GUIDANCE FOR LISTED COMPANIES ON REPORTING ESG INFORMATION TO INVESTORS

A VOLUNTARY TOOL FOR ISSUERS

1. BACKGROUND

Botswana Stock Exchange (BSE) became a Partner Exchange of the United Nations Sustainable Stock Exchange (SSE) initiative in 2016. By so doing, BSE committed to the following statement:

"*We voluntarily commit, through dialogue with investors, companies and regulators, to promoting long-tern sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on our exchange.*"

The SSE initiative is a peer-to-peer learning platform for exploring how exchanges, enhance corporate transparency and performance on ESG (environmental, social and corporate governance) issues and encourage sustainable investment.

2. INTRODUCTION

Stock exchanges are appropriately positioned to connect investors and companies and to facilitate discussion of ESG issues. Exchanges that promote transparency and high- quality ESG reporting are helping participants to understand important drivers of value creation and are addressing new information demands from investors. Companies that communicate the direct link between ESG and material financial impacts are improving their potential access to capital, as investors increasingly incorporate ESG considerations into the investment process.

This document is a Guidance for BSE listed companies on reporting ESG information to investors. The Guidance is an assimilation of the SSE initiative's *Model Guidance on Reporting ESG Information to Investors*. Therefore, this Guidance is a voluntary tool for listed companies and is not part of the BSE Listing Requirements.

2.1. What is ESG Reporting?

Although the phrases sustainability accounting, sustainability reporting and integrated reporting may be used interchangeably, there are distinctions in their meanings.

Global Reporting Initiative (GRI) defines a sustainability report as a report published by a company about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

International Integrated Reporting Council (IIRC) defines integrated reporting as a process founded on integrated thinking that results in a periodic integrated report by a company about value creation over time and related communications regarding aspects of value creation.

Sustainability Accounting Standards Board (SASB) defines sustainability accounting as reflection of the company's environmental and social impacts arising from production of goods and services, as well as its management of the environmental and social capitals necessary to create long-term value. It also includes the impacts that sustainability challenges have on innovation, business models, and corporate governance and vice versa.

It is important to note that while this document primarily uses the term "ESG" because it is commonly used among investors, the term "sustainability" is used interchangeably as it is more common among companies. While subtle nuances exist, for the purpose of this guidance, both terms are seen as encompassing the broad set of environmental, social and governance considerations that can impact a company's ability to execute its business strategy and create value. While ESG factors are at times called "non-financial" or "extra- financial", how a company manages them undoubtedly has financial consequences.

2.2. Motives for Reporting on ESG

Reporting on ESG by listed companies assists investors seeking a comprehensive view of a company's material issues. ESG reporting invariably improves the following:

a) Company's access to capital;
b) Profitability and growth;
c) Compliance and risk management;
d) Corporate reputation and branding;
e) Information flow;
f) Investor relations and engagement; and
g) Holistic performance management.

3. ESG REPORTING IN BOTSWANA

Botswana currently does not have an ESG reporting framework. To that end, BSE partnered with UNDP to profile the sustainability (environmental, social and governance) practices carried out by the BSE listed companies.

The profiling exercise uncovered some gaps in the way listed companies observe and report on ESG factors. These are:

i. Misconception of sustainability by some listed companies
ii. Unbalanced/incomplete ESG reporting by listed companies
iii. Lack of dedicated sustainability personnel

The aforementioned gaps warrant the formulation of guidelines to assist listed companies with their sustainability reporting.

The new BSE Equity Listings Requirements[1] (that become effective from January 2019) prescribe that all listed companies ought to apply all the principles of the King III Code of Corporate Governance (hereinafter King Code). Further, the BSE Equity Listings Requirements[2] prescribe that Issuers should include in their annual reports a narrative explaining how the principles of the King Code have been applied.

The relevant King Code principles are:

- **Principle 9.1**: "The Board should ensure the integrity of the company's integrated report"
- **Principle 9.2**: "Sustainability reporting and disclosure should be integrated with the company's financial reporting"
- **Principle 9.3**: "Sustainability reporting and disclosure should be independently assured"

It must be noted that the BSE Equity Listings Requirements prescribe that in their annual reports, issuers should address the extent of their compliance with the King Code as well as explain the reasons for non-compliance with specific sections of the code if any.

ESG reporting remains a voluntary exercise that the BSE, however, wishes to encourage among listed companies.

4. GUIDING PRINCIPLES FOR ESG REPORTING

Broadly, they are five (5) principles that guide ESG reporting. These are outlined in Figure 1 below.

[1] Section 5.11 of the BSE Equity Listings Requirements (*Corporate Governance*)

[2] Section 5B.2(a) of the BSE Equity Listings Requirements (*Minimum contents of the annual report – The King Code of Corporate Governance)*

Figure 1: Guiding Principles of ESG Report Preparation

Source: SSE initiative

4.1. Responsibility and Oversight

Investors increasingly wish to understand the oversight and management of ESG-related risks and opportunities within the firm. This allows them to assess how the organisation thinks about these issues and to what extent they are incorporated into the organization's overall approach to business.

