

The WFE's 6th Annual Sustainability Survey

Exchanges Advancing the Sustainable Finance Agenda



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1. Executive summary

The Sustainability Survey 2019 is the sixth survey by the World Federation of Exchanges (WFE) that captures the nature and extent of WFE member engagement with Environment, Social and Governance (ESG) issues. The survey covers both stock and derivatives exchanges.

Key highlights of the survey include:

- Exchanges continue to develop sustainability efforts through strong engagement with the WFE Sustainability Principles. Among those exchanges that responded, 41% had initiatives that correspond to all five Sustainability Principles.
- A marked number of exchanges were encouraged by the new opportunities arising from their sustainability engagement — a positive sign that ESG is becoming an integral part of exchanges' strategies and ethos.
- Close to 90% of the responding exchanges perceived investor demand for ESG disclosure, of which 29% believed demand to be extensive. The majority of exchanges do not require assurance on ESG disclosure, but the number of exchanges planning this requirement in the future almost doubled.
- There is still no convergence on ESG standards and formats adopted by the exchanges industry. Indeed, some WFE members raised the global divergence on ESG standards and practices as a new concern in their sustainability efforts.
- Green bonds became the most commonly offered ESG products for the first time. The survey also showed a mild increase in offerings across all sustainability product categories, demonstrating a gradual expansion of ESG products across exchanges.

Since 2014, when they were launched, the WFE Sustainability Surveys have consistently reported a growing engagement with ESG issues among the WFE membership. After the WFE Sustainability Principles were published, in 2018, the survey has also showed how exchanges have been active in meeting the Principles. In addition to what was already a positive trend, this year's report confirms that sustainability is not only at the core exchanges' corporate responsibility agenda, but it is also increasingly seen as an opportunity to expand their product offerings and enlarge their sustainability footprint. .

2. Introduction

Sustainability and environmental protection continued to be under the spotlight in 2019, from the tragic Amazon rainforest wildfire and Australia’s bushfires, to Greta Thunberg’s speech at the World Economic Forum. In addition to public concern and policy debates, we also noticed solid steps by various stakeholders in the financial sector. Accelerating sustainable finance seems to have become the norm among many policy-makers, regulators, businesses, and investors.¹

Major developments in 2019 included:

- Central banks demonstrated coordinated efforts in sustainability engagement, especially from the risk-management perspective. In April 2019, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)² issued recommendations in its first comprehensive report. These suggest central banks and supervisors should integrate climate-related risks into financial-stability monitoring and micro-supervision, and to integrate sustainability factors into central banks’ portfolio management. The recommendations also advocate internationally consistent climate and environment-related disclosure and the development of a taxonomy of economic activities. On a related note, in December 2019, the Bank of England published a discussion paper which sets out its proposed framework for the “Biennial Exploratory Scenario,” where climate-related stress scenarios will be used to explore the financial stability implications of climate change.³
- The European Union (EU) Technical Expert Group (TEG) on Sustainable Finance published the Taxonomy Technical Report⁴ in June 2019 and the Report on Climate Benchmarks and Benchmarks’ ESG Disclosures⁵ in September 2019. Both regulatory initiatives are part of the European Commission’s Action Plan for Financing Sustainable Growth. The EU Taxonomy and benchmarks are expected to play an important role in shaping the future sustainable finance landscape in Europe.
- The report on 2019 Climate Action Summit from the United Nations highlighted the need to accelerate the shift of financial flows into sustainable projects, pushing on carbon pricing and ensuring access to sustainable finance as one of the UN’s 10 priority areas for 2020. In January 2020, in a letter to its clients, Blackrock, the world’s largest institutional investor, embraced sustainability as its “new standard for investing”, setting targets to increase access to sustainable financing, exit thermal coal producers, integrate ESG in risks assessments and further promote ESG disclosure.⁶ This represents an important commitment from institutional investors.

Besides this annual sustainability survey, the WFE continues its engagement in this area on multiple fronts. In 2019, the WFE produced an important publication, *How exchanges can embed sustainability within their*

¹ Admittedly there are still pushbacks, some rather significant, such as the US’s formal withdrawal from the Paris Agreement.

² The NGFS was set up in 2017 to help strengthen the global response required to meet the goals of Paris Agreement and to enhance the financial system’s role in mobilising capital for green investments.

³ <https://www.bankofengland.co.uk/news/2019/december/boe-consults-on-proposals-for-stress-testing-the-financial-stability-implications-of-climate-change>

⁴ https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

⁵ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190930-sustainable-finance-teg-final-report-climate-benchmarks-and-disclosures_en.pdf

⁶ <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>

*operations: a blueprint to advance action.*⁷ The blueprint is a guidance document which aims to assist exchanges in establishing effective internal governance and operational processes and policies to support their sustainability efforts. On the advocacy front, the WFE responded to the International Organization of Securities Commissions' (IOSCO's) Growth and Emerging Market Committee's consultation on sustainable finance in emerging markets and the role of security regulators.⁸

3. Methodology

The WFE's sixth annual sustainability survey continues to capture the nature and extent of member engagement with ESG issues and how this has evolved over time. A structured questionnaire was sent to all WFE member exchanges and WFE-affiliates,⁹ and to various non-WFE member exchanges. Derivatives-only exchanges were given a scaled-back version of the questionnaire with some answer options adjusted since some of the questions are irrelevant for them (such as the questions on listed companies' ESG disclosure). Responses were collated through an online survey tool. The survey was conducted in early 2020, with responses referring to the 2019 calendar year.

Like previous years, the survey questionnaire was revised to better capture the latest exchange-related sustainability developments:

- Questions on ESG reporting requirements and standards adopted were revised and expanded.
- Questions on sustainability-related green products were expanded and reorganised to collect more detailed data on product offerings.
- Questions regarding ESG in commodity derivatives were added.
- The survey questionnaire for derivatives-only exchanges was revised to better capture their distinctive characteristics.
- Some questions that were no longer valid or useful were removed.

Respondents were directed to different questions depending on their answers and some questions were skipped by respondents, hence the response rates for different questions vary. The total number of responses are noted throughout.

This year we maintained approximately the same high level of responses as last year. A total of 61 exchanges¹⁰ participated in this year's survey, of which 56 are WFE members. Of the 56 WFE member respondents, six are derivatives-only exchanges. This year's WFE member response rate equates to an 81%

⁷ <https://www.world-exchanges.org/our-work/articles/how-exchanges-can-embed-sustainability-within-their-operations-blueprint-advance-action>

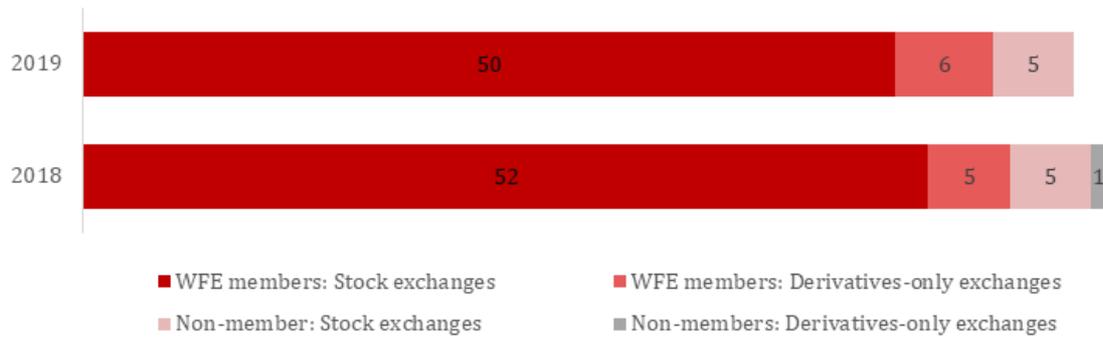
⁸ <https://www.world-exchanges.org/storage/app/media/WFE%20Response%20to%20the%20IOSCO%20Consultation%201.04.2019.pdf>

⁹ WFE affiliates are exchanges or CCPs/CSDs that are: significant in their market of operation; whose regulator is a member of IOSCO; and intend to become members in due course. Many newer, smaller, regulated exchanges choose to become affiliate markets. The WFE requires that the regulatory authority of the applicant is a member of IOSCO. Affiliate status does not automatically imply fulfilment of WFE membership criteria and, unlike membership, is not subject to peer review.

¹⁰ The full list of respondent exchanges can be found in Annex 1.

overall response rate,¹¹ marginally down from 83% (57/69) in 2018. Six of the exchanges participating in this year’s survey did not participate the previous year and four exchanges that responded to the last survey did not respond this year.

Figure 1: Respondent profile



¹¹That is, 56/69. The WFE membership consisted of 69 exchanges and CCPs at the end of 2019. Note that the four CCP members were excluded from this survey.

