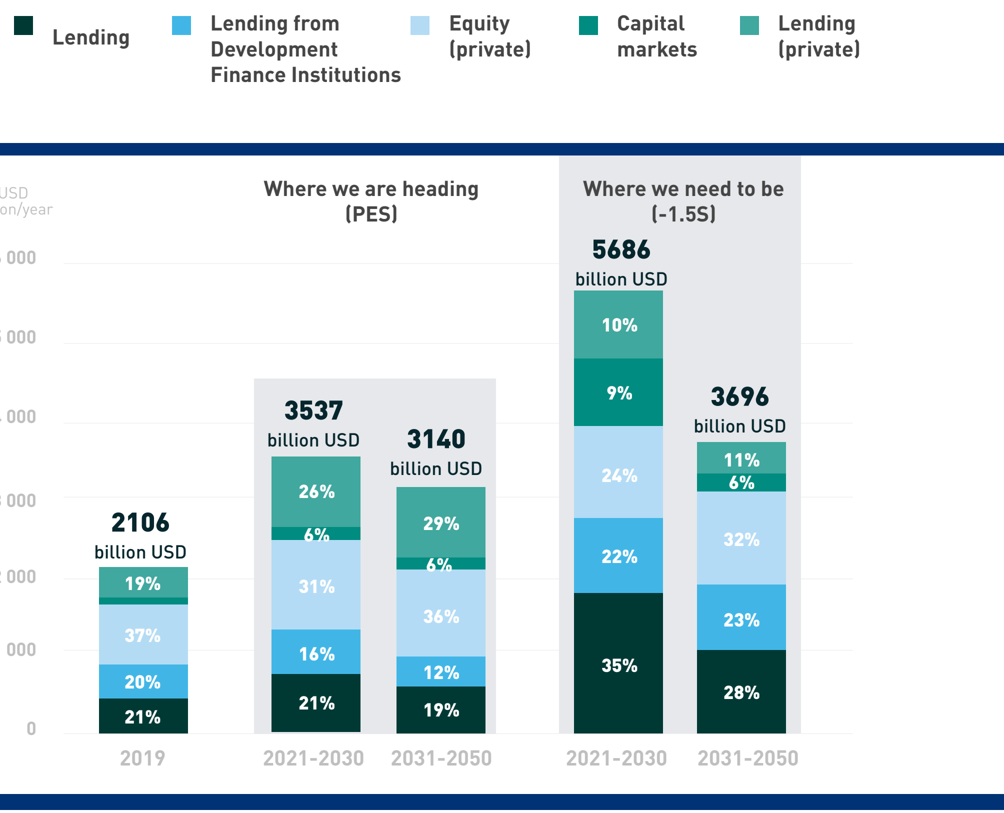

ESG research has been mainly developed internally by asset managers, with dedicated and specialised teams supporting portfolio managers in their investment decisions. Financial analysts have remained on the sidelines of this process so far, but the landscape is evolving rapidly and even mainstream portfolio managers are now showing an increasing interest in ESG issues. ESG considerations and data are beginning to appear in research reports provided by brokers to their clients, and the industry is having preliminary discussions on how material ESG factors can be integrated into the valuation tools commonly used by financial analyst to set the target price of a stock.

# Using capital markets to implement an ESG business strategy

## 5.1.
## EQUITY TO SUPPORT THE TRANSITION

Sustainability has an increasing impact on the way companies and financial markets interact, due to a wave of regulatory changes in line with the Paris Agreement and growing investor demand for so-called 'green' products. The COVID-19 pandemic has further accelerated this trend, with policymakers channelling recovery financing towards sustainable projects, thereby providing a significant boost to sustainable finance. The climate transition requires unprecedented levels of investment. The International Renewable Energy Agency (IRENA) estimates the investment needed at $5.7 trillion per year until 2030 to meet the 1.5°C scenario (see figure below)[18]. The share of energy transition financing through the equity markets will increase significantly in the coming years.

**Total average yearly investment by source and type of financing: 2019, PES and 1.5°C Scenario (2021-2030 and 2031-2050)**




Source: IRENA - World Energy Transitions Outlook: 1.5°C Pathway, June 2021

[18]IRENA - World Energy Transitions Outlook: 1.5°C Pathway, June 2021

Analysing the relationships between financing sources and carbon emissions, a September 2019 working paper supported by the European Central Bank (ECB) concludes that for given levels of economic and financial development and environmental regulation, CO2 emissions per capita are lower in economies that are relatively more equity-funded[19]. This stems from the fact that capital markets can encourage the reallocation of investments towards less polluting sectors and help push carbon-intensive sectors to develop and implement greener technologies.

Sustainability is a key consideration for institutional investors, as they have no choice but to assess the ability of issuers to perform in a low-carbon economy. This trend is likely to increase in the future, and the best prepared companies should benefit, all else being equal, from a lower cost of capital relative to peers that are less advanced in their transition.

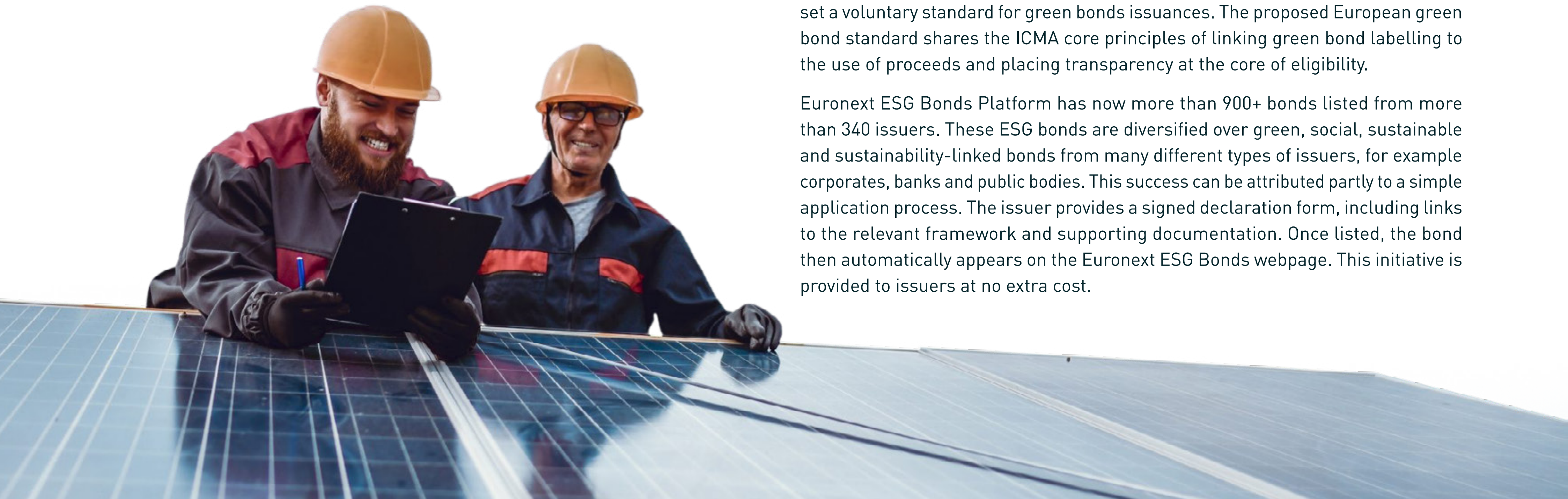
Current environmental objectives are strengthening the case for a Capital Markets Union in Europe to deliver sustainable, equity-based growth. In this context, Euronext encourages issuers to leverage equity capital to finance their transition to a sustainable economy and is working to simplify issuers' access to sustainable equity capital.