Reporting issuers may therefore wish to include a board statement setting out:

- How the organisation has determined which issues are material for monitoring, management and reporting purposes and what time frames these determinations apply to;
- The stakeholders the organisation considers to be significant;
- How the board and/or board committees (e.g., audit, risk, or other committees) are informed about ESG-related issues;
- How these are embedded in the organisation's strategy, including risk management policies, budgeting, etc.; and
- How the board reviews progress against goals and targets.

4.2. Clarity of Purpose

This guiding principle requires provision of a clear link between ESG factors to business value creation or destruction. Investors are not interested solely in disclosure of ESG data, but want to see that reporting firms understand which specific ESG issues present risks and opportunities for the firm. Thus, reporting should not be for the sake of reporting alone. Rather, issuers should articulate which ESG issues they are concerned with, and how the issues they have identified translate into possible value creation/destruction over the long-run.

This should include showing the possible impact of selected ESG issues on:

- Products and services;
- Supply chain and/or value chain;
- Investment in research and development; and
- Operations (including types of operations and location of facilities)

4.3. Relevance and Materiality

The materiality of information and its relevance for investors is a key consideration in determining the scope and content of company's reporting. Materiality should be interpreted as defined by the International Accounting Standards Board (IASB) in its International Financial Reporting Standards (IFRS).

The issuer's report should address the following:

- How the firm determines materiality and who was involved in determining which issues are material;
- Which issues the firm believes are material;
- How the company has decided that these are material (process, timeframe, relevant legal framework, etc.); and
- How the identified issues are integrated into corporate strategy and what impact they could have on value creation.

4.4. Accessibility

This principle prescribes the format that the reporting of ESG principles is to be done by BSE listed companies. The SSE Model Guidance on Reporting ESG Information to Investors specifies that ESG reports may be done in either of the following three ways:

- <u>Stand-Alone Sustainability Reporting</u>: Sustainability reports address the relevant ESG information needs of investors and sometimes other stakeholders, such as consumers and civil society.
- <u>Financial Reporting with Material ESG Factors</u>: After the identification of material ESG factors over a period of time, a company may decide to

include this information in its financial reports. These likely cover a smaller set of ESG factors than the other options listed.

- Integrated Reporting: An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term[3].

BSE listed companies can opt to report using any one of the above formats provided that these are circulated as part of or they are circulated simultaneously with the Issuer's Annual Report and publicized as per section 5.9 of the BSE Equity Listings Requirements (Circulation of Annual Report).

4.5. Credibility and Responsiveness

This principle is about providing information that is consistent, clear and comparable. When reporting, issuers should have regard to:

- Accuracy of data reported.
- Comparability and consistency of the information, at least within the firm. Listed companies may opt to report according to one of the internationally recognised reporting standards[4], adapted to the local context as needed.
- Timeliness: as firms should be reporting material information, which speaks to value creation, reporting should, if not integrated into the firm's annual report, align with the annual reporting cycle.
- External assurance: firms may wish to consider having their ESG reporting assured by an independent third party.

5. QUESTIONS TO BE ADDRESSED BY ISSUERS WHEN PREPARING ESG REPORTS

ESG reports of BSE listed companies should address the twenty-five (25) questions outlined in Table 1. This may not be necessary for listed companies that report as per the internationally recognized reporting standard.

Table 1: Questions* to be Addressed by Issuers When Preparing ESG Reports

THEME	QUESTIONS TO BE ADDRESSED
Overview	1. How is the company moving towards a sustainable business strategy? 2. How can ESG aspects support the achievement of business goals? 3. What are the existing reporting requirements in the market(s) where the company operates?

[3] http://integratedreporting.org/resource/international-ir-framework/

[4] Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB)