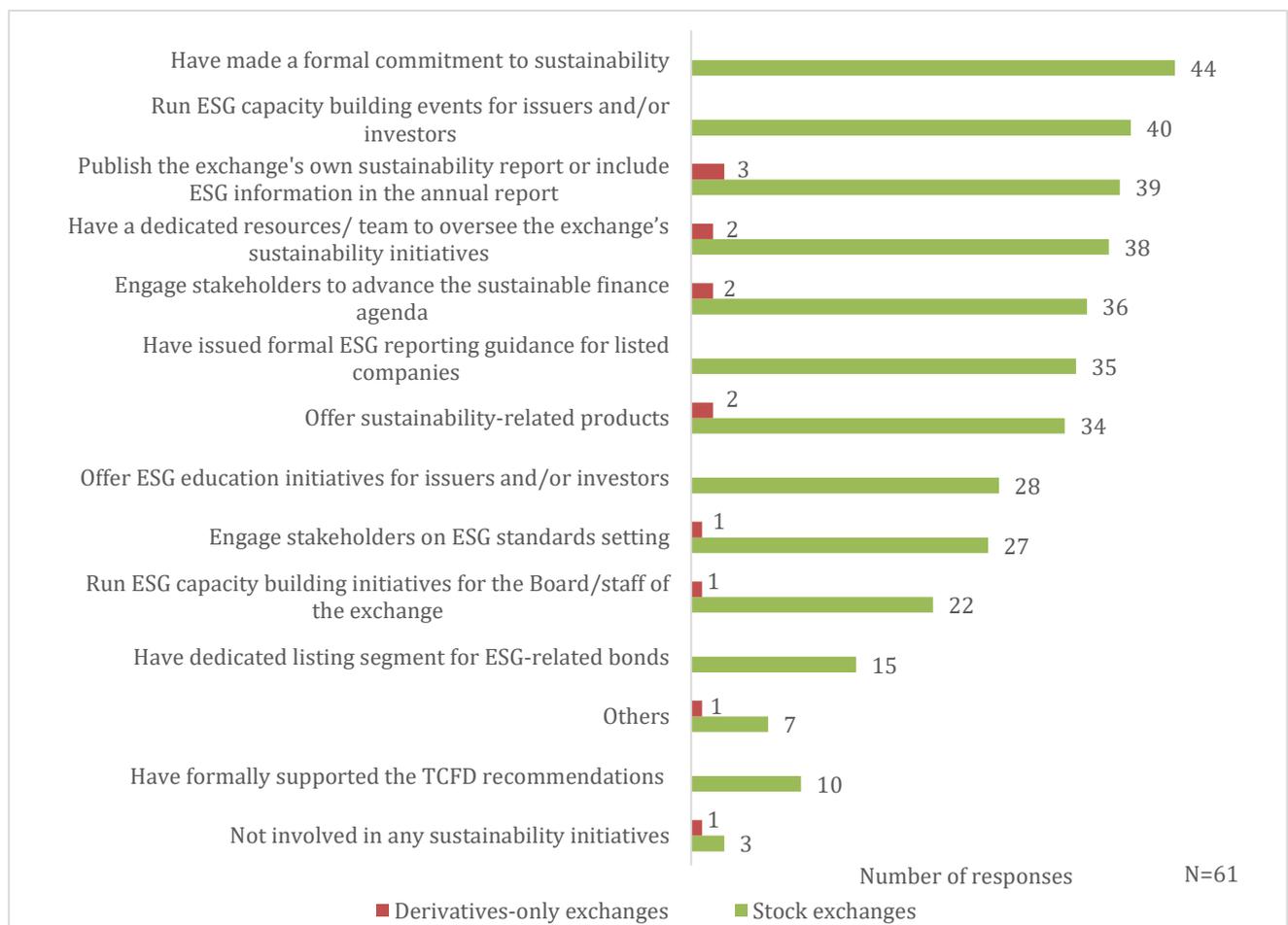
4. Survey results and discussion

4.1 Exchanges and sustainability

Exchanges continue their sustainability efforts

In 2019, the number of responding exchanges reporting some form of ESG initiative remained the same at 57, though it marginally increased as a proportion of the number of respondents (from 90% to 93%). Exchanges’ engagement in different ESG initiatives is reflected in Figure 2.

Figure 2: Exchanges’ ESG Initiatives*



*multiple answers allowed

Compared with the 2018 survey results, there was no significant change in the types of ESG initiatives and the level of engagement in them. This year, the initiative, “Have made a formal commitment to sustainability”, topped the list again (72% of responding exchanges, 44/61). Other ESG initiatives reported, but not listed, include participating in committees of wider industry, national or international initiatives, collaborating with external organisations, leverage charity funds for ESG causes, provide dedicated

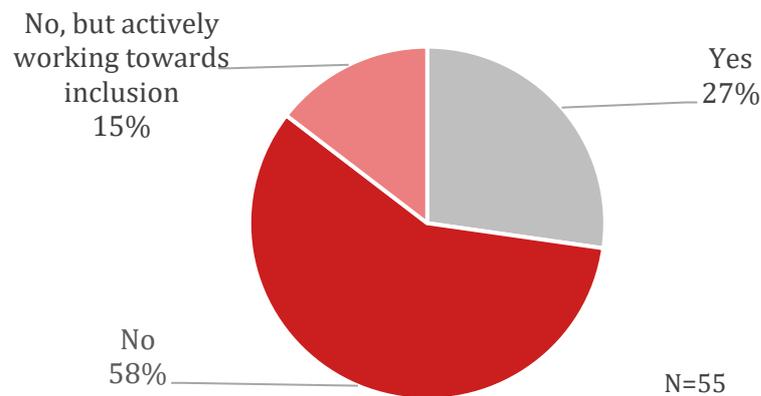
information platform for green bonds and set up dedicated segment for sustainability-related funds. Two exchanges (both located in the Middle East) which reported no initiatives in 2018 have introduced some sustainability initiatives in 2019.

This year we added more initiatives related to exchanges’ stakeholder engagement efforts and ESG bond market set-up. As a result, 28 exchanges (46%) reported they engaged stakeholders in setting ESG standards (such as standards on ESG reporting, definitions of ESG products), and 15 exchanges reported having a dedicated segment for ESG-related bonds.

Exchanges in ESG Indexes

Many exchanges nowadays are also listed companies. Some are included (being one of the constituents) in indexes that track sustainability or ESG performance of listed companies. This inclusion provides another angle to showcase exchanges’ commitment to ESG causes. Our survey revealed that 15 out of 55 stock exchanges surveyed are included in at least one sustainability/ESG index, while eight are working towards inclusion.

Figure 3: Exchanges’ inclusion in ESG Indexes



Realising the WFE Sustainability Principles

The WFE Sustainability Principles (the Principles, hereafter) sets out the ways in which WFE member exchanges will seek to promote sustainability in their markets. Since their launch in 2018, the WFE started to track exchanges’ level of engagement with the Principles and to examine progress over time. We define “engagement” as having a set of initiatives corresponding to the Sustainability Principles. Just like last year, we mapped the reported sustainability initiatives in the survey to the Principles (see details in Annex 2). In addition, we also asked the exchanges to report other initiatives that correspond to the five Principles.

Compared with 2018, we observed a higher number of exchanges engaged with each of the Principles (see Figure 4). Principle 5: “Embed sustainability into the exchange’s governance, strategy and organisation structures” remained the principle with highest number of exchanges engaged (54 exchanges, 89% of respondents), while Principle 1: “Educate market participants about sustainability issues” came second (46 exchanges, 75% of respondents), with slightly more exchanges engaged in it than in principles 2 and 4.

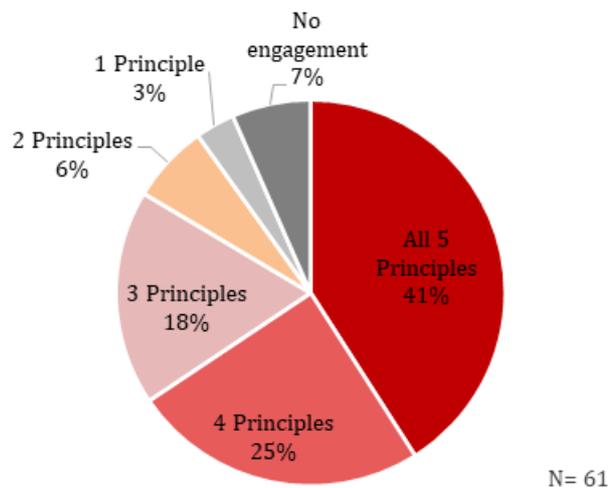
Figure 4: Number of exchanges engaged in each of the WFE Sustainability Principles



We also examined the number of sustainability principles each exchange engaged in (see Figure 5). Encouragingly, 41% (25/61) of the responding exchanges had initiatives that correspond to all five sustainability principles, which constitutes the largest group. The second-largest group (15/61, 25% of respondents) is constituted of exchanges that engaged in four out of the five principles.

In summary, these figures demonstrate the exchanges’ effort in realising the WFE Sustainability Principles. We observed an increased level of engagement among exchanges one year after the launch of the Principles.

