



DEUTSCHE BÖRSE
GROUP



ESG reporting guide

The cornerstones of integrated ESG reporting

ESG reporting guide

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1 Trust as a success factor: how ESG is shaping reporting and the markets of tomorrow

Investors, customers, business partners and other stakeholders are increasingly incorporating environmental, social and governance (ESG) criteria into their decisions. Investors have always taken aspects of sustainability into consideration when looking into a company. However, today companies must also actively work to meet expectations and obligations alongside the ESG dimensions. In addition to this, regulatory developments like the Sustainable Finance Initiative of the European Union make sustainability a significant strategic (success) factor for companies.

ESG is based on trust, which is created by companies through their commitment to transparency. Reporting therefore plays a crucial role in the context of ESG. Sustainable Finance requires investment firms to disclose the level of sustainability in their portfolio of companies. To meet this requirement and gain the ability to make these assessments, they must source the relevant information and data from the respective companies they are considering for investment or are already invested in.

Solid ESG reporting and convincing communications on ESG issues offer substantial advantages that go beyond compliance – they can give companies a competitive edge in the capital market. Additional benefits include:

- Good ESG reporting increases the chances of companies to be better perceived by investors in the market and thus potentially broadens their investor base.
- A professional ESG strategy looks into potential impacts on the environment and society, as well as opportunities and risks that may arise in the future (material issues). Investors regard appropriately positioned companies as better prepared for future risks, which may for example arise from climate change.
- A sound ESG strategy, which includes professional ESG reporting, can give companies access to attractive new financing options, such as green bonds, green loans or even green promissory notes.

This guide is intended to serve as a point of reference in a dynamic regulatory environment. ESG affects all areas of a company, shifting responsibilities in corporate groups and strengthening supervisory board responsibility. It is also a topic relevant for compliance and risk management. The ESG guide identifies particularly relevant information and data and is thus primarily aimed at serving companies with little or no previous contact with ESG reporting, providing orientation to support them on their ESG reporting journey. The guide also includes the valuable experience of Deutsche Börse AG, itself a listed company.

2 Fundamental components of sustainability reporting

For years, investors, analysts and service providers such as rating and research agencies have been eager to gain a full picture of listed companies. They demand the consideration of sustainability information in corporate management and reporting which may not be adequately captured via conventional financial reporting. A reporting perspective that goes beyond purely financial data to include environmental, social and corporate governance aspects provides a solid basis of information and thereby enables stakeholders to assess the extent to which companies create and maintain value. The respective regulatory requirements have also seen a significant increase, in Europe as well as worldwide.

To retain or attract investors, companies increasingly include the topic of sustainability in their business activities and reporting. An important part of addressing ESG in a company is the identification of the opportunities and risks which arise when ESG aspects are not considered. An integrated perspective on sustainability management with the aim of developing appropriate strategies strengthens investor confidence. The positive effects also include lower capital costs and competitive advantages, which in turn can also increase market cap.

The sustainability reporting process consists of three parts, as illustrated in the table below.

Three components of sustainability reporting

1 Materiality analysis

Any reporting should be preceded by a fundamental, company-specific analysis to facilitate a better understanding and assessment of the specific context which the sustainability reporting will be based upon. The identification and prioritisation of the key reporting topics is essential and depends, amongst other things, on the business model, applicable regulatory requirements, and stakeholders. In its references, a materiality analysis should not be limited to a company's internal topics but also consider external stakeholders and their requirements. A materiality analysis thus provides the basis for a company's ESG strategy.

2 Reporting and metrics

The report content should adhere to universally applicable reporting principles. Attention should be paid to quantitative information which in turn can be translated into measurable and comparable objectives and results. These reporting principles should be based on established voluntary and regulatory reporting standards.

3 Communication

Sustainability information can be published through various channels, such as the annual report, a separate report or the corporate website, also depending on the applicable standards and regulatory requirements.

2.1 Materiality analysis

The materiality analysis is the starting point for strategy and reporting in terms of determining which sustainability issues are of particular importance to the company and should therefore be the focus of its sustainability management. Both internal and external topics are included in this process. The analysis aims to identify and evaluate the material ESG issues specific to the company. It provides an overview of stakeholder expectations and relevant reporting standards and an insight into the company's own level of ambition – thus determining the structure and content of its sustainability reporting.

A materiality analysis is also mandatory pursuant to the many international reporting standards such as the Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB) or the European Sustainability Reporting Standards (ESRS). Until now, there has been no mandatory structure for materiality analyses. This will change with the introduction of mandatory European sustainability reporting in accordance with the Corporate Sustainability Reporting Directive (CSRD). In conducting the analysis, it is therefore advisable to follow the guiding questions listed below, which can help define the target image of a company's sustainability reporting.

- Who are the most important stakeholders?
- Who are the most important (target) investors?
- What regulatory provisions does (will) the company face?
- Which (voluntary) reporting standards must be observed?
- Which ESG risks and opportunities have an impact on the business model?
- Which ESG risks and opportunities arise from the business model?
- What is the organisation's level of ambition?

