LSEG

Mobilising capital for a sustainable global economy

The road ahead for disclosure rules

London Stock Exchange Group plc
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Our Group

Who we are

LSEG is a leading global financial markets infrastructure and data provider. We play a vital social and economic role in the world's financial system. With our trusted expertise and global scale, we enable the sustainable growth and stability of our customers and their communities.

We are leaders in data and analytics, capital formation and trade execution, and clearing and risk management.

Our purpose

Driving financial stability, empowering economies and enabling customers to create sustainable growth.

Our vision

We are a leading global financial markets infrastructure and data provider. We want to shape the future of our industry to serve our customers and markets better.

Where we operate

LSEG is headquartered in the United Kingdom, with operations in 70 countries across EMEA, North America, Latin America and Asia Pacific. We employ 23,000 people globally, more than half of whom are located in Asia Pacific.

Executive summary

At LSEG we believe that capital markets are a key enabler to solve the sustainability challenges that society faces globally. In this light, we have a leading role in 'shifting the trillions' to sustainable investments. We have set a science-based target to reach net zero by 2040, have published our Climate Transition Plan to deliver this, and shoulder our responsibility at the heart of global financial markets to provide the industry with the tools, data and access to capital required to achieve important sustainability goals.

To accelerate progress on these objectives, and the financial sector's broader efforts to mobilise capital in line with sustainability goals, governments and regulators have an essential role. It is important that policymakers globally build on action taken so far to embed sustainability across the financial system and global economy in order to fully apply the power of capital markets. By doing so, policymakers can help to drive growth and innovation in the global green economy, while supporting the transition across the broader economy in parallel, including traditionally carbon-intensive sectors.

Mandatory sustainability disclosure rules can be critical in this regard, helping to cut transaction costs and unlocking information that the financial sector needs to drive the global transition. With the International Sustainability Standards Board's (ISSB) global baseline sustainability reporting standards in development, policymakers have a unique opportunity to facilitate significantly better availability and consistency of sustainability-related information.

In this context, LSEG proposes three recommendations for policymakers to consider.

There are a range of broader areas where policy can accelerate financial sector sustainability action, for example through carbon pricing. For the purposes of this paper, we are focusing on disclosure rules as a key area to be addressed, however we will continue to provide further recommendations on the framework required to achieve a net zero, sustainable global economy.

1

Introduce domestic disclosure frameworks on an economy-wide basis by 2025, aligning with or adopting global standards.

As a minimum these frameworks should cover climate reporting in line with the Taskforce on Climate-Related Financial Disclosures' (TCFD) 2021 recommendations and the ISSB climate reporting standards. Rules should apply across the economy to listed and privately held companies.

Why? To enhance global consistency of information on businesses' sustainability credentials. This would enable a more efficient allocation of capital in line with 2030 sustainability targets, to set the right trajectory for long-term goals.

2

Require disclosure of corporate revenues derived from products and services providing green solutions.

Where countries are developing taxonomies to classify sustainable activities, these should be adopted in line with disclosure rules by 2025 and should aim to provide high-level principles and requirements which are interoperable with other jurisdictions.

Why? To clarify how companies are contributing to sustainability goals through the solutions they provide. This would facilitate more targeted investment in the global green economy and incentivise the development of innovative solutions to accelerate the global transition.

3

Mandate the publication of transition plans across the economy and facilitate the development of the voluntary carbon markets to support transition.

This effort should be supported by clear guidance on best practice for transition plans, developed in partnership with Glasgow Financial Alliance for Net Zero (GFANZ). Policymakers should encourage growth and integrity in the voluntary carbon markets through the use of global standards, as a mechanism to support decarbonisation and mobilise capital to emerging markets for a just transition.

Why? To give a clear picture of the steps companies are taking to reduce their emissions over time, in addition to their current footprint. This would support a whole-economy transition accounting for the specific challenges faced by different sectors, and mitigate the risks associated with rapid divestment.

Overview: the role of policy in accelerating financial sector sustainability action

Tackling climate change and driving the transition to a sustainable global economy requires **rapid, coordinated action** from governments, regulators, international organisations and companies across the private sector.

Time is running out to limit the global temperature rise to 1.5C.

