SUSTAINABLE STOCK EXCHANGE

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Abstract

Business and environment is often considered as related to each other in terms of industries. But there is lot more connected with industries, along with the environmental issues. There are lots of debates still going on for sustainable environment but this concept of 'sustainable stock exchange' is a new concept in itself which deals with the sustainability in business as well industries. It is organized by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Program Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI). Since its first meeting in 2009, this initiative has been welcomed worldwide. It also provides certain mechanisms to be obtained for the purpose of adhering the goals which has been set by the initiative. It is also interesting to look into the ranking given to the countries which have accepted and implemented the SSE initiative. This initiative is not just about enhancing a company's listing and share price in the securities market but there are a lot more aspects which affects directly or indirectly to the economy of the country and the business environment as a whole. If we look from the view of the securities markets, the most important pillar of the securities markets is also the trust of the investors in the company which affects the company, at national as well as international level. Sustainable Stock Exchange initiative is also tool through which company can establish more faith in its investors. There is still a dilemma regarding its mandatory and voluntary implementation. Benefits of this initiative look more attractive but how far they are obliging to any company and the country at the end is an issue which is unanswered till now. However, this small and distinctive step towards global development needs to be appreciated and scrutinised.

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INTRODUCTION

"Sustainable development is a shared challenge for all countries and opportunity for all institutions to make a contribution."

- James Zhan[1]

In the globalising world, the problem of one country affects the other country in one or other manner. The development of a country also depends on its relations with other countries. Countries are now well versed about the environmental issues faced by each and every country. The concept of 'environment' here does not include only nature but also economic environment of countries. Sustainable Stock Exchange is one of the initiatives of the United Nations for the globalised development of the countries. Development of only one country will not be sufficient enough for the development of all other countries of the world. Therefore, the concept of sustainable development can be used for the development of all the countries of the world. The basic objective behind the sustainable development is the development of all the countries without any discrimination to other country and with the help of the developed countries.

Stock exchanges can also contribute to object of sustainable development by collaborating with each other and making maximum disclosure to the other investors of the world. Developed countries are having strong stock markets compared to developing countries and developing countries. They can aid other countries by making disclosure of their management, working process and by opening the platform for foreign investors. Sustainable Stock Exchange Initiative is a step for the future sustainable market. It is also a call to all the countries to contribute and take actions in their own way to develop themselves. The economy of a country can sustain and develop in a healthy and transparent economic environment.

Sustainable stock exchange can also be an important tool for the gender equality. Through the disclosures made by the countries, other countries can look into the factors behind the success of the other stock markets. And by modifying or adopting those factors or methods, other countries can also develop their own stock markets. There are some hurdles for the implementation of the concept of the sustainable stock exchange because of its limitations.

[1] Director, Division on Investment and Enterprise, UNCTAD, Co-Director, United Nations Sustainable Stock Exchanges Initiative

Besides, every country has its own economic and social limitation which is hard to avoid. Efficiency in the employment and technological development can also be achieved through the sustainability in the stock markets.

Sustainability in the market means that the business of a company will increase its profit in the way that will increase its earnings premium. In the general market, the company may be having the profit from the business but there will be not be any scope for any further opportunity or growth of the business of the company as there will be less competition in the market and the investors will also be available in the less numbers. But sustainability in the market will lead to the innovation which will increase the earnings premium of the company and the earning drags of the company for attracting the investors will be lesser than that of the general market.

The concept, objective and method of the sustainable stock exchange seems beneficiary. But there are many aspects of this concept which need to be looked into before accepting it as a solution or tool for the development.

The corporations cannot work in isolation. They need to have society and economic environment for working efficiently. And it is the moral duty to give back to the environment the resources which we use. Sustainability reporting will help the companies to contribute not only to the environment but also in earning the faith of the investors.

Stock Exchanges also have committed that they have a responsibility to encourage greater corporate responsibility on sustainability issues.[2] Despite the cutthroat reality of the international exchange business, exchanges are still primarily viewed as national symbols, reflecting the health, vibrancy and investment credibility of the macro economy of their jurisdiction.