Sustainable indices also contribute to this goal, as they amplify issuers' visibility among the relevant communities of investors.

[19]De Haas, R and Popov, A (2019), "Finance and carbon emissions", Working Paper, European Central Bank

# 5.2.
# ISSUING ESG BONDS
## (AND ESG ASSET-BACKED SECURITIES)

Global issuance of ESG bonds has surged over the previous few years, and continued growth of this trend is widely expected. Issuers are looking for ways to be more sustainable and to demonstrate that to the market. The surge can also be attributed to growing investor appetite for sustainable and green-linked investments. There is growing recognition in the marketplace that integrating ESG factors into traditional credit analysis adds a holistic and long-term perspective that aligns well with bond investing. An ESG bond listing meets these requirements and therefore naturally spurs increased investor demand.



In response to this growing demand, in 2019 Euronext established the ESG Bonds Platform, which enables listed issuers to highlight to investors their commitment to sustainability through a dedicated area on Euronext's website. The ESG Bonds Platform provides easy access to ESG bond data for investors while helping issuers promote the transparency of their ESG bonds at no additional cost.

When an issuer is contemplating an ESG bond, its sustainable framework is most likely aligned with the International Capital Market Association (ICMA)'s green and social bond principles, which are the global standard, referenced in more than an estimated 97% of sustainable bonds issued in 2020. The European Commission has also proposed a standard on European Green Bonds (EUGBS) which aims to set a voluntary standard for green bonds issuances. The proposed European green bond standard shares the ICMA core principles of linking green bond labelling to the use of proceeds and placing transparency at the core of eligibility.

Euronext ESG Bonds Platform has now more than 900+ bonds listed from more than 340 issuers. These ESG bonds are diversified over green, social, sustainable and sustainability-linked bonds from many different types of issuers, for example corporates, banks and public bodies. This success can be attributed partly to a simple application process. The issuer provides a signed declaration form, including links to the relevant framework and supporting documentation. Once listed, the bond then automatically appears on the Euronext ESG Bonds webpage. This initiative is provided to issuers at no extra cost.

enel

*"In 2019, ENEL was the first company to issue a sustainability-linked bond whose interest rate level depends on the achievement of ambitious de-carbonisation objectives and on the strengthening of renewable generation. The KPIs used to monitor this bond are related to SDG 7 or SDG 13 – for instance, the share of renewable energy capacity in the overall capacity. This type of product differs from a standard green bond as it is not project-based but rather general-corporate-purpose, and it provides full visibility to investors on the sustainability trajectory that is being followed, while creating financial incentives for the company to meet its sustainable business objectives. This initiative has aroused strong interest from investors. To date, the Sustainability-linked bond market amounts to more than 150 billion US dollars, and if we look at the overall sustainability-linked financing, the market reached around 1.1 trillion US dollars. In this regard, ENEL has managed to set a new standard. In our opinion, this is very positive as the development of sustainable finance can also allow us to reduce the cost of our debt; as an example, the average cost for Enel's SLBs has been around fifteen basis points less than for conventional transactions.*

*Based on the success of this ESG investment strategy, we decided to extend the sustainability-linked approach to all of our debt instruments to show how sustainability can be integrated across a company's financing tools. In fact, in order to foster best market practices, in 2020 Enel decided to establish a Sustainability-Linked Financing Framework, presenting a unified and coherent suite of Sustainability-Linked Financing instruments to the market and to the subsidised and development financing space. The framework covers Sustainability-Linked bonds, Sustainability-Linked loans and Revolving Credit Facilities, SDG Commercial Paper Programmes, Sustainability-Linked Foreign Exchange and Rates Derivatives and Guarantees."*

## 5.3. PUTTING ESG INFORMATION TO WORK: ESG INDICES AND ETFS

The growing appetite of global investors for sustainable investment strategies and new regulations on sustainable finance have led to a surge in demand for increased transparency and reliable ESG index solutions. Euronext has long-standing expertise in the production of ESG indices. In 2008, Euronext launched the Low Carbon 100 Europe index, the first ever pan-European index bringing together companies that are working to reduce their CO2 emissions. In June 2020, the Euronext Eurozone ESG Large 80 Index was launched, which allows investors to invest in the 80 best-performing ESG and energy-transition-scoring listed companies in the euro zone.

More recently, building on our flagship national benchmark indices, Euronext has launched a suite of national ESG indices that highlight the blue-chip companies that demonstrate best practices in environmental, social and governance matters. The first of these was the CAC 40 ESG, launched in March 2021, which brings together the 40 companies from the CAC 60 universe that have demonstrated best practices from an environmental, social and governance point of view. The construction of this index is based on a methodology aligned with the SRI (socially responsible investment) label, which has served as a benchmark in the financial community in France since 2016, and on criteria assessed by an external partner, Vigeo Eiris Moody's. The index includes a mechanism for excluding activities deemed incompatible with ESG criteria, such as activities around coal, controversial weapons and tobacco. It also incorporates the UN principles in terms of international labour standards and the fight against corruption. As with the CAC 40, the composition of the CAC 40 ESG index is reviewed every quarter by the Euronext scientific committee for indices. The review is based on two major criteria, the size of the free float (marketable capital) and the number of trades recorded on the securities. This was followed in October 2021 by the MIB ESG, the first Italian blue-chip ESG index designed to highlight major listed Italian issuers that demonstrate best ESG practices as assessed by Vigeo Eiris Moody's. The index's methodology reflects a ranking of the top 40 Italian listed companies based on ESG criteria. The selection is made from the 60 most liquid Italian companies and excludes companies involved in activities which are not compatible with ESG investment.