Responsibility and Oversight	4. How can the company use ESG disclosure to engage and align Board Members, Senior Executives and Employees? 5. What are the key issues and future goals that relate to ESG from the point of view of the CEO and/or Chairman? 6. How are Board Members, Executive Management and Employees involved in ESG-related decision-making, planning, monitoring and activities?
Clarity of Purpose	7. What is the company's main ESG reporting objectives? *Table 2 provides a non-exhaustive reference list of objectives a company may elect to report on subject to its materiality.* 8. What are the key ESG factors that impact the company strategy in terms of risks and opportunities they present? 9. What are the company's public commitments towards sustainable development and corporate responsibility? 10. Who are the company's priority stakeholders? What is the process for identifying them and how often is that determination refreshed or updated? How does the company know what ESG matters are relevant for these stakeholders? 11. Which ESG factors are most relevant for the company's current and potential investors? What does the company know about its existing investor base and its information needs?
Relevance and Materiality	12. What is the company's materiality determination process related to ESG matters? 13. How do ESG factors fit within the company's existing materiality determination process? 14. Which ESG factors have the most impact on the company's long-term value creation? 15. Which ESG factors directly impact the company's short-term financial performance? 16. How does the company compare with respect to management among its benchmarked peers? (Sector/Industry specific) 17. What ESG factors are linked to current and potential regulations?
Accessibility	18. How is the company disclosing ESG factors to the public? 19. How are investors, and potentially other stakeholders, using the company's disclosure? 20. How has the company effectively engaged investors? 21. What alternative methods does the company need to explore to engage investors?
Credibility and Responsiveness	22. How is the ESG information/data collated and compiled by the company? 23. How do financial disclosure controls and obligations apply to the company's ESG disclosure? 24. What level(s) of assurance is meaningful and feasible? 25. How does the company determine which third party is most effective and relevant to assure the company's disclosure? (if any)

*These are derived for the SSE Initiative's Model Guidance on Reporting ESG Information to Investors

6. CONCLUSION

The BSE sees this Guidance as an opportunity for listed companies to promote greater consistency and depth in corporate reporting. Enhancing ESG reporting is not an end in itself but a means to an end. The end is to integrate environmental, social and governance policies and practices into a company's strategy and daily operations as a way of ensuring short term, medium term and long-term value for the company's shareholders and stakeholders.

BSE is careful not to increase the burden of regulation on the market by making ESG reporting compulsory. Notwithstanding, ESG reporting requires the attention of Executive Management and Directors as it ensures the creation of sustainable value by painting a holistic picture of the material risks and ESG factors that a company faces and ways in which the Executive Management and Directors intend to mitigate against them and seize the arising opportunities. We trust that listed companies will find this Guidance useful in helping them to promote their ESG reporting particularly to align with the requirements of King Code as referenced in the BSE Equity Listings Requirements.

On an ongoing basis, the BSE will continue to monitor the reporting of listed companies as regards ESG with a view to ultimately computing a sustainability index that tracks the comprehensiveness of such reporting. This index will be an ideal benchmark for mandates that prioritize sustainability practices and reporting. It will also serve as an incentive for listed companies to not only explain their sustainability practices, but to also undertake practices that contribute towards achieving the Sustainable Development Goals (SDGs).

APPENDIX 1: Reference List of Global Sustainability Practices

Table 2: Reference List of Global Sustainability Practices

Sustainability dimension	Reference practices	Checklist
Environmental	Investment in sustainable products and services	✓ In-house waste reduction and pollution prevention mechanisms
	Innovation	✓ Technology solutions that address sustainable development challenges in e.g. waste, water, energy
	Transportation	✓ Use of fuel efficient vehicle fleets.
	Buildings and facilities	✓ Design and construction of environmentally sustainable buildings
	Design	✓ Integration of alternative, recycled, and recyclable materials in production and packaging design
	Environmental Management Systems	✓ ISO certification
	Supply chain management	✓ Sustainably produced or harvested inputs or raw materials
Social	Partnerships with communities	✓ Setting aside time for community projects ✓ Fair compensation for supplier communities ✓ Partnerships with research institutions, schools etc.
	Investment in sustainability projects	✓ Grants to environmental groups
	Investor dialogue	✓ Engaging local communities in order to accelerate investment in sustainable livelihoods e.g. farming
	Human rights	✓ Combating inequalities and discrimination

	Investment in employee social welfare	✓ Employee education ✓ Gender balance ✓ Safety and health
	National aspirations	✓ Contribution to nationally defined development targets e.g. poverty eradication, equity.
Corporate Governance	Reporting	✓ Integration of social, financial, and environmental goals in annual reports ✓ Or Separate sustainability reporting
	Support to teams or individuals facilitating sustainability in the company	✓ Sustainability/Environmental champions/green teams
	Employee engagement	✓ Employee education/awareness on sustainability issues
	Stakeholder engagement	✓ Presentation of the company sustainability strategy and goals in annual general meetings.
	Supply chain management	✓ Working with suppliers to establish Green House Gas emissions reductions and energy efficiency targets
	Management accountability and executive compensation	✓ Holding Management accountable to sustainability and rewarded good sustainability performance
	Policies, plans and programmes (PPPs)	✓ Inclusion of sustainability aspects in company PPPs.
	Disclosure	✓ Transparency in the use of social and environment sensitive inputs
	Adoption of SDGs	✓ Priority SDGs that the company focuses on
	Incentivising employees	✓ Rewarding safety and environmental stewardship
	Ownership of sustainability principle	✓ Board level leadership on sustainability ✓ Executive Management leadership on sustainability

Source: Profiling Private Sector Sustainability Practices in Botswana: Botswana Stock Exchange Listed Domestic Companies