STEPS FOR SUSTAINABLE STOCK EXCHANGES

There are many organisations and working groups and campaigns for promoting and providing effective ways for sustainable stock exchanges. All of them are constituted with the understanding that the stock exchanges have a key role to play in a country’s economy and after half of the world’s stock exchanges are performing profits making functions, their

[2] Jaideep Singh Panwar & Jenny Blinch, Sustainable Stock Exchanges: A Report on Progress, Sustainable Stock Exchange Initiative, (Mar. 2012)

powers and responsibilities have also been changed. It depends upon the country's economy and stock exchanges, that how the corporations will behave. Some of such efforts for sustainable stock exchanges are as under:

Sustainable Stock Exchange Initiative

In New York, at UN headquarters, in 2004, UN Global Compact initiated a meeting for collaboration between ten stock exchanges from the world. In 2008, UNCTAD and the Principles for Responsible Investment (PRI) collaborated on two meetings at UN Headquarters in Geneva with investors, financial information providers, stock exchanges and public policy officials, which sought to promote responsible investment in emerging markets and examine the corresponding policy context. At the end of 2008, the Chief Executive of Aviva Investors called on all the listing authorities of global stock exchanges to consider whether their listing rules should include a provision promoting disclosure by companies on their sustainability performance and strategy. In 2009 UN Secretary-General Ban Ki-Moon opened the first SSE Global Dialogue in New York City. Participants comprised of a number of the world's exchanges, WFE, IOSCO, and PRI signatories, including Aviva Investors, FRR, TIAA-CREF and PREVI. In 2012, five stock exchanges, participating in the event made a public commitment to promoting long-term, sustainable investment and improved ESG disclosure and performance among companies listed in their markets. UNCTAD Secretary-General *Supachai Panitchpakdi*, speaking on behalf of the Quartet, issued an open invitation to stock exchanges around the world to join Nasdaq, BM&FBOVESPA, the Johannesburg Stock Exchange, Borsa Istanbul and The Egyptian Exchange in making this public commitment to advancing sustainability within their markets. Since the event, several other leading exchanges have joined the group of SSE Partner Exchanges.

The aim of the SSE initiative is to provide an effective platform for peer to peer dialogue among global exchanges. It also explores the ways in which stock exchanges can work together. It also tries to provide corporate transparency and performance in respect to the environmental, social and corporate governance (ESG) issues. In the globalising world, investors need more transparency for establishing their trust in the publicly listed companies. Disclosures involves from performance to the internal corporate governance structure and practice i.e., management of the company. Though, the rules of SSE initiative is not binding on any countries, unless they have signed the SSE commitment letter.

Through this initiative, member countries can promote their stock exchanges for attracting global investors. SSE provides various methods and events through which countries can promote their stock exchanges. 'SSE Global Dialogue Initiative' is one of the examples of the efforts of UN in this process. In this event, senior stock exchange executives, regulators, policy makers and companies can share their sustainability experiences with other countries and makes endeavours to find other sustainable approaches in order to combat the global challenges to the stock markets.

The method adopted for the sustainable stock exchange is reporting system. In this system, it is observed that how the companies manage environmental, social and governance risks and opportunities.

Through this initiative, the perspective of the companies has been changed from the corporate perspective to the competitive advantage from sustainability strategies.

Climate Disclosure Standards Board

CDSB is an international consortium of business and environmental NGOs. It has launched corporate climate change reporting requirements for implementation by stock exchanges or securities regulators in 2014 with the understanding of the need of the risks and opportunities relevant to future shareholder value.

ESG Reporting (PRI Reporting Framework)

Environmental, Social and Governance Reporting is one of the tools for the achieving the sustainability. Environmental reporting refers to the companies' efforts or concern with the environmental issues pertaining to the business of the company. It also covers how the company covers or cures the environmental sources and environment used by them for production and running the business. Social reporting refers to the companies' relationship with their employees and other staff members and contribution to the society at large for performing the social duties which includes employees' health and stakeholders' interest protection by the company. Governance reporting includes the information about the governance of the company i.e., accounting methods, voting rights and patterns, and risk management. It also includes that how a company will handle the political relationships and clean history of the company.