That's why collectively – as an industry and society – we need to go **further and faster** in both setting and delivering sustainability targets.

The financial sector has a central role in this global effort, with mobilising finance **having been at the forefront of discussions at COP26**. It is crucial to continue to build momentum to align the public and private sectors on meeting net zero ambitions, tackling biodiversity loss, and driving capital to emerging markets to support a just transition.

GFANZ has grown to include over 450 organisations across 45 countries, responsible for US$130tn in assets, representing a testament to the financial sector's commitment. LSEG is proud to be part of this industry-wide coalition, and to be working with our sub-sector peers in the **Net Zero Financial Service Providers Alliance** to align our products and services with net zero by 2050.

However, private sector efforts alone are not enough. While significant progress has been made already, we need **further policy action to embed sustainability across the financial system's underlying architecture**.

1

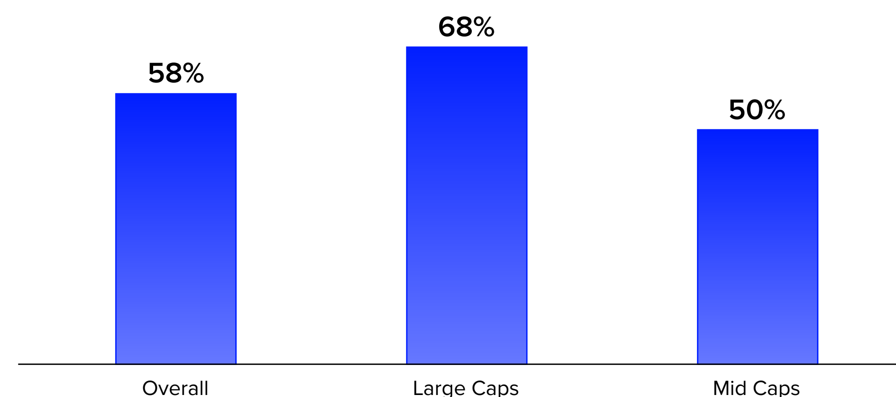
Establishing a global baseline for sustainability-related disclosures

Key recommendation: Introduce domestic disclosure frameworks on an economy-wide basis by 2025, aligning with or adopting global standards.

In order to assess the long-term value of investments, manage risk effectively, and allocate capital at the pace required, financial institutions need **consistent and actionable information** on sustainability-related performance and risks. But sustainability-related information on business activities is still in short supply and difficult to compare.

As Figure 1 shows, **research by FTSE Russell, an LSEG business**, tells us that of the 4,000 large and mid-size constituents in the FTSE All World index **just over half (58%) disclose both Scope 1 and 2 carbon emissions**. The proportion of smaller and unlisted companies that report climate data drops dramatically. Consequently, methodologies used by investors and the finance sector to allocate capital in line with sustainability targets often rely on diverging methodological choices and assumptions, which can cause confusion and hinder comparability.

Figure 1: Percentage of companies disclosing both Scope 1 and 2 emissions in FTSE All World by size



Source: FTSE Russell

Environmental, social and governance (ESG) data providers offer a range of tools to assist the financial sector in sustainability-related decision making. But the **underlying data gaps resulting from a lack of corporate disclosure** mean providers use different approaches to account for missing information. These gaps are a large contributor to a lack of correlation between climate and ESG assessments/scores. **Without addressing the root cause, this challenge will persist**.

The formation of the **International Sustainability Standards Board (ISSB)** was a watershed moment for the global economy as it moves towards a net zero, sustainable future.

Building on the framework developed by the Taskforce on Climate-related Financial Disclosure (TCFD) and other international frameworks, the ISSB's **global baseline sustainability reporting standards** have the potential to provide the international consistency that is needed to unlock comparable, actionable information to inform sustainability-related decision making.

The ISSB is in close communication with the **European Financial Reporting Advisory Group (EFRAG)** as it develops reporting standards for the EU, which is essential to **avoid any divergent reporting standards – and in turn, international fragmentation – from emerging**. We also welcome the collaboration between the Global Reporting Initiative (GRI) and the ISSB to ensure close alignment between these standards.

Today, many companies use the GRI framework as the basis for their sustainability reporting, so it is important that the ISSB and GRI work together in this way.