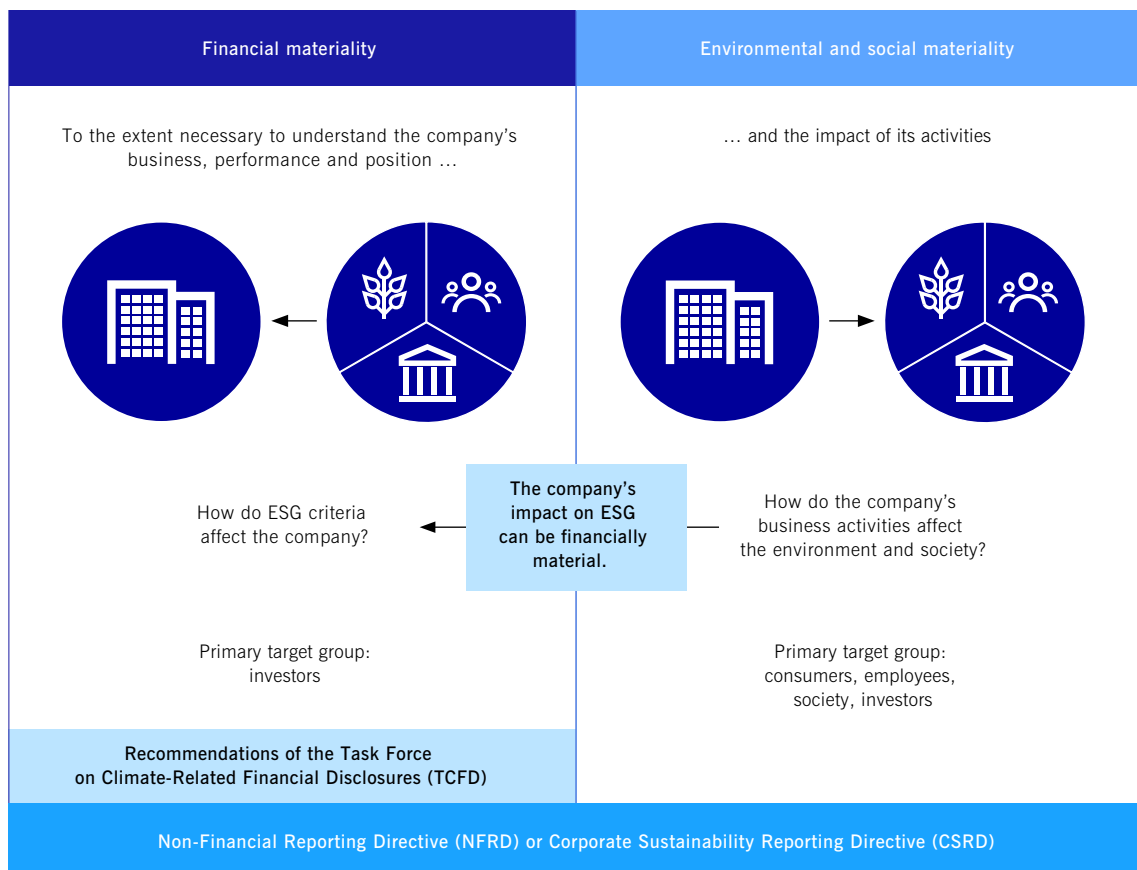
Since opportunities and risks as well as the demands of stakeholders and society on a company are constantly changing, dealing with ESG requires ongoing analysis. ESG is not a result, but a process.

In addition to these guiding questions on business model, stakeholders and regulatory frameworks, it is also necessary, when identifying the essential issues, to consider competitors and the requirements of international standard setters (also see chapter 6).

The materiality analysis is based on the principle of dual materiality. Its aim is to identify the issues important and influential to the company, as well as those influenced by the company. In doing so, it is guided by two fundamental questions:

1. What is the impact of ESG issues on the company?
(Financial materiality)
2. What is the impact of corporate decisions on ESG issues?
(Impact materiality)

The figure below provides an overview of the different perspectives, impacts and target groups of materiality. It also illustrates the dual materiality of the Non-Financial Reporting Directive (NFRD), henceforth Corporate Sustainability Reporting Directive (CSRD), in the context of reporting on sustainability-related information.



Financial materiality is applied here in the sense of its impact on enterprise value and not limited to impact on financial ratios reported in the financial statements.

Companies can determine their material or essential issues in different ways. They can, for example, analyse and weight the issues to be set by relevant market standards and ESG rating agencies and/or reported by competitors. They may also engage in a direct dialogue with internal and external stakeholders to identify material issues.

Materiality analysis is an ongoing process, influenced over time by changes within the organisation and external factors such as regulatory reforms or shifting stakeholder expectations. A regular reassessment of report content is therefore necessary, and material topics should be prioritised appropriately – not all are equally important for all companies.

Goals, concepts and measures are developed for the ESG strategy based on the identified material topics. The organisational practise of sustainability management is determined and suitable metrics for the subsequent reporting process are established.

2.2 Reporting and metrics

The materiality analysis and operationalisation of the material topics must be followed up with the identified issues in the reporting process and recorded with the appropriate measurement parameters. There are basic technical requirements for the sustainability reporting process.

The table below shows the subsequent reporting principles which lay the foundation for balanced, reliable and relevant ESG reporting. They apply regardless of business model, industry or region and are essentially based on the common requirements for financial and sustainability reporting.

| No. | Reporting principle | Explanation |
|-----|---------------------------|--|
| 1 | Strategic focus | The involvement of management and the link to corporate strategy should be clearly set out. |
| 2 | Material | Reporting should focus on the material issues, be balanced and consider stakeholder interests. |
| 3 | Complete | All relevant information must be disclosed concisely, including opportunities and risks. Challenging issues should also be addressed. |
| 4 | Comparable and consistent | The presentation of the information must enable stakeholders to assess and compare the company – also over a longer period. This can, for example, be achieved by adhering to reporting standards. |
| 5 | Reliable | Information must meet the highest quality standards and be externally verified to ensure that reliable and detailed economic assessments and decisions can be made. ESG data must be treated in the same way as key financial figures. |

For meaningful reporting, the translation of the main report content into metrics is necessary to render sustainability performance measurable and comparable. This, in turn, enables the setting of targets and the assessment of the current degree of performance achievement, serving as a strategic orientation. The metrics can also be included as parameters for performance-related remuneration at management level. In this step of reporting, the close observance of the reporting principles is imperative, as this quantitative information is used, amongst other things, for investment decisions by third parties.