All in all, in 2021, Euronext launched 20 new ESG indices covering new categories in which to invest, including both broad ESG considerations and specific themes as the Paris-Aligned Benchmark and Climate-Transition Benchmark, biodiversity, water and social. In 2022 Euronext is launching the AEX ESG and OBX ESG indices, which will follow similar criteria.

More generally, the development of ESG indices has led to a significant increase in both the number of ESG ETFs and the amount of assets under management, with more than 178 new ESG ETFs listed on Euronext markets in 2021 (including existing ETFs which changed their benchmark index to an ESG version), with a combined €30 billion in assets under management. Currently, there are 410 ESG-related ETFs listed on Euronext markets with €178 billion in assets under management.

ESG ETFs offer a wide range of different investment strategies and themes. An ETF may offer a complete ESG strategy or focus on only one aspect – the environment, society or governance. Among the most widely used strategies, we can cite the best-in-class strategy where the ETF issuer creates a custom index (through an index provider) with a specific theme that is part of the ESG scope such as gender equality, the blue economy, or the circular economy. Another widely used strategy is exclusion, where the ETF issuer selects an index or create a new one that does not contain any companies (equities and/or bonds) that belong to specific sectors (typically tobacco, coal, or weapons, for example). All these different strategies can be found in Euronext listed ETFs.

## 5.4.
## ENGAGING WITH ESG RATING AGENCIES

Engaging with investors and rating agencies can improve your company's ESG scores. As mentioned previously, the ESG performance of listed companies is becoming an important investment decision factor for investors. This is largely due to the growing number of signatories to the PRIs, which promote the incorporation of ESG factors into investment decision-making. Responsible investment managers review ESG ratings from agencies before making investment decisions. They will base their judgement on reliable, measurable and comparable ESG data from companies. It is therefore in the interest of listed companies to engage with institutional investors (and other key stakeholders) to better understand what they are seeking in terms of ESG performance, and in which areas the company needs to improve.

Rating agencies produce their ESG ratings using both information made public by companies and questionnaires sent to companies to judge ESG performance. Public information includes companies' annual reports, ESG reports, and any data from press releases or other media sources. The questionnaires sent by rating agencies allow them to obtain additional information on ESG standards and performance. Companies can also engage in conversations with rating agencies directly to better understand the criteria, standards and weighting of their ratings, and find solutions to improve their score.

Listed companies that want to improve their ESG performance must start by producing credible data that faithfully reflects the ESG impacts of their activities.

Companies seeking to go beyond their regulatory obligations and comply with international best practices are encouraged to follow international ESG reporting standards. However, one of the biggest challenges is the great variety of reporting frameworks and standards. Many ESG rating agencies use other indicators, methodologies or weightings for their ESG scores, while some organisations focus on specific sectors or particular ESG issues.

Producing credible, measurable and comparable data is important, but engaging with investors and rating agencies is crucial to help a company grow and mature in its ESG performance.

## 5.5.
## WHAT 1.5°C MEANS FOR INVESTORS

Institutional investors – especially asset owners such as pension funds and insurance companies – face the challenge of aligning their investment portfolio with a trajectory compatible with the objectives of the Paris Agreement, to fulfil their fiduciary duties towards their beneficiaries. This approach becomes necessary both from a risk perspective – in order to protect their investment portfolio from exposure to stranded assets – and from an impact perspective, to meet the investment convictions of their beneficiaries in favour of the transition to a low-carbon economy. However there is still no consensus on the methodologies that can be applied to determine whether and how an investment portfolio is on a trajectory that in terms of GHG emissions is compatible with the objectives of the Paris Agreement. A few examples of methodologies and metrics are described in the table below.

| Portfolio temperature alignment methodologies | Description, rationale and examples | References |
|---|---|---|
| Implied Temperature Rise (ITR) – based on GHG emissions | Aims to provide a forward-looking view of carbon exposure that can be applied to a wide range of industries, companies, and asset classes. Expressed as a numeric degree rating, ITR incorporates current GHG emissions or other data and assumptions to estimate expected future emissions associated with the selected entities. The estimate is then translated into a projected increase in global average temperature (in °C) above pre-industrial levels that would occur if all companies in corresponding sectors had the same carbon intensity as the selected asset(s). | TCFD |
| Temperature scoring methodology – based on GHG targets | Enables the translation of all types of GHG emissions reduction targets set by investee companies to a single common and intuitive metric that is linked to the long-term temperature outcomes.<br>The methodology is based on the GHG targets of investee companies. Data needed include:<br>▪ Target types (absolute/intensity)<br>▪ Base year<br>▪ Target year<br>▪ Scope coverage<br>▪ Boundary coverage within scope<br>▪ % achieved<br>▪ Intensity activity (if applicable)<br>▪ Scope 1+2 and scope 3 emissions data, reported or modelled. | SBTi Finance Temperature Scoring & Portfolio Coverage Tool |
| Paris Agreement Capital Transition Assessment (PACTA) | Building off a vast climate-related financial database, the PACTA tool aggregates global forward-looking asset-level data (such as the production plans of a manufacturing plant over the next five years), up to parent company level. The tool then produces a customised, confidential output report, which allows investors to assess the overall alignment of their portfolios with various climate scenarios and with the Paris Agreement. | 2° Investing Initiative (2DII) |

When a company's investors are trying to assess the sensitivity of their portfolio, depending on the methodology they use, they may place more or less importance on the quality of climate targets or past GHG emissions.

Asset owners (pension funds, insurances and sovereign wealth funds) have always played a key role in driving ESG evolution and the development of best practices, due to the alignment between the temporality of sustainability issues, their long investment horizon and their fiduciary duties. A growing number of asset owners are moving from a carbon footprint analysis of their portfolios towards the incorporation of net-zero targets. A major example of this trend is the creation of the 'UN-convened Net-Zero Asset Owners Alliance'[20], established in 2019 by 66 major global asset owners representing more than $10 trillion of assets. The Alliance agreed on a unique protocol explicitly setting out how members can set a climate target that is achievable by 2025. Alliance members have used IPCC 1.5°C and low pathways to inform their targets, which carefully balance scientific ambition, active ownership engagement, and divestment constraints.

