

'For most of history, man has had to fight nature to survive; in this century he is beginning to realize that, in order to survive, he must protect it.'

Jacques-Yves Cousteau

# ESG

# Reporting Guide

for Issuers of the Budapest Stock Exchange



BUDAPEST  
STOCK  
EXCHANGE

# Foreword

**Leaders, governments and organizations around the world are recognising that the time to take action for a sustainable future is now. Setting sustainable development goals is at the core of strategic planning, taking actions to confront global challenges such as climate change, other natural disasters, poverty, biodiversity loss, overpopulation, infectious diseases, to mention only a few, has never been more critical than at this present time.**

The financial sector has a key role in the global economic sustainability action plan and so do capital markets and their flagship institutions: the stock exchanges. Together with the financial industry, exchanges around the world promote sustainable finance, the incorporation of environmental, social and governance (ESG) factors into investment decision-making, and the allocation of capital towards sustainable assets.

The Budapest Stock Exchange is no different from its peers in that regard. In 2018, BSE joined the United Nations Sustainable Stock Exchanges initiative declaring its commitment to meet the UN Sustainable Development Goals (SDGs) by 2030. In addition, we work closely with the Federation of European Securities Exchanges (FESE) in its Sustainable Finance Task Force and pay intense attention to the parallel efforts of the World Federation of Exchanges (WFE). BSE defined its most important focus areas as follows:

- improve the sustainability reporting and ESG data sharing of listed companies
- draw investor attention to sustainable and green instruments listed on the exchange
- develop marketplace for the new, ESG compliant and green investment products

The ways stock exchanges can influence these areas can be numerous. First and most, it is imperative to include ESG principles into their own strategies to act as role models for listed companies. Further, exchanges should take part in creating a supporting regulatory environment to build an adequate European and domestic regulatory framework and adopt and apply their own stock exchange rules supplementing these rules of law.

Exchanges also play an important role in education, and they may become think tanks, information hubs of ESG-related topics and concentrate as much attention to them as possible. BSE is organising expert events, conferences, educational events to spread the notion of sustainability to as broad a public as possible.

ESG awareness can further be improved by product developments (dedicated market segments, promoting green investment products, etc.) and by guiding listed issuers in their efforts to develop their ESG reporting routines and provide the market with quality information. The latter is the purpose of this present Guide.

**Richárd Végh**  
CEO  
Budapest Stock Exchange

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# 1

## Introduction

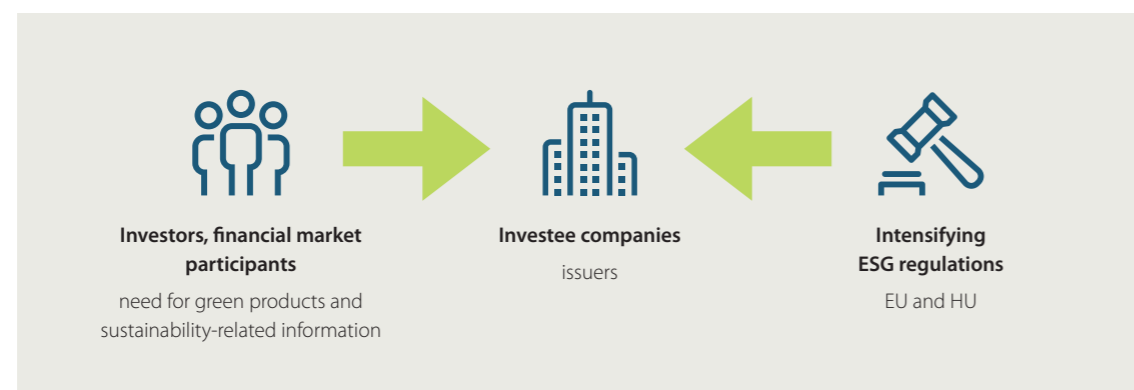
# Introduction

## What is the purpose of this guide?

The global environmental and social challenges the world is facing are now clearly apparent for governments, corporates, and households as well. Investors and analysts on capital markets expand their corporate valuation models currently in use involving sustainability criteria, recognising the fact that in successful long-term investments investor focus must go beyond mere financial profit maximalization. Investors expect companies to adjust their long-term strategies to include ESG principles and to follow up their adherence thereto in a transparent way. Therefore, public companies increasingly feel the pressure to disclose more and more non-financial, sustainability-related information to satisfy investors' expectations.

On the other hand, the regulatory framework that will drive Europe to a more resilient and sustainable future economy is forming just now. As for the reporting requirements, some disclosure obligations are already in place (e.g. *The Non-Financial Reporting Directive*<sup>1</sup> (NFRD), *The Sustainable Finance Disclosure Regulation*<sup>2</sup> (SFDR) – to be discussed in the *Regulatory and Policy Landscape Chapter*), with the bulk of the regulations, technical standards in the pipeline, expected to come into force in the upcoming years.

The **Non-Financial Reporting Directive**, which came into effect on January 1, 2017, already requires ESG related matters (such as employment, board diversity, human rights, anti-corruption and bribery issues) to be disclosed by specified large corporates, including banks and insurance companies. The Directive is currently under review as part of the European Green Deal<sup>3</sup>, so further alignments, standardizations and improvements to the reporting process can be expected, which will be most likely manifested in more stringent transparency obligations (see the *Regulatory and Policy Landscape Chapter* for further information).



**“Our transformation to a carbon-neutral economy means that people need more information from the companies they are investing in. As things stand today, there is currently a sustainability reporting gap that is hampering progress towards a sustainable financial system. The needs of investors for corporate sustainability information are growing faster than any improvements in company reporting. So we welcome all views on how best to improve this Directive.”**

**EC vice-president Valdis Dombrovskis**

- the ESG approach in general
- the importance of ESG reporting
- the basic terms, actors and processes involved
- the roadmap that leads to the implementation of a stable reporting regime

It is also important to underline that – especially with the regulatory environment so hectically evolving – this Guide cannot give answers to all the outstanding questions regarding sustainability reporting, nor can it provide a complete list of the multifaceted ESG rules and

regulations at this moment. Moreover, our focus is on reporting duties and improved transparency, so certain ESG aspects – such as for instance sustainability risk management – will not be discussed herein.

It is also not possible within the scope of this document to outline a detailed overview of the various ESG standards and recommend the use of one over another, as these should be tailored to individual issuer needs and goals.

This **Guide tries to set some minimum expectations, recommendations to help BSE-listed issuers get started with their ESG reporting routine.** It is our strong intention to regularly update it as needed, incorporating future regulatory changes, experience and feedback from market participants. We hope it shall pave the road to a more transparent and more sustainable operation for our issuers and maybe also those who are contemplating going public and getting stock exchange listed in the near future.

**This Guide has been issued to help BSE-listed companies to have a basic understanding of**

<sup>1</sup> EUR-Lex - 32014L0095 - EN - EUR-Lex (europa.eu)

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02019R2088-20200712>

<sup>3</sup> A European Green Deal | European Commission (europa.eu)

<sup>4</sup> Green Finance Report, March 2021 (mnb.hu)

## What you will learn from this document



### Basic information on ESG reporting

- What does ESG mean?
- Why is it important?
- Are there any benefits of ESG reporting for issuers?



### Getting started

- Identifying stakeholders of the company and their preferences
- Material information that sustainability reporting should cover



### How to prepare your organization for reporting

- Content, quality and reporting format to be followed
- Disclosure channels to use
- How to build and advance your reporting capacities



### Regulatory aspects

- What are the most important rules of law regulating this area?
- What further measures are expected?



### Reporting standards and rating

- What are the most popular reporting standards to choose from?
- Why follow a reporting standard and how to find the best fit?
- Why is rating important?



### BSE recommendations

- Non-binding minimum reporting practices suggested by BSE
- Suggested gradual development levels from basic to advanced issuer reporting

## What is ESG?

*Sustainability* and *ESG* are often used as synonyms. In a strict sense, sustainability refers to processes or practices which have a positive – or at least neutral – environmental impact, but in a broader sense it also extends to certain social issues as well as corporate governance practices.

### The acronym ESG comprises the following abbreviations:

- ‘E’ stands for the environmental criteria, such as climate change, pollution, resource scarcity, energy consumption, waste release, greenhouse gas emission, biodiversity loss, etc.
- ‘S’ stands for the social facet, demonstrating the connection between business and society, highlighting the ways a company influences the life of its employees and the surrounding local communities. Issues related to public health, education, equality and diversity, health and safety, community support are among the most important aspects.
- Finally, ‘G’ gives the aspect of corporate governance covering a broad range of corporate activities including board and management structures, corporate culture, information disclosure, auditing and compliance, remuneration, to mention only a few.

