

December 2020

ESG's by Stock Exchanges – A Big Picture **By Nandha Karthik Suresh and Varun Teja Dhara**

Sustainability challenges exist globally, such as flood risk, melting glaciers resulting in accelerated sea-level rise, frequent wildfires, rising temperatures, longer drought periods. Apart from this, there are other social issues corruption crackdown, tax transparency, governance reform, privacy and data security risks, labour practices, business ethics with regulatory risks varying from region to region. To address all these issues, investors and shareholders look to Environmental, Social, and Governance (ESG) reporting as a door to the future. ESG analysis and reporting have received increasing interest from investment professionals such as banks, investment companies, and high-net-worth investors. According to Sustainalytics, the Principles for Responsible Investment has grown from 63 signatories with USD 6.5 trillion in assets under management in 2006 to more than 3000 signatories with over USD 103 trillion in assets under management in 2020 ([Sustainalytics](#), 2020). All of these 3000 signatories have pledged to incorporate ESG issues into investment decision-making processes.

This report will provide a brief quantitative and qualitative analysis of what stock exchanges are doing globally to advance the implementation of ESGs as part of corporate reporting. We will note their sustainability reporting, ESG guidance for listed companies, listing requirements and the training available to support these activities' implementation at the company level. While all stock exchanges in the world are considered, we pay particular attention to the network of exchanges that are part of the United Nations Sustainable Stock Exchanges (UNSSE) group. This UNSSE platform was launched to explore collaboration between exchanges and investors, regulators, and companies, enhance corporate transparency, improve ESG issues' performance, and encourage sustainable investments. This article will discuss the region-wise performance of Sustainability Reports, ESG Guidance Reports, ESG training, and ESG listing rule requirements.

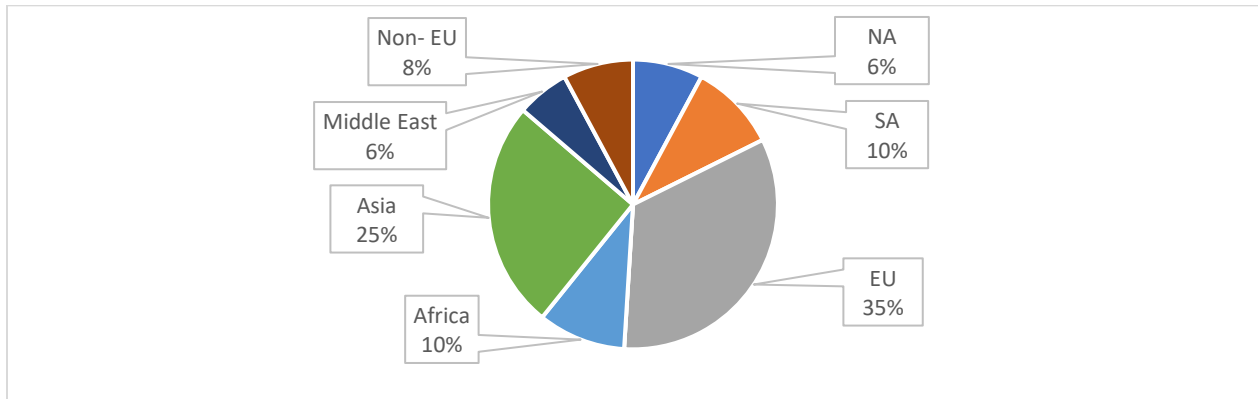
There are 201 countries and territories, categorized based on the independent economic market, out of which 153 countries have stock exchanges. One important note is that few countries have two or even three stock exchanges. Not all stock exchanges are part of the United Nations Sustainable Stock Exchanges (UNSSE). One hundred four stock exchanges report to the UNSSE from 92 countries, and 86 of those countries are members of UNSSE. For this analysis, we have split the world into eight different regions, namely North America (NA), South America (SA), European Union (EU), Oceania (includes Australia and surrounding islands), Africa, Asia (Russia included), Middle East, and Non-European Union (Non-EU). The Asian region holds the greatest number of stock exchanges globally, followed by Africa and the European Union.