[20] UN-convened Net-Zero Asset Owner Alliance – United Nations Environment – Finance Initiative (unepfi.org)

# Euronext and its role in sustainability

## 6.1. THE EURONEXT 'FIT FOR 1.5°' STRATEGY

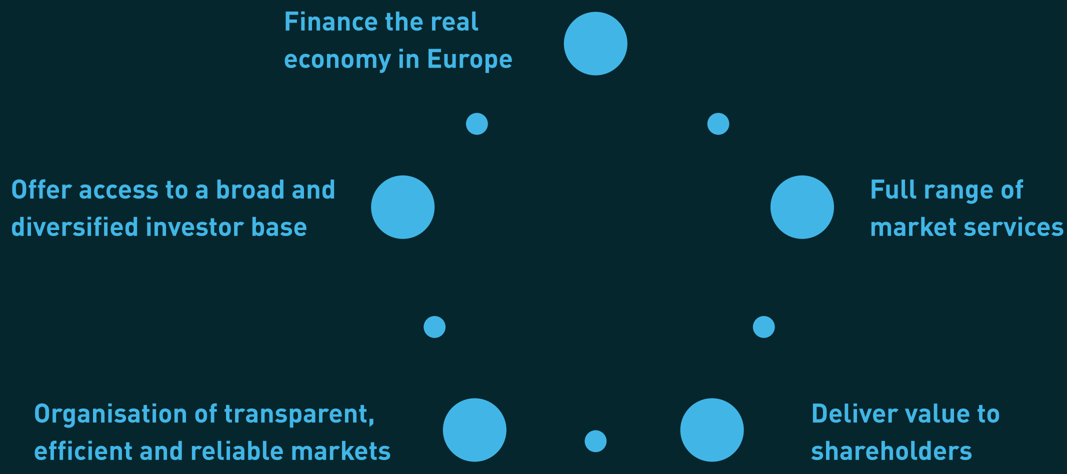
The Euronext ESG mission is to finance the local and global real economy in its transition towards a sustainable society by:

driving investment in innovative, sustainable products and services through secure and transparent markets, in continuous collaboration with the financial community;

inspiring and promoting tangible sustainable practices within the company and towards our communities, by respecting and developing our people and by supporting our ecosystem.

Euronext is leveraging its ESG performance to build an impactful ESG strategy. Its new sustainability strategy focuses on accelerating climate action both in Euronext's operations and through the role it plays in empowering sustainable finance across all its markets. As a result, Euronext has launched the 'Fit for 1.5°' climate commitment for itself, its partners and its clients.

Euronext has committed to setting science-based quantitative climate targets by signing the 'Business Ambition for 1.5°C', a campaign led by the Science-Based Targets initiative in partnership with the UN Race To Zero campaign. The detailed quantitative targets will be announced in H1 2022. The planned relocation of Euronext's Core Data Centre to a green facility will be the first move to follow through on this transformational commitment. The new data centre is powered 100% by renewable energy sources, much of which is self-produced through solar panels and hydroelectric power stations. The migration to a sustainable data centre sets the standard for the industry and provides clients with concrete tools to improve their own carbon footprint.

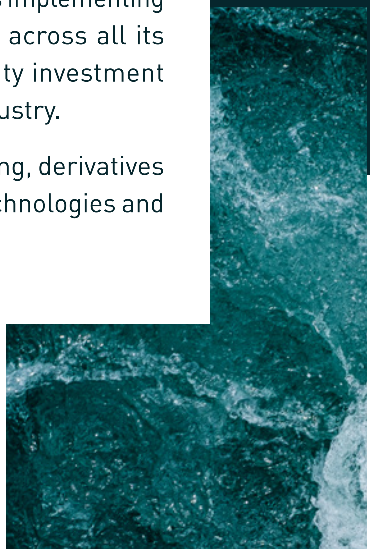



In addition, Euronext is developing services and products to accelerate the transition to a European economy aligned with a 1.5-degree trajectory. This will help drive investment towards decarbonised assets and support Euronext's clients on their ESG journey. Solutions supporting the strategy include, among others, the creation of a climate transition market segment dedicated to issuers committed to Science-Based Targets, the launch of climate and ESG versions of Euronext's national benchmark indices, the revision of this ESG reporting guide for issuers with a new climate focus, and low-carbon colocation services.

To complement this environmental focus, Euronext is implementing a forward-looking and outcome-based approach across all its impact areas, including human capital, community investment and governance issues that are material to its industry.

Euronext's businesses comprise listing, cash trading, derivatives trading, advanced data services, post-trade and technologies and other corporate services.

# EMPOWERING SUSTAINABLE GROWTH



Euronext has a special position in the financial ecosystem. It serves the real economy by bringing together buyers and sellers in high-integrity trading venues that are transparent, efficient and reliable. In this key role Euronext has a responsibility to the whole finance community to contribute to the financial stability and the sustainable agenda in the countries in which it operates.

Euronext's collaboration with and contributions to the UN's Sustainable Stock Exchange Initiative confirm its commitment to building a new kind of finance, shifting paradigms to support a new world view.

## 6.2.
## EURONEXT ESG ADVISORY SERVICES

Euronext ESG Advisory contributes to the valuation of issuers listed on Euronext by helping them to develop their ESG profile in order to consolidate their shareholder base or attract new investors.

The Euronext ESG Advisory suite of solutions can be considered as an ESG toolbox that enables our consultants to cover various topics such as ESG reporting improvement, perception studies, fund targeting, data collection set-up, Corporate Governance assessment, and the implementation of software solutions to enhance sustainability performance management.