The ESG reporting is necessary for company because it affects various factors of the functioning of the company. The impact of ESG report can be seen on the following matters:

- Investors' access to capital market.

  By looking at the report prepared by the company, the investors can decide to invest in the company by keeping full faith on the company and after being aware of the possible consequences of investing in the company. E.g., the investor, by looking into the ESG report, if finds that the there is a conflict between the board of members of the company regarding appointment of the director, then he will think twice before investing in the company.
- Cost Savings and Productivity

  By preparing the ESG report, the company itself can learn about the performance of the company. This can help the company to reduce its costs and increase the productivity by adopting appropriate measures.
- Risk Management

  The governance of the company can reveal the methods adopted for possible risks and its management proceedings. The company will have to keep changing and looking after its risk management during certain periods. Through the report, the company can analyse its risk management.
- Revenue Growth and Market access

  The company can increase its revenue growth by disclosing the information which will help the investor to understand the functioning of the company and attract him to invest in the company.
- Brand Value and Reputation

  Consumers will also be attracted towards the company which is doing a noble cause. And this will result into increase in the demand and reputation of the product.
- License to Operate

  ESG report can impact the company's license to operate in the market. When the company discloses all the necessary fact and information it also ensures the legality of the affairs of the company.
- Human Capital

  The working capacity of the human capital of the company will also be affected by the positive report of the company.
- Employee Retention and Recruitment

The company can decide after having the ESG report the working capacity of the employees and their performance. Which can help the company to decide whether the employee should be retained or a new recruitment is necessary or not.

- Company Value as an Acquisition Target

  The ESG report will increase the chances of the company being acquired by other MNCs which will increase its value in the market.

- Ability to Acquire Other High quality companies

  ESG report will also increase the ability of the company to acquire other companies which will result into expansion of the business of the company and also increase the value of the value of the company.

There are certain principles which a company has to look into while preparing the ESG report which are as under:

1. Responsibility and Oversight

   The company should choose a responsible person or board for looking over and preparing the report. The responsibility of overlooking to the report should be done by the person or persons who are having best interest in the company's business. Board of directors can be the responsible persons for this purpose.

2. Clarity of Purpose

   The report should be made by keeping in mind the purpose and audience for whom the report is being prepared. High quality corporate reporting can help a company address various goals in relation to internal and external stakeholders and inform decision making, to the investors.

3. Relevance and Materiality

   The report should be focused on material facts which would be relevant according to the present economic environment.

4. Accessibility

   The report should be easily available to the audience for access. The report should be updated timely and accurate news should be provided through the report. The report should be helpful to the investors and stakeholders as well as internal governance of the company with ESG reporting.

5. Credibility and Responsiveness

The report should be credible to be relied upon and the data provided should also be showing the responsibilities of the company.

Some other initiatives include European Union – Non -Financial Reporting Directive, Group Friends of 47, World Federation of Stock Exchanges, Business and SDGs are some other organisations working with the same goal of sustainable development by providing various other instruments and helps companies to achieve economic growth. These initiatives have contributed in the economic development of various countries across the globe while attaining sustainability goals. Countries are also getting influenced with the more promotion of the benefits of these initiatives and by mandatory or voluntary method, trying to adhere with the ways provided by them.

EFFORTS OF WORLD'S STOCK EXCHANGES TOWARDS SUSTAINABLE STOCK EXCHANGE

There are five goals which the stock exchanges are required to comply with wiz., gender equality, decent work and economic growth, responsible consumption and production, climate action and partnership for the goals. But all the stock exchanges have not been successful in adopting all the goals because of the economic, social and economic limitations. The awareness towards sustainable stock exchange is increasing rapidly among all the countries and they have adopted it as a measure for development for the economy. The number of partnership for SSE initiative itself shows it which has been tripled in the last two years.[3] Increase in the Green Bond issuance is also shows that stock exchanges are also play an important role in sustainable development. The awareness and implementation of green bonds is still developing. Out of 82 stock exchanges, only 11 stock exchanges have listed or are listing green bonds.[4]

