

Ethos Foundation  
Place Cornavin 2  
P.O. Box  
CH-1211 Geneva 1  
T +41 (0)22 716 15 55  
F +41 (0)22 716 15 56  
www.ethosfund.ch

SIX Swiss Exchange  
SIX Exchange Regulation  
Selnaustrasse 30  
CH-8001 Zurich

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## **Comments by Ethos Foundation on the consultation of SIX Swiss Exchange on the sustainability report**

### **1. INTRODUCTION**

The Ethos Foundation comprises 222 institutional investors, the majority of whom are Swiss pension funds that are subject to the Swiss law on occupational pension plans (LPP) and have invested a substantial part of their assets in Swiss stocks listed on the SIX Swiss Exchange. Ethos advises its members since more than 19 years in matters of environmental, social and governance (ESG) analysis of Swiss listed companies.

Ethos Foundation is thus directly concerned by this consultation and recommends a reinforcement of publishing rules for listed companies with regards to environmental and social information. In the framework of the consultation procedure on the draft of the directive DCG conducted by SIX Exchange Regulation, Ethos Foundation issues the following comments:

### **2. COMMENTS OF ETHOS FOUNDATION**

#### **2.1 Position of Ethos Foundation**

##### **a. The publication of a sustainability report must become mandatory for listed companies**

Ethos demands that SIX Exchange Regulation foresees an obligation for issuers to publish a sustainability report in order to complete with environmental and social information the information on corporate governance already demanded by the directive DCG. Ethos is of the opinion that this report can be an integral part of the annual report or published separately but at the same time as the annual report. If the issuer decides not to publish certain information included in the chosen reporting standard, this must be explicitly signalled in the sustainability report and justified in a specific and substantive manner.

Ethos considers that the benefits of a sustainability report far outweigh the costs. Companies are increasingly exposed to controversies linked to practices in violation of international regulation and/or which have negative externalities that can have a significant impact on their reputation, their profits and their long term market value. A sustainability report allows the company to demonstrate to investors that it is aware of the sustainable development issues faced by its sector of activity and that it has taken the necessary measures to mitigate these issues.

**b. The information in the sustainability report must be clearly defined and measured**

The extent of information included in the sustainability report must be in line with the reporting criteria included in the list of international standards recognized by the SIX Exchange Regulation. The issuers need to take into account the particularities of their sector of activity and the different issues that they face. These issues must be identified via a materiality analysis which the company must carry out regularly and based on a consultation of its various stakeholders such as employees, shareholders, suppliers, clients and civil society, which is often represented by different NGOs. The calculation methods and the scope of measurements for the different indicators must be clearly defined in line with international norms and comparable year on year.

The requirements for small and medium listed companies can in principle be less stringent when their impact on sustainable development is smaller than that of large listed companies.

**c. The sustainability report is an integral part of the annual reporting of companies**

Ethos considers that environmental and social analysis is an essential complement to financial analysis and brings to it a fundamental value added. The dimensions that it adds are not taken into account in traditional analysis and allow seizing the sustainability and the perennality of the company in its entirety. Therefore the sustainability report must be integrated to the annual report of companies, with references possible to other relevant documents on the website of the company. If the issuer chooses to publish a separate report, the latter must be published at the same time as the annual report in order to synchronise the publication of financial, environmental and social information.