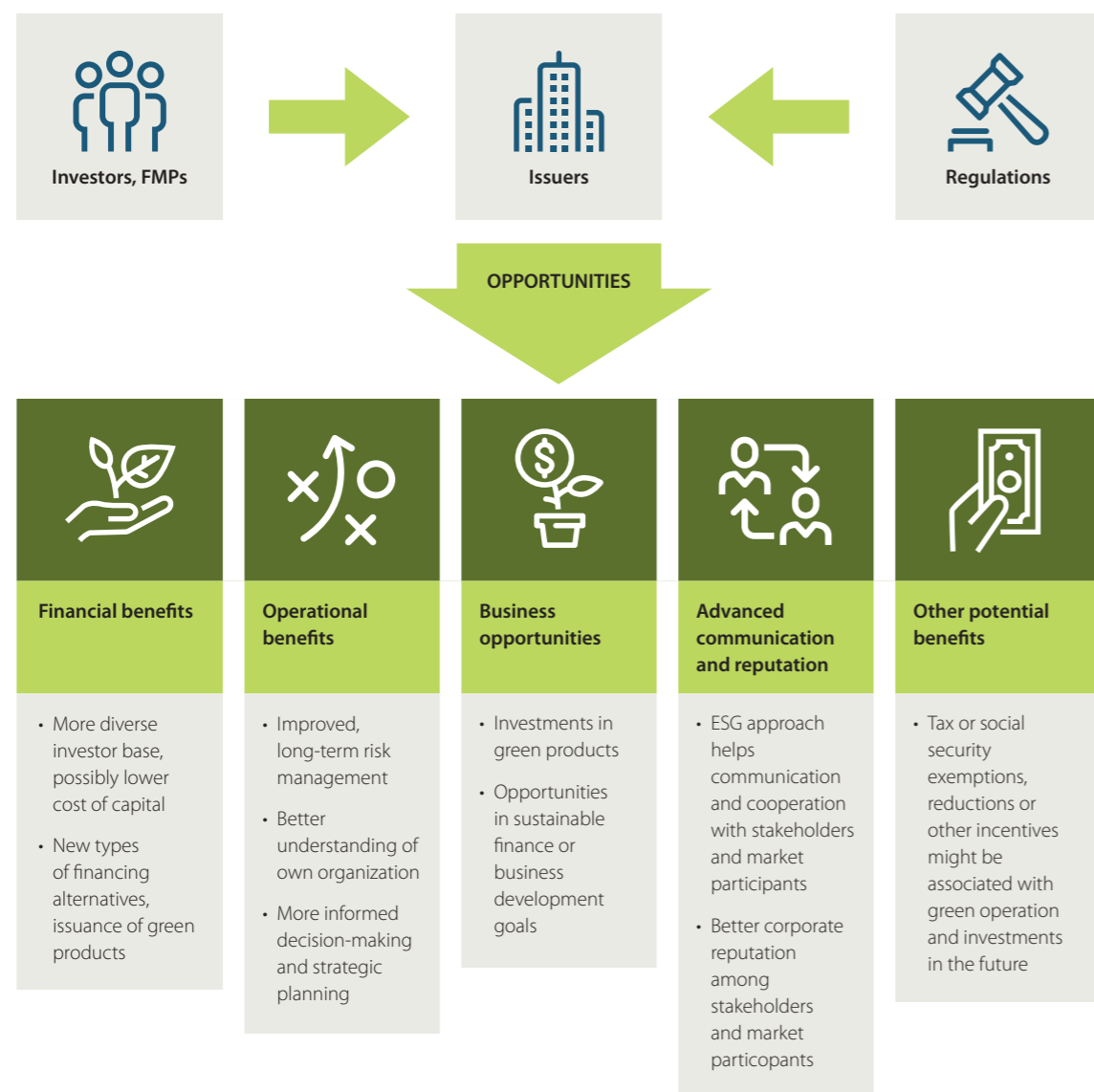
In the EU regulatory framework, the two terms (sustainability and ESG) are used quite interchangeably.

### Some similar definitions are also in use, such as SRI and CSR.

- Sustainable & Responsible Investment (SRI) defines investments in general which take into account sustainability factors (environmental, social, economic, ethical, etc.) in the selection and retention of investments. The investment is considered “socially responsible” due to the nature of the business the company conducts.
- Corporate Social Responsibility (CSR) is a term used by the companies to describe their interactions with society and the environment. It mostly refers to a business model, which enables the company to operate in a way that protects and enriches society and environment.

## What are the benefits of ESG reporting for issuers?

The growing demand for socially responsible investments and the tightening regulatory environment undoubtedly presents a great challenge for companies, especially for SME issuers with more modest organizational capacities. On the other hand, sustainability reporting may bring new opportunities and significant benefits to corporates.



### 1. Financing benefits – better access to capital

#### Better valuation from investors, enhanced performance in financial markets,

Providing ESG data to the investors improves the company's transparency. Improved transparency lowers portfolio risks, resulting in better valuation for the enterprise, and in the long run, better stock performance in the market. Higher valuation due to ESG factors not only impacts equities but also other asset classes, especially corporate bonds.

Certain ESG Reporting Standards, *inter alia* SASB and CDP were developed with the information needs of investors in mind. The standards contain the specific ESG issues that potentially impact the financial performance of the companies, enabling the disclosures to support the decision-making of investors in particular.

#### Attracting new types of investors

In addition to achieving better transparency and thus better valuation, ESG reporting enables the company to attract a new type of long-term investors: the responsible investor. There is a noticeable shift in the focus of institutional investing towards environmental and social issues. The United Nations Principles for Responsible Investment (PRI) were launched in April 2006 at the New York Stock Exchange. The PRI has grown consistently since its beginning, the six below principles of ESG compliant investments during the investment procedure is voluntary for institutional investors to follow:

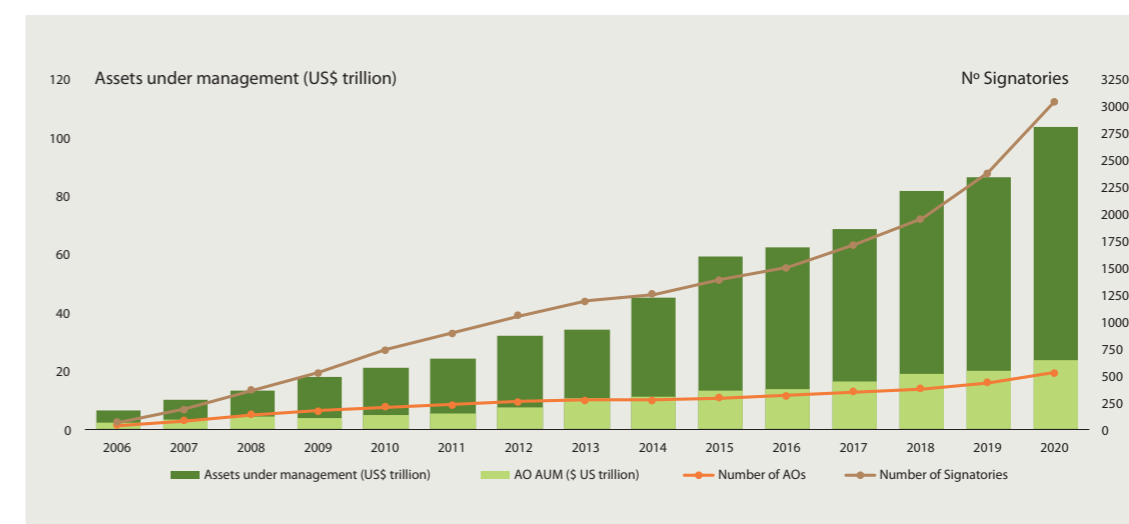
- 1) Incorporate ESG issues into the investment analysis and decision-making process
- 2) Incorporate ESG issues in ownership policies and practices
- 3) Seek appropriate ESG disclosure from companies
- 4) Promote the principles within the industry
- 5) Work together to enhance the implementation of the principles
- 6) Report on the activities and the progress regarding the implementation of the principles

The number of signatories has grown from 100 to over 3000 since the launch of PRI and doubled in the past four years increasing exponentially, indicating serious investor commitment.

### 2. Operational benefits

ESG disclosure requires data gathering in various areas, often beyond the generally monitored performance indicators. This data gathering, the following data and risk analysis and eventually year-on-year monitoring and competitor comparability enables the company to realise operational benefits.

Better understanding of the current operational risks means more efficient business. Considering ESG issues during the operation reduces risk factors not only for investors, but also for a number of other stakeholders: regulators, employees, local communities, etc.



Source: UN PRI

With ESG reporting the company applies a set of indicators that helps to comply with ESG standards and to better understand its own operation.



**Finding adequate metrics to measure the adherence to sustainability goals may be difficult at times, but not necessarily. For instance, employee turnover is an easily accessible metric which might give valuable feedback on employee satisfaction and loyalty and signal internal problems or inefficiencies worth paying attention to. Reporting ESG data enables management to gain insight and better understand more complex internal processes and tendencies.**

#### Possible areas of operational benefits include

- improved strategic planning and decision-making
- alignment to future markets – better product and service development goals
- cost savings and increased productivity
- improved risk-management
- advantages in employee recruitment and retention

#### 3. Business opportunities

Sustainability reporting and overall knowledge of mid- and long-term ESG developments will enable companies to react more quickly on business opportunities in green areas. In most sectors it can be a definitive competitive advantage for those who get into this area sooner than their peers and are able to identify and take chances quickly. Some industries (e.g. oil and gas) and certain consumer groups (environment-conscious, solvent millennial generation) have already surpassed this level and set ESG awareness and compliance as minimum expectations.

#### 4. Advanced communication and reputation

The ESG reporting process starts with the identification of the company's main stakeholders, their interests, motives and material information needs, so communication with them may become more efficient and result in deeper engagement and enhanced overall cooperation with investors and all other stakeholders.

In addition, high-level sustainability commitment usually signals long-term strategic thinking and reliability, improving company reputation on the market in general.

#### 5. Other benefits

As Sustainable Development Goals set by the UN in 2015 (more on that in the **Regulatory Landscape Chapter**) must be reached by 2030, which is a dedicated undertaking of 193 countries, including Hungary, green transition must be accelerated almost everywhere. It can be expected that green transition, operation and sustainable investments will be incentivised and supported by various taxing (social security) advantages, grants and other financial and non-financial aids by governments, which will represent either new business opportunities or the possibility to reduce the costs of transition. To fully exploit these benefits, companies must comprehend the basic processes related to ESG reporting.

In 2020, the Central Bank of Hungary launched a program for loans financing energy-efficient real estate developments, investments, which introduced significantly reduced capital requirements for these loans. Such programs are expected to increase in the years to come.

## ESG and corporate governance reporting

Corporate governance is the focus area of ESG which goes back to a longer history having a very definite and direct connection to shareholder (investor) rights and interests. Corporate governance reporting standards have developed in the past decades almost everywhere, most countries have corporate governance codes for listed companies. These codes are not fully harmonised on EU level, and there are differences across the different jurisdictions regarding the setting, supervision and monitoring of the codes and the issuer reports. Most codes use the “comply or explain” principle for compliance: deviation from the recommendations is not penalized but must be transparently presented in the individual reports. In case the company is not following one particular recommendation or guidance, it has to explain to the investors why. It is also stipulated in **Commission Recommendation 2014/208/EU**<sup>5</sup>, that “efficient monitoring of the compliance with the corporate governance codes is required at a national level within the framework of the existing monitoring system.”

*The Corporate Governance Recommendations of the Budapest Stock Exchange<sup>6</sup> were first published in 2004 and last amended in 2018. In Hungary, the maintenance of the code as well as the monitoring of the issuer reports is performed by the Exchange and the Corporate Governance Committee, established by BSE, but operating independently.*

With the issuance of this ESG Reporting Guide the parallel system of corporate governance reporting will not cease; however, the two will likely merge in some form in the years to come.