India has roughly 7,500 registered companies in both of its stock exchanges, followed by China, which has around 6,000 registered companies in three different stock exchanges. The United States has approximately 5,200 registered companies in both their stock exchanges. Concerning market value, both the New York stock exchange and NASDAQ have the highest market capital value, followed by the Japan Exchange Group and Shanghai Stock Exchange.

Annual Sustainability Report

There are 47 countries with sustainability reports from the 86 member countries of UNSSE. From the remaining 67 non-member countries, only Croatia, Czech Republic, Pakistan, and Taiwan have sustainability reports. There are 55 sustainability reports from 153 stock exchanges, approximately 1/3rd of the total number of stock exchanges. One interesting finding concerning annual sustainability reports is that the Oceania region, including Australia, New Zealand, Papua New Guinea, and other Oceanic islands, has not produced a single annual sustainability report. Asia and the European Union together hold 58% of the annual sustainability reports produced in the world.

Figure 1: Annual Sustainability Report around the world



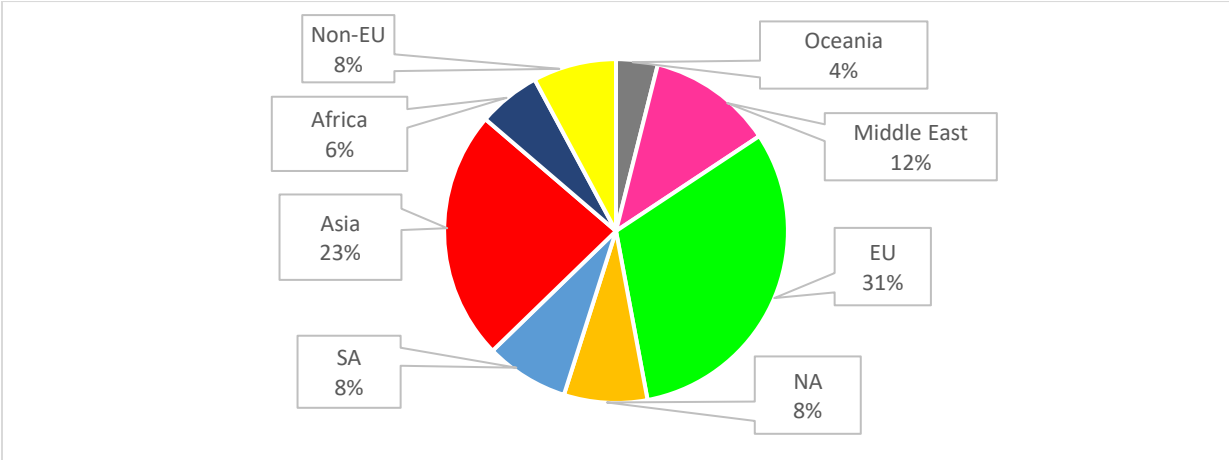
Data: UNSSE, 2020

A qualitative analysis was also carried out on all the sustainability reports from stock exchanges that are a part of the UN SSE. Reports that cover topics on sustainability goals, Corporate Social Responsibility (CSR's), and Sustainability Development Goals (SDG's) and include information on ESG's were categorized as good reports. Out of the 51 reports, just 14 reports were classified as good or the best, with relevant information and metrics. Seven of these 14 reports come from the Asian and Middle East region. The New York stock exchange's sustainability report discussed significant sustainability topics from the North American region, making it one of the best sustainability reports.