Guidance to issuers is also necessary for effective implementation and following of the sustainability rules. But as of 2014, only 15 stock exchanges around the world provided voluntary guidance to issuers on reporting ESG information.[5] SSE initiative has also provided a Model Guidance on Reporting ESG Information to Investors and value driver model for corporations. Guidance to investors and corporations is much necessary because of lack of any uniform method for reporting. Guidance will also lead to awareness among the investors

[3] SSE Report on Progress, 2016, SSE Initiative
[4] *Ibid* at 2
[5] *Ibid* at 2

and the corporations. The future consequences and success examples of other stock exchanges have forced the stock exchanges to think about providing guidance. Providing education and training also an effective method for encouraging market participants. Training requires the availability of costs as well as other resources. And due to these reasons, only 18 stock exchanges, out of 79 SE, provides training. SSE's Regional and Executive Dialogues have pioneered the path for this direction.

SEs gets the inspiration from the participation of smaller SEs also. *Pierre Rwabukumba*, Chief Executive Officer of Rwanda Stock Exchange said, "What we do today will shape our future; if we must plan sustainability and collectively, hopefully with no excuse from anyone."[6] His words are significant because he is emphasising on the future of the SEs and investors as well with keeping in mind their needs and economic environment. He is also conceptualising the idea of collective development where no one shall be left behind.

Communication to stakeholders is somewhat impossible to the stock exchanges because SEs works not only as a platform for the markets, but also as regulators to some extent. And for maintaining the discipline, it is also necessary for them to set an example for the corporations. Being a profit-making corporation itself, the SEs can be examples for other corporate entities. But only 17 SEs have published an SSE Communication to stakeholders.[7]

India, (BSE) have submitted its communication to stakeholders in May 2015. This step is a good example for the companies for increasing their corporate governance and taking it towards corporate sustainability.

Reporting instruments also plays a key role for the encouragement to the companies for making disclosures. The country which has bigger economy provides higher number of reporting instruments. The reason behind this difference is that, the countries with big economies, are trying to encourage the companies to make disclosures with maximum number of options. Around 64 countries are having 400 (383) sustainability reporting instruments, while 44 countries have 180 instruments.[8] Almost 400 instruments in 64 countries show that the efforts are being made for transparency and accountability.

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[6] Regional Dialogue: South East Asia, (May 2015)

[7] *Ibid* at 2

[8] Carrots and Sticks; Global Trends in Sustainability Reporting Regulation and Policy, Wim Bartels, Teresa Fogelberg, Arab Hoballah and Cornelis T. van der Lugt, SSE Initiative, (2016).

Mandatory reporting and voluntary reporting is another issue for debate because most of the successful SEs for sustainability have made the reporting mandatory which should be done voluntarily by the companies. ESG reporting and corporate governance reporting will help the companies at last to improve their own management and working efficiency. The majority of instruments identified in the research, around two thirds of the total, are mandatory and around one third are voluntary.[9] The instruments which were kept voluntary at the initial stage, were made mandatory over the time because of the lack of implementation on the part of companies. This shows that the companies are not either not aware of the benefits of the sustainability reporting or they are not willing to disclose the information. But complying to the reporting requirements will be helpful to the company at last.

The benefits of reporting and sustainability simultaneously can be understood by some examples and cases. *Siemens (S/G)*[10], have achieved its target of EUR 40 billion in revenue from its environment portfolio by 2014. The company has achieved this target through complying with the sustainability goals. It has also saved energy while controlling the pollution. Same example is of *Unilever (S/P)*[11] which has increased its productivity savings through eco- efficiency programmes. There is list of companies for examples such as Dow Chemical Company, DuPont, General Electric, Siemens, Toshiba and so on. All these examples illustrates that a company can also contribute into sustainable development. These companies are providing a broad range of sustainability data to stakeholders and also represent that how a value driver model can be used for the company's own growth.