The specific Key Performance Indicators (KPIs) relevant for an organisation depend on several individual factors, such as the industry, business model and the company's location. Regardless of the industry or regional specifics, general minimum requirements for the KPIs to be published have emerged in recent years. For assistance, Deutsche Börse provides a toolset of 25 KPIs in its ESG KPI Report. These KPIs are assigned to a total of 17 categories and subdivided according to ESG dimensions. They provide orientation and show the KPIs frequently requested by stakeholders or regulators. The table below offers an overview of these selected KPIs.

Fundamental components of sustainability reporting




| ESG dimension | Category | No. | Sub-category | KPIs | |
|---------------|--|------------------|--------------|---|---|
| E | Climate change | 1 | 1.a | Global scope 1 GHG emissions | |
| | | | 1.b | Global scope 2 GHG emissions | |
| | | | 1.c | Global scope 3 GHG emissions | |
| | Energy management | 2 | 2.a | Total energy consumption broken down by non-renewable and renewable sources (including electricity, heat and primary energy consumption) | |
| | Water management | 3 | 3.a | i. Total freshwater abstraction ii. Percentage in regions with high or extremely high base water stress | |
| | | | 3.b | i. Total freshwater consumption ii. Percentage in regions with high or extremely high baseline water stress | |
| | Waste and pollution | 4 | 4.a | i. Total waste ii. Percentage of waste recycled | |
| | | | 4.b | Emissions of pollutants into the air: nitrogen oxides (NOx), sulphur dioxide (SOx), particulate matter (PM) | |
| | Environmental impact/biodiversity | 5 | 5.a | List of operating sites (owned and leased) located in or managed adjacent to protected areas, as well as the areas with high biodiversity value outside protected areas | |
| | Circular economy | 6 | 6.a | Percentage of recycled materials used to produce the organisation's main products and provide its services | |
| | Environmental management of the supply chain | 7 | 7.a | i. Number of suppliers that have been assessed for their environmental impact ii. Percentage of suppliers that have been screened for environmental impact iii. Percentage of procured volume assessed in terms of environmental impact | |
| | S | Labour practices | 8 | 8.a | Percentage of the active workforce covered by collective agreements or collective bargaining agreements |
| | | | | 8.b | Employee turnover rate |
| 8.c | | | | Ratio of standard entry-level wage by gender compared to local minimum wage | |
| 8.d | | | | Average hours of training per person by gender and employee category | |
| 8.e | | | | i. Breakdown of employees with permanent and fixed-term employment contracts ii. Breakdown of directly employed workers and non-directly employed workers (including temporary workers, on-site contractors, freelancers) | |

Fundamental components of sustainability reporting

| ESG dimension | Category | No. | Sub-category | KPIs |
|---------------|---|-----|--------------|--|
| S | Employee health and safety | 9 | 9.a | Total number and rate of work-related fatalities and accidents |
| | Diversity and equal opportunity | 10 | 10.a | Percentage of employees per category, by age group, gender and other diversity indicators |
| | Human rights | 11 | 11.a | Total number and percentage of operations or business activities that have undergone human rights due diligence or human rights impact assessment, by country |
| | Social management of supply chain | 12 | 12.a | i. Number of suppliers screened for social impact ii. Percentage of suppliers assessed for social impact iii. Percentage of procured volume assessed for social impact |
| | Tax | 13 | 13.a | Total taxes paid, by country |
| | Client data protection and cyber security | 14 | 14.a | i. Number of data protection breaches ii. Number of people affected |
| G | Business ethics | 15 | 15.a | Total number and percentage of employees who completed anti-corruption training |
| | Sustainability and leadership | 16 | 16.a | List of committees responsible for decisions on environmental, ecological and social issues and percentage of independent members per committee |
| | Remuneration | 17 | 17.a | Remuneration policies for highest governance body and senior executives, including consideration of ESG performance criteria and their impact on different types of remuneration |

The following table provides a detailed explanation of three exemplary KPIs (from a total of 25), their definition and associated reporting standards or frameworks.

Three exemplary KPIs from the areas environment, social, governance

| | Environment  | Social  | Governance  |
|-----------------------------------|---|--|--|
| Indicator | Global scope 1 GHG emissions | Percentage of active workforce covered by collective agreements or collective bargaining agreements | Total number and percentage of employees who completed anti-corruption training |
| Category | Climate change | Labour practices | Business ethics |
| Definition | <p>Direct Scope 1 GHG emissions arise from a source which companies are directly responsible for or control.</p> <ul style="list-style-type: none"> ▪ Electric power, thermal energy, cooling energy and steam ▪ Physical or chemical processes ▪ Transport of materials, products, waste, labour or passengers ▪ Diffuse emissions | <p>The percentage in question is that of employees with collective agreements rather than members of trade unions. Collective bargaining refers to all negotiations conducted between employers' organisations and employees' organisations (trade unions) to agree on terms and conditions of employment.</p> | <p>Anti-corruption training familiarises employees with laws that criminalise bribery and corruption and helps them identify and minimise related risks.</p> |
| Unit | Tonnes of CO ₂ -equivalent | Per cent | <ul style="list-style-type: none"> ▪ Number of employees ▪ Per cent |
| Reporting standards or frameworks | <ul style="list-style-type: none"> ▪ GRI code: 305-1/a ▪ SDGs: 12.4; 13.1; 14.3; 15.2 | <ul style="list-style-type: none"> ▪ GRI code: 2-30 ▪ SDG: 8.8 | <ul style="list-style-type: none"> ▪ GRI code: 205-2/b ▪ SDG: 16.5 |

Based on the updated GRI Standards (2021) which became effective on 01 January 2023.