Figure 5: Number of Sustainability Principles each exchange is engaged in



Sustainability Principle 5: blueprint to support exchanges in embedding sustainability

The WFE partnered with the United Nations Sustainable Stock Exchanges (SSE) initiative to publish the paper [How exchanges can embed sustainability within their operations: a blueprint to advance action](#) in September 2019. This guidance document addresses the WFE Sustainability Principle 5, which encourages exchanges to embed sustainability into their internal governance and operations.

The blueprint highlights four areas where exchanges can implement recommended practices to integrate sustainability across the firm:

- Integrate sustainability into the exchange’s core strategic planning.
- Reflect sustainability in governance and risk management.
- Manage the impact of exchange operations.
- Dedicate resources to manage the exchange’s sustainability work.

In addition to the four focus areas, the blueprint identifies four fundamental considerations that underpin them: materiality, stakeholder engagement, reporting and transparency, and capacity building. The blueprint includes illustrative examples from WFE members who share experience and best practice.

Sustainability initiatives: motivation and concerns

Sustainability seen as a source of opportunities for growth

This year we observed some changes regarding the motivation of exchanges to engage in sustainability. “Sustainability concerns” (49/56, 88% of the exchanges with initiatives) remained the most frequently reported motivation among the exchanges who had sustainability initiatives. However, it is worth highlighting that “expanded business opportunities for the exchange” moved up to the second-most reported motivation and was very close counts to the first (84%, 47/56). Eight more exchanges (a 20% increase) reported this as their motivation in sustainability compared to last year. In addition, eight more exchanges (a 50% increase from last year) reported “investor pressure” as their motivation in sustainability. This confirms that sustainability is an operational and corporate responsibility concern to exchanges, but it also shows that exchanges are more active in responding to and shaping investors’ demand and expectations..

Further, it is worth noting that 16 exchanges reported “required by regulator/law” as a motivation, up by six (a 60% increase) from last year. This reflects an increased level of attention and regulatory intervention on sustainability in the capital markets.

Figure 6: Motivation for Sustainability Involvement*



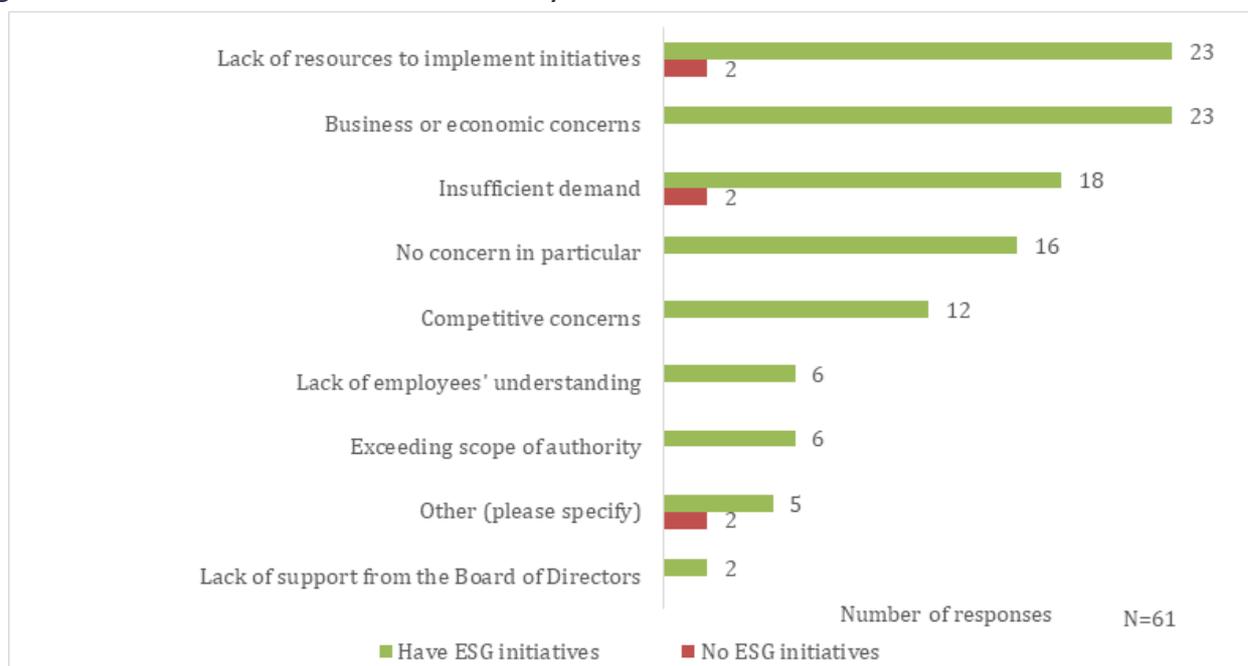
*multiple answers allowed

We also observed some changes regarding concerns about current and possible future sustainability efforts. “Lack of resources to implement Initiatives” (41%, 25/61 of respondents) just overtook “business or economic concerns” (38%, 23/61 of respondents) as the most frequently reported concern.

Sixteen exchanges said they have no concern about carrying out their sustainability efforts, up from 11 in 2018. Among the six additional exchanges¹² that reported no concerns, five of them are from emerging markets, of which three out of the five are from the Middle East. This is an encouraging development since the Middle East was the region that reported more difficulties and concerns in carrying out sustainability initiatives in the previous WFE sustainability surveys.

Other concerns reported include increased complexity in the sustainable finance landscape (such as taxonomy and divergence in practices worldwide), insufficient supply of sustainability-related products due to lack of investable projects, and ESG reporting burden on issuers.

Figure 7: Concerns About Sustainability Efforts*



*multiple answers allowed

Among the exchanges that responded to the question on concerns about their sustainability efforts both this and last year,¹³ 57% (32/56) reported the same number as last year. Twelve exchanges reported more items of concern, while the same number of exchanges reported a lower number. The most frequently reported additional concerns were “lack of resources to implement initiatives” (5 exchanges) and “reporting burden on issuers” (three exchanges).

On the other hand, fewer exchanges cited “business or economic concerns”, “insufficient demand” and “competitive concerns” as their concerns this year. The results show that exchanges’ concerns in their sustainability efforts have gradually moved away from business concerns to implementation challenges.

¹² One of the exchanges that said it had no concerns about its sustainability efforts in the last survey reported some concerns this year.

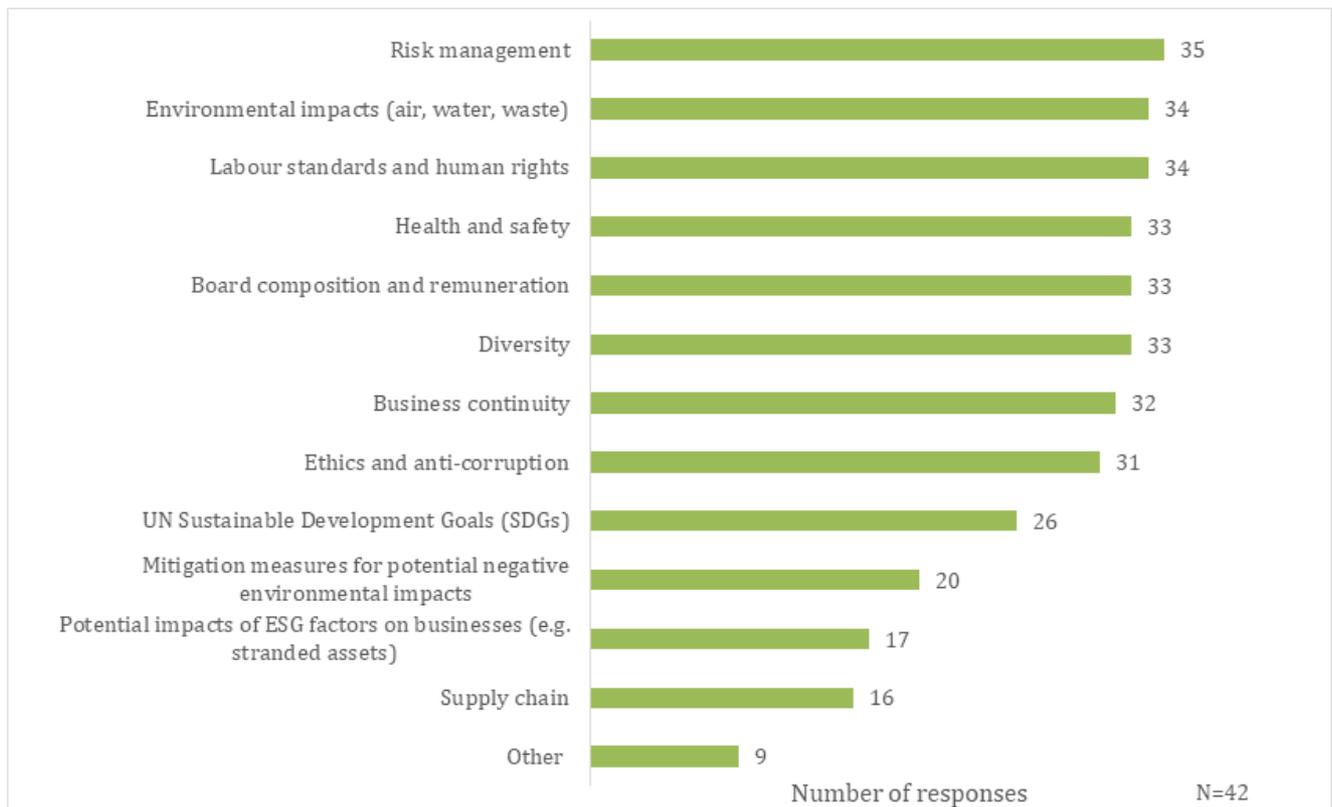
¹³ 56 exchanges in total.