Policymakers have a unique opportunity to accelerate progress on financial sector sustainability action by **introducing mandatory disclosure rules for companies which adopt or align with the ISSB standards (as developed) by 2025**.

With the ISSB's first standards expected to be ready in Q3 2022, **2025 is an appropriate deadline for governments to introduce their rules**. This deadline allows jurisdictions time to pass legislation while ensuring that the information financial institutions need **to allocate capital in line with 2030 targets** is available well in advance of this milestone.

Many jurisdictions, including the UK, New Zealand, Japan, and more recently, the US Securities and Exchange Commission (SEC), have already made significant progress in introducing mandatory disclosure rules based on global standards, by incorporating the TCFD recommendations in their domestic frameworks.

A group of finance ministers and central bank governors also jointly welcomed the establishment of the ISSB at COP26.

It is crucial that countries continue to build momentum by committing to support the development and adoption of the ISSB standards. A joint declaration of political intent by the G7, G20 and/or the OECD would set the direction effectively.

Company emissions are categorised in to three scopes:

Scope 1
Emissions derived from business operations

Scope 2
Purchased energy

Scope 3
Emissions associated with supply chain

Ultimately, company disclosures need to account for all emission scopes. Disclosing Scope 3 emissions is currently very challenging and relies on – often very varied – estimations.

Global standard-setters and policymakers have an important role in improving **accuracy and consistency**, by providing more prescriptive guidance to break down different elements of Scope 3 emissions in a more industry-specific way.

This could, for example, break down the elements of upstream and downstream supply chains for different sectors and require disclosures on Scope 3 tied to each.

While climate is the most developed area of sustainability reporting, it is equally important that disclosures extend across the spectrum of sustainability goals over time – from biodiversity loss to social factors such as diversity and inclusion. Work is ongoing at an international level to set global frameworks in many of these areas, for example, through the **Taskforce on Nature-related Financial Disclosures (TNFD)**, which is aiming to release its framework for nature-related disclosures in late 2023. This advance can help to inform international standards and domestic disclosure rules as they are developed.

In addition, it is crucial that disclosure rules are applied on an economy-wide basis to have their intended effect. All companies, regardless of their size, or whether they raise capital through public or private markets, will ultimately need to contribute to reaching global sustainability goals. Allowing an unlevel playing field to emerge between public and private markets may lead to regulatory arbitrage, which would be counterproductive to sustainability goals and would undermine the economy-wide approach needed to achieve net zero ambitions.

Companies of similar sizes should therefore be treated equally in terms of their disclosure requirements. So, for example, as governments move towards mandating the disclosure of **Scope 1, 2 and 3 emissions**, both listed companies and large private companies should be required to disclose their emissions in parallel with one another.

2

Unlocking growth in the green economy

Key recommendation: Require disclosure of corporate revenues derived from products and services providing green solutions.

Companies and investors alike clearly recognise the **growth potential in products and services** which support the transition to a sustainable global economy. In 2021, £8.86bn was raised by companies on the London Stock Exchange which have been awarded the Green Economy Mark (50-100% of their revenues derived from products and services contributing to the global green economy). This makes the **Green Economy Mark cohort the fourth largest sector on the London Stock Exchange's equity markets**.

Policymakers can help to unlock further growth in the global green economy by **requiring companies to break down company revenues derived from green products and services in their disclosures**. Doing so would give investors the information they need to shift capital towards companies making a strong contribution to sustainability targets.