Generally recognised reporting standards or frameworks such as the Global Reporting Initiative (GRI) and the standards set out by the Sustainability Accounting Standards Board (SASB) support companies in their selection and preparation of ESG metrics. They provide general guidance on identifying and implementing material topics and their disclosure content. It is already evident that forward-looking metrics such as net zero targets or other decarbonisation targets (see also 6.8 SBTi) are steadily expanding within sustainability strategies and reporting. In addition, certain KPIs are increasingly incorporated into regulatory requirements, such as the EU taxonomy, CSRD or Sustainable Finance Disclosure Regulation (SFDR).

The most relevant standards and respective organisations are elaborated in more detail in chapter 5.

2.3 The fine art of communicating for the purpose of integrated reporting

Companies have, until now, been free to issue a non-financial report (NFR) independent of the management report or publish non-financial information as part of the management report in a non-financial statement (NFS). A significant change to the previous regulations due to the CSRD will be the mandatory reporting on non-financial matters in the management report.

The place of reporting is closely linked to the question of audit depth (limited assurance vs. reasonable assurance). We have been observing an increasing incorporation of ESG information relevant to the respective business within management reports, even without an obligation. This trend is reinforced by EU regulatory proposals. An integrated report, as also published by Deutsche Börse Group, combines both financial and non-financial information, reported side by side and causally linked to visualise the correlation between economic activities and effects on the environment and society. It is also vital for corporations to decide whether to publish the sustainability report aggregated at group level or individually for each company.

3 What are the drivers of ESG?

As mentioned above, the role of ESG reporting and the requirements for effective communication are steadily increasing. This is due to various actors and developments. In this chapter, we will analyse the three key drivers of these trends: regulators, society, and investor associations.

3.1 Regulators

The Paris Agreement was signed at the United Nations Climate Change Conference in December 2015. With this treaty under international law, the participating countries commit to curbing climate change and limiting the global temperature increase to well below 2 degrees Celsius compared to the pre-industrial era, with efforts to limit the increase to 1.5 degrees Celsius, if possible.

In autumn 2015, the United Nations General Assembly adopted the 2030 Agenda, which comprises 17 global Sustainable Development Goals (SDGs). The objective of the 2030 Agenda is to foster a global development which is ecologically, economically and socially sustainable.

What are the drivers of ESG?

The EU subsequently launched the Green Deal in December 2019, according to which the 27 member states aim to achieve climate neutrality by 2050. In a first step, greenhouse gas emissions are to be reduced by at least 55 per cent by 2030 compared to 1990 levels. The EU has recognised the necessity of channelling financial resources into sustainable companies and projects for the Green Deal to succeed. Sustainable Finance therefore requires financial actors to include ESG aspects in their decisions. A central element to these efforts is the Sustainable Finance Taxonomy, intended to simplify the classification of economic activities throughout the EU according to their sustainability. The main goals of the EU in this regard:

- Reorientation of capital flows towards sustainable investments to achieve sustainable and inclusive growth
- Integration of sustainability into risk management
- Promotion of transparency and long-term considerations in financial and economic activity

The figure below provides an overview of three key EU regulatory measures regarding ESG issues (EU Sustainable Finance Initiative) and additional information.

The EU Sustainable Finance Initiative

| | |
|-----------------------------------|---|
| Three key regulatory ESG measures | <p>Taxonomy Regulation</p> <p>Affected: Companies affected by the NFRD/CSRD, financial market participants</p> <p>The Taxonomy Regulation (Regulation (EU) 2020/852) is one of the outcomes of the EU Sustainable Finance Action Plan. For financial institutions, the taxonomy provides a sustainability classification system according to which investments must be classified in terms of their (environmental) sustainability. Companies must disclose the extent to which their economic activities contribute to the environmental objectives of the taxonomy.</p> |
| | <p>Sustainable Finance Disclosure Regulation (SFDR)</p> <p>Affected: Financial market participants (e.g. asset managers, fund providers, pension funds)</p> <p>The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) is one of the outcomes of the EU Sustainable Finance Action Plan. The Disclosure Regulation obliges providers of financial products to publish information on the (environmental) sustainability of their investments and the consideration of ESG risks, e.g. on the corporate website. In addition, “green” financial products must be classified in terms of their sustainability profile (“Light Green” – Art. 8; “Dark Green” – Art. 9). The regulation aims to increase the level of transparency for consumers and minimise greenwashing.</p> |
| | <p>Corporate Sustainability Reporting Directive (CSRD)</p> <p>Affected: Major listed companies, small and medium-sized, partly private companies</p> <p>The new EU directive on sustainability reporting will replace the previous directive on non-financial reporting (Non-Financial Reporting Directive 2014/95/EU). Companies are required to publish data on the impact of their activities on ESG factors. Going forward, the new CSRD will lead to a significantly larger circle of users. Reporting will be mandatory for major listed EU companies as well as small and medium-sized companies, some of which are privately owned and located in other EU countries.</p> |

What are the drivers of ESG?