ESG factors in exchanges' reporting

The proportion of responding exchanges publishing a sustainability report increased from 60% to 68% this year (up from 38 to 42 in absolute terms). All ESG factors listed are covered by more exchanges in 2019. Notably, 26 exchanges included the UN SDGs in their own ESG reporting, up by a rather significant count of 10 from last year. Further, eight more exchanges reported on business continuity and seven more exchanges reported on environment impact.

“Risk management” (covered by 83% of the exchanges with ESG reporting, slightly down from 87% in 2018) remained the most frequently covered ESG factor. “Environmental impacts” (ranked sixth in 2018) and “labour standards and human rights” (ranked fifth in 2018) rose to the second.

Figure 8: ESG Factors reported by exchanges*



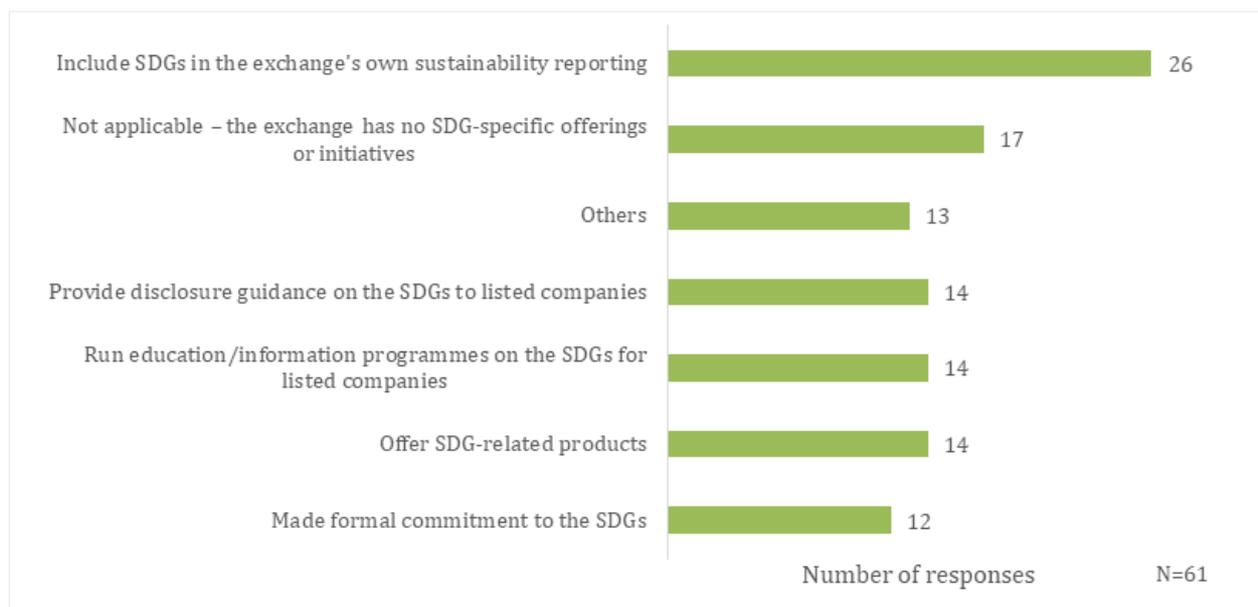
*multiple answers allowed

4.2 UN Sustainable Development Goals

Some 54 out of 69 WFE members are part of the UN Sustainable Stock Exchange (SSE) Initiative, demonstrating strong engagement with the UN Sustainable Development Goals (SDGs). Among the exchanges with ESG initiatives, 80% (44/61) had some form of SDG-specific initiative. “Include SDGs in the exchange’s own sustainability reporting” were the most frequently reported. Other listed SDG-specific initiatives attracted fewer positive responses (see details in Figure 9). Self-reported SDG initiatives include participation in various UN initiatives, promotion of SDG compliance among listed companies and SDG education for employees. Two exchanges noted that even though they did not include SDGs directly in their own sustainability reporting, they reported on metrics aligned with the SDGs.

When asked about SDG-related products, the most commonly offered product was green bonds (10 exchanges) and ESG indexes (seven exchanges). Exchanges also cited ESG ETFs, Capital Development Certificates¹⁴, charity funds and sukuk as SDG-related products offered.

Figure 9: UN SDG-specific initiatives*



*multiple answers allowed

¹⁴ Capital Development Certificates (CKDs) is a type of investment instrument available in Mexico. For details see: https://www.bmv.com.mx/en/Grupo_BMV/Instrumentos_disponibles/_rid/965/_mod/TAB_MERCADO.

Exchanges' engagement with specific SDGs

We also asked exchanges to indicate which of the 17 SDGs they focused on. Close to half of the responding exchanges indicated they were following the SSE recommendations to engage in goals 5, 8, 12, 13 and 17. These five SDGs are also the top five SDGs for exchanges.

Table 1: Top 5 SDGs for Exchanges			
	SDGs	Engagement Rates ¹⁵	
		2019 ¹⁶	2018 ¹⁷
1	Goal 5: Gender equality	85%	86%
2	Goal 17: Partnerships to achieve the goal	78%	69%
3	Goal 8: Decent work and economic growth	73%	81%
4	Goal 12: Responsible consumption and production	71%	64%
5	Goal 13: Climate action	66%	72%

“Gender equality” remained the goal targeted by the greatest number of responding exchanges, with a similar engagement rate to last year (but up by five in absolute numbers). Although some SDGs (goals 17, 8 and 5) showed a lower engagement rate this year, the absolute number of exchanges which engaged in these SDGs had increased.

4.3 Transparency and reporting

Exchanges continue to be the major promoters of ESG disclosure

The disclosure of ESG information was encouraged or required of issuers by 85% (47/55¹⁸) of responding exchanges, very close to the 2018 results (48/57 respondents, 84%).

This year we examine the ESG reporting requirements of different markets in greater detail. In over half the markets surveyed, ESG disclosure is mandatory (56%, 31/55). Looking at the locations of such markets, 14 are in EMEA, of which 11 are in emerging markets. ESG disclosure is required in 14 markets in APAC, and only three in Americas (all Latin-American markets).

¹⁵ Engagement rate calculated by number of counts to each goal divided by number of exchanges responding to this question

¹⁶ 41 exchanges answered this question in 2019.

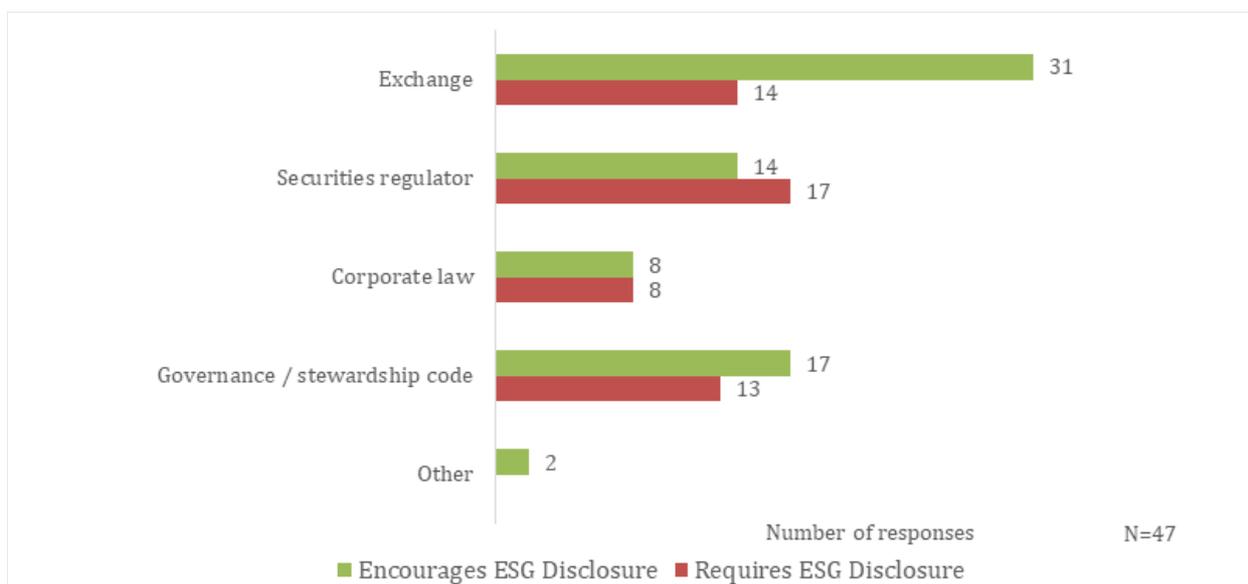
¹⁷ 36 exchanges answered this question in 2018.