<sup>5</sup> EUR-Lex - 32014H0208 - EN - EUR-Lex (europa.eu)

<sup>6</sup> Corporate Governance Recommendations - Bet site (bse.hu)





# 2 Stakeholders and Materiality of Reporting

# Stakeholders and Materiality of Reporting

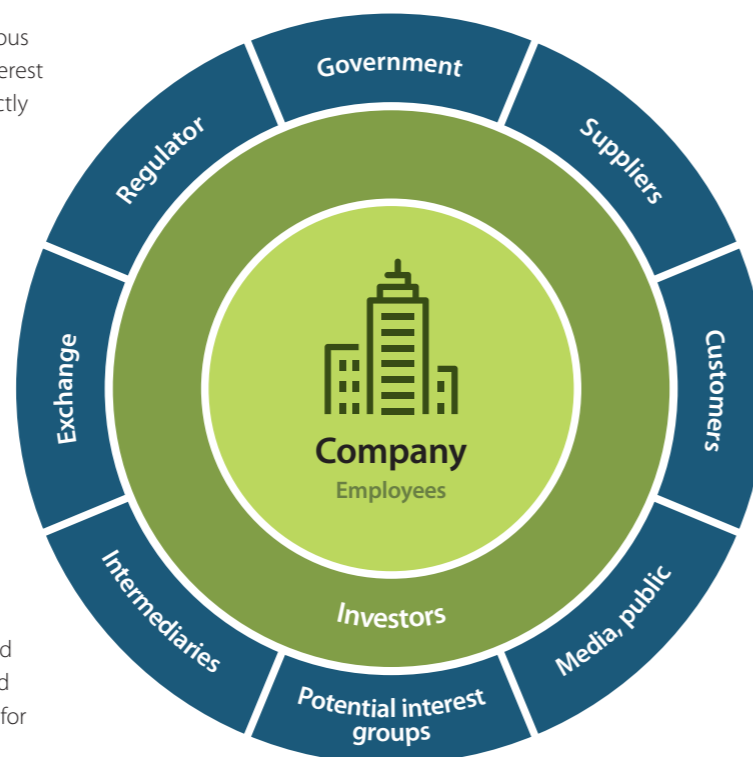
**Key steps in developing reporting ability are the identification of stakeholders and material topics. The two tasks are connected and together they support report content development. For purposes of the present guidance, stakeholder and materiality assessment is described closely linked to the requirements of the Global Reporting Initiative.**

## Stakeholders

The company's stakeholders are the various constituents (institutions, businesses, interest groups or people) who directly or indirectly influence the operation of the company and vice versa.

To create a proper ESG strategy and reporting regime, the first step for the company is to identify these stakeholders or stakeholder groups. Stakeholder assessment is needed for the development of the report content, as ESG reporting serves to inform stakeholders on their reasonable expectations and interests.

Typical stakeholder categories that the company should address are shown on the following figure. These categories and groupings are only examples, customised stakeholder mapping must be prepared for each company individually.



## Investors

The investors are the owners of the company, ideally, their interest revolves around the most important issues from profitability through compliant and safe operation to sustainability matters. Investors can be broken down into different types depending on the

- level of influence on the company (majority shareholders versus minority shareholders)
- level of expertise in core business and in investments in general
- purpose of investment
- their ESG involvement, etc.

The company should carefully consider its investor composition to streamline ESG concepts. In recent years, investors have become more conscious about ESG performance and indicators, therefore, this aspect has an increased weight in investment decisions.

## Employees

Employees' interests regarding sustainability matters may have multiple aspects:

- they expect their immediate working environment to be safe and pleasing (e.g. green offices, clean air);
- they are also increasingly conscious about the social/ labour conditions of their workplace (staff turnover, training and qualifications, gender equality /diversity/, physical working conditions, social dialogue, rights of workers, trade union rights, health and safety, etc.);
- they are getting progressively concerned about their macro environment; therefore, the more employees identify with their company, the more important its social responsibility efforts are becoming for them.

These questions may easily become value propositions and make the difference for some people when they select between jobs.



**Governments, regulators**

Governments worldwide take serious measures, create economic and other programs to increase environmental consciousness and take immediate steps to stop climate change and improve world ecosystem as a whole. Therefore, regulators everywhere urge companies to provide quality ESG data in structured form. The Non-financial Reporting Directive in Europe (2014/95/EU) requires certain companies to include ESG contents in their annual reports. These trends and the regulatory framework are expected to intensify in the years to come (for more information on this topic please refer to the **Regulatory and Policy Landscape Chapter**).

**Exchanges**

Exchanges around the world can be catalysts of sustainability efforts and help listed companies to live up to stakeholder expectations. As a result of the work in UN Sustainable Stock Exchanges (SSE), many exchanges issued ESG Reporting Guides to orient companies and help improve their non-financial reporting routines.

**Suppliers, customers**

ESG reporting and transparency is becoming more important in supply-chains as well. Companies seriously engaged in social responsibility matters require their suppliers to comply with the same standards and values (e.g. ethical sourcing). ESG compliance can be an important selection criterion.

Customers, end-users of services and products are also conscious about buying from businesses that focus more on product safety, environmental protection and social problems. ESG attentiveness can be a competitive advantage, especially in certain industries.

**Media, public**

Sustainability gets superior media and public attention in recent years. Especially for listed companies, who are constantly in the public eye, there is significant pressure to conduct socially responsible operation. Transparency in non-financial areas improves positive media attention in general, further, certain news agencies rank businesses based on their ESG strategy which can be an added value for them.

**Intermediaries (rating agencies, data providers, rankings, indexes)**

In the past decade, many firms got specialised in developing ESG standards and ratings (for further details on this topic, please refer to the **Main ESG rating agencies and the importance of rating Chapter**). It is also becoming a commonly accepted fact that companies with high ESG rating usually outperform their peers in economics as well, benefiting even strictly for-profit investors. ESG ratings therefore play an important role in analysis and company evaluations.

**Potential interest groups**

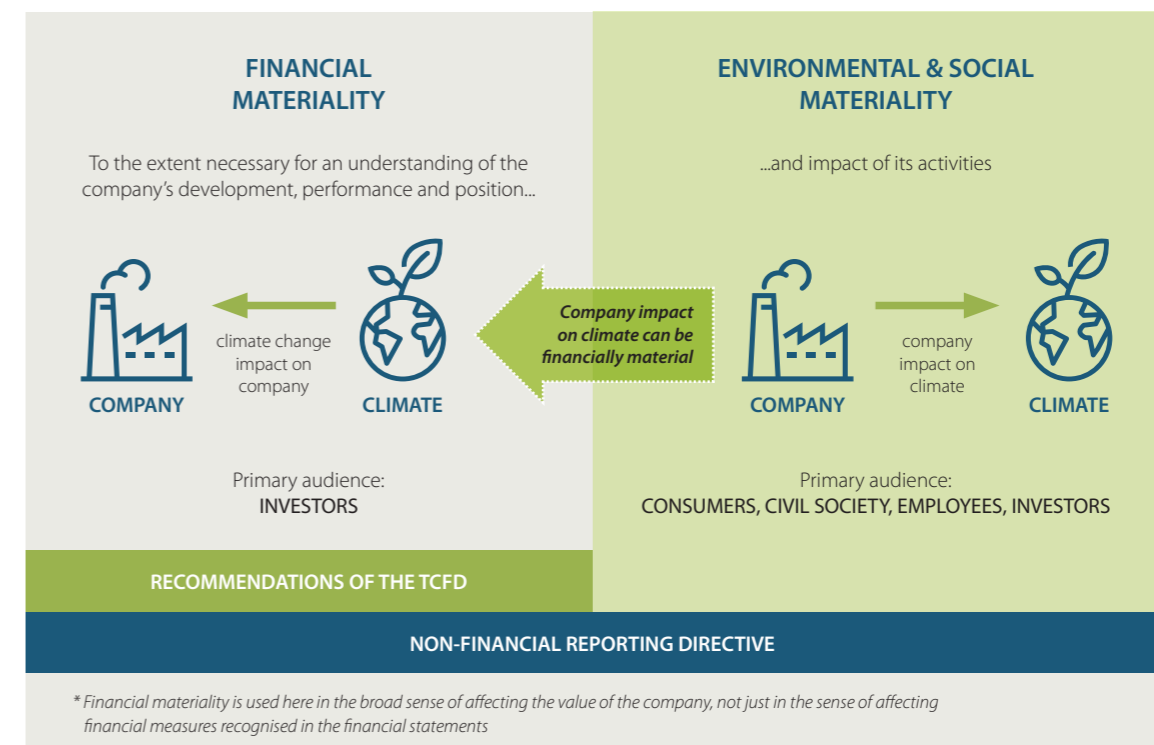
Certain Non-Governmental Organizations (NGOs) also highly engage in environmental and social responsibility affairs. These may be international or local organizations, some of them evolved to be quite influential in recent years (UN Environment Programme, UN Women, etc.) and shape the ESG landscape.

**Materiality**

The concept of materiality is at the centre of ESG reporting. It builds on the accounting materiality principle, which defines decision-useful information. As the content of non-financial reporting is defined less strictly in regulations than that of financial reporting, the task of determining the subject of the disclosure falls on the reporting organisation itself. The standards of ESG reporting are guiding and controlling the process through the materiality principle.

Both the materiality of sustainability issues and the materiality of financial issues have been considered at company level, however the assessment of their relation

and their effect on each other was uncommon. The concept of materiality in most non-financial reporting standards, as well as the EU Regulation builds on double materiality, i.e. financial materiality and environmental and social materiality. Financial materiality in this approach includes the consideration of the effect of climate change on the company – information particularly useful for investors. This approach can be seen in the TCFD recommendations. Whereas, environmental and social materiality considers the company’s impact on the climate, the environment and the society. In certain cases, the company’s impact on the climate may be considered financially material<sup>7</sup>.



Source: Guidelines on reporting climate-related information, TCFD

<sup>7</sup> Guidelines on reporting climate-related information, European Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union, European Commission [2019]



Materiality in ESG reporting serves as a tool to identify the most relevant topics of importance from the perspective of the given organisation. The materiality approach of the respective reporting schemes vary and so do the resources required by companies. However, materiality is at the core of all disclosure standards.