Market standards and ESG ratings

3.2 Society

Society has been regarding sustainability and climate change issues as an increasing priority over recent years. Attention to sustainability in consumer behaviour is up, and young professionals are looking into a prospective employer's sustainability goals. Overall and regardless of age, people's interest and commitment to climate policy is on the rise, and demand for sustainable investments among private investors has noticeably followed this trajectory in recent years.

3.3 Investors/investor associations

In 2018, one of the world's largest institutional investors, the Norwegian sovereign wealth fund with assets of around US\$1 trillion, decided to invest exclusively in accordance with ESG criteria¹. Many major investors subsequently decided to follow its example. In 2020, the CEO of BlackRock declared in his annual circular that sustainability should be the new standard for investments².

From 2019 to 2021, German sustainable investment funds' investment volume has more than doubled to €409 billion, with a market share of more than 9.4 per cent, according to the German Environment Agency³. Meanwhile, many investors have joined forces in initiatives committed to sustainable investments, such as the Net Zero Asset Owner Alliance or the Net-Zero Banking Alliance, which aim to optimise investment portfolios with climate strategies in mind. More than 4,000 asset owners and asset managers with over US\$120 trillion in assets under management have signed the UN Principles of Responsible Investment (UN PRI)⁴. The international network of this UN initiative supports investors in their consideration of ESG factors in the investment decision-making process.

Investors are following up their announcements with actions, more and more frequently refusing to approve acts of the management and supervisory board at annual general meetings because they deem the companies' climate strategies inadequate.

4 Market standards and ESG ratings

Various market standards play an important role in assessing the sustainability performance of companies – such as the GRI, TCFD or SASB. However, many investors seek a second opinion, and ESG ratings have therefore established themselves as an important basis for investment decisions. The ratings assess companies' ESG profiles, often by applying various methods and focusing on different areas. Ratings are primarily based on the information published by the respective company, once again making evident the importance of ESG reporting and communication. For many investors, a positive ESG rating is a prerequisite for their decision in favour of certain securities. Especially for IPOs, ESG ratings have almost become a matter of course. Among the most renowned ESG rating agencies are ISS, MSCI, Sustainalytics (Morningstar), RobecoSAM (S&P), Vigeo Eiris (Moody's) and Refinitiv.

5 Important international reporting standards and frameworks

Reporting standards and frameworks offer guidance throughout the process of data collection and subsequent reporting. They provide essential assistance in structuring the report as well as regarding the applicable reporting obligations and general approach – from the early step of identification to the final disclosure of the individual material issues. They also render sustainability reporting more uniform and comparable.

Standards and frameworks differ in several aspects, including their definition of materiality, target group and focus. The GRI standards, for example, are universally applicable and geared firmly towards the concept of materiality. The SASB, on the other hand, offers a variety of different industry standards with a strong financial orientation, ideally implemented in an integrated report. In terms of integration into corporate reporting, the TCFD focuses heavily on climate-related opportunities and risks as well as their financial impacts. In addition, new frameworks are emerging through the merger of already recognised standard setters such as the International Sustainability Standards Board (ISSB) (cf. 5.2 ISSB).

The following sections will take a more on-depth look at some of the most well-established reporting standards and frameworks.

5.1 GRI

The **Global Reporting Initiative (GRI)** is a non-profit organisation collaborating with companies, industry associations and non-governmental organisations to develop guidelines for sustainability reporting.

Its standards are among the most widely used guidelines globally, applicable to all organisations regardless of their industry. They include reporting principles and provide step-by-step guidance on identifying material issues and their disclosure. In addition to the universal standards, the Initiative also works on developing sector-specific frameworks for further guidance.

The GRI standards are designed to help companies identify and disclose their most significant impacts on the economy, environment and society, with a special focus on human rights.⁵

5.2 ISSB

The **International Sustainability Standards Board (ISSB)** was founded by the International Financial Reporting Standards (IFRS) Foundation with the intention of standardising ESG reporting. Under this common goal, the two initiatives Climate Disclosure Standards Board (CDSB), a consortium of non-governmental organisations from the fields of economy and environment, and the Value Reporting Foundation (VRF), a merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), were integrated into the ISSB.

The ISSB intends to develop uniform worldwide standards for corporate sustainability reporting, a so-called global baseline, to serve as a minimum standard. It aims to provide basic and comprehensive sustainability-related information for investors and other capital market participants. The new standards are developed in close cooperation with the IASB to ensure compatibility between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.⁶