# Advice from peers on getting started in ESG

enel

*"ESG is a vast field. As a first step, ENEL's recommendation would be that companies identify the aspects that are relevant to their activities and their business model and think about how to embed their ESG objectives in their overall company strategy. ESG should not be seen as a tick-box exercise but as an essential element to maximise the value creation process."*

Gjensidige

*"Companies must define their purpose, identify the role they want to have in society and rethink their business model accordingly. Once this is done, they must set precise KPIs to follow their progress."*

KERING

*"The field of ESG is very broad and evolving very quickly, especially with the many regulations that are being adopted in this area. This may seem scary at first glance for a company that may not know where to start. This is why our advice would be to prioritise the actions to be implemented. An interesting first step is to develop a materiality assessment. We would also recommend that companies that wish to do so set up their EP&L. We would advise reporting on concrete actions, even if it means being less ambitious in the quantified objectives that are set, in order to avoid the pitfall of greenwashing. It is also important that the objectives selected are linked to the sector in which your company operates because in the end, certain key ESG aspects such as the supply chain are sector-specific. Such an approach can lead to joint actions with a multiplied impact, like the Fashion Pact, a coalition launched in 2019 and representing over 250 brands, or one third of the textile industry's production volumes. The Watch and Jewellery Initiative 2030 has been set up with the same mindset. Finally, it is essential to have a flexible sustainable development strategy given the rapid evolution of the sector, particularly on environmental and social aspects due to new regulations and standards and changing investor demands."*

signify

*"Just do it! Define your objectives, set your targets and do not be afraid not to reach them; ESG is indeed a journey!"*

snam

*"For us, creating a matrix structure has been key to placing ESG at the core of our business and not looking at these issues in silos. It has also helped engage our employees, for instance, through the organisation of internal ESG roadshows. We are witnessing a growing interest in these topics.*

*Defining a purpose and working on the corporate culture is also essential. More generally, ESG performance is becoming as important as financial performance. Accordingly, our advice would be to try to make it a core function and not just a compliance function. It should not be seen as just another KPI."*

APPENDIX

# Key EU ESG issuer reporting regulations under negotiation

## 7.1. CSRD: THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

In April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD). This proposal aims to improve sustainability reporting to meet the Commission's objectives of transitioning towards a sustainable and inclusive financial system.

The proposed directive would also amend the Accounting Directive, the Audit Directive and Audit Regulation, as well as the Transparency Directive. It builds on the sustainability reporting requirements set out in the NFRD, with a view to making it more consistent with the Sustainable Finance Disclosure Regulation (SFRD) and the Taxonomy Regulation.

Under the existing NFRD regime, large public-interest entities (with more than 500 employees)[21] are required to report non-financial information, both on how sustainability issues affect their performance, position and development as well as on their impact on people and the environment (i.e. 'double materiality').

[21]Large public-interest companies consist of: listed companies, banks, insurance companies and other companies designated by national authorities as public-interest entities

Compared to the NFRD sustainability components, the principal new areas of these proposals are:

a. to extend the scope of the reporting requirements to additional companies, including:

i. all large companies and companies listed on Regulated Markets

ii. SMEs listed on Regulated Markets (however they will be given the choice to apply for either the large-cap ESG standard or the SME ESG standard)

b. to allow SMEs listed on SME Growth Markets or MTFs, including non-listed SMEs and micro-companies, to be under a voluntary disclosure regime

c. to require assurance of sustainability information

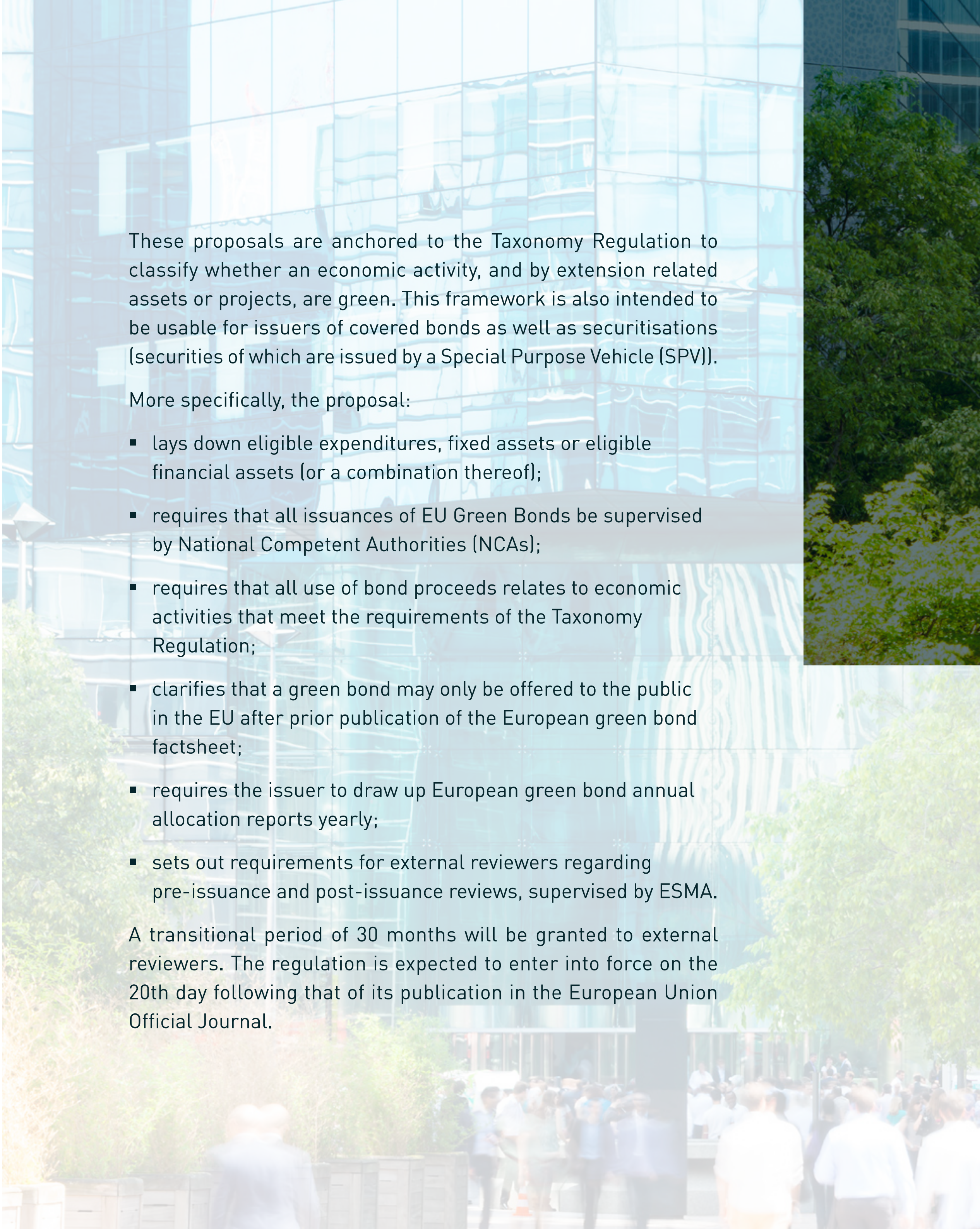
d. to ensure that all information is published as part of companies' management reports and disclosed in a digital and machine-readable format.