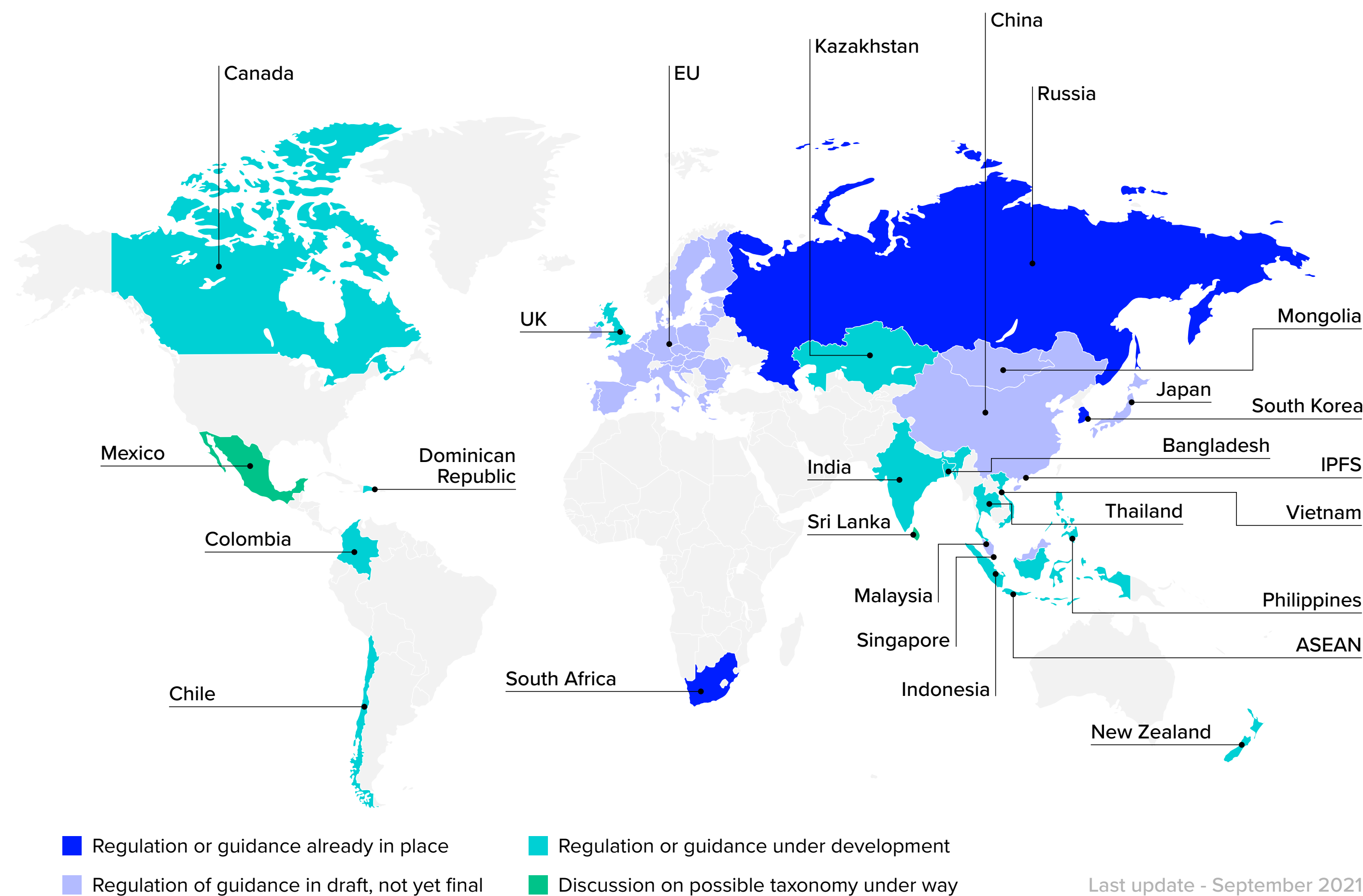
Green classification systems – or 'taxonomies' – can help to provide guidelines on what is 'green' or 'sustainable'. When developing green taxonomies, it is important to **avoid overly rigid or prescriptive definitions** and to leave scope for **progress and innovation in the green economy** over time. For example, taxonomies may leverage existing industry standards and common metrics to set up thresholds that differentiate the level of greenness, instead of using specific local legislations only. Countries that are developing taxonomies should therefore focus on setting clear – and coordinated – high-level principles and requirements for taxonomies, which leave some discretion to investors and sustainability experts to make assessments on how business activities align with sustainability goals.

Since they are ultimately a complementary framework to guide disclosures, **countries planning to adopt taxonomies should aim to do so in line with the introduction of mandatory disclosure requirements by 2025**.

Avoiding complexity and prescriptiveness, and coordinating with other jurisdictions, will also help to promote **interoperability**. As Figure 2 shows, a number of jurisdictions are making welcome advances on their taxonomies and related regulations or guidance – in fact, significant progress has been made globally since this research was compiled in 2021. LSEG is a founding member of the Future of Sustainable Data Alliance (FoSDA), which created the graphic.