¹⁸ Derivatives-only exchanges were excluded from this question as the ESG reporting requirement is less relevant for these exchanges.

Comparing different drivers for ESG disclosure, securities regulators are the main body requiring these disclosures (17 markets), followed by exchanges (14 markets).¹⁹ Other bodies requiring ESG reporting include corporate law (eight markets) and governance/stewardship codes (13 markets).

Exchanges continue to be the major promoters of ESG disclosure in their respective markets. Some 82% (44/55) of the stock exchanges in this survey either encouraged or required ESG disclosure in their markets, the biggest driver that promotes or requires ESG disclosure among the four categories (see Figure 10). In seven markets, exchanges were the only body that encouraged or required ESG disclosure. The results demonstrate exchanges’ leadership in driving ESG disclosure in listed companies. Two exchanges also cited investors as the driver for ESG disclosure in their markets.

Figure 10: Drivers of ESG Disclosure*



*multiple answers allowed

There seems to be a wide consensus among exchanges that mandatory ESG disclosure would not adversely affect them, although some exchanges expressed concern about the burden this placed on the issuers (see Section 4.1). Those that did not believe that requiring listed companies to disclose ESG information would adversely affect them rose to 84% (46/55), slightly up from 80% in the previous year.

We continue to observe growth in investor demand for ESG disclosure from the survey results. Eighty-seven percent of responding exchanges (48/55) said they perceived at least some investor demand for ESG disclosure in their market,²⁰ up from 81% in the previous year, and 70% the year before. More importantly, the number of exchanges who perceived extensive investor demand for ESG Disclosure increased from 10 to

²⁰ Either extensive demand or limited demand.

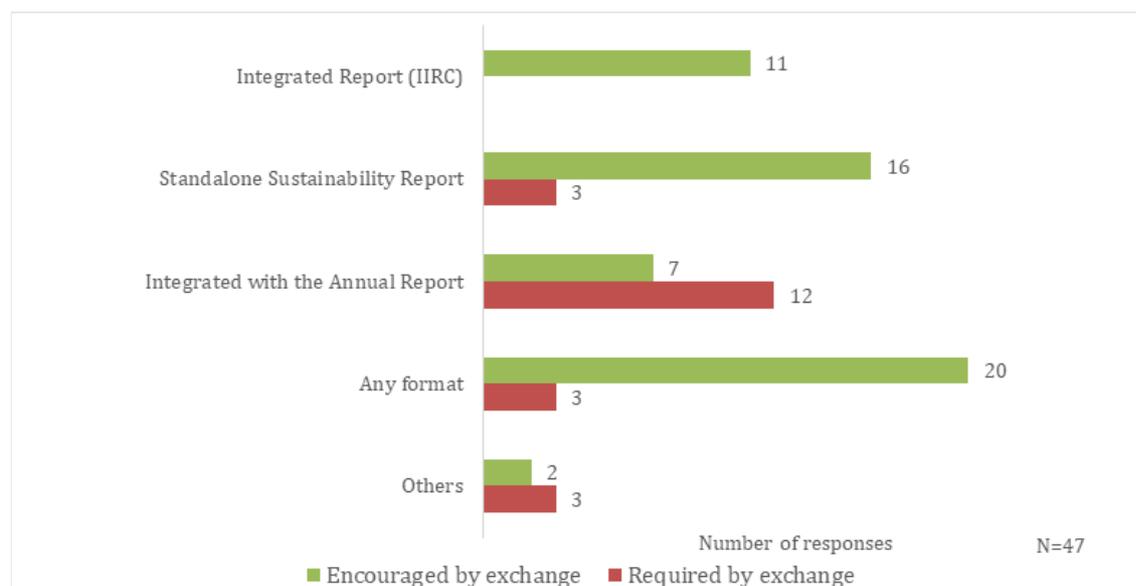
16 this year (proportionate increase from 18% to 29%), of which seven are emerging market exchanges. The number of exchanges who perceived no investor demand for ESG disclosure dropped from 11 to seven (a proportional decrease from 19% to 13%). All of them were exchanges from smaller emerging markets.

ESG disclosure: formats and standards

Fragmentation of ESG standards were cited as a concern in exchanges’ sustainability efforts in the earlier section. How to ensure high-quality, comparable ESG disclosure that can serve the best interests of both issuers and investors is indeed one of the biggest challenges facing exchanges. This year we collected information on the reporting standards and formats supported by exchanges in greater detail, seeking to track the development in recommended reporting approaches. The survey results show that exchanges generally do not make specific requirements on ESG reporting formats and standards.

When asked about reporting formats, 38% (18/47) of exchanges which either adopt mandatory or voluntary reporting in their market had some sort of reporting format requirement.²¹ The most frequently required reporting format is “integrated with the Annual Report”. Other cited reporting formats include specific formats developed by the exchange or security regulators. Around two-thirds (29/47) of the exchanges who encouraged/required ESG disclosure leave it to the discretion of companies to decide which format to use. Among these exchanges, 20 encouraged ESG reporting without specifying any format. While “standalone Sustainability Report” was mentioned by 19 respondents (as was “integrated with the Annual Report”), very few exchanges made it a requirement (see Figure 11).

Figure 11: Reporting format encouraged/required by exchanges*

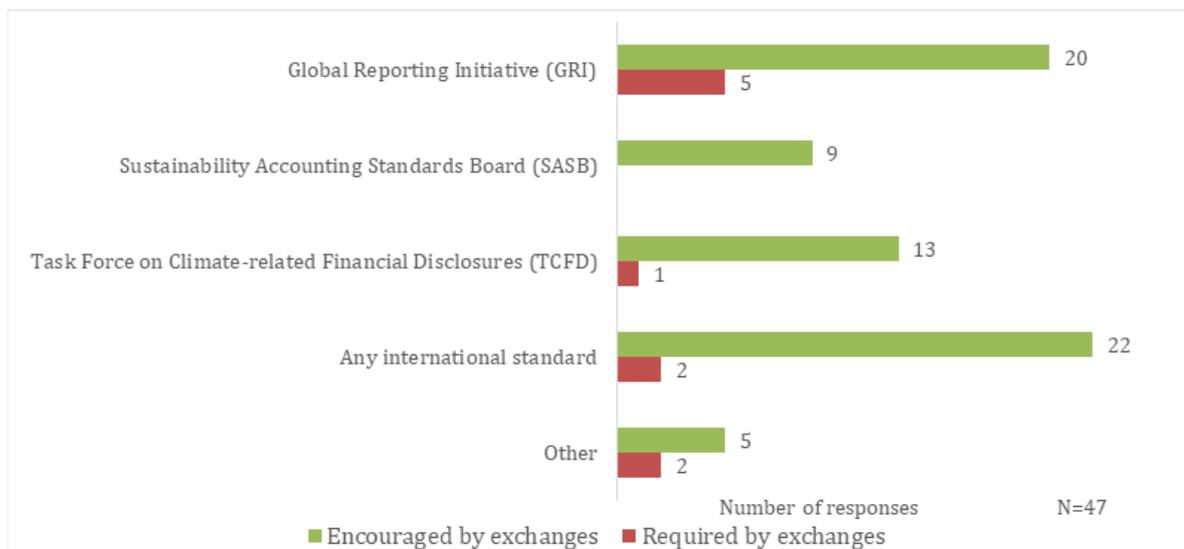


*multiple answers allowed

²¹ Some markets with a reporting format requirement accept multiple types of reporting formats.

On reporting standards, only eight exchanges have specific requirements on ESG reporting standards²². The majority of exchanges promote the adoption of one among various reporting standards but do not mandate any one in particular. Forty-seven percent of the exchanges which encourage/require ESG reporting, suggested the adoption of an international reporting standard. The Global Reporting Initiative (GRI) is the standard that is most frequently cited by exchanges (43% of the exchanges who encourage/require ESG reporting).

Figure 11: Reporting standards encouraged/required by exchanges*



*multiple answers allowed

In terms of disclosure, one of the most direct means of support that exchanges can provide to issuers is ESG reporting guidance. The survey results revealed that around two-thirds (37/55) of the exchanges participating in this survey have guided companies on issues that are material for disclosure purposes. Twenty-one exchanges published their own reporting guidance, while 15 exchanges recommended or referenced existing guidance. One exchange reported it was planning to issue ESG guidelines in the near future. In emerging markets, exchanges tend to reference reporting guidance issued by the regulators.