Another point to be noted here is that the maximum numbers of instruments are provided by the government rather than the SEs or regulators. But most of the SEs which are for profit motives are more active in the ESG related listing requirements. Most of the instruments cover a large listed company which means that the government and SEs are expecting more responsibilities on the part of large companies.

India, being a developing country have 5,789 listed companies on BSE and 1,683 on NSE having higher number of market cap issued has become the partner of SSE initiative. ESG reporting is made mandatory for listing of the company's securities and also provides written guidance on reporting. BSE is also sending the communication to the stakeholders regarding

[9] *Ibid* at 7
[10] Report 2012, Siemens, (2013)
[11] Unilever Sustainable Living Plan, Progress Report 2012, Unilever (2013)

ESG reporting while providing the sustainability related indices. But none of both the stock exchanges provides training to the companies. Green bonds are also not issued on these exchanges.

One of the goals of the SEs is to achieve gender equality among the stock markets which is one of the crucial points for the current economy. The objective of sustainability in gender equality is to increase the number of women participation in stock market. In addition to that companies should also provide equal opportunity to women. The posting of women on higher post is not that much encouraging in recent time. At the current rate of process, the gender gap will not close over a 100 of years, and the global average of women on boards will not reach 30% until 2027.[12] This situation is not limited only to the developing countries only but to the developed countries as well. In the year 2017, the SSE initiative also emphasized on this issue.

PROS AND CONS OF SUSTAINABLE STOCK MARKET

The method which has been adopted for the sustainable stock market is reporting of the management and affairs of the company which is based on the willingness of the CEOs of the companies and owners of the companies and stock markets of the respective country. It is difficult to say that every stock market must comply with this method. And the non-mandatory nature of the reporting system lacks the quality of the data gathered from the reports. In addition to that, till all the countries will not comply with this system, it will be difficult to find out the loop holes of the system and working of the same. In addition to that, the cost saving or increase in revenue growth of the company alone will not show the sustainability of the firm.

Smaller firms will have to be conscious in their performance while adhering to the sustainability reporting. Foreign investors and domestic investors will need to have access to the data upon which the company is claiming the sustainability reporting. Only 21% of the companies are making the ESG information available for free while 11% are making it available in part and 12% are making it available after subscription.[13] Some companies also use it only for internal purposes. Governments also need to understand the current economy of the country while making the disclosure mandatory and before issuing the instruments.

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[12] SSE Gender Equality 2017 Report, SSE Initiative.

[13] WFE Annual Sustainability Survey 2016, World Federation of Exchanges

Reporting system aids to understand the ups and downs of the markets through which investors can have a clear picture of the current market situation. In addition to that, the investors can also choose from the variety of markets after properly understanding the market.

The main beneficiaries of this initiative are companies, investors, workforce and society at large. The company can also enhance its corporate governance through management reporting and risk disclosure. Investors can also understand the resources of the company and the management of the company through the report itself. The company can look at the report for setting the future goals and adopting the method for achieving them.

WAY FORWARD

The countries are willing to adhere with the concept of sustainable capital market or stock exchange which can be seen from the growth of SSE itself and its number of members. But there are some difficulties regarding achieving goals for sustainability.

1. Lack of awareness among investors

The companies are not that much interested in thinking about the problems faced by long term investors and shareholders. Investors should be aware about their rights for asking for audits and reports. Companies should also provide access to the corporate governance report of the company so that they can understand the functioning of the company and can advise upon necessary situation. Investors should also be aware about the risk management of the company.

2. Corporate Governance

Yet, governance structures and operations still tend to either ignore sustainability or pigeonhole it.[14] Corporate governance is the backbone of the company. Having a good corporate governance aids the company to grow dynamically. Investors are also interested in the corporate governance of the company because the with a healthy corporate governance, the company can understand the needs of the investors in a better manner. By complying with the sustainability reporting, the companies can enhance its internal governance and risk management as well as accounting and auditing standards.

[14] UNEPFI Integrated Governance, Report by Asset Management Working Group of the United Nations Environment Programme Finance Initiative, (June 2014).

