

The importance of good environmental, social and governance practices

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The Johannesburg Stock Exchange (JSE) is one of five exchanges in the world to be internationally recognised as a pioneer of a global initiative to enhance corporate transparency, performance on environmental, social and corporate governance (ESG) issues and encourage sustainable investment.



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In 2012 in Rio de Janeiro, Brazil the JSE, together with four other stock exchanges across the globe, became a founding signatory of the Sustainable Stock Exchanges Initiative (SSEI) during the UN Global Compact's Corporate Sustainability Forum. In so doing, it pledged to promote sustainable finance in the South African market and committed to the SSEI vision of creating a world where capital market signals align with public policy goals on sustainable development.

This year these five founding signatory exchanges were recognised as pioneers and awarded the SSE Groundbreaker Award for their commitment to sustainable development, presented during the recent World Investment Forum in Geneva, Switzerland. The five awardees were the JSE, EGX (the Egyptian Exchange), B3 (Brazil), Borsa Istanbul and Nasdaq (New York).

Since that decision six years ago, other world exchanges have been challenged to follow suit, bringing the number of exchanges who are now part of the SSEI to around 78.

Investment sector committed to sustainable development

You may wonder what all this means for you, me and the South African market. Well, imagine the effects of an investment sector committed to sustainable development, to empowering the market for sustainable growth and protecting investors all at the same time.

Sustainable development, as set out by the Millennium Development Goals (MDG), was once considered as being largely the mammoth task of governments and non-government organisations. However the Sustainable Development Goals (SDGs), as outlined in 2015, placed responsibility at everyone's door, including business and the private sector.

Four of the 17 SDGs speak to the mission of the SSEI, those being goals five, 12, 13 and 17 which address gender equality, sustainable information, climate change and global partnerships respectively. Underpinning this is the action of mobilising finance towards achieving the goals.

The JSE begun making strides to this end as early as 2004 when it became the first emerging market stock exchange to launch a Socially Responsible Investment (SRI) Index. The SRI Index existed to promote sustainable and transparent business practices and disclosure at a time when the globe was sparking conversations around sustainability initiatives and during the local advent of the King Codes on corporate governance.

It sought to foster good corporate citizenship and promote sustainable development. Companies listed on the FTSE/JSE All Share Index were reviewed annually against a set of environmental, social, and governance (ESG) concerns and ranked according to performance.

FTSE/JSE Responsible Investment Index Series

In 2015, the SRI came to an end and a new index was introduced in its place, further advancing the efforts of the past decade. The FTSE/JSE Responsible Investment Index Series, a partnership between JSE and FTSE Russell was designed to identify South African companies with leading ESG practices.

By partnering with a global index provider, the JSE was able to align ESG disclosure indicators and data collection methods on a global scale and provide JSE-listed companies a chance to be a part of a global universe of corporates whose disclosure practices in relation to ESG receive detailed assessment, thereby setting them apart from the rest and benchmarking themselves globally on a comparable basis.

ESG disclosure is critical because it assists investors to make a more holistic assessment on the sustainability and impact of investee companies and businesses on society and the environment. These include issues around climate change, water, human rights, corruption, labour standards and the like. Some of these issues are specifically considered in instruments and tools such as ESG indices and ratings, green bonds, social impact bonds, sustainability funds and energy investment funds, all of which usually aim to address a range of sustainability-related challenges and can be linked to the global SDGs.

ESG disclosure

JSE-listed companies are doing well with regards to ESG disclosure. FTSE data shows that they on average do better than their global counterparts from emerging markets. This positions them better for success in the longer term, and also makes them more attractive to investors who are increasingly factoring ESG issues into their investment decision-making. Recent numbers from the Global Sustainable Investment Alliance show that at least 26% of professionally managed assets (AUM) globally are invested in some form of responsible or sustainable investment strategy.

This means investors are increasingly favouring investments and investee companies that contribute to sustainable

development. Thus engagement between issuers and investors becomes increasingly important: investors are encouraged to ask about the sustainability of the companies they seek to invest in, companies are also encouraged to talk about how they incorporate sustainability-related considerations into their business strategies and governance practices.

Sustainability Principles for Exchanges

In October, the World Federation of Exchanges launched its Sustainability Principles for Exchanges with the aim of promoting the development of a sustainable financial system.

Part of this, according to the federation, includes making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilience development, as well as promoting the transformation towards an inclusive and sustainable economy.

The JSE was among the first exchanges to benchmark against these principles globally, further exhibiting its commitment as a pioneer in the sustainability space.

The principles developed by the federation include education of market participants, promotion of ESG disclosures, multi-stakeholder engagement for sustainable finance, provision of markets and products and establishing effective internal governance in support of sustainability efforts.

The SSE award recognition is a manifestation of steps taken in the right direction. The world's financial sector has a responsibility towards the planet and its inhabitants to ensure that markets can be used as a force for good in supporting the aims of sustainable development.

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