Two years after the publication of the TCFD recommendations,²³ it is possible to discern their gradual inclusion into exchange reporting guidance. The number of exchanges including the TCFD recommendations in their reporting guidance jumped from six in 2018 to 14 in 2019 (41% of the exchanges with reporting guidance). These are mainly exchanges which were planning to include the TCFD recommendations in the previous year. Twelve exchanges (39%) said they plan to include the TCFD recommendations, and eight exchanges (the same number as the previous year) expressed no current intention to do so. Two exchanges

²² Some exchanges require multiple types of reporting standards

²³ The TCFD's recommendations were published in 2017. The recommendations provide context, background and a general framework for climate-related financial disclosure and is intended for broad audiences.

noted that even though they do not formally include the TCFD recommendations in their reporting guidance, their reporting guidance was aligned with it.

ESG disclosure: a continuing journey

Nowadays many exchanges have initiatives that guide ESG disclosure in their markets. Exchanges are progressing from encouraging adoption to enhancing quality ESG disclosure. The following are some highlights in 2019 from various WFE members:

- The **Australian Stock Exchange (ASX)** released the 4th edition of its Corporate Governance Principles and Recommendations, which included guidance for companies to use the Task Force on Climate-related Financial Disclosures (TCFD) to assess if they have a material risk to climate change. The ASX anticipates the proportion of companies reporting use of the TCFD framework will increase in the coming years.
- The **Bolsa de Valores de Lima** and **Nasdaq** published their updated ESG reporting guidance. Several exchanges are reviewing their ESG reporting guidance for updates.
- The **Hong Kong Exchanges and Clearing Ltd (HKEX)** conducted a market consultation to update its ESG reporting guide with a focus on enhancing issuers' ESG governance. As a result, the ESG reporting guide will be revised to require, among other things, mandatory disclosure of the board's oversight of ESG matters. The new rules will take effect for financial years commencing on or after 1 July 2020. In 2019, HKEX has also reviewed 400 sample issuers' ESG disclosures for the 2018/2019 financial year, and published its key findings and recommendations in December 2019 to provide insight and guidance to issuers on the possible improvement areas on which to focus in their approach to assessing ESG-related risks, and when preparing ESG reports.
- The **NZX Limited** promotes awareness among issuers through the release of an assessment of current practice and ESG reporting considerations their published *Reporting Uptake in S&P/NZX 50 Index and Investor Perspective 2019*.
- The **Stock Exchange of Thailand (SET)** has started working closely with the Securities and Exchange Commission (SEC), Thailand in developing the quality of sustainability disclosure through the SEC's new regulation which will continue to require all issuers to report their sustainability performance in a more investor-relevant manner through recommended specific indicators.

Regarding assurance or verification of listed companies' ESG data, over half (56%, 31/55, a slight decrease from 35 last year) of the exchanges had no such requirement and did not foresee one. Only two exchanges (both emerging markets, one located in APAC and the other in EMEA) require assurance of issuers' ESG data. However, 10 more exchanges (up from 12 to 22) said they were planning to require that in the future compared with last year. This suggests that assurance and verification of issuers' ESG data could be the next trend after the mainstreaming of listed companies' ESG reporting.

Sustainability and commodity derivatives

The focus of sustainability in the capital markets has primarily been on listed companies so far. To expand the scope and stimulate discussions among the WFE membership and with the wider commodity derivatives industry, the WFE published the Sustainability & Commodity Derivatives White Paper in August 2019. This explores sustainability in the context of commodity derivatives markets and invites discussion on some starting principles to approach the key challenges in addressing the impact of sustainability in commodity derivatives exchanges.

As part of a continuing effort following the white paper’s publication, we included some questions on commodity derivatives in the survey to map the landscape of the commodity derivatives space. Awareness of sustainability in commodity derivatives is yet to be cultivated. The majority of the responding exchanges observed no investor demand/expectations for oversight and understanding on whether the underlying commodity is sustainably produced, nor investor demand for incorporating sustainability elements into contracts (see Figure 12 & 13).

Figure 12: Investor demand for oversight understanding on whether the underlying commodity is sustainably produced

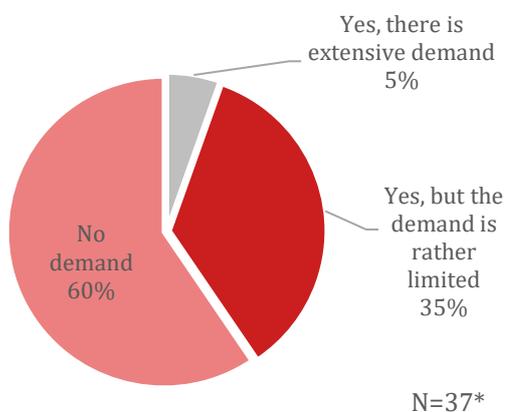
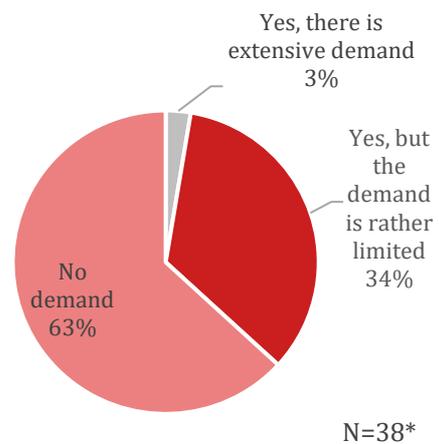


Figure 13: Investor demand for Incorporating Sustainability Elements into the Contracts



*The number of respondents vary as only exchanges who offer commodity derivatives answered to these questions, and they could skip questions in this session.

When incorporating sustainability into the firm's ethos, very often the first question to ask is “what constitutes sustainability in this particular context”. The survey revealed that some, though rather very few (only five out of 38) exchanges, had tried to define what constitutes a sustainably produced/sustainable commodity. The London Metal Exchange (a subsidiary of the Hong Kong Exchanges and Clearing Limited) had pioneered its own definition of sustainable commodities through responsible sourcing requirements for its listed brands. Four other exchanges referred to existing commodity standards. An exchange from Latin America is working to develop a definition on sustainable commodities in the near future.

4.4 Sustainability products

Gradual expansion of ESG products

When asked about investor demand for sustainability-related products, 82% (50/61) of respondents detected some level of demand. Eighteen percent (11/61) of the respondents indicated extensive investor demand for sustainability-related products. These 11 exchanges covered both developed and emerging markets from diverse regions (including Europe, Africa, the Middle East, North America, Latin America and Asia Pacific), although they are generally mid-size and large exchanges. This demonstrates solid investor demand for sustainability-related products from all regions. The exchanges expressing no investor demand for sustainability-related products are all small emerging markets, and three of them are derivatives-only exchanges (which accounted for half of the derivatives-only exchanges participating in this survey).

The proportion of responding exchanges offering some ESG products slightly increased from 57% to 59% from last year (three more exchanges in absolute terms). Green bonds surpassed sustainability indices as the most commonly offered ESG products by exchanges for the first time. Further, we observed a mild increase in offerings across all product categories, demonstrating a gradual expansion of ESG products by exchanges. Futures contracts are the most commonly-offered ESG derivatives.

Other self-reported ESG products offered by exchanges included sukuk, charity bonds, green funds, charity funds, infrastructure funds and Capital Development Certificates.

Figure 14: ESG Products offered by exchanges*



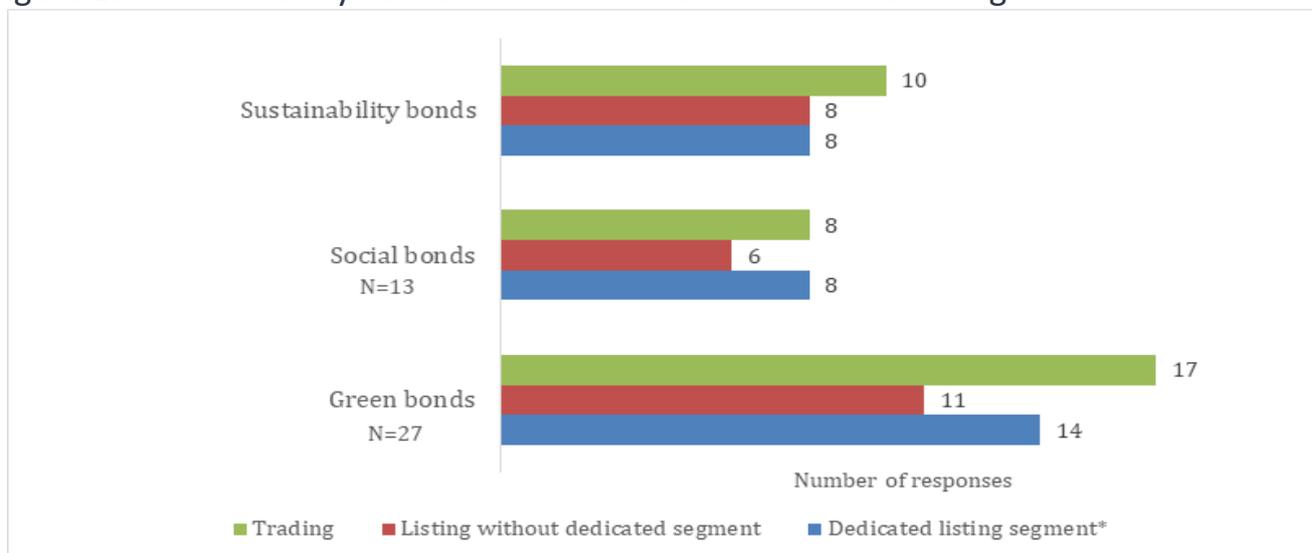
*multiple answers allowed

^Such as options, futures, commodity derivatives, ETFs derivatives

This year we also collected information on how sustainability-related bond markets were set up in different exchanges (see Figure 15). For each type of sustainability-related bond offering, over half of exchanges

offering these bonds²⁴ have a dedicated listing segment²⁵ for the respective bonds. Not all exchanges with sustainability-related bond listings have the bonds traded on-exchange.