ESG Guidance Report

Though many countries are determining how to report ESG's, stock exchanges that are part of the UN SSE have published guidance reports that companies can follow and report on ESG's. Fifty-one countries that are a member of the UN SSE have ESG guidance reports. Not surprisingly, the EU has 16 countries having an ESG guidance report for their stock exchanges. Apart from the EU, Asian countries have shown a comprehensive commitment to ESG guidance reports. Again, the EU and the Asian countries contribute to 60% of the world's ESG guidance reports. In the North American region, Canada, the USA, and Mexico, each have two stock exchanges. Still, only one stock exchange in each of these countries publishing ESG guidance reports. In Canada, this is from the TMX Group, in the USA, it is the NASDAQ exchange, and in Mexico, the Mexican Stock Exchange, having a world standard ESG guidance report. From the Oceania region, only Australia and New Zealand have a guidance report with a clear vision of ESG's.

Figure 2: ESG Guidance Report by UN SSE members



Data: UN SSE, 2020

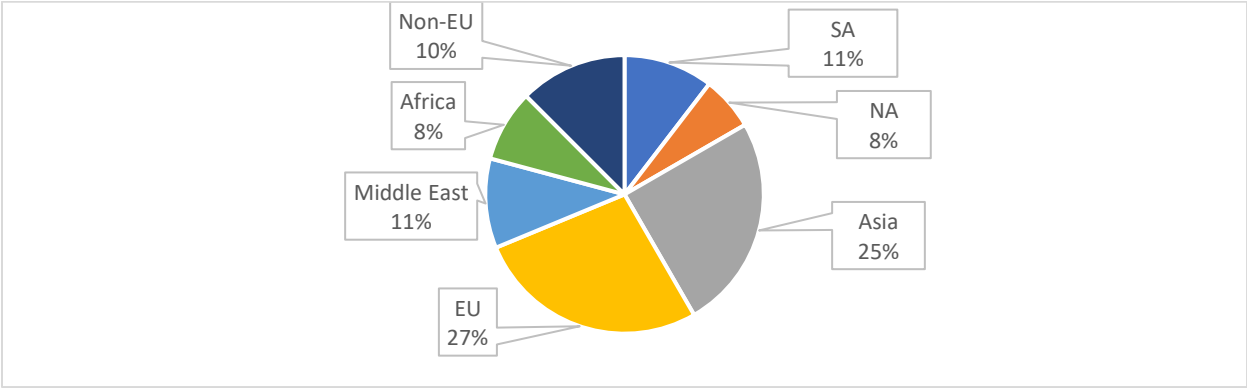
A qualitative analysis was carried on the 56 ESG guidance reports from the UN SSE's stock exchanges. The analysis was done based on the stock exchanges' ESG guiding principles, briefing of criteria and metrics, and mentioning any future progress and goals. Around 37 out of the 56-reporting guidance met all these standards explaining frameworks, criteria, progress, and goals. Fifty-four percent of the robust ESG guidance reports come from the EU and Asian region. The three ESG reports from the North American region discuss their criteria, align themselves with the best guidelines, and outline potential opportunities and risks.

ESG related training

Stock exchanges have also started providing companies with multiple ESG training programs. They organize e-training courses, webinars, workshops, and conferences to educate professionals on trends, share practical knowledge, and implement ESG's into the company's operations. Forty-eight countries that are part of the UN SSE have been involved in initiatives and programs to train professionals on ESG's. Again, the Asian and EU countries lead with well-established ESG training.

The qualitative analysis of ESG training revealed that close to 50% of the stock exchanges having some form of ESG training with multiple events to support listed companies. Asian stock exchanges have comprehensive ESG training, whereas the EU region with well-advanced ESG guidance has only a small number of stock exchanges offering sufficient ESG training. The Oceanic region has no specific programs on ESG training.