Based on the Commission's proposal, it is expected that Member States would be required to transpose changes to the Accounting Directive (Article 1), the Transparency Directive (Article 2) and the Audit Directive (Article 3) by 1 December 2022 and to ensure that its provisions apply to companies for the financial year starting on 1 January 2023 or during the calendar year 2023. Changes to the Audit Regulation are expected to enter into force on 1 January 2023.

## 7.2.
## EUGBS: THE EUROPEAN GREEN BONDS STANDARD

In July 2021, the Commission proposed a standard for European Green Bonds (EUGBs) which aims to address the obstacles in setting a voluntary standard for green bonds issuances by:

- Improving the ability of investors to identify and trust high quality green bonds;
- Facilitating the issuance of these high-quality green bonds by clarifying the definition of green economic activities and reducing potential reputational risks for issuers;
- Standardising the practice of external review and improving trust in external reviews by introducing a voluntary registration and supervision regime.

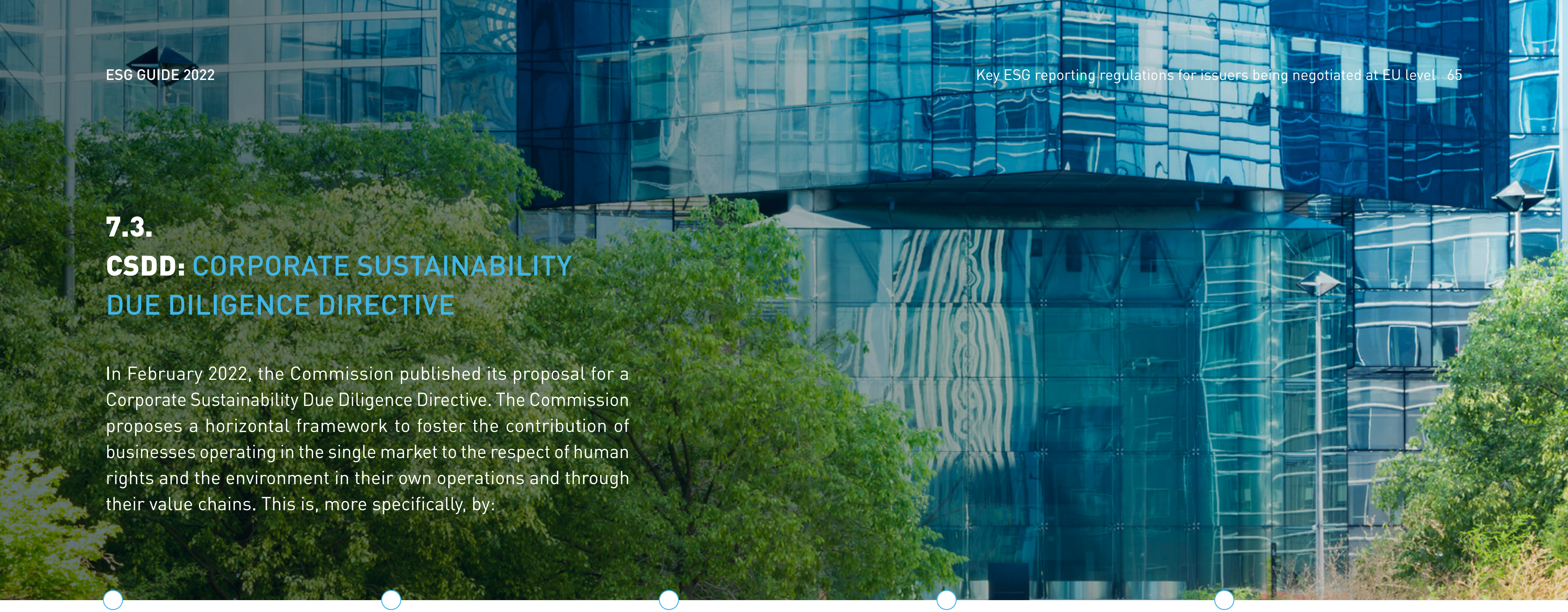


These proposals are anchored to the Taxonomy Regulation to classify whether an economic activity, and by extension related assets or projects, are green. This framework is also intended to be usable for issuers of covered bonds as well as securitisations (securities of which are issued by a Special Purpose Vehicle (SPV)).

More specifically, the proposal:

- lays down eligible expenditures, fixed assets or eligible financial assets (or a combination thereof);
- requires that all issuances of EU Green Bonds be supervised by National Competent Authorities (NCAs);
- requires that all use of bond proceeds relates to economic activities that meet the requirements of the Taxonomy Regulation;
- clarifies that a green bond may only be offered to the public in the EU after prior publication of the European green bond factsheet;
- requires the issuer to draw up European green bond annual allocation reports yearly;
- sets out requirements for external reviewers regarding pre-issuance and post-issuance reviews, supervised by ESMA.

A transitional period of 30 months will be granted to external reviewers. The regulation is expected to enter into force on the 20th day following that of its publication in the European Union Official Journal.



## 7.3.
## CSDD: CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE

In February 2022, the Commission published its proposal for a Corporate Sustainability Due Diligence Directive. The Commission proposes a horizontal framework to foster the contribution of businesses operating in the single market to the respect of human rights and the environment in their own operations and through their value chains. This is, more specifically, by:

- Improving corporate governance practices to better integrate risk management and mitigation processes of human rights and environmental risks and impacts, including those stemming from value chains, into corporate strategies;
- Avoiding fragmentation of due diligence requirements in the single market and creating legal certainty for businesses and stakeholders as regards expected behaviour and liability;
- Increasing corporate accountability for adverse impacts, and ensuring coherence for companies regarding obligations under existing and proposed EU initiatives on responsible business conduct;
- Improving access to remedies for those affected by adverse human rights and environmental impacts of corporate behaviour;
- Complementing other measures in force or proposed (since this Directive is a horizontal instrument focusing on business processes and applying also to the value chain), which directly address some specific sustainability challenges or apply in some specific sectors, mostly within the European Union.

**The following scope and proportional obligations are suggested:**

### GROUP 1

EU companies with more than 500 employees on average and a worldwide net turnover exceeding €150 million will be within the scope of the full due diligence obligation.

### GROUP 2

EU companies that do not fulfil the criteria above, but have more than 250 employees on average and more than €40 million worldwide net turnover, and which operate in one or more high-impact sectors, would be required to comply with more targeted due diligence focusing on severe adverse impacts only.