However, these findings in Figure 2 also come with a **risk of fragmentation**. To maximise the potential of cross-border financial flows in the green economy and to prevent greenwashing effectively, interoperability (such as common activities, principles and metrics) is vital.

Figure 2: International overview of taxonomy development



Source: Future of Sustainable Data Alliance (FoSDA)

There are a number of other routes to enhance taxonomy interoperability, including by **building on the experience and objectives of jurisdictions – such as the EU and China – which are further along in the process**.

Moreover, this would help to fast-track efforts towards the 2025 target.

Where relevant, countries may also choose to use bilateral or multilateral dialogues to facilitate closer alignment on green classification with likeminded countries and deploy mutual recognition frameworks as well as unilateral equivalence rulings to enhance cross-border financial flows in the green economy.

ASEAN member states have already made progress in this regard, through their joint Taxonomy for Sustainable Finance, while the UK and the EU are aligned on their taxonomy frameworks and environmental objectives, so could benefit from exploring further cooperation.

International initiatives and forums can be leveraged as well. **The International Platform on Sustainable Finance (IPSF)**, for example, is doing important work in driving common-ground taxonomy development, starting with a mapping exercise to identify commonalities and difference between the EU's and China's taxonomies.

Ultimately, the IPSF could further enhance international consistency by establishing a **principles-based approach to guide taxonomy development under a common framework supporting interoperability**. The forum may also benefit from bringing in private sector expertise to support and advise on this work.

3

Achieving credible planning for a just transition

Key recommendation: Mandate the publication of transition plans across the economy and facilitate the development of the voluntary carbon markets to support transition.

While we need to shift capital to the green economy fast, it is equally important to **support traditionally carbon-intensive companies and sectors in their transition**. This will be central to reducing global emissions successfully.

The transition to a net zero, sustainable global economy is a highly complex task, with each country, sector and company facing different challenges. Some sectors that we depend on – such as energy and aviation – will require more time to transition than others. It is important that they are given the opportunity to demonstrate they are **taking meaningful action towards sustainability targets, without being excessively penalised** for their current activities.

Policymakers can facilitate a clear picture on the strategies corporates and financial institutions are implementing to improve their sustainability credentials over time, by taking steps to mandate transition planning and publication across the global economy.

The private sector has already made strong progress on developing best practice for transition planning. GFANZ is working on financial institution and real-economy transition plans, as well as on sectoral decarbonisation pathways, to ensure the unique challenges that different sectors face are taken into account.

A number of jurisdictions have adopted – or are in the process of adopting – the TCFD's latest guidance, which includes a recommendation that organisations disclose transition plans. The EU is also in the process of adopting the Corporate Sustainability Reporting Directive (CSRD), which will require companies to disclose information on their transition plans.

Policymakers should build on these disclosure measures and, as a next step, **work with GFANZ to develop detailed, domestic guidance on transition planning**. The UK's Transition Plan Taskforce initiative sets a good example in this regard, and other jurisdictions should follow the same approach or seek to adopt the guidance developed in the UK as a global standard.

Facilitating a multi-stakeholder approach to developing transition plan guidance – as the UK has, bringing in expertise from government, regulators, academia and the private sector – will help to develop transition plan guidance that is fit for purpose. Importantly, this means striking the right balance between being **principles-based, but prescriptive where necessary**.

While remaining agnostic to companies' ambition levels and methodologies, for example, guidance on transition plans should strive to improve **data standardisation** on emissions-reduction targets through prescriptive disclosure guidelines.

Based on LSEG's experience of projects such as the Transition Pathway Initiative and the Climate Action 100+ Net-Zero Benchmark, assembling a dataset with consistent and accurate corporate climate targets is a significant challenge due to the lack of underlying data. Policymakers should therefore promote the use of **targets templates**, as is referenced in the TCFD's latest metrics and targets guidance.

Policymakers can also enable further access to tools which support the implementation and advancement of transition. One the of the most significant is the **voluntary carbon markets**. This emerging area of the financial markets enables private investors, governments and businesses to voluntarily fund climate change mitigation projects worldwide via the purchase of carbon credits. The best practice is to have in place a certified science-based target for reducing operational emissions then 'offset' unavoidable emissions with high-quality **carbon credits**.