Figure 3: ESG training offered by UN SSE members

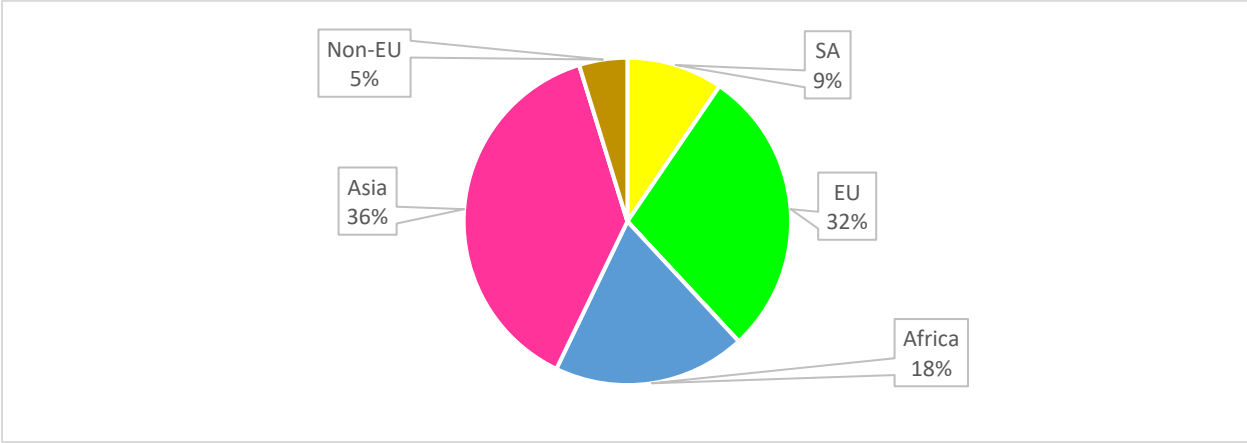


Data: UN SSE

ESG listing rule requirement

ESG reporting is not mandatory in most regions. Only 22 countries out of the 153 countries with a stock exchange have ESG reporting as a listing rule requirement. For 12 of those countries, the listing rule is by the government, whereas, for the remaining ten countries, the listing rule is by the stock exchanges. The region-wise split on those 24 stock exchanges from the 22 countries is shown in figure 4. In the EU and Non-EU countries, the government’s listing rule shows European Nations' interests in ESG's. In South America, the listing rule is controlled by the stock exchanges of their respective countries. North America, Middle East, and Oceania regions do not have any listing rule to date.

Figure 4: ESG listing rule requirement



Data: UN SSE

Conclusion

Clearly, the Asian and the EU regions have developed a more complete ESG framework than other regions. Most of the countries in these regions have well-established stock exchanges, which have provided the foundation for the development of the frameworks. Another important

reason is that among the top 15 stock exchanges with the highest market capital, nine stock exchanges are from the Asian and the EU region, thus explaining why these two regions are doing well in all aspects.

The EU has most of its exchanges registered under the UNSSE (85%). The majority of the well-developed ESG reporting guidance also comes from the EU. This might be due to listing rule requirements in the European Nations that come from the government. Asian stock exchanges dominate the market capital across the globe (21%). Most of the good Sustainability reports and ESG training come from Asian regions, followed by the EU. The Oceanic region has neither a Sustainability report nor ESG training. North America, the Middle East, and the Oceanic region have no ESG listing rule requirement.

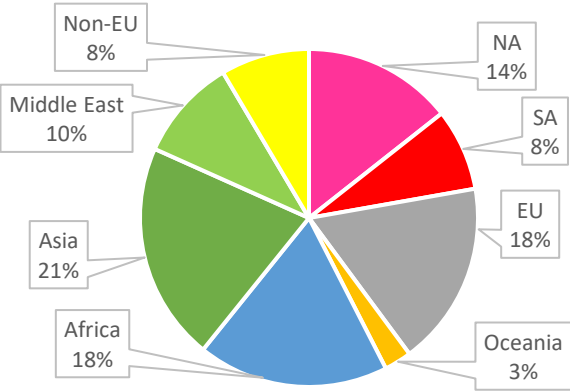
Finally, the EU and Asian regions have demonstrated a clear roadmap for the future of ESG implementation. Other regions, such as the Oceanic region and the North American region, still require significant effort to map out ESG expectations for their listed companies.