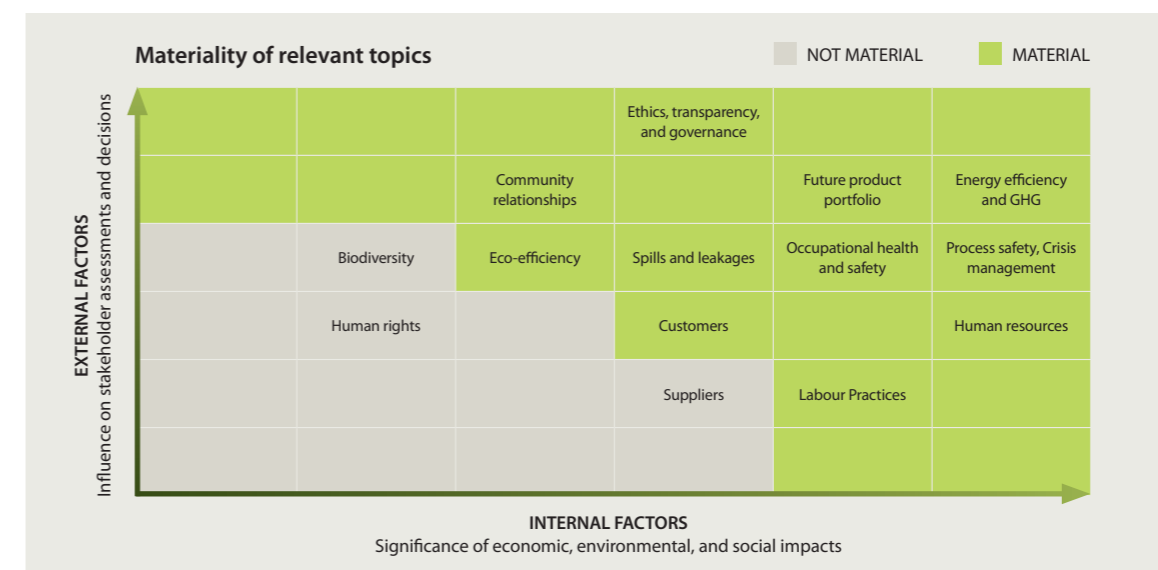
Materiality may be considered an analogue to the relative importance of the different topics, which can be vastly different for one business or another. Defining the materiality of the different ESG issues helps determine which elements should be included in the report and thus entail an essential task.

**One approach in defining materiality is considering its influence on stakeholder assessment and decisions (external factor) as well as the social, environmental and economic significance of their impact (internal factor). Upon evaluating all relevant ESG issues according to the two factors, the materiality assessment needs to define the threshold of materiality, i.e. the level of significance in both the external and the internal aspects, above which the issue is considered material, therefore must be included in the report.**

MOL Group, for instance, uses the above-mentioned external-internal analysis for defining material topics. The materiality matrix of MOL Group is included below as an example. Topics highlighted with green are considered material.

MOL Group's materiality assessment is based on the requirements of the Global Reporting Initiative (GRI), however there are other approaches. The World Federation of Stock Exchanges (WFE) tries to help exchanges and reporting entities with a closer definition of materiality in its WFE Guidance and Metrics (revised June 2018) as follows:

- The International Accounting Standards Board<sup>8</sup> defines 'material' information as that which, if omitted, misstated or obscured, could influence the economic decisions of readers relying on the financial statements.
- The International Integrated Reporting Council (IIRC)<sup>9</sup> suggests an issue is material if it is relevant (is likely to have an impact on value creation) and is sufficiently important in terms of its known or potential effect on value creation with reference to magnitude of the matter's effect and, likelihood of occurrence.
- The Sustainability Accounting Standards Board (SASB)<sup>10</sup> uses the US Supreme Court definition of materiality namely, information is material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."



Source: MOL Group Integrated Annual Report - 2019

<sup>8</sup> <https://www.ifrs.org/-/media/project/definition-of-materiality/exposure-draft/ed-definition-of-material.pdf>

<sup>9</sup> [https://integratedreporting.org/wp-content/uploads/2015/11/1315\\_MaterialityinIR\\_Doc\\_4a\\_Interactive.pdf](https://integratedreporting.org/wp-content/uploads/2015/11/1315_MaterialityinIR_Doc_4a_Interactive.pdf)

<sup>10</sup> <https://www.sasb.org/standards-overview/materiality-map/>

# B

**Content, Quality,  
Format and Frequency  
of Reporting**

# Content, Quality, Format and Frequency of Reporting

**Environmental, social and governance principles are a framework of standards by which a company and its investors can measure the wider impact of its operations and long-term strategy. The main intention of reporting on ESG principles is to demonstrate the way in which ESG issues are integrated into decision-making, therefore information presented in ESG reports should correspond to the information actually used by managers and officers of the company to make business decisions.**

To start with, reporting companies should determine the internal roles and responsibilities within the company that are relevant to ESG assessment and reporting. Like many other tasks, it is recommended that ESG reporting starts from the bottom up. Different departments such as finance, investor relations, communications, core business, risk, environmental, HR, purchasing, legal need to be involved to ensure their input is integrated into the report. Most of the larger companies now have a separate sustainability division which plays an essential and integrating role in ESG reporting, however, ESG assessment and reporting should not be considered as their own exclusive duty. It is recommended that ESG factors are embedded into the everyday job duties of directors so that they can become an integral part of the business strategy, organisational culture and operational practices of the company.

The management and the board of directors should also have an essential role in the integration and oversight of ESG reporting.

## Content of reporting

Besides identifying the material topics, which significantly affect the content of the ESG report, stakeholders and reporting standards may have additional expectations towards the report content.

It is recommended that ESG reports:
build on reliable data
include context
reflect on significant economic, environmental, and social impacts
be accessible for all stakeholders

### Build on reliable data gathering

Gathering reliable and complete ESG data is imperative. The quality of available data significantly affects decision-making capabilities and performance. Data gathering is a demanding task, which should be addressed by the reporting and preparation timeline accordingly. Internal systems such as audit, risk and data control and verification systems may serve as great sources of ESG information. Should the internal capability assessment deem existing systems insufficient for providing reliable, comparable and coherent ESG data, companies may decide to invest in improving reporting capacity. Data collection gaps should be addressed and explained in the reports.



### Include context

Organisations disclosing ESG information represent a wide variety of industries, are different in size and location, therefore, context of ESG information is especially important to enable stakeholders to understand and evaluate the data properly.

Besides industry, region, location or company specific background data, the report should contain information on the broader context of sustainability as well. This requires companies to understand global, regional and local drivers affecting their ESG performance and affecting the context, thus the mindset of the report's audience.

### Reflect on significant economic, environmental, and social impacts

The information contained in the report should provide a balanced view of the environmental, economic and social impacts of the organization, both positive and negative impacts, enabling the stakeholders to evaluate ESG performance.

The topics, as described in the stakeholder and materiality sections should consider the interest of

stakeholder groups targeted by the report as well as general public.

### Accessible for all stakeholders

The information contained in ESG reports is often times highly technical, thus the accessibility for all stakeholders reading is key. Information may contain information for subject matter experts; however, the report content should enable understanding of all stakeholders.

## Quality of reporting

Investors seek to understand how ESG information is linked to the company's business strategy and financial performance, and they prefer comparisons to historical company and industry trends, corporate goals, relevant ratios, industry averages and financial results/performance in ESG reports. The indicators chosen may be generic, industry-specific or company-specific and reporting companies may want to use widely accepted indicators developed via a credible process.

Instead of qualitative narratives, quantitative data is highly demanded as they can provide comparisons over different periods within the particular company as well as with similar data from other companies. Quantitative data also enhance investment valuation and credit rating models.

ESG reports should explain the changes in the applied indicators year-to-year, and it is recommended that the company also include its perception of how this might change in the future. Reports are also to explain methodologies for data collection and reasoning why they were used. The company should point out the correlation between ESG metrics and financial performance and illustrate how ESG initiatives complement to growth, productivity and risk management in monetary terms, where possible. It is recommended that comparable quantitative information should be provided for the previous three financial years.

It is recommended that information included in ESG reports are:
Accurate
Balanced
Comparable and consistent
Timely
Reliable

**Accurate**

Information should be accurate enough to enable the investors and other stakeholders to evaluate the results of the company's activities and operations.

Reporting companies should employ the same principles to ESG data as to financial data. Data used in ESG reports should also contain how the data was compiled, and if there are any uncertainties or limitations to the data. The company should also keep evidence how data sources were used. Key assumptions are to be also clearly presented. Raw as well as normalised data can be used in the reports.

**Balanced**

The report should provide an objective view, including both favourable and unfavourable, the positive and the

negative impacts of the company's activities. Avoiding or obscuring certain aspects might result in discomfort and even mistrust from investors and stakeholders. Subjects that are more difficult should be explained and commented thoroughly. Describing lessons learnt and changes resulting from negative experiences will be useful to represent the company's dedication to maintain an honest and open approach towards investors.

**Comparable and consistent**

The information in the report should enable readers to evaluate the company's performance over time and to compare it with other organisations.

It is recommended that consistent global standards are used in the ESG reports in order to facilitate comparability between peers. Comparability and consistency are facilitated by indicators and metrics that are widely used within the specific business area and sector, and companies should aim to report in a similar manner to sector peers. The methods used to collect and normalise data should remain consistent year-on-year and if data compilation methodologies or underlying assumptions change, changes need to be explained. In case of significant changes, previous years data should be recalculated with the new methodology or assumptions to enable comparison.

**Timely**

ESG reports and data used therein are recommended to coincide with the annual reporting cycle and align to the fiscal year of the company. Investors and stakeholders can cross-use the two different data sets, for example normalising certain ESG data by revenues or staff numbers.

**Reliable**

Reporting companies should apply strong internal assurance processes, information included in the report should be overseen by the board of directors, the supervisory board and the audit committee and this fact also should be mentioned in the report.

External assurance by qualified and independent auditors is also highly recommended to strengthen the credibility of the ESG data. The scope and process used for external assurance should be described in the report.

## Reporting format and disclosure channels

### Reporting formats

The ESG report can be included in the board of directors' annual report, elsewhere in the company's annual report, in an integrated report, but it can also be presented in a separate, stand-alone report or even through other channels. The different types of reporting represent different advantages, each company should consider which type will fit them best and the needs of their investors. Regardless of the reporting channel chosen, the format of the report must satisfy all relevant legal requirements and be easily available via the company's website.