The selection of the high-impact sectors for this Directive follows the OECD due diligence guidance and includes areas such as textiles, agriculture, extraction of mineral resources, etc.

For these companies, the rules will start to apply after a transition period of two years to allow for longer adaptation.

Small and medium-sized enterprises, including micro-enterprises, are not in the scope of the proposal. They are, however, impacted by the Directive provisions as contractors or sub-contractors to the companies which are in the scope. To support SMEs that are contractors or sub-contractors to the companies in the scope, the Commission suggests that Member States should set up and operate, either individually or jointly, dedicated websites, portals or platforms, and provide financial support to help these SMEs build capacity. Companies whose business partner is an SME are required to support them to comply with the due diligence measures.

The market application of the Commission's proposals depends on whether the targeted company is in Group 1 or Group 2. For Group 1, the market application of CSDD will be two years from its entry into force (i.e. expected in 2026 ). For companies in Group 2, the market application of CSDD will be four years from its entry into force (i.e. expected in 2028[22]).

[22]This provisional date is subject to the timing of the current legislative process (which is still ongoing). Therefore, the timing of the publication of final text and of its application is still to be determined.

# 7.4.
# KEY ESG REPORTING REGULATIONS FOR ISSUERS PUBLISHED IN THE EU OFFICIAL JOURNAL

## 7.4.1.
## SFDR: THE SUSTAINABLE FINANCE DISCLOSURE REGULATION

In December 2019, the regulation on sustainability related disclosures (SFRD) was published in the EU Official Journal and has been in application since 10 March 2021. The legislation aims to ensure the Commission's objective of reorienting capital flows towards sustainable investment by ensuring more uniform protection of end investors by increasing the transparency of financial market participants and financial advisers on sustainability risks. The SFRD should enhance the comparability of sustainability-related financial products and services and enable end investors to take into account sustainability risks and impact in their investment decisions.

This regulation applies directly to (i) financial advisers (insurance intermediaries and investment advisers) and (ii) financial market participants[23]. While issuers and benchmark administrators are not directly in scope, it is expected that the content for some of the sustainability-related disclosure requirements for financial advisers and financial market participants will likely be provided by them.

More specifically, this regulation requires financial market participants and financial advisers to:

- make pre-contractual and ongoing disclosures to end investors on the manner in which sustainability risks are integrated in their investment decisions (or advice in case of advisers), and the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available;
- make pre-contractual disclosure requirements on financial products which promote environmental or social characteristics (i.e. how those characteristics are met and consistency with relevant reference indices). This applies only if the companies in which the investments are made follow good governance practices, and implies a need for a certain amount of communication/transparency on this by issuers to the financial intermediaries;
- include the objective of low-carbon emissions exposure on financial products which have a reduction in carbon emissions as their objective (in line with the objective of the Paris Agreement).

[23]Financial advisers employing fewer than three persons, and insurance intermediaries which provide insurance advice with regard to IBIPs, are exempted from providing information in accordance with this Regulation. However, they are required to consider and factor in sustainability risks in their advisory processes. Member States may decide to opt them in.

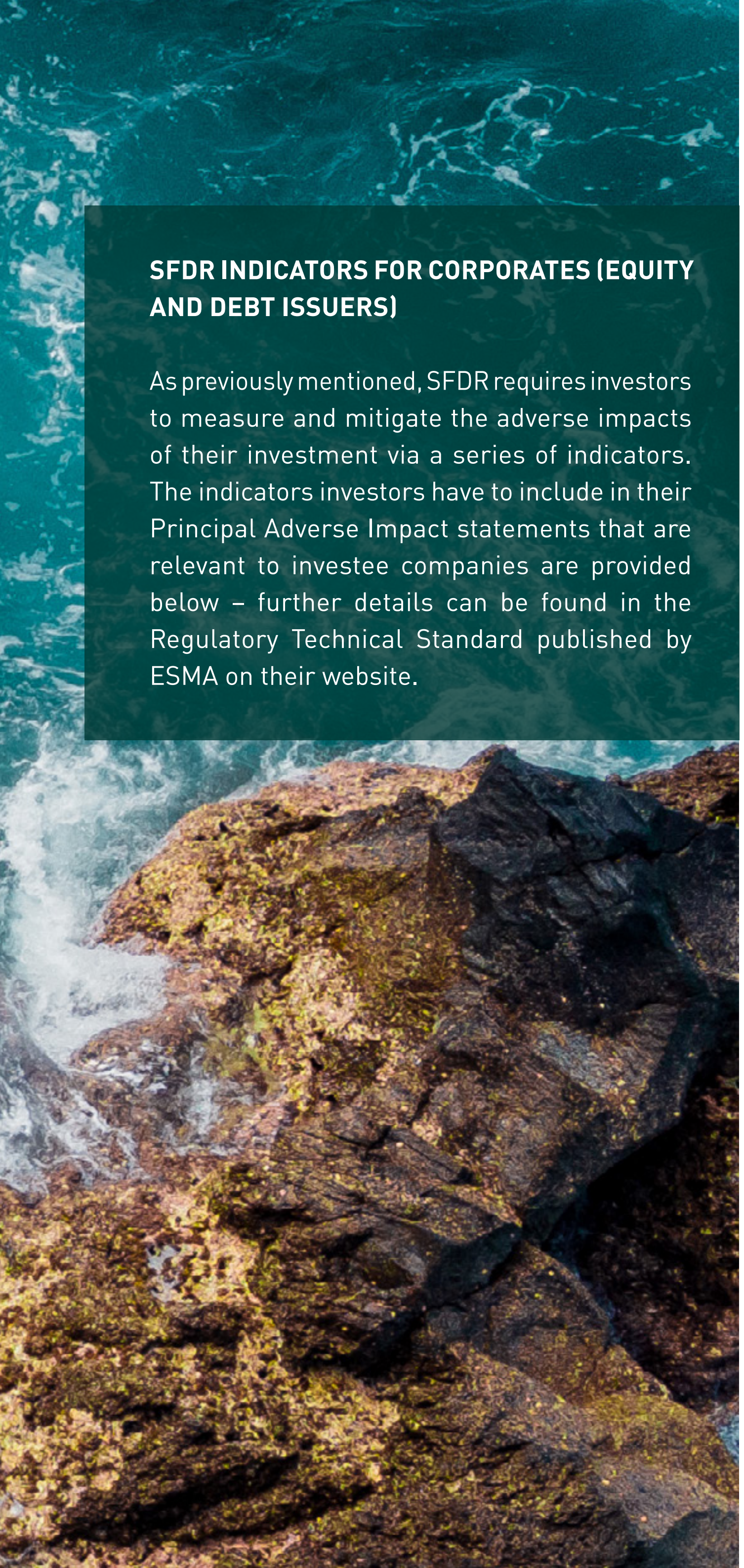


In addition to preparing relevant Level II measures, the European Supervisory Authorities (ESAs) will take stock of the extent of voluntary disclosures contributing to financial market participants' consideration on determining how a financial product considers principal adverse impacts on sustainability disclosures by 9 September 2022.