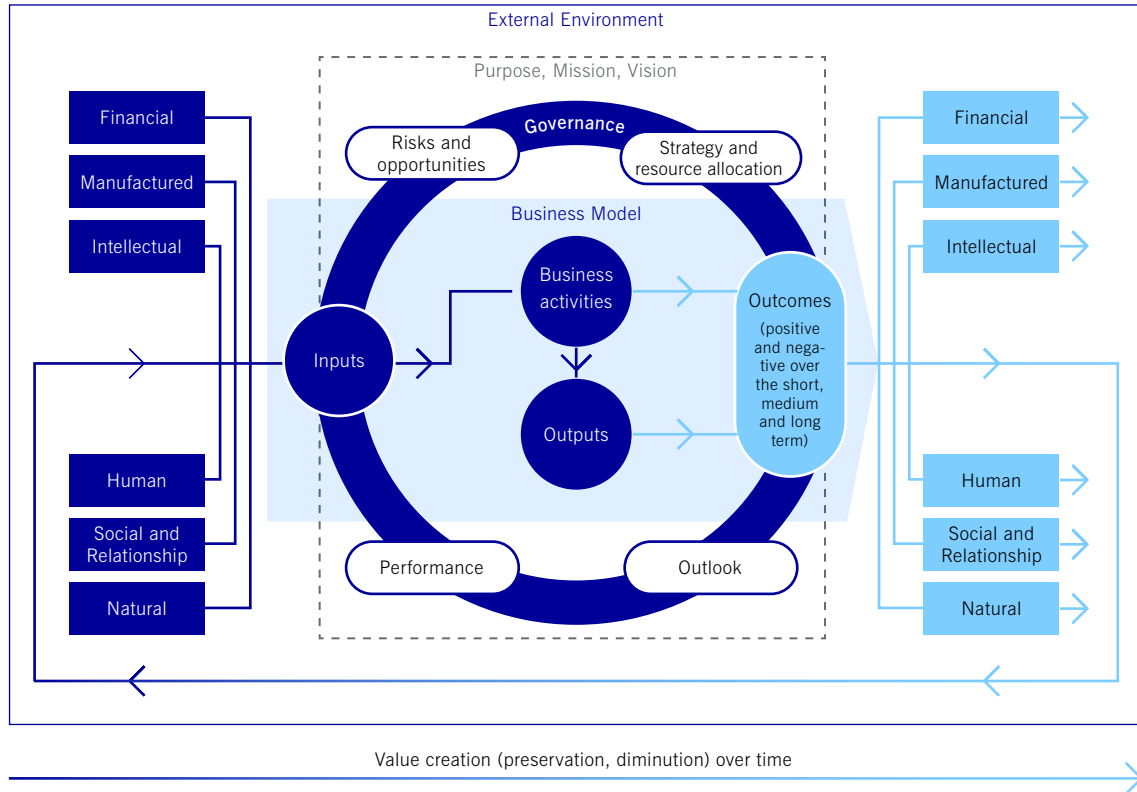
Despite the IIRC and SASB joining forces to establish the VRF, both organisations continue to exist as separate entities, independently responsible for their respective frameworks and reporting standards.

5.3 IIRC

The **International Integrated Reporting Council (IIRC)**⁷ publishes the IR Framework for integrated corporate reporting. With the IR Framework, the IIRC aims to improve the quality of information available to providers of financial capital, which in turn can enable a more efficient and productive allocation of capital. To achieve this, a holistic and efficient corporate reporting approach draws on a range of reporting formats to reflect the various material factors to be considered by a company in the process of creating value in the short, medium and long term, ultimately showing how the company creates value holistically (“value over time”).

The figure below shows the IIRC’s representation of the process of value creation, preservation or diminution over time.

Mission and vision



www.integratedreporting.org

5.4 SASB

Founded in 2011 as a non-profit organisation, the **Sustainability Accounting Standards Board (SASB)** assists companies and investors in developing a common language on the financial impacts of sustainability. It publishes the SASB standards, which serve to identify and disclose companies' material environmental, social and governance-related impacts, with a variety of industry standards and their respective subsets reflecting the industry-specific materiality of issues, subdivided by industry sectors. The approach of industry-specific minimum reporting requirements and the differentiation of industries based on sustainability aspects instead of financial key figures and revenue sources distinguishes the SASB from other sustainability standards.⁸

5.5 TCFD

The **Task Force on Climate-Related Financial Disclosures (TCFD)** was launched by the G20 Financial Stability Board (FSB) in December 2015. Its aim is to create a better understanding of material climate-related risks and opportunities for investors, lenders and insurance companies. The TCFD has thus developed recommendations for voluntary climate-related corporate reporting which meet the criteria of consistency, comparability, reliability, clarity and efficiency. The recommendations on disclosure of climate change-related financial impacts can be applied to organisations across all sectors and countries. The first version of the guidelines was published in June 2017. In addition to the guidelines covering all sectors, the TCFD provides further guidance for specific industries, both in the financial and non-financial sectors.

While the application of the TCFD recommendations is still largely voluntary, they are increasingly incorporated in standards and frameworks, including EU regulations (NFRD, EU Taxonomy), ESG ratings (S&P, CDP, etc.) and market standards (PRI). It is also becoming more and more common for investors to inquire after them.

As listed below, the TCFD recommendations are grouped into four thematic areas: governance, strategy, risk management, and metrics and targets.

Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

| Governance | Strategy | Risk management | Metrics and targets |
|--|---|---|---|
| <p>Disclosure of the organisation's governance regarding climate-related risks and opportunities</p> <p>Recommended disclosures</p> <ul style="list-style-type: none"> a) Board oversight of climate-related risks and opportunities b) Management role in assessing and managing climate-related risks and opportunities | <p>Disclosure of the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material</p> <p>Recommended disclosures</p> <ul style="list-style-type: none"> a) Climate-related risks and opportunities the organisation has identified over the short, medium and long term b) Impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning c) Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | <p>Disclosure of how the organisation identifies, assesses and manages climate-related risks</p> <p>Recommended disclosures</p> <ul style="list-style-type: none"> a) The organisation's identification and assessment process for climate-related risks b) The organisation's management processes for climate-related risks c) Integration of identification, assessment and management processes for climate-related risks into the organisation's overall risk management | <p>Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities</p> <p>Recommended disclosures</p> <ul style="list-style-type: none"> a) The organisation's assessment metrics for climate-related risks and opportunities, in line with its strategy and risk management process b) Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks c) Targets set for the management of climate-related risks and opportunities, and performance against targets |