ESG reports come in four typical categories			
Basic reports	Standardised reports	Assured reports	Integrated reports
these are considered to be non-financial reports disclosing information on environmental, social and governance issues relevant for the company, but they are not in accordance with ESG reporting standards.  ➔ An example for basic report can be the 2019 Sustainability Report of Borsodi Sörgyár Kft.	reports developed in accordance with a reporting standard.  ➔ An example for standardised reports can be the 2019 Sustainability Report of Szerencsejáték Zrt.	standardised reports developed according to a standard that can be and are externally assured by an independent third party.  ➔ An example for assured reports can be the 2019 Sustainability Report of OTP Bank Nyrt.	reports developed according to an integrated reporting standard, representing the company's performance from both financial and ESG aspects.  ➔ An example for integrated reports can be the 2019 Integrated Report of ALTEO Nyrt.

A dedicated, standalone report most probably provides a greater degree of flexibility and clarity and the specific information is easier to retrieve on its own, it does not necessarily need to align with the style of the annual report. **Companies that are just starting non-financial reporting might find it easier to prepare a standalone report.** A standalone report allows companies to freely select the style of presentation for ESG data, tables and charts they prefer without taking other methods used in the, financial report into account. As a disadvantage, the separation can imply that the company considers sustainability or other ESG

related topics separated from the core business, so this should be addressed carefully, for example with cross references: material data or factors in the annual report should also be addressed and referred to in the standalone ESG report.

If the report is separated from financial disclosure, then both types of disclosures should cover the same period so that financial information can be considered and analysed within the context of ESG information. It is also important to ensure consistency among the different communication channels.

The **Hungarian Accounting Act** (Act C of 2000 on accounting) requires large companies to integrate non-financial information into their annual financial statements and the company may decide to include further ESG information in the company's financial disclosure even if it is not mandatory by rules of law.

The key advantage of integration of ESG topics into regular annual reports is that ESG data gathering, processing and verifying is integrated into processes and controls the company already applies. It is also a benefit that ESG data is available for investors at the very same time as the financial information on the company. As a disadvantage, length and complexity of an integrated report might be a concern, which can lead to including fewer ESG issues. Moreover, ESG topics may not always fit fluidly the structure of the annual report.

**Most probably the future standard for the format of ESG reporting will be the integrated report, where financial and non-financial information is integrated into one single report. Larger listed companies might want to choose this format and direction. The concept provides investors a more complete and concise insight into the performance of the company.** Again, length can be an issue with integrated reports as well, however, reporters should be careful when reducing the information making sure that the most critical ESG areas are not missed. Reporters should also keep in mind that investors and other stakeholders reading their reports may have different ESG needs.

Companies also might want to supplement their integrated reports by additional and more detailed ESG information via the company's website or through other publication channels.

Similar to financial reporting, it can be helpful to use XBRL, a digital reporting language for reporting ESG information that structures data consistently to improve analysis.

### Disclosure channels

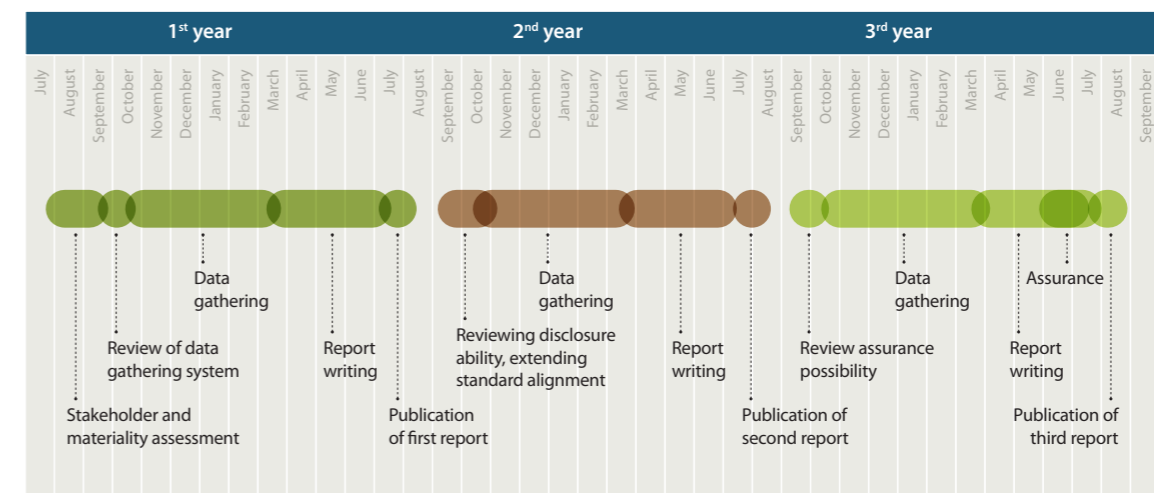
The proper disclosure channels should be chosen so that stakeholders can access the reports easily and in a timely manner. Companies should be familiar with their target audiences' preferred ESG information sources and update them regularly. These information needs might be different so **companies might want to use different communication channels to ensure that the entirety of a company's target audience receives the information.** The channels for ESG disclosure also depend on a company's regulatory context and business and communication strategy. Choosing a language widely spoken by international investors is recommended in addition to a national language. Rather than publishing the ESG reports periodically without any follow-up communication, reporting **companies should see ESG reporting as a continuous dialogue with stakeholders, and they should regularly address the key demands of investors and answer their questions.**

## Roadmap of reporting

**Achieving the different levels of reporting maturity requires varying resources. Report development requires significant amount of time. The following two examples outline the reporting roadmap for developing and for advancing reporting capabilities.**

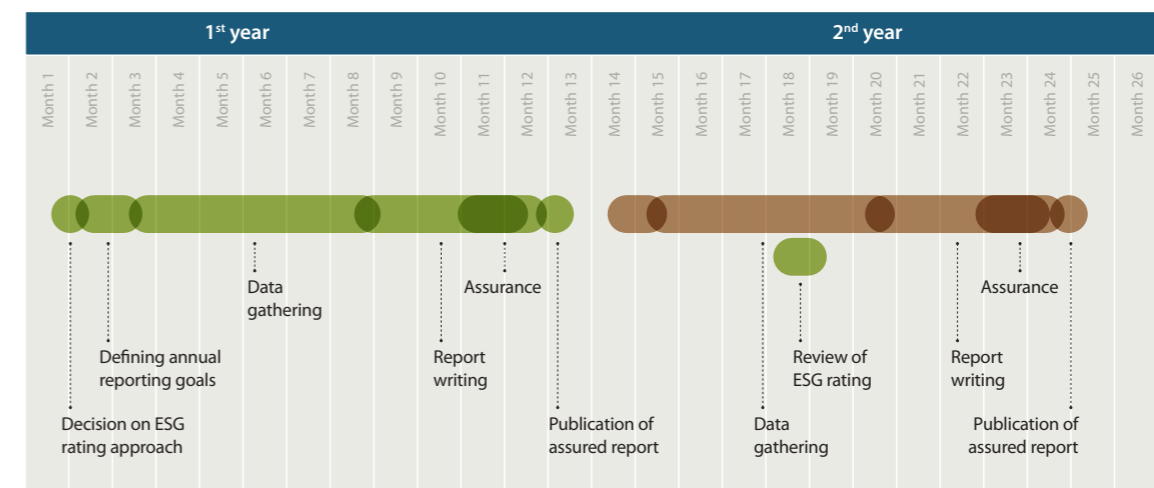
### Building reporting capacity

The content of ESG reports is governed by the standard the company chooses to use and greatly limited by the data gathering possibilities. For companies new to ESG reporting, gathering data in accordance with disclosure standards may encounter significant difficulties. Therefore, a data gathering system gap assessment should be conducted. The results of the data gathering system assessment should identify the improvement opportunities and needs of data gathering in order to fulfil the standard requirements. After the gap analysis, a basic report may be created in the first year, after intensive data gathering and report writing processes. Upon implementing the identified developments to the data gathering system, the second report may be a standardised report. However, assurance poses a new layer of requirements and understanding, the management of which requires further resources. Assurance may be the aspiration of a three-year-long capacity building roadmap.



### Advancing reporting capabilities

Companies on more mature stages of reporting, having assured standardised or integrated reports may consider further advancements to the content or channels of ESG performance communication. ESG ratings may be the advancement on reporting capability of the company. After deciding on the ESG rating approach of the company, the first year may serve as a baseline for rating, upon which results, new data gathering needs and disclosure opportunities may be identified. The result reviewing the first ESG rating should inform the second year reporting process.




## Reporting frequency

It is general market practice that ESG reports are published at least on an annual basis. In case of listed companies the ideal delivery of such reports are together with the financial report referring to the same year. Some industrial sectors cover 2 years in one report. Non-listed companies typically prepare their reports at the beginning of a calendar year, and publish it at

autumn. When defining frequency however, it might be necessary to communicate sooner when a significant incident or controversy has taken place through ad-hoc disclosures rather than to wait for the next annual reporting cycle. The report content may be adopted for the different reporting frequencies.





**4**

**Regulatory and  
Policy Landscape**

# Regulatory and Policy Landscape

Various rules of law are already in effect worldwide that legally oblige certain companies to disclose so called 'non-financial information', and it is widely expected that the obligation to publish such information will be legally required and binding in more and more details and not only on the largest companies, but on many medium-sized or even smaller firms as well.

The following is a short overview of the development and the key milestones of the international, EU and Hungarian regulatory landscape regarding sustainability and non-financial disclosures<sup>11</sup>.

## Background

The term ESG was first contained in a study called 'Who Cares Wins', in 2005, endorsed by the United Nations and market leading financial institutions. The study set up recommendations to better integrate environmental, social and governance issues in analysis, asset management and securities brokerage.

In 2015, the United Nations (UN) adopted the **2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDG)**<sup>12</sup> which call for concerted efforts towards building an inclusive, sustainable and resilient future for people and planet and intend to harmonise three core elements: economic growth, social inclusion and environmental protection.

The **Paris Climate Agreement**<sup>13</sup> (PCA), originating from the foundations laid down in the SDG, is the first-ever universal, legally binding global climate change agreement, adopted at the Paris climate conference in December 2015. In particular, the agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C and it also includes the commitment to align financial flows with a pathway towards low-carbon and climate-resilient development.