Reference

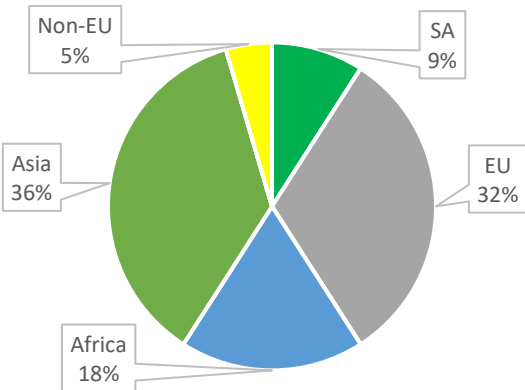
- Sustainalytics 2020; <https://connect.sustainalytics.com/sfs-corporate-esg-in-focus-an-overview-of-esg-and-its-impact-on-companies>
- UN SSE 2020; <https://sseinitiative.org/> (Data as of 15th Dec 2020)

Appendix

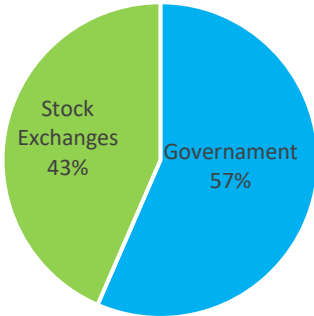
Total Countries with Stock Exchanges around the World



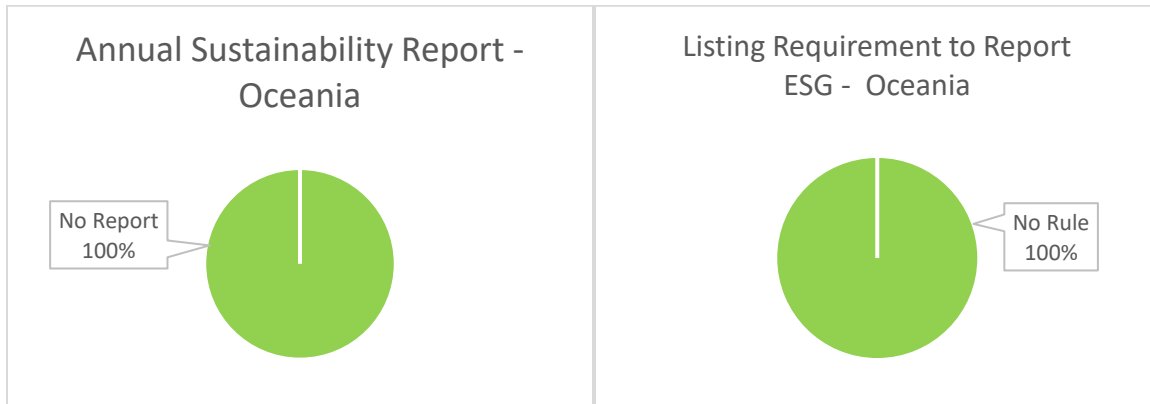
Listing Rule Requirement around the World



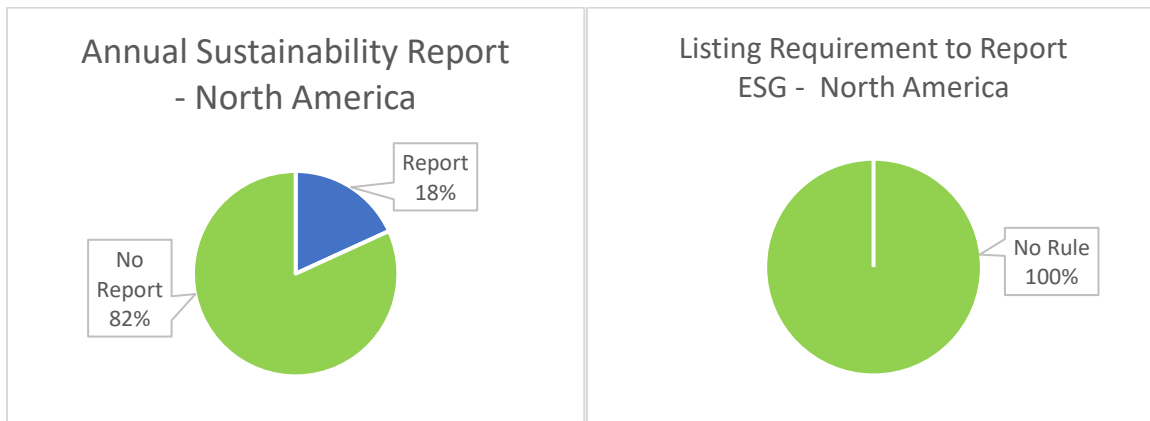
Listing Requirement for ESG Reporting - 24 stock exchanges