But it depends upon the company's directors that in which manner they are adhering to the reporting system. The report, as mentioned earlier, must be used for the internal management of the company as well as for the observation by the investors. By looking at the corporate governance report, the investors can understand that how much the company is concerned about the concept of sustainable stock exchange. But the problem lies in revealing the true data and to analyse it in a proper manner.

3. Training to the corporates

It is important to give training to the corporates who are listing their securities to the stock exchange. Many of the SEs are providing the training for reporting on SEs while others have committed to provide it. Training to the corporates will help them for understanding the concept of the sustainability and obtaining the correct method for reporting it.

4. Voluntary versus Mandatory approach

There are two approaches adopted for the reporting. While over 100 (115) new mandatory instruments have been introduced, the proportion of instruments that are mandatory versus voluntary has dropped to 65 percent of the total in 2016, compared with 72 percent in 2013.[15]

This shows that the SEs are also adopting the voluntary approach towards the companies if they are willing to comply with the reporting standards themselves. Some countries have also adopted comply or explain method for reporting which is also a good step for the growth of companies. But this amounts to a mandatory approach by the SEs.

5. Lack of Uniformity in the Reporting System

There is no uniform method for adopting for the reporting which creates a confusion for the companies to adopt the suitable one. If the companies will not be provided training for adhering with the reporting system, it will be difficult for them to understand and adopt any suitable method. ''We have national standard setters setting requirements for the front of the accounts, and international standard setters setting requirements for the back. This is resulting in a framework that is not cohesive. Everyone is running at this – we are getting numerous consultations – and it would be helpful if all this was brought together and addressed in one framework. We support a coherent framework of accounts that are harmonised

[15] *Ibid* at 7

internationally. But I am not sure, the way we are going about it, that we are going to achieve it.”; commented *Liz Murrall* from the Investment Management Association (IMA) and chair of the International Corporate Governance Network (ICGN) Accounting and Audit Practices Committee.[16]

When almost all the countries have adopted the uniform thinking about the Sustainable Stock Exchange, then it is also necessary to think about the uniform method or platform for achieving it. But the problem regarding adopting a uniform method is the different economies of countries. Every country is not having same economic, social and environmental conditions. Therefore, it is difficult to have a single method of reporting which will be suitable for all the countries.

6. Concern of Developing Countries

Every country has its own norms and laws according to their own socio- economic environment. Developing countries need foreign investment in the era of globalisation, to compete with other countries and simultaneously, to develop its own economy. Any country cannot ignore the benefit of having foreign investment. But when the contradiction arises between the international law and domestic investment laws, and if domestic law will be applied, then the foreign investor might not be willing to invest in the host country anymore. Environmental laws and economic laws of two different countries are in any case, supposed to be in contradictory.

India, being a developing country is welcoming the foreign investment on a large basis. The recent and most relevant example of this is the establishment of GIFT City in Gujarat, which has been given the status of foreign territory and the transaction through that platform will also be done in foreign currency. Still, India needs to develop laws and procedures for the foreign investment; as per the opinion of other regulators of SEs.

CONCLUSION

The concept of Sustainable Stock Exchange is for the benefit of the companies itself. But the companies must take care of its internal governance and management along with other affairs of the company for contributing in the noble concept of Sustainable Capital Market or Stock Exchange. The interest of investors also should not be forgotten while adopting the

[16] *Ibid* at 7

sustainable reporting. Investors also must be alert about their rights and duties and their active participation is also necessary for protecting their own rights. Countries will have to understand the situation of each other's economies and behave according to that. The main objective of this concept is for the benefit of the company and the investors and economy as well. But while focusing on these benefits, protection of small business or start-ups should also be taken care of. The adherence of this concept should not remain as an additional burden on small businesses or start-ups.

The uniform framework and method for Sustainable Reporting is desirable for the companies in order to avoid the complexities. However, at this initial stage, it is difficult to have such uniform method since the concept of Sustainable Development is still developing. But in future, the Stock Exchanges will have to come together for implementing this concept. The main intention for sustainability requires that nobody should be left behind for the development.