Importantly, many emissions-reduction projects generating carbon credits are located in emerging markets and developing economies (EM&DEs). Accordingly, the growth of the voluntary carbon markets will facilitate **the mobilisation of capital from developed countries to EM&DEs** in order to support the transition – a key element of the global sustainability goals set out in the Paris Agreement.

As the voluntary carbon markets grow, policymakers and industry have a key role to play in **protecting market integrity and preventing international fragmentation**. Like in the compliance markets, where the ultimate goal should be to establish a global cap-and-trade system, global consistency in the voluntary carbon markets would help to accelerate global decarbonisation.

A great deal of work is being carried out by industry participants to develop the voluntary carbon markets and ensure they operate credibly and efficiently on a global scale.

Notably, the Integrity Council for Voluntary Carbon Markets (ICVCM) is developing Core Carbon Principles that will act as a **global benchmark for high-quality carbon credits**. Policymakers can progress the benefits of this work by endorsing the ICVCM's standards and promoting their use of on a global basis.

It would also be valuable to perform analysis of where the **voluntary carbon markets can operate and fit within, or utilise the structures of, existing regulatory frameworks**.

Such work is ongoing in certain jurisdictions, including the UK, and we would encourage broader consideration by governments which have not begun doing so. Where they interact with public markets, for example, the existing requirements to regulate those markets, including around transparency, governance and indeed market abuse, provide a strong framework to help **secure integrity**.

Once this analysis has been done and any potential gaps have been identified, policymakers can take any further action that is necessary.

Navigating the way forward

Policymakers across the world have already made significant progress in setting the framework to embed sustainability across the financial sector and global economy. Now is the time to build on this momentum, and go further and faster to introduce rules and guidance which facilitate the mobilisation of capital for the transition to a net zero, sustainable future.

The financial sector is committed to play its part, but it needs consistent and reliable data to inform decision making and maximise the power of capital markets. The key to unlocking this is economy-wide, mandatory disclosure rules. Crucially, these rules should:

- Align with global standards
- Enhance the availability of information on:
  - revenues derived from products and services which are driving growth and innovation in the global green economy
  - transition plans which companies are implementing to reduce their emissions over time

By focusing on these three pillars, policymakers can enable consistency between different jurisdictions and help to guide capital to companies which are making the most significant impact on tackling sustainability challenges now, as well as those which have developed credible plans to enhance their impact in the future. Promoting growth and innovation in green sectors, while supporting transition planning across the whole economy in parallel, is the approach needed to enable a rapid, coordinated and just transition.

There are a number of important milestones ahead to accelerate progress on this agenda. Following COP26 and the finalisation of the Paris Agreement, COP27 presents a key opportunity to raise ambition on sustainability targets further and to strive for global alignment on policy frameworks for sustainable finance and investment. In the run-up to and beyond the summit, we encourage governments and the private sector to collaborate on progressing the recommendations we have set out, leveraging global platforms such as the G7, G20 and GFANZ to facilitate engagement.

The transition to a sustainable global economy can only be achieved through coordinated action, driven by ambitious goals and credible plans to deliver them. LSEG is committed to work together with policymakers and industry to embed sustainability across the financial system, and to apply the power of capital markets as an enabler of sustainable growth.

For further information please contact:
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How we disclose and report on progress

Disclosing data and progress transparently ensures we are not only accountable for our commitments, but in making our data public we are also encouraging transparency in the market.

We commit to monitoring and reporting in alignment with best practice on sustainability disclosures and will continue to report our net zero progress through a range of periodic reports:

- LSEG Annual Report & Accounts
- Annual Sustainability Report
- Climate Transition Plan
- CDP Climate Change disclosure
- TCFD Report

Further information

For further information regarding LSEG's sustainability approach please see lseg.com

LSEG is more than a diversified global financial markets infrastructure and data business.

We are dedicated partners to our customers, with an open model and commitment to excellence. With extensive experience, deep knowledge and global presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. It's how we've contributed to supporting the financial stability and growth of communities and economies globally for more than 300 years.

Discover more at lseg.com

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