## 2.2 Proposition of modification by Ethos Foundation

Article, and/or number	Directive	Proposition of Ethos
Art. X PD DCG (new) Sustainability reporting	The issuer may voluntarily publish a separate annual sustainability report. In this case, the sustainability reporting must be based on an internationally recognized standard. The relevant documents must be published electronically on the issuer's website and be available together in electronic form on its website for five years after their publication.	The issuer must <u>publish</u> an annual sustainability report. <u>This report can be an integral part of the annual report or published separately but at the same time as the annual report.</u> The sustainability reporting must be based on an internationally recognized standard. The relevant documents must be published electronically on the issuer's website and be available together in electronic form on its website for five years after their publication.
Art. XY DCG (new) Type of sustainable development information to be published	-	<u>The information included in the sustainability report must follow the international sustainability reporting standards. The selected information stems from a materiality analysis which leads to the establishment of a materiality matrix. This analysis must be carried out in consultation with the main stakeholders of the company and reviewed regularly to assure its relevance. The measurement and calculation methods must be clearly defined and comparable year on year.</u>
Art. XZ DCG (new) Principle « comply or explain » for the information concerning sustainable development		<u>The information regarding sustainable development must be published in a dedicated chapter of the annual report or in a separate report published at the same time as the annual report. Should the issuer decide not to publish certain indicators included in the chosen reporting standard, this must be explicitly signalled in the sustainability report and justified in a specific and substantive manner.</u>
Art. 9 PD DRRO Section 1.08 (6) (new)	If applicable, directory of sustainability reporting documents.	No comments
Art. 9 PD DRRO Section 2.03 (new)	If applicable, information on sustainability reporting (including information on the internationally recognized standard used).	No comments

### 3. INSTITUTIONAL INVESTORS HAVE AN INTEREST IN INFORMATION REGARDING SUSTAINABLE DEVELOPMENT

Sustainability reports are a necessary tool for investors to integrate environmental, social and corporate governance (ESG) information into their investment process or in the framework of their stewardship (exercise shareholder voting rights and shareholder dialog with companies). On June 29, 2016, 40 institutional investors including Ethos, representing AUM USD 2.500 billion, signed the « Global statement on investor obligations and duties », a declaration which confirms that the integration of non-financial criteria is an integral part of their stewardship duty as it supports «the stability and resilience of the financial system»<sup>1</sup>.

The urgency stemming from global warming and the strong commitments made by countries at the Conference of parties (COP 21) in Paris in December 2015 also have consequences for listed companies and their investors. The latter must have access to information and to the key performance indicators of sustainable development of a company in order to quantify the risks tied to their investments. Alongside the financial statements and accounts, the sustainability reports play an essential role in the decisions of a growing number of investors.

In Switzerland, there are currently no requirements for listed companies to publish sustainability-related information. Of the 204 companies listed on the SPI, Ethos only counts 36 that published a sustainability report according to the Global Reporting Initiative's (GRI – G4) standards in 2015.

In most G20 countries however regulation that requires the publication of information concerning sustainable development has been put in place by the state, stock market supervisory bodies or the stock markets themselves. The listed companies must publish non-financial indicators in a trustworthy and systematic manner<sup>2</sup>. In exemplary fashion around 40 stock markets came together for the collaborative « Sustainable Stock Exchange Initiative » – SSE. The stock markets decided proactively to demand sustainability reports from their issuers.<sup>3</sup>

The Swiss financial centre must not fall behind. The absence of stock market regulation regarding sustainable development can in time hinder competitiveness of the Swiss financial market. The investors are under pressure to explain in which manner they integrate sustainable development in their investments. If the issuers on the Swiss stock market fare less well than those abroad, there exists a risk that institutional investors will privilege investments in other financial centres where information on sustainable development is mandatory and standardized.

SIX Exchange Regulation in its role as the supervisory body of the participants and issuers listed in the SIX Swiss Exchange has the legitimacy to demand that issuers publish more information on the environmental and social impact of their activities. This was notably the case in 2001 with regard to corporate governance, when the introduction of the directive on corporate governance (DCG) allowed for a remarkable improvement in the corporate governance of listed Swiss companies.

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1 Fiduciary duty in the 21st century – Global statement on investor obligations and duties [www.fiduciaryduty21.org](http://www.fiduciaryduty21.org).

<sup>2</sup> Sustainable Stock Exchanges, 2014 report on progress - <http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-2014-ROP.pdf>

<sup>3</sup> Sustainable Stock Exchange Initiative, [www.sseinitiative.org](http://www.sseinitiative.org)