Figure 15: Sustainability-related bond markets in different exchanges*



*the three options (trading, listing without dedicated segment, dedicated listing segment) are not mutually exclusive.²⁶

²⁴ The number of exchanges offering each type of bond is indicated by “N” in Figure 13.

²⁵ Dedicated listing segment is defined as a segment with specific disclosure requirements tailor-made for the listing of green/social/sustainability bonds.

²⁶ There is only one exchange that provided “listing without dedicated segment” and “dedicated listing segment” at the same time. The dedicated segment has higher requirements on ESG disclosure. Green/social/sustainability bonds that do not meet the requirement of this dedicated segment can still be listed without being displayed on the dedicated segment.

Exchanges working to scale-up efforts to provide sustainable products

In 2019 we saw exchanges ramping up their efforts to provide more sustainable products to support further development of sustainable finance, especially in relation to ESG bonds. The following are some highlights from the year:

Bonds

- In October 2019, the **BME Spanish Exchanges (BME)**'s Fixed Income market, the MARF, recorded its first green bond issuance with a €50 million issue.
- The **Johannesburg Stock Exchange** launched the consultation on listing rules for social and sustainability bonds. Along with the introduction of these two types of bonds in 2020, the JSE plans to include all sustainability-related products into the new "Sustainability Segment".
- The **Korea Exchange** has been working on introducing dedicated segments for green, social and sustainability bonds. The dedicated segments are set to launch in mid-2020.
- The **London Stock Exchange** launched the Sustainable Bond Market (SBM) which includes new dedicated segments for social and sustainability bonds, in addition to the existing Green Bond Segment.
- In March 2019, the **Shanghai Stock Exchange** and the **Luxembourg Stock Exchange** signed a supplemental agreement for the Green Bond Channel, which gives International investors access to data and information on Chinese domestic green bonds listed in Shanghai.
- The green bond market of **Taipei Exchange** was introduced in 2017 and has been an active market since then. At the end of 2019, 36 green bonds were listed, accounting for total issue amounts of US\$3.4 billion. The green bond initiative is aimed at demonstrating corporate responsibility with regard to environmental protection, with the proceeds going toward environmentally friendly projects.

Others

- The Abu Dhabi Exchange, Colombo Stock Exchanges, Japan Exchange Group and Taipei Exchange are working to introduce new ESG indexes in their markets.
- The **CME Group** has a dedicated Research and Product Development group, which coordinates with the ESG Product Committee to bring socially beneficial products to market. In 2019 the CME Group launched the E-mini S&P 500 ESG futures. CME Group also lists agricultural, forestry, renewable energy certificates, low-carbon fuel standard certificates, recycled steel, biodiesel and ethanol risk management tools, all of which directly support the achievement of global

5. Concluding remarks

The survey results demonstrate a high level of sustainability awareness among exchanges, and a broad consensus that the issue will play a bigger role in the exchange activities. To conclude, we observed:

- Exchanges are actively realising the WFE Sustainability Principles through a variety of initiatives.
- There are increasing levels of investor demand and expectation on the incorporation of sustainability into exchange-offered products and services.
- There is still no international convergence on a reporting format and standard, and some exchanges raised concerns about the divergence on standards and ESG practices across the globe.
- Exchanges across all regions are working to expand their sustainability product offerings. Green, social and sustainability bonds continue to attract wide interest from exchanges.

Overall, sustainability has expanded from a “corporate responsibility” issue to become an opportunity for exchanges to develop new products. WFE members continue efforts to promote quality ESG disclosure and have scaled-up their efforts in developing sustainability products in their markets.

Annex 1: Survey respondents

WFE Members

Americas	Asia-Pacific	EMEA
Bolsa de Santiago	Australia Securities Exchange	Abu Dhabi Securities Exchange
Bolsa de Valores de Colombia	Bursa Malaysia	Amman Stock Exchange
Bolsa de Valores de Lima	China Financial Futures Exchange	ATHEX Group
Bolsa Mexicana de Valores	Colombo Stock Exchange	Bahrain Bourse
Brasil Bolsa Balcão (B3)	Dalian Commodity Exchange	BME Spanish Exchanges
Cboe Global Markets	Hochiminh Stock Exchange	Borsa Istanbul
CME Group	Hong Kong Exchanges and Clearing Limited	Boursa Kuwait
Nasdaq	Indonesia Stock Exchange	Cyprus Stock Exchange
TMX Group	Japan Exchange Group	Dar es Salaam Stock Exchange PLC
	Korea Exchange	Dubai Financial Market
	National Stock Exchange of India	Johannesburg Stock Exchange
	NZX Limited	Kazakhstan Stock Exchange
	Shanghai Futures Exchange	London Stock Exchange Group
	Shanghai Stock Exchange	Luxembourg Stock Exchange
	Shenzhen Stock Exchange	Malta Stock Exchange
	Singapore Exchange Limited	Moscow Exchange
	Taipei Exchange	Nairobi Securities Exchange
	Taiwan Futures Exchange	Nigerian Stock Exchange
	Taiwan Stock Exchange	Palestine Exchange
	The Philippine Stock Exchange, Inc.	Qatar Stock Exchange
	The Stock Exchange of Thailand	Saudi Stock Exchange (Tadawul)
	Zhengzhou Commodity Exchange	SIX Swiss Exchange
		Tel-Aviv Stock Exchange
		The Egyptian Exchange
		The Stock Exchange of Mauritius

WFE affiliates

Botswana Stock Exchange
FMDQ Securities Exchange
MERJ Exchange Ltd

Non-WFE members

Iran Fara Bourse Securities Exchange
Tehran Stock Exchange

Annex 2: Sustainability Principles and exchanges' corresponding sustainability initiatives

Sustainability Principles	Corresponding Initiatives*
Principle 1: Educate market participants about sustainability issues	<ul style="list-style-type: none"> • Run ESG capacity building events/engagements for issuers and/or investors; • Offer ESG education initiatives for issuers and/or investors; • Organise workshops on ESG-related products; • Produce guidance notes for green bonds issuance and listings; • Offer ESG education initiatives to wider stakeholders (e.g. universities) besides investors and issuers.
Principle 2: Promote the enhanced availability of ESG information	<ul style="list-style-type: none"> • Have issued formal ESG reporting guidance for listed companies; • Have formally endorsed/supported the recommendations of Task Force on Climate-related Financial Disclosures (TCFD); • Translate international guidance material into local language; • Engage with other stock exchanges to enhance the availability of non-financial information of listed companies; • Develop ESG information platform for investors; • Provide ESG reporting platform for issuers.
Principle 3: Engage stakeholders to advance the sustainable finance agenda	<ul style="list-style-type: none"> • Engage stakeholders (regulators, policy makers and capital market participants) to advance the sustainable finance agenda; • Engage stakeholders on ESG standards setting; • Engage with other stock exchanges to enhance the availability of non-financial information of listed companies.
Principle 4: Provide markets and products that support the development of sustainable finance	<ul style="list-style-type: none"> • Have dedicated listing segment for ESG-related bonds; • Offer sustainability-related products (e.g. green bonds, specialised listing categories, ESG Index or related indices or ratings, carbon trading platform);

	<ul style="list-style-type: none"> • Produce guidance note for green bonds issuance and listings.
<p>Principle 5: Embed sustainability into the exchange’s governance, strategy and organisation structures</p>	<ul style="list-style-type: none"> • Publish the exchange’s own sustainability report or include sustainability information in the annual report; • Have made a formal commitment to sustainability e.g. SSE, UNPRI, UNGC, UN SDGs; • Have dedicated resources/ team to oversee the exchange’s sustainability initiatives; • Run ESG capacity building initiatives for the Board/staff of the exchange. • Include ESG issues and risk into the exchange’s risk management process.

*some items correspond to more than one Principles.

Annex 3: Survey questionnaire

Dear exchange representative,

This is an annual survey of WFE members to track development of ESG nature and level of WFE member engagement with ESG issues.