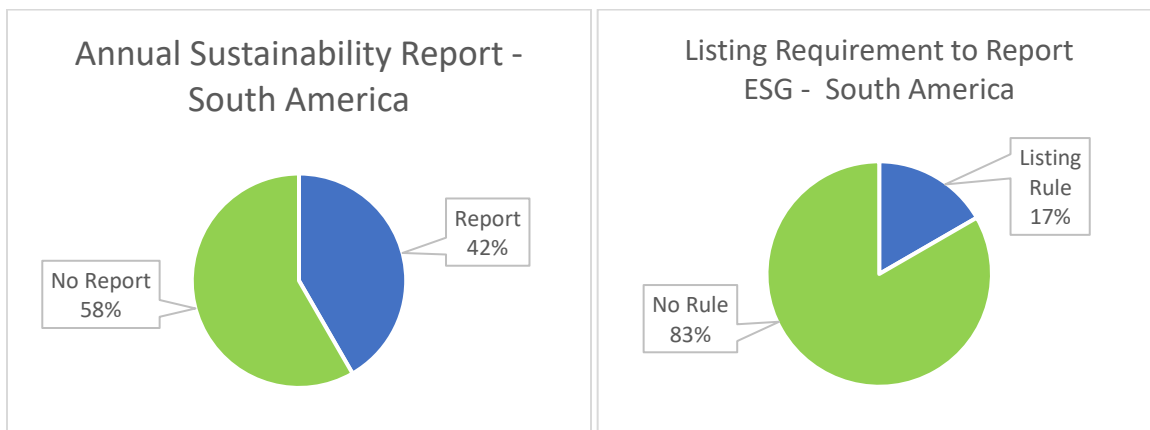
Oceanic Region



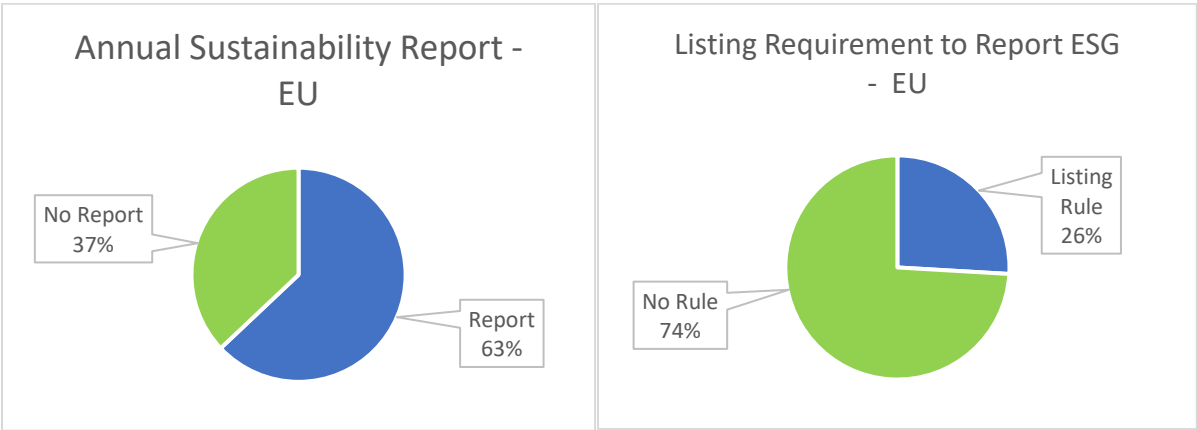
North American Region



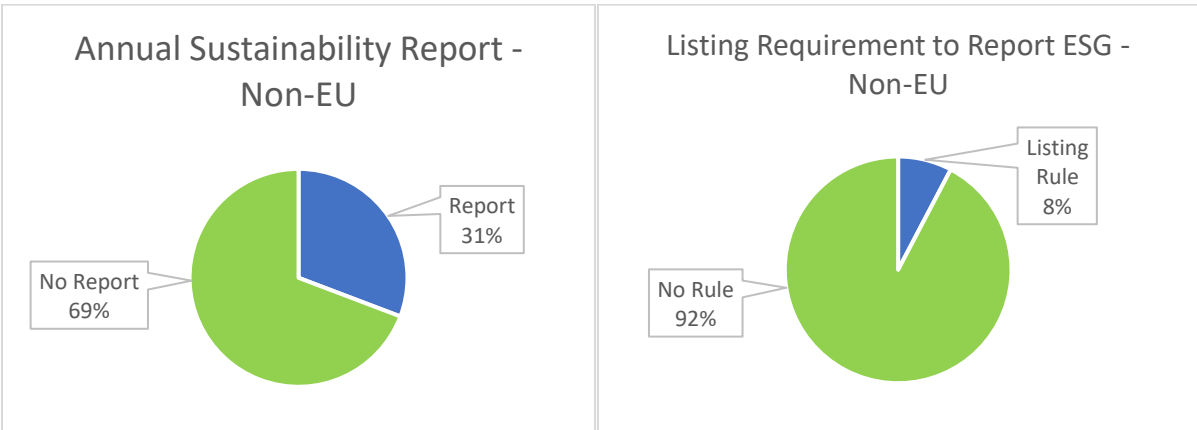