The proposed reporting is intended to support the various capital market actors in fulfilling their role in promoting climate action by creating transparency in the way companies deal with the opportunities and risks of climate change. Considering the timeframe of climate change, the focus is on the medium- to long-term strategic orientations of the reporting companies. The Task Force recommends applying different climate change scenarios, from providers such as the IEA, IPCC or PIK, to identify the opportunities and risks of climate change.⁹

5.6 CDP

The **Carbon Disclosure Project (CDP)**, founded in 2020, remains an independent non-profit organisation that operates a disclosure system for investors, companies and cities, amongst others, to record, reduce and manage their environmental impacts. The aim is to increase transparency and accountability in the context of environmental reporting. The CDP does not fall within the same category as the previously described framework and standard setters in the field of corporate reporting; it is a rating agency in the field of environment and corporate governance. It focuses on environmental data such as greenhouse gas emissions, energy and water consumption or deforestation. A standardised questionnaire is used annually to collect company information in the three categories Climate, Water and Forest, and participation in only one of the three categories is possible. For participation in the CDP, all required information must be proactively provided by the company itself, to be evaluated and assessed using a specially developed scoring system. Due to the relevance and high participation in its rating, CDP is generally recognised as the rating agency with the largest and most comprehensive environmental data set. In addition, it also works with larger standard setters (such as IIRC, SASB, CDSB) to carry reporting forward and increase transparency in environmental reporting.¹⁰

5.7 SDGs

The **Sustainable Development Goals (SDGs)** are 17 objectives for a global sustainable development. They were defined by the United Nations as part of the framework of the 2030 Agenda and are explained and substantiated by a further 169 sub-goals. Their overarching principles for action rest on five pillars: the dignity of the human being, the protection of the planet, the demand for prosperity and peace, and the development of global partnerships.

There is no prioritisation among the SDGs. They are universally and globally applicable. In 2015, they were adopted at the United Nations Summit in New York with a term of 15 years, until 2030.

Rather than being a binding framework or regulatory standard, the SDGs provide an important guideline for companies which they are also held accountable to. Integrating the defined Goals into corporate reporting by aligning and synchronising the respective company's activities accordingly is therefore advisable.¹¹

The SDGs encompass all three dimensions of sustainability – social, economic and environmental – and include the following:

The 17 Sustainable Development Goals (SDGs)



Source: <https://sdgs.un.org/goals>¹²

5.8 SBTi

The **Science-Based Targets initiative (SBTi)** is a partnership between the CDP, the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi aims to show companies and financial institutions how quickly they need to decarbonise to avoid the negative consequences of climate change, thus highlighting best practice examples and supporting companies in setting science-based decarbonisation targets.¹³

5.9 GHG Protocol

The **Greenhouse Gas Protocol (GHG Protocol)** is the leading reference framework for greenhouse gas accounting and reporting. It provides guidance to companies, organisations, cities and countries on how to measure and manage emissions. The GHG Protocol distinguishes emissions in the categories Scope 1 to 3.¹⁴

6 Support services of Deutsche Börse

We offer various products and services conducive to market participants' well-informed decisions. Increased transparency allows them to calculate and price in developments, changes or transformations within the market. A selection of our ESG solutions is outlined below.

6.1 ESG Visibility Hub¹⁵

Deutsche Börse's ESG Visibility Hub enables issuers to publish their commitment to ESG matters in a transparent and focused way. Through the ESG Visibility Hub, companies that have already established sustainability reporting can extend their investor reach. Issuers can publish various ESG documents, such as sustainability reports, ESG ratings or research reports in the ESG Visibility Hub. In addition, the ESG-KPI Report can be uploaded, a questionnaire provided by Deutsche Börse to issuers to present their key ESG data and facts in a clear and comparable way. The ESG-KPI Report contains guidance on how to fill out the forms and is therefore also suitable for issuers preparing and publishing their ESG information for the first time.

6.2 Further ESG support

Deutsche Börse Group – Trading & Clearing

Cash Market

- ESG Visibility Hub (cf. chapter 6.1)
- ESG-KPI Report (cf. chapter 6.1)
- ESG reporting guide
- Cash Market partnership with ISS Corporate Solution (ICS)

European Energy Exchange (EEX)

- Emissions trading/auctioning allowances
- EU ETS auctions
- EU ETS spot futures options
- China carbon
- NZ ETS auctions
- nEHS
- Voluntary carbon market (product pipeline)

ISS Corporate Solution (ICS)¹⁶

ISS provides rating services supporting management and investment decisions, as well as solutions for compliance with regulatory, governance or market standards and to meet shareholder or stakeholder expectations.

The respective ESG services comprise the areas corporate solutions, ESG analytics and governance solutions.

| Corporate solutions | ESG analytics | Governance solutions |
|---|---|---|
| <p>Web-based governance and sustainability analysis tools, ESG data, ratings, assessments and reports to support corporate clients in the process of designing and managing their corporate governance, compensation and sustainability programmes.</p> | <p>Solutions that enable investors to develop and integrate responsible investing policies and practices, pursue investment issues and monitor portfolio companies' practices through screening and analysis.</p> | <p>Objective governance research and recommendations, end-to-end proxy voting and reporting solutions, and an outsourced proxy voting service which includes, for example, the transmission of voting instructions.</p> |