The EU set four main objectives which should be supported by legal framework:

- As public funding is insufficient to achieve SDGs and the PCA goals, **investments should be channelled towards sustainable activities** (for which the definition of sustainable and unsustainable activities will be necessary).
- In order to **avoid "greenwashing"** (when activities or products are misleadingly labelled "green", when in fact they are not sustainable), a **harmonized classification system and standardized benchmark rules should be introduced**.
- To ensure that the first two objectives are met, **proper disclosure obligations** must be in place to demonstrate the exposure of a product or portfolio to ESG risks and vice versa.
- Enhanced risk **management rules and prudential measures** requiring firms to **assess ESG risk exposures** to the products manufactured or distribute and to the firm itself.

## ESG disclosure regulations already in force

### The Non-Financial Reporting Directive (NFRD)<sup>14</sup>

(Directive 2014/95/EU on the disclosure of non-financial and diversity information) requires large public interest companies (with more than 500 staff) to disclose certain information on the way they operate and manage social and environmental challenges in order to help investors, consumers, policy makers and other stakeholders to evaluate the non-financial performance of these companies and encourages the reporting companies to develop a responsible approach to business (specifically related to employment, board diversity, human rights, anti-corruption and bribery issues). Companies are required to include non-financial statements in their annual reports from 2017 onwards.

The obligation to prepare a non-financial statement (as part of their annual financial statements) in accordance with the NFRD was implemented to the **Hungarian Accounting Act** in 2016. It applies only to large companies of public interest. As per the Accounting Act, the non-financial statement shall include

- a brief description of the business model of the company,
- description on policies applied by the company regarding environmental protection, social and employment aspects, anti-corruption measures, also outlining the internal and/or external assurance thereof,
- results of the above policies,
- material risks regarding the above topics and description on risk management,
- key non-financial data.

In line with the NFRD approach, in case a company does not have one or more of the above policies, the Accounting Act requires the company to explain (comply or explain principle). Also, information may be left out of the report in case the company deems disclosure is detrimental to its legitimate business interests, as long as the missing information does not represent a misleading picture on the company's performance, development and activities.

### The Shareholder Rights Directive (SRDII)<sup>15</sup>

(Directive 2017/828/EU) can also be listed among sustainability regulations, as, effective from June 10, 2019, it introduces ESG investment strategy, corporate engagement and disclosure obligations on the buy-side. SRDII was implemented in Hungary by Act 67 of 2019<sup>16</sup>.

## The Sustainable Finance Action Plan

Recent ESG regulations derive from the **Sustainable Finance Policy**<sup>17</sup> issued by the European Council, which is complemented by several **Green Finance Initiatives**<sup>18</sup>, such as the **Sustainable Finance Action Plan**<sup>19</sup>. The SFAP has four key elements:

- The Sustainable Finance Disclosure Regulation
- The Taxonomy Regulation
- The Climate Benchmarks Regulation
- The (proposed) EU Green Bond Standard

The **Sustainable Finance Disclosure Regulation (SFDR)**<sup>20</sup> (Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector), entered into force on 10 March, 2021, **lays down harmonised rules for financial market participants** (portfolio managers, fund managers, certain insurance

<sup>11</sup> For a more comprehensive review of ESG Regulations, please consult FACTSET's EU Environmental Social Governance (ESG) Regulations Guide by Barrie C. Ingman

<sup>12</sup> Transforming our world: the 2030 Agenda for Sustainable Development | Department of Economic and Social Affairs (un.org)

<sup>13</sup> UNTC

<sup>14</sup> EUR-Lex - 32014L0095 - EN - EUR-Lex (europa.eu)

<sup>15</sup> EUR-Lex - 32017L0828 - EN - EUR-Lex (europa.eu)

<sup>16</sup> 2019. évi LXVII. törvény a hosszú távú részvényesi szerepvállalás ösztönzéséről és egyes törvények jogharmonizációs célú módosításáról - Törvények és országgyűlési határozatok (jogtar.hu)

<sup>17</sup> Financing the climate transition - Consilium (europa.eu)

<sup>18</sup> Sustainable finance | European Commission (europa.eu)

<sup>19</sup> EUR-Lex - 52018DC0097 - EN - EUR-Lex (europa.eu)

<sup>20</sup> EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)

undertakings) **and financial advisers on transparency** with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. The SFDR requires investment firms to disclose the environmental sustainability of an investment and the provenance of any ESG claims made, the risks investments present to ESG factors and the risks ESG factors present to investments. The preparation of accurate and comprehensive information on ESG will necessitate significant system and control changes, and a material allocation of resource for many firms.

On 11 December 2019, the Commission presented the **European Green Deal**<sup>21</sup>, a growth strategy aiming to make Europe the first climate neutral continent by 2050. As part of the Green Deal, the Commission presented on 14 January 2020 the European green deal investment plan, which will mobilise at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.

**The Taxonomy Regulation**<sup>22</sup> (Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment), establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable.



**The Taxonomy Regulation applies to financial market participants that make available financial products as well as undertakings which are subject to the obligation to publish a non-financial statement or a consolidated non-financial statement.**

The Regulation requires financial market participants to classify investments based on the NFRD reports and disclose ESG and Taxonomy related analysis. The Taxonomy Regulation tasks the Commission with establishing the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective through delegated acts, such delegated acts are still under preparation. The Taxonomy Regulation shall apply generally from 1 January 2023, however, from 1 January 2022 large companies of public interest subject to an obligation to publish non-financial information shall include in their non-financial statement the proportion of their turnover derived from products or services associated with climate change mitigation and climate change adaptation, as well as the proportion of their capital expenditure and the proportion of their operating expenditure related to assets or processes associated with climate change mitigation and climate change adaptation. This means that affected companies will have to start gathering data and making all necessary preparations so that they can comply with this legal requirement in respect of the business year 2021.

The new **EU Climate Transition Benchmarks Regulation**<sup>23</sup> (regulation (EU) 2019/2089 - CTBR) sets up two types of benchmarks in accordance with the impact investing, the EU Paris-Aligned Benchmarks and the less strict EU Climate Transition Benchmarks and lays down the minimum requirements for each of those benchmarks. The Regulation obliges the administrators to issue a statement whether their benchmarks qualify as one of these categories and they should also publish the methodology that they use for the calculation of those benchmarks.

**Local regulatory measures**

Beside the already mentioned Accounting Act and the mandatory implementation of EU regulations, the Central Bank of Hungary and other institutions also try to help market participants in their ESG compliance efforts.

The Central Bank of Hungary will most probably help market participants with implementation guidelines and explanatory notes where relevant. BSE is trying to help issuers with this Guide and with educational events, conferences.

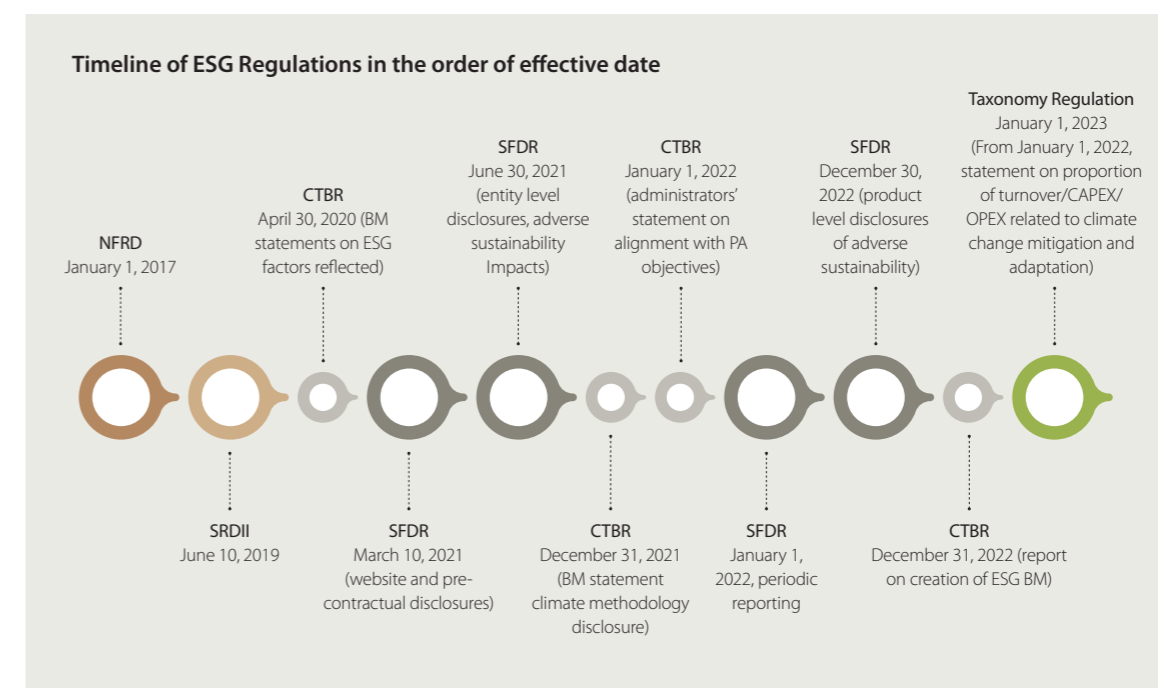
It is also worth mentioning that the Association of Hungarian Investment Fund and Asset Management Companies is also issuing a recommendation to help align the classification of funds with SFDR.

**Further developments**

As already mentioned in the Introduction, at this point of time, it is impossible to give an exhaustive and all-inclusive review of all ESG-related regulations. In the following years, a vast amount of Level II rules (implementing regulations and technical standards) are scheduled to come out to complement the above Level I regulations with necessary details and fill in the gaps.

**Some important EU initiatives on the way:**

- **EU Green Bond Standard:** building on current best practices, and within the framework of the Prospectus Regulation, the Commission issued a Green Bond Standard Report<sup>24</sup> with recommendations for a proposed standard for green bonds.
- **NFRD review:** there is an ongoing revision of the NFRD in 2021, which aims at the standardization of non-financial reporting practices and regulations
- **Sustainable Corporate Governance:** a new initiative which suggests that corporate governance reporting should be extended to more ESG aspects (social) and would replace current comply or explain practices with more specific and stricter regulations, and to move from reporting to mandatory compliance in certain issues. This concept is currently under consultation and triggered debate among market participants.
- **IFRS consultation:** a 5-yearly review of the IFRS regulations was conducted last year, with ESG reporting in the focus, evaluation of the consultation and announcement of subsequent steps can be expected soon.