South American Region



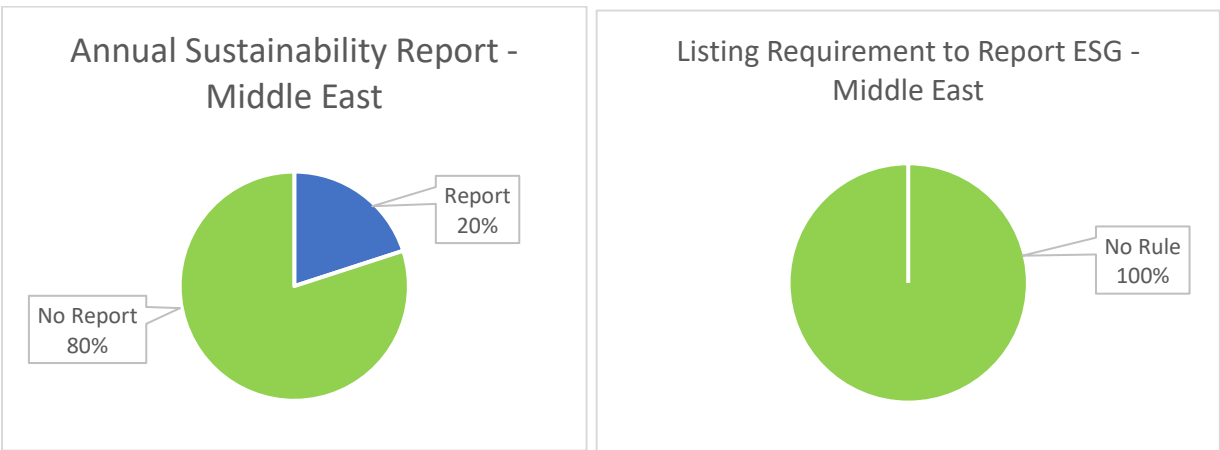
EU Region



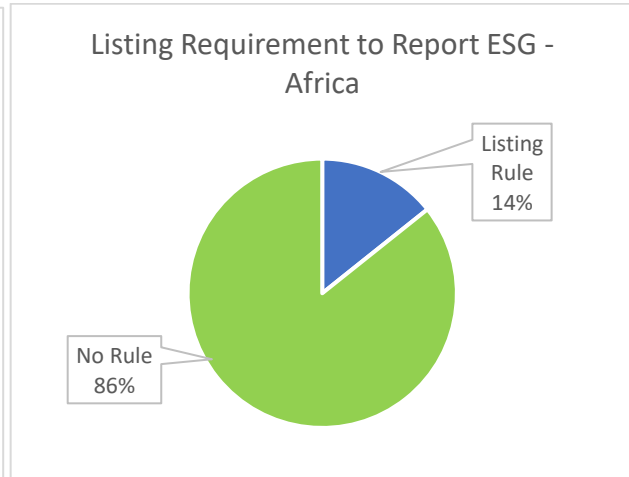
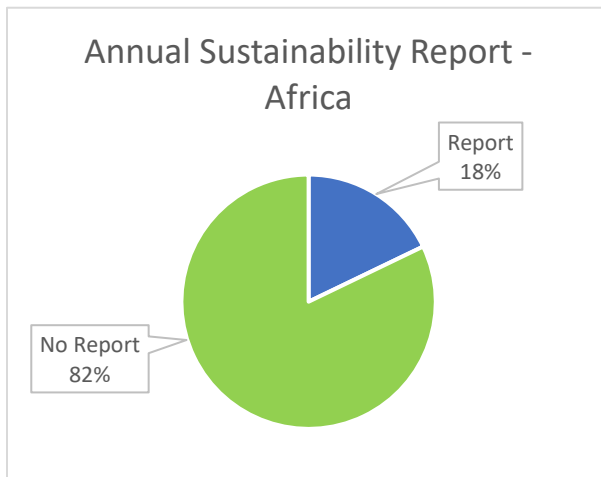
Non-EU Region