The ESAs will submit an annual report to the Commission on best practices and make recommendations towards voluntary reporting standards. That annual public report will consider the implications of due diligence practices on disclosures and the Commission will provide guidance on this matter.

By 29 December 2022, the Commission will consider whether the "functioning of this Regulation is inhibited by the lack of data or their suboptimal quality, including indicators on adverse impacts on sustainability factors by investee companies." This evaluation will be accompanied, if appropriate, by a legislative proposal.

The disclosure of financial products that promote environmental or social characteristics and financial products with sustainable investments as their objective will have to be complied with by financial market participants by 1 June 2022 for climate change mitigation and adaptation, and 1 January 2023 for the remaining objectives. Financial market participants offering financial products that promote environmental or social characteristics and sustainable investments must also include a description in periodic reports by 1 June 2022.



## SFDR INDICATORS FOR CORPORATES (EQUITY AND DEBT ISSUERS)

As previously mentioned, SFDR requires investors to measure and mitigate the adverse impacts of their investment via a series of indicators. The indicators investors have to include in their Principal Adverse Impact statements that are relevant to investee companies are provided below – further details can be found in the Regulatory Technical Standard published by ESMA on their website.

### Indicators applicable to investments in investee companies

| | |
|---|---|
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | |
| 1. GHG emissions | Scope 1 GHG emissions<br>Scope 2 GHG emissions<br>From 1 January 2023, Scope 3 GHG emissions<br>Total GHG emissions |
| 2. Carbon footprint | Carbon footprint |
| 3. GHG intensity of investee companies | GHG intensity of investee companies |
| 4. Exposure to companies active in the fossil fuel sector | Share of investments in companies active in the fossil fuel sector |
| 5. Share of non-renewable energy consumption and production | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage |
| 6. Energy consumption intensity per high impact climate sector | Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector |
| 7. Activities negatively affecting biodiversity-sensitive areas | Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas |
| 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average |
| 9. Hazardous waste ratio | Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average |

**Indicators applicable to investments in investee companies**

| SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTIONAND ANTI-BRIBERY MATTERS | |
|---|---|
| 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises |
| 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises |
| 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies |
| 13. Board gender diversity | Average ratio of female to male board members in investee companies |
| 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Share of investments in investee companies involved in the manufacture or selling of controversial weapons |

## 7.4.2. THE TAXONOMY REGULATION

On 12 July 2020, the regulation on the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation) entered into force. The Regulation aims to further promote investments in sustainable activities and address 'greenwashing' concerns by requiring financial market participants to substantiate the marketing of products as sustainable. The Taxonomy Regulation supplements the disclosures rules in the SFRD by providing a harmonised taxonomy to classify financial products at an EU level.

The Taxonomy Regulation provides a taxonomy of sustainable economic activities for financial market participants (i.e. financial intermediaries) to comply with their sustainable investment disclosure obligations under SFDR. It also introduced a new set of obligations for companies that are required to publish non-financial information under the Non-Financial Disclosure Regulation (NFRD) prior to the CSRD review.

## AN ENVIRONMENTAL TAXONOMY

The Taxonomy Regulation establishes the criteria for determining whether an economic activity is environmentally sustainable. In order to qualify as environmentally sustainable, economic activities will have to fulfil the following requirements:

- contribute substantively to at least one of the six environmental objectives[24];
- not significantly harm any of the environmental objectives;
- be carried out in compliance with minimum social safeguards;
- comply with specific 'technical screening criteria'.

The Commission has laid down technical screening criteria for the different economic activities to be deemed as environmentally sustainable. This has been on the basis of the input provided by the Platform on Sustainable Finance, which has been set up by the Commission and is composed of experts representing both the public and private sector. In addition, a newly created Member States Expert Group on Sustainable Finance advises the Commission on the appropriateness of the technical screening criteria and the approach taken by the Platform.

In respect to application dates, the taxonomy criteria has become applicable, for each environmental objective, 12 months after the relevant screening criteria have been adopted. More specifically, the taxonomy for climate change mitigation and climate change adaptation have applied since 1 January 2022. For the remaining four objectives, the expected application date is 1 January 2023.

In addition, the Commission is expected to adopt a complementary Climate Taxonomy Delegated Act to broaden the coverage of sustainable activities in the EU and extend the EU taxonomy framework to recognise transition efforts.

## ISSUERS' DISCLOSURE OBLIGATIONS

As stated above, companies that are required to publish non-financial information under the NFRD (i.e. public interest companies) will be subject to new obligations. However, it is important to note that the scope of these companies (i.e. public interest companies) may be subject to change with CSDR.

Currently, the NFRD scope includes listed companies with over 500 employees, who will be required to include information in their non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable. In particular, companies will need to disclose:

i. the proportion of their turnover derived from products or services associated with environmentally sustainable economic activities;

ii. the proportion of their total investments (Capital Expenditure) and/or expenditures (Operating Expenditure) related to assets or processes associated with environmentally sustainable economic activities.

The Commission adopted a delegated act that specified the application of these new requirement. These new disclosure obligations for climate change mitigation and climate change adaptation applied on 1 January 2022. We expect for the remaining four objectives to apply on 1 January 2023.

By 13 July 2022, and subsequently every three years thereafter, the Commission will publish a report on the application of the Taxonomy Regulation to evaluate the effectiveness of the application of the technical screening criteria and to possibly review and complement them. The Commission will also assess the effectiveness of the advisory procedures for the development of the technical screening criteria set up by this Regulation.

[24]The six environmental objectives (Article 9 of the Taxonomy Regulation) are: i) climate change mitigation, ii) climate change adaptation, iii) sustainable use and protection of water and marine resources, iv) transition to a circular economy, v) pollution prevention and control, and vi) protection and restoration of biodiversity and ecosystems.