<sup>21</sup> A European Green Deal | European Commission (europa.eu)

<sup>22</sup> EUR-Lex - 32020R0852 - EN - EUR-Lex (europa.eu)

<sup>23</sup> EUR-Lex - 32019R2089 - EN - EUR-Lex (europa.eu)

<sup>24</sup> TEG report on EU green bond standard | European Commission (europa.eu)

# ESG

## Introduction to ESG Reporting Standards

# Introduction to ESG Reporting Standards

BSE does not recommend one specific standard to use from the many ESG standards available for reporting but rather provides a list of standards that could be applicable for issuers.

Prior to selecting a reporting standard, the company should get information from the organisations developing the particular standard or advice from subject matter expert advisors.

## Global reporting standards to start with

The two most popular standards used by BSE listed companies are GRI and the SASB. The standards have been developed to provide ESG information to stakeholders.

**GRI** disclosure provides information on how the company's actions are likely to impact the external environment to a broad group of stakeholders including investors, while **SASB** is targeted specifically at investors, communicating about the **ESG issues likely to impact the companies' financial performance**.

Besides being one of the most popular standards among BSE listed companies, GRI was created as a universal disclosure standard for a diverse group of companies, with additional sector specific disclosures applying specific metrics. Thus, the topics cover a wide range of issues, whose relevance vary for the disclosing company. GRI is one of the most widely used ESG disclosure standard globally, however its pertinence in certain industries, especially ones with less mature sustainability disclosure practice, may be limited.

SASB, as mentioned previously, is targeted at investors specifically. The standard contains 77 industry specific sets of ESG metrics, potentially having financial implications for the company. This allows for a more focused disclosure, yet it is important to note, that SASB was developed with a strong emphasis on financial materiality, therefore it builds on financial information.

Both standards are using international and American terminology, consequently some definitions are harder to apply and understand from a European and Hungarian perspective. This may lead to confusion on the data servicing side and on the surface analogous but truly incomparable data. To ensure the technical adequacy of indicators, both local and subject matter knowledge is required.

**Although GRI and SASB have different purposes, they can be and are in many cases used together. The two standards are not competitive, but complementary frameworks, using different definitions of materiality for different purposes.**

For more information on the two standards, please consult the **Annex**.



**77**  
industry specific sets of  
ESG metrics

## Issue specific global disclosure and target setting schemes

Besides the complex, overarching reporting standards addressing economic, environmental, social and governance aspects of company performance, **due to the growing interest and investor demand for action against climate change, issue specific disclosure and target setting schemes arose.**

There are various commitment and reporting schemes in place aiming at assessing and evaluating the short-, medium- and long-term impacts of climate change and safeguarding future interests of investors. There are several policy directions, guidance documents and global platforms such as UN SDGs, UNGC and UN PRI in the area of ESG. BSE recommends three central and widely known disclosure and target setting schemes below. Notably, certain industries have developed ESG performance assessments and benchmark databases to guide monitoring and reporting efforts of companies. One great example is the GRESB Assessments in the real asset investment industry. The assessments are

focusing on investor requirements and are aligned the aforementioned international reporting frameworks as well as the Paris Climate Agreement, regional and country specific disclosure guidelines and regulations.

### BSE recommended ESG reporting global disclosure and target setting schemes for specific issues

1. Task-Force on Climate-related Financial Disclosures (TCFD)
2. Climate Disclosure Standards Board (CDBS)
3. Carbon Disclosure Project (CDP)

For more information on these, please consult the **Annex**.

Another notable target setting scheme is the Science Based Targets Initiative (SBTi), which focuses on climate action through emission reduction target setting.

## Integrated reporting to enhance transparency and address interconnectivity

Existing non-financial reporting may be strengthened by implementing an integrated reporting approach. Integrated reporting enables the company ESG communication to report in a cohesive way, reducing duplication and miscommunication between business areas.

Guiding Principles and Content Elements govern the content of integrated reports according to the IIRC Framework, however, they often build on disclosures according to the GRI or SASB standards.

### BSE recommended Integrated ESG Reporting Framework

1. International Integrated Reporting Council (IIRC)

For more information on the framework, please consult the **Annex**.

*Please note that in 2021, ESG reporting standards are expected to become more harmonised, cooperating on various fields with each other, therefore, standard-specific information included herein should be doublechecked on the respective webpages of the standard providers.*



# 6

**ESG Data from  
Collection to Issuer  
Ratings**

# ESG Data from Collection to Issuer Ratings

## Main ESG rating agencies and the importance of rating

The increasing prominence of sustainability, environmental, social and governance considerations for evaluating a company's performance brought the need for objective assessment of ESG performance and thus the emergence of different rating agencies. These ESG rating agencies are specialised in assessing the environmental, social and governance performance according to their respective methodologies. The methodologies applied by the ESG rating agencies vary, frequently using publicly available data (such as media sources and annual reports).

ESG rating agencies aim to inform interested parties and enhance financial decision-making processes. ESG performance may influence credit rating positively.

As suggested by several studies, ESG criteria has turned out to be highly valuable, with ESG portfolios continually outperforming traditional portfolios. At companies that focused on sustainability, operational performance was improved, translating to higher cash flows. Companies that score well on ESG metrics are believed to better anticipate future risks and opportunities, be more disposed to longer-term strategic thinking, and focused on long-term value creation.

It should be noted that ratings provided by different agencies are not consistent. The proliferation of different standards and rating agencies already raised the need for standardization across the sector in the future by many, but currently this inconsistency must be taken into consideration.

### The main ESG rating agencies globally are:

- **Arabesque:** Arabesque S-Ray assesses company performance and sustainability based on ESG and financial metrics. Currently covers approximately 7 000 companies, but applies no minimum limit to companies in size, region, sector or other aspects for inclusion in assessment.
- **ISS:** ISS provides ESG rating for corporations and countries as well. The corporate ESG rating uses general and industry specific criteria to assess ESG performance. ISS is a SASB alliance organizational member.
- **MSCI:** MSCI ESG rating aims to identify and assess ESG related risks in company operations. The rating uses publicly available data. The ESG rating combines weighted percentage of risks according to their impact, and is normalised relative to industry peers. MSCI includes approximately 8 500 companies, primarily equity issuers that are constituents of MSCI market capital Indexes and fixed income issuers covered in the Barclays Global Aggregate Indexes.
- **Refinitiv:** Refinitiv ESG score provides information on the relative ESG performance of the companies. Refinitiv collects ESG data from annual report, NGO websites, CSR reports, company websites, stock exchange filings and news sources. The rating covers over 7 000 companies globally.
- **Robeco:** RobecoSAM Smart ESG scores include financially material and industry specific ESG issues. The ESG rating and benchmarking services are now owned by and operating from S&P Global. The rating covers almost 5 000 companies worldwide.
- **Sustainalytics:** the ESG rating of Sustainalytics is to be integrated into Morningstar Equity Research. The rating focuses on ESG risks, enabling cross-industry comparison between companies. The rating covers 12 000 companies.

As mentioned above, ESG rating agencies are often connected to and considered by global credit rating agencies, such as S&P, Moody's, Fitch and DBRS.

The rating may be on an "invitational" basis, based on capital market value, or on voluntary basis, depending the Rating Agency.

In Hungary, currently four corporations – MOL, Magyar Telekom, Richter Gedeon and OTP Bank – receive ESG ratings from major ESG rating agencies, such as Arabesque, ISS ESG, MSCI, RobecoSAM and Sustainalytics.



# BSE Recommendations



# BSE Recommendations

BSE acknowledges the importance of ESG issues and aims to support issuers in effectively addressing and communicating them.

## Guiding principles for issuers in developing their ESG approach:

- 1 Develop understanding of ESG issues
- 2 Incorporate ESG issues into decision-making
- 3 Define roadmap for continuous improvement in addressing ESG issues
- 4 Disclose ESG relevant issues

Besides respecting and implementing the guiding principles, BSE Issuers are recommended to perform certain tasks related to ESG reporting.

## Recommendations for BSE issuers:

All BSE issuers should be able to disclose their ESG performance at least annually, starting in 2023 at the latest, disclosing information on the year 2022. The report should be publicly available. The disclosures of issuers are categorised into three levels based on the following criteria:



ESG categorisation	Entry level	Intermediate level	Advanced level
Disclosure	Standalone ESG disclosure	Standalone ESG disclosure	Integrated reporting
Frequency of disclosure	Annual report	Annual report	Annual report and quarterly ESG update
Reporting format	Basic report	Standardised report	Integrated (standardised) report
Report assurance	Not required	Not required	External assurance required <sup>25</sup>
Target setting	Not required	ESG target	Target set and monitored according to target setting scheme
Improvement	Should advance to intermediate level in 2 years	Should perform all aspects in 2 years and advance to advanced level in 3 years	Should perform all aspects in 3 years

In line with Principle 3 above, issuers should aim to improve their approach of addressing ESG issues, for which they are recommended to prepare and publish a roadmap for meeting the BSE recommendations and improving their categorisation according to them. The roadmap should be prepared by 31<sup>st</sup> December 2021<sup>26</sup>, and should cover but is not limited to:

- the schedule of adapting the BSE recommendations,
- the desired ESG category for each year between 2022 and 2025,
- the planned advancements to achieve 'advanced level'.

Issuers are expected to publish at least a standalone ESG disclosure in 2023 (covering year 2022) in order to meet 'entry level' classification, and then gradually move to the next levels.

<sup>25</sup> External assurance can be reasonable or limited and may include but is not limited to assurance according to ISAE 3000 standard.

<sup>26</sup> Issuers listed after this date are recommended to prepare the roadmap at the time of their listing or as soon as possible after the first day of trading.

“ We have historically relied on the GRI, as our sustainability report grew over the years as we sought to meet the increasing demand for ESG information from all stakeholders. In 2019 however we decided to rethink not only the report itself but also what kind of reporting standard we would prioritize going forward. We introduced SASB as we transitioned from a narrative-driven sustainability report to a more financially material data-driven report supported by concise narrative. For the 2020 Annual Report climate related disclosures are produced in accordance with the core elements of the TCFD ”

**Mikkel Skougaard**

Group ESG Reporting Senior Expert  
MOL GROUP

In 'entry level', issuers publish at least a standalone, non-standardised ESG disclosure, may it be a CSR, sustainability or ESG report. Since the report is not prepared according to any international standard, no assurance is necessary. However, in line with the principle of continuous improvement, 'entry level' issuers are recommended to advance to 'intermediate level' within 2 years.