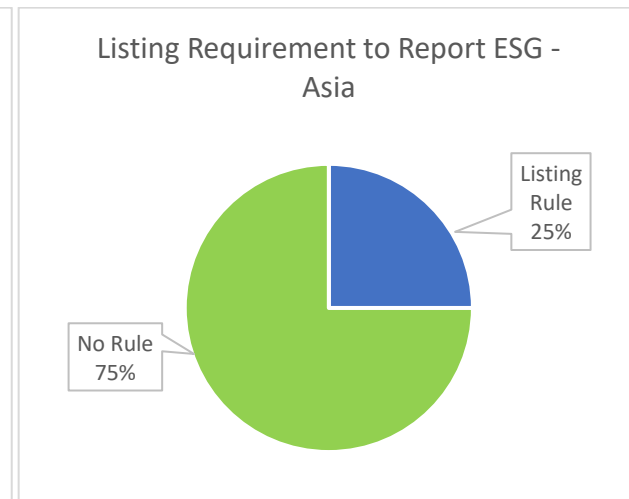
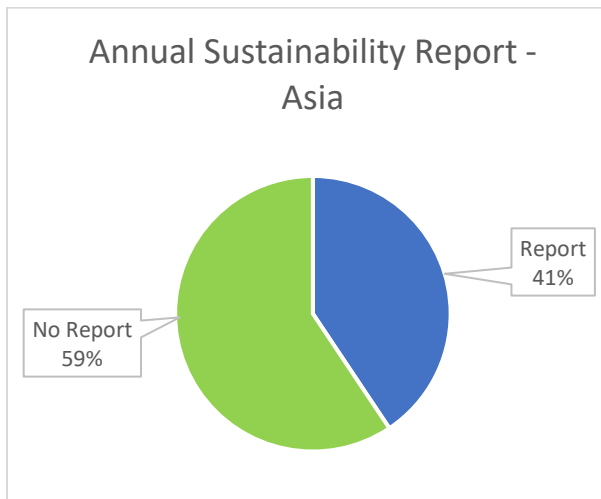
Middle East Region



African Region



Asian Region



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