ISS-ESG Solutions¹⁷

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|--|--|
| <p>ESG Corporate Rating</p> | <p>Established rating or corporate score allowing companies and investors to compare ESG performance with that of other companies within the industry, to identify strengths and weaknesses of their own sustainability management programme.</p> |
| <p>E&S Quality Scores</p> | <p>Facilitate an understanding of investors' perceptions of a company's own sustainability programme and the prioritisation of disclosure changes based on content deemed critical by investors; also provide an overview of shifts in sustainability standards.</p> |
| <p>SDG Impact Rating</p> | <p>The ICS SDG Impact Rating application allows corporate clients to view a wide range of data on thousands of companies worldwide.</p> |
| <p>Quick Rating</p> | <p>As part of the advisory services, ICS offers quick ratings of companies' ESG performance.</p> |
| <p>Climate Analytics</p> | <p>Services assisting in the performance of robust client-specific analyses and the production of on-demand benchmarking reports (TCFD benchmarking, Greenhouse Gas (GHG) disclosure transparency and emissions benchmarking). Results can be compiled in the Climate Awareness Scorecard Summary.</p> |
| <p>Online Library of Investor ESG Policies</p> | <p>Unique aggregated library of institutional investor ESG policies which may be used to understand the ways in which companies apply environmental and social disclosure in their voting decisions.</p> |
| <p>ESG Proposal Briefs</p> | <p>The ICS catalogue of environmental and social proposals allows companies to view brief proposals and become familiar with the most popular shareholder proposals.</p> |

Support services of Deutsche Börse

| | |
|--|--|
| <p>Norm-Based Research Reports</p> | <p>Research reports based on global standards as defined in international initiatives and guidelines. The reports highlight the most critical environmental and social risks for the respective company.</p> |
| <p>Commitment Check Solution (e.g. net zero/Paris Alignment)</p> | <p>Solutions to track/understand whether companies are meeting the ICS product pipeline commitments.</p> |
| <p>Advisory Service</p> | <p>ICS assists companies in evaluating and reviewing their sustainability strategies and proposals, analysing shareholder preferences and referring to best practices of other companies.</p> |

ISS Governance Solutions¹⁸

| | |
|---------------------------------------|---|
| <p>ICS QualityScore Premium Tools</p> | <p>QualityScore supports companies in identifying areas which investors might consider governance-related risks and to inform their governance and compensation decisions.</p> |
| <p>Voting Insight</p> | <p>Companies can use Voting Insight to develop in-depth analyses of voting behaviour and aid in the design of their proxy proposals and shareholder outreach campaigns.</p> |
| <p>Voting Analytics</p> | <p>Voting Analytics helps issuers identify voting patterns and trends by monitoring and analysing institutional voting policies and historical shareholder meeting results.</p> |
| <p>Shareholder Proponent Data</p> | <p>The ICS proponent database tracks approximately 1,000 environmental, social and governance shareholder proposals, giving clients real-time insight into which filers are most active, which proposals are most frequently withdrawn and/or settled, and which are making it to the ballot.</p> |
| <p>ISS Proxy Research Reports</p> | <p>The reports keep clients up to date on the latest proxy voting issues and enable them to benefit from ISS' corporate governance and proxy voting expertise with access to historical proxy voting reports, research and publications.</p> |
| <p>Governance Library</p> | <p>A comprehensive corporate governance knowledge base, the library provides clients with access to whitepapers on emerging trends and practices, board-ready presentations on important topics and articles by governance thought leaders.</p> |
| <p>Governance Exchange</p> | <p>An analytical overlay to the ICS suite of data solutions keeping clients informed on governance issues, trends and best practices.</p> |

List of sources and links:

- ¹ <https://www.nbim.no/en/responsible-investment/>
- ² <https://www.blackrock.com/corporate/investor-relations/2020-blackrock-client-letter>
- ³ <https://www.umweltbundesamt.de/daten/private-haushalte-konsum/konsum-produkte/gruene-produkte-marktzahlen/marktdaten-bereich-finanzen#grune-bzw-nachhaltige-geldanlagen>
- ⁴ <https://www.unpri.org/annual-report-2022>
- ⁵ <https://www.globalreporting.org/>, <https://www.globalreporting.org/media/zauil2g3/public-faqs-universal-standards.pdf>
- ⁶ <https://www.ifrs.org/groups/international-sustainability-standards-board/>, <https://www.cdsb.net/>, <https://www.ifrs.org/groups/international-sustainability-standards-board/>, <https://www.valuereportingfoundation.org>
- ⁷ <https://www.integratedreporting.org/>
- ⁸ <https://sasb.org/>
- ⁹ <https://www.fsb-tcfid.org/>, <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>
- ¹⁰ <https://www.cdp.net/en/info/about-us>; <https://www.cdp.net/en/info/about-us/what-we-do>; <https://www.cdp.net/en/info/collaborations>
- ¹¹ https://www.undp.org/sustainable-development-goals/industry-innovation-and-infrastructure?gclid=EAlaIQobChMI893IzPS9gAMVmON3Ch1ZNQBAAEAYASAAEgKcAvD_ BwE
- ¹² <https://sdgs.un.org/goals>
- ¹³ <https://sciencebasedtargets.org/>
- ¹⁴ <https://ghgprotocol.org/>
- ¹⁵ <https://www.boerse-frankfurt.de/esg-visibility-hub>, <https://www.boerse-frankfurt.de/esg-unternehmensangaben>, <https://www.deutsche-boerse-cash-market.com/dbcm-de/primary-market/being-public/esg>
- ¹⁶ <https://www.isscorporatesolutions.com/>
- ¹⁷ <https://www.issgovernance.com/esg/>
- ¹⁸ <https://www.isscorporatesolutions.com/solutions/governance-solutions/>

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