1. Please provide the following information:

Name of exchange:

Your name:

Your email address:

Section 1: The Exchange and Sustainability

2. Does your stock exchange have any of the following ESG initiatives? Select all that apply.

- Offer ESG education initiatives for issuers and/or investors
- Run ESG capacity building events/engagements for issuers and/or investors
- Have issued formal ESG reporting guidance for listed companies
- Have formally endorsed/supported the recommendations of Task Force on Climate-related Financial Disclosures (TCFD)
- Engage stakeholders (regulators, policy makers and capital market participants) to advance the sustainable finance agenda
- Engage stakeholders on ESG standards (reporting, definition of ESG products etc.) setting
- Offer sustainability-related products (e.g. green bonds, specialised listing categories, ESG Index or related indices or ratings, carbon trading platform)
- Have dedicated listing segment for green/social/sustainability bonds
- Publish the exchange's own sustainability report or include sustainability information in an integrated report
- Have made a formal commitment to sustainability e.g. SSE, UNPRI, UNGC, UNSDGs
- Run ESG capacity building initiatives for the Board/staff of the exchange
- Have a dedicated resources/ team to oversee the exchange's sustainability initiatives
- Not applicable - the exchange is not involved in any sustainability initiatives
- Other (please specify):

3. (Only if you selected "Not applicable - the exchange is not involved in any sustainability initiatives" in Q2)

Why is your exchange not involved in any sustainability initiatives? Select all that apply.

- Business or economic concerns
- Competitive concerns

- Exceeding scope of authority
- Insufficient demand
- Lack of resources of implement initiatives
- Lack of support from the board of directors
- Lack of employees' understanding
- Do not believe this is relevant to our business
- Other (please specify):

(Only answer question 4-7 if respondents have NOT selected "Not applicable - the exchange is not involved in any sustainability initiatives")

4. Does your exchange have any other initiatives not listed in the previous question that are related to the WFE Sustainability Principles? Please specify.

Principle 1: Educate participants in the exchange ecosystem sustainability issues

Principle 2: Promote the enhanced availability of ESG information

Principle 3: Engage stakeholders to advance the sustainable finance agenda

Principle 4: Provide markets and products that support the development of sustainable finance

Principle 5: Embed sustainability into the exchange's governance, strategy and organisation structures

5. Which of the following factors motivate your involvement in sustainability? Select all that apply.

- Desire to improve stakeholder relationships
- Expanded business opportunities for the exchange (e.g. through product creation, data sales or listing opportunities)
- Investor pressure
- Leadership or peer pressure
- Reputation / public relations
- Stakeholder requirements or concerns
- Sustainability concerns (e.g. impacts of climate change on market)
- Other (please specify):

6. What concerns, if any, do you have about your current or possible future sustainability efforts? Select all

that apply.

- Business or economic concerns
- Competitive concerns
- Exceeding scope of authority
- Insufficient demand
- Lack of resources to implement initiatives
- Lack of support from the Board of Directors
- Lack of employees' understanding
- No concern in particular
- Other (please specify):

7. (Only when you selected "Publish the exchange's own sustainability report or include sustainability information in an integrated report" in Q2) What ESG factors do your organisation cover in your own sustainability reporting? Select all that apply

- Board composition and remuneration
- Climate change and energy
- Diversity
- Environmental impacts (air, water, waste)
- Ethics and anti-corruption
- Health and safety
- Labour standards and human rights
- Mitigation measures for potential negative environmental impacts
- Risk management
- Supply chain
- UN Sustainable Development Goals (SDGs)
- Other (please specify):

Section 2: UN Sustainable Development Goals

8. Has your exchange introduced any specific initiatives related to the UN Sustainable Development Goals (SDGs)? Please select all that apply

- Made formal commitment to the SDGs
- Provide disclosure guidance for listed companies on the SDGs
- Run education/information programmes on the SDGs for listed companies
- Include SDGs in the exchange's own sustainability reporting

- Offer SDG-related products
- Not applicable – the exchange has no SDG-specific offerings or initiatives
- Other (please specify):

9. (Only if you selected “SDG-related products” in Q8) Please specify what SDG-related products your exchange offers:

10. Which of the following SDGs is your exchange working on? Select * all that apply

- Goal 1: No poverty
- Goal 2: Zero hunger
- Goal 3: Good health and well-being
- Goal 4: Quality education
- Goal 5: Gender equality
- Goal 6: Clean water and sanitation
- Goal 7: Affordable clean energy
- Goal 8: Decent work and economic growth
- Goal 9: Industry, innovation and infrastructure
- Goal 10: Reduced inequality
- Goal 11: Sustainable cities and communities
- Goal 12: Responsible consumption and production
- Goal 13: Climate action
- Goal 14: Life below water
- Goal 15: Life on land
- Goal 16: Peace and justice strong institutions
- Goal 17: Partnerships to achieve the goal
- We’re following the Sustainable Stock Exchange (SSE) recommendations: Goal 5,8, 12, 13 and 17

Section 3: Transparency and Reporting

10. Do you believe that requiring companies to disclose ESG information would adversely affect your business?

- Yes
- No

11. Is there investor demand for listed companies ESG disclosure in your market?

- Yes, there is extensive demand
- Yes, but the demand is rather limited

- No

12. Are companies listed on your exchange **encouraged** or **required** to disclose ESG information?

- Yes
- No

(Only answer Q13- 16 when you selected “Encouraged to disclose ESG info” or “Required to disclose ESG info” in Q12)

13. Who encourages/requires companies to disclose ESG information? Select all that apply.

	Encourages	Requires
Exchange	<input type="checkbox"/>	<input type="checkbox"/>
Securities regulator	<input type="checkbox"/>	<input type="checkbox"/>
Corporate law	<input type="checkbox"/>	<input type="checkbox"/>
Governance / stewardship code	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

14. What reporting **format** are companies **encouraged /required** to use?

	Encouraged	Required
Integrated Report (IIRC)	<input type="checkbox"/>	<input type="checkbox"/>
Standalone Sustainability Report	<input type="checkbox"/>	<input type="checkbox"/>
Integrated with the Annual Report	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

Not specified – company can decide

15. What reporting **standards** are companies **encouraged/required** to use for their ESG reporting?

	Encouraged	Required
Global Reporting Initiative (GRI)	<input type="checkbox"/>	<input type="checkbox"/>
Sustainability Accounting Standards Board (SASB)	<input type="checkbox"/>	<input type="checkbox"/>
Task Force on Climate-related Financial Disclosures (TCFD)	<input type="checkbox"/>	<input type="checkbox"/>
Any international standard	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

No specific requirement

16. Has your stock exchange included the TCFD recommendations in the reporting guidance or reporting requirements for listed companies?

- Yes
- No, but we plan to
- No, and we do not plan to

17. Does the exchange require assurance or verification of listed companies' ESG * data/disclosure?

- Yes
- No, but we are planning to require that in the future
- No, we do not foresee requiring it

18. Does your exchange guide companies on which issues are material for ESG disclosure purpose? Select all that apply.

- Yes, we published our own reporting guidance
- Yes, we recommend/reference a range of existing guidance. Please specify:
- No

(Only answer question 19-22 if the representing organisation offers commodity derivatives)

If your organisation offers commodity derivatives:

19. Have you observed any investor demand/expectation for oversight and understanding on whether the underlying commodity is sustainably produced?

- Yes, there is extensive demand/expectation
- Yes, but the demand/expectation is rather limited
- No

20. Have you observed any investor demand/expectation for incorporating sustainability elements into the contracts?

- Yes, there is extensive demand/expectation
- Yes, but the demand/expectation is rather limited
- No

21. Has your organisation tried to define (either for internal purpose or for external use)

what constitute a sustainably produced/sustainable commodity?

- Yes, we have developed our own definition.
- Yes, we referenced existing standard(s). (Please specify the standards referenced)
- No, we have not had such attempt.

Section 4: Products

22. Have investors in your market expressed demand for ESG or sustainability-related products?

- Yes, there is extensive demand/expectation

- Yes, but the demand/expectation is rather limited
- No

23. What sustainability related products do you offer? Select all that apply.

- Green bonds
- Sustainability/Social bonds
- Sustainability indices
- ESG rankings or ratings
- ESG exchange traded funds (ETFs)
- ESG derivatives (e.g. options, futures, commodity derivatives, ETF derivatives)
- Carbon trading platform
- We do not offer any sustainability related products.
- Other (please specify):

(Only when you select green bonds and/or sustainability/social bonds in Q23)

24. Please provide further information on your green/sustainability/social bond offerings. Select all that apply.

	Dedicated listing segment*	Listing without dedicated segment	Trading
Green bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sustainability bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Dedicated listing segment is defined as a segment with specific disclosure requirements tailor-made for the listing of green/social/sustainability bonds.

25. Is your stock exchange currently included in a sustainability or ESG index?

- Yes
- No
- No, but we are actively working towards inclusion

26. (Only if you selected “Yes” in Q26) Please list all the sustainability-related indices covering your market:

Section 5: New developments and updates

27. Do you have any sustainability-related updates/developments that can be shared in the upcoming Sustainability Survey Report?