Advancement between categories takes place in case the issuer performs at least one of the next level requirements. In case of 'entry level' advancement, this is either target setting or publishing a standardised report.



Figure 1 Advancing to 'intermediate level'

Required to advance ✓

'Intermediate level issuers should be able to report on their ESG performance in accordance with an acknowledged reporting standard annually. They are recommended to set medium- or long-term (i.e. annual to 5 year) ESG targets. Intermediate level issuers should perform all intermediate level requirements in 2 years and move to advanced level in the third year. To reach advanced level, the issuer are expected to perform at least one of the advanced level requirements.

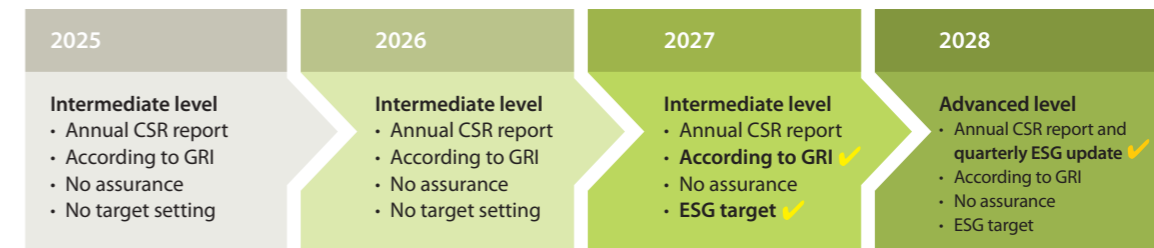


Figure 2 Advancing to 'advanced level'

Required to perform all aspects ✓

Required to advance ✓

Advanced level issuers should publish an assured integrated report on their financial and ESG performance in accordance with an acknowledged reporting standard annually. ESG updates should be shared quarterly. Medium- or long-term (i.e. annual to 5 year) ESG targets should be defined in line with target setting scheme(s). Advanced level issuers should perform all requirements in 3 years.

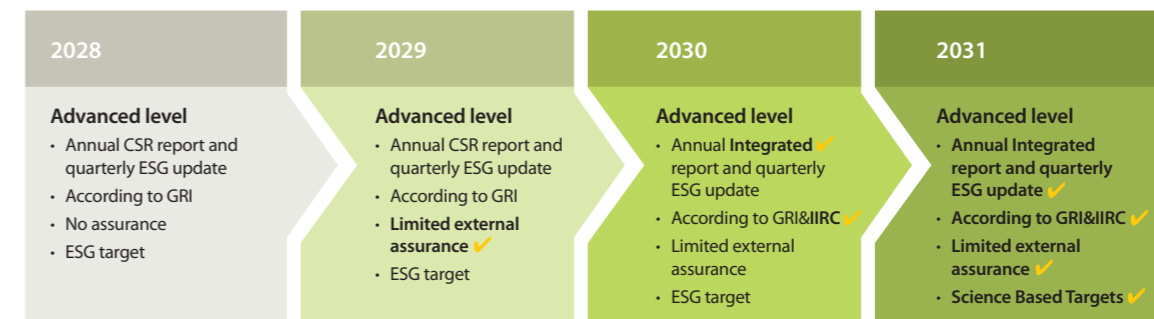





Figure 3 Fulfilling 'advanced level' requirements

Required to perform all aspects ✓



**Annex**

Name	Global Reporting Initiative	Sustainability Accounting Standards Board	International Integrated Reporting Council (and Framework)
Short name	GRI	SASB	IIRC <IR>
Focus	ESG, wider environmental, social and governance objectives	ESG, industry and wider environmental and governance objectives	ESG, value creation for organisations through sustainable reporting
Logo			
Links	<a href="http://www.globalreporting.org">www.globalreporting.org</a>	<a href="https://www.sasb.org/">https://www.sasb.org/</a>	<a href="https://integratedreporting.org/">https://integratedreporting.org/</a>
Language	English + 10 languages, no Hungarian	English	English + 10 languages, no Hungarian
Organisation	International, independent, non-profit organisation	Foundation	Global, not-for-profit organization
Location	Amsterdam, the Netherlands (founded in Boston in 1997)	San Fransisco, California, USA	incorporated in England and Wales, registered office in London
Creation, history	1997, 2000 (first guideline)	2011 founded by Jean Rogers, 2017 first guideline	formed in 2010; Dec 2013 framework published
Format	CSR report	SEC Form 10-K, 20-F filings	Stand-alone or integrated report
Mission	GRI's mission to help companies to understand and communicate their impact on critical sustainability issues, such as climate change, human rights, governance and social well-being.	Mission: is to establish industry-specific disclosure standards across ESG topics that facilitate the communication between companies and investors about financially material, decision-useful information.	The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.

Name	Climate Disclosure Standards Board	Task-Force on Climate-related Financial Disclosures	Carbon Disclosure Project
Short name	CDSB	TCFD	CDP
Focus	ES, climate, environmental and natural capital	EG, climate related risks and opportunities	EG, Climate, Water, Forests
Logo			
Links	<a href="https://www.cdsb.net/">https://www.cdsb.net/</a>	<a href="https://www.fsb-tcfd.org/">https://www.fsb-tcfd.org/</a> TCFD Learning Hub: <a href="http://tcfhub.org/">http://tcfhub.org/</a> Financial Stability Board (FSB): <a href="https://www.fsb.org/">https://www.fsb.org/</a>	<a href="https://www.cdp.net/en">https://www.cdp.net/en</a>
Language	English	English	English
Organisation	International consortium of business and environmental NGOs,	Organization governed by 31 members selected by FSB	CDP Worldwide is regulated by the Charity Commission for England and Wales
Location	London, United Kingdom	-	London, United Kingdom
Creation, history	Founded at the World Economic Forum meeting in Davos in 2007.	2015, final recommendations in 2017, Michael R. Bloomberg	Founded in 2000.
Format	Annual reports, 10-K filing, or integrated report	Annual financial filings (annual report)	CDP's online reporting platform
Mission	CDSB's mission is to align the global mainstream corporate reporting model to equate natural capital with financial capital. The framework offers the same rigour as financial information. Companies provide decision-useful information via the mainstream corporate report.	Help companies to understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs.	CDP wants to see a thriving economy that works for people and planet in the long term. To achieve this, it focuses investors, policymakers, companies, cities, states and regions on taking urgent action to build a truly sustainable economy.

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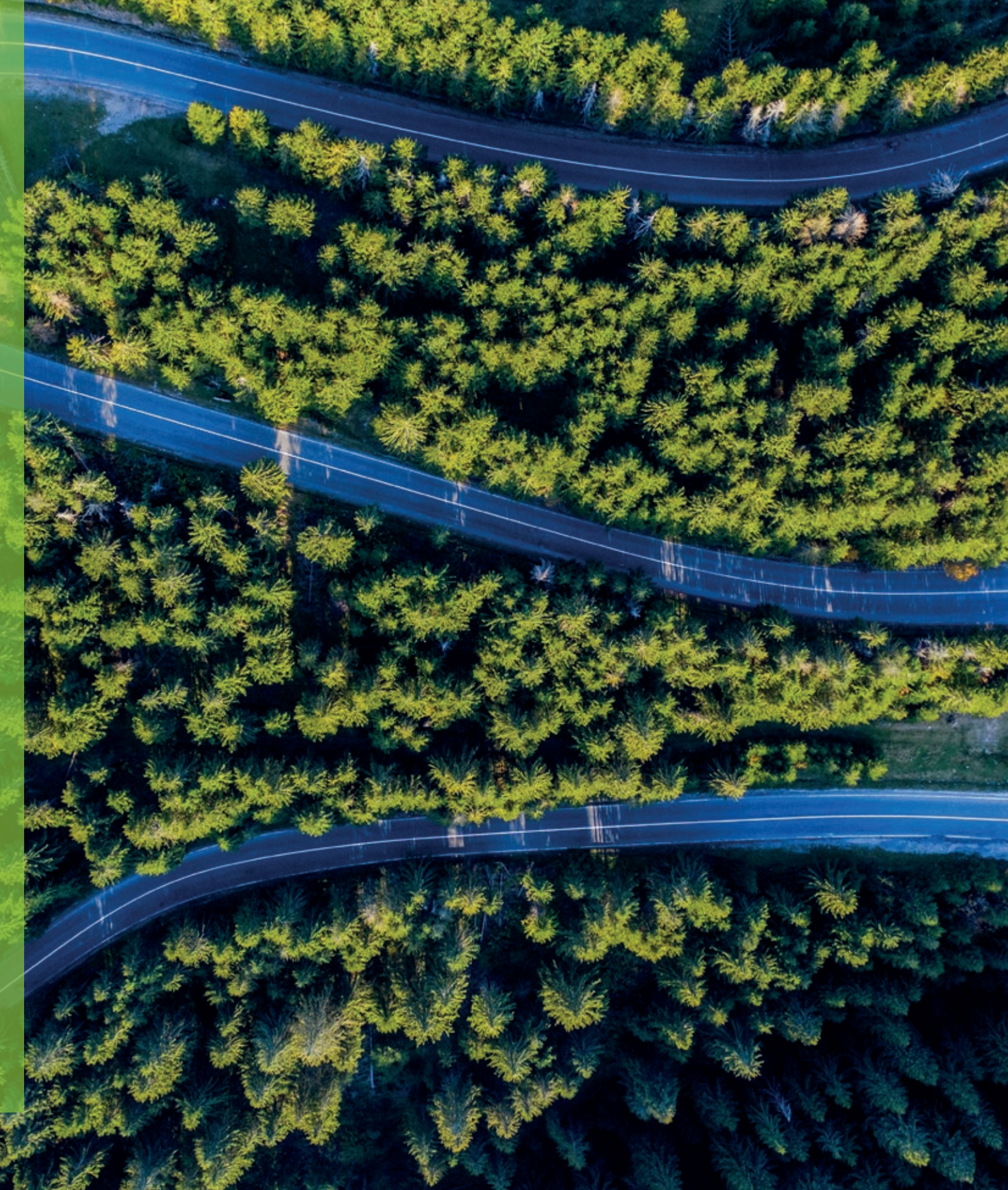
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