# WFE Consultation on Green Equity Principles and Guidance

14th September 2023

## Introduction

The World Federation of Exchanges (WFE) **Green Equity Principles (the Principles)** set out a global framework that individual exchanges can use to establish a 'green' offering for listed equities, thus improving the flow of funding towards the financing of more sustainable economies. **The Guidance** published today supplements these with further operational standards on how they should be applied. The WFE is launching a public consultation today until 15 January 2024 on **both** documents (please see the next page for details).

The voluntary Principles define 'green' criteria for equities (including initial public offerings [IPOs]) which, if met, will allow the listed equities to obtain the **'WFE Green Equity Classification.'** The Guidance sets out practical considerations for exchanges who wish to establish offerings that align to the WFE Green Equity Classification and covers the principles themselves, as well as operational matters such as:

- Designation of responsibility within the exchange for overseeing the classification
- Establishing relevant processes including criteria for revoking classification
- Development of the classification mark and provision of public information
- Criteria for assessing the appropriateness of reviewers.

Individual exchanges can choose to apply and manage the Principles and Guidelines in their own jurisdictions assuming that doing so, would not contravene existing jurisdictional legislation.

The Principles and Guidelines have been developed in response to WFE members around the world seeking to tailor offerings to clients who wish to obtain greater visibility of green activities. Exchanges are striving to bring clarity, consistency and rigor to the concept of green and to counter greenwashing. By establishing the Principles, the WFE aims to contribute to international recognition amongst various offerings, thereby supporting cross-border investment activities.

The goal behind these Principles and Guidelines is to promote all regulated equity markets in supporting progress towards a sustainable economy – similarly to other offerings, such as green bonds[1], social bonds[2], sustainability bonds[3] and sustainability-linked bonds.[4] As evidenced by the WFE's own Annual Sustainability Survey[5] – in 2021, green bonds were the most popular sustainable green securities offering globally.

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[1] Green bonds are issued by governments and companies who are specifically looking to fund new and existing projects with environmental benefits, such as renewable energy or energy efficiency projects.

[2] Social bonds have emerged as a means of funding causes, including: (i) access to education; (ii) affordable basic infrastructure (like clean drinking water); and (iii) food supply protection.

[3] Sustainability bonds are used to finance or re-finance a combination of both Green and Social Projects.

[4] Sustainability-linked bonds are any type of bond instrument for which the financial characteristics can vary depending on whether the issuer achieves a set of pre-defined sustainability objectives. They are a forward-looking performance-based instrument which commits issuers to future improvements in sustainability outcomes within a pre-defined timeline.

[5] https://www.world-exchanges.org/our-work/articles/wfe-annual-sustainability-survey-2022

As gatekeepers and guardians of the regulated equity markets, exchanges play a key role in creating access to capital markets by enabling deep and liquid pools of capital, by enabling price discovery, and by supporting wealth creation. The role they play in sustainable finance[6] will be even greater in fostering inclusive, sustainable global growth and encouraging long-term horizons for financial decision-making. Green Equities can play an important role in helping to create a more sustainable world.

Exchanges were invited to explore how these Principles and subsequently the Guidelines might be applied within their own jurisdictions, while taking existing legislative and regulatory requirements into account. Whilst these Principles and Guidelines are not mandatory nor do they place any new formal additional listing standards, the minimum criteria outlined in these Principles and Guidelines must be met in order for an exchange to use the WFE Green Equity classification as part of its offerings.

This publication today of the new Guidelines which supplement the Principles is now open for public consultation. **This paper therefore sets out a series of questions for all stakeholders in equity markets to participate in the WFE's work in this area.** The WFE welcomes comments on both the Principles and Guidelines **by 15 January 2024.**

Please submit feedback to consultations@world-exchanges.org.

**Summary of public consultations questions:**

Qu 1. Do you think the five pillars are comprehensive or that any further considerations should be added, either to the pillars or the related operational suggestions? If so, what would you suggest should be added?

Qu 2. Do you think any further detail should be added to the operational suggestions? Are the five pillars comprehensive? If not, what would you suggest should be added to either of the above?

Qu 2. Do you think the processes listed are appropriate? Is anything significant omitted? If so, please outline what you think should be added to the processes and what risk it would address?

Qu 3: Would you propose any additions relating to the review process, including the criteria for assessing the appropriateness of the reviewer or, the operation checklist for exchanges in Annex 1? If so, please explain further what you propose should be added and why.

Qu 4. Is the approach regarding revenues appropriate? Would any further guidance on the assessment of revenues be necessary? If so, please outline what you would suggest should be added, and why.

Qu 5. Would you suggest any changes or additions to the approach on Taxonomies or the related guidance and if so, why?

[6] Sustainable Finance is the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (European Commission). It has become a powerful movement led by regulators, institutional investors and asset managers globally. (Source: https://www.worldbank.org/en/topic/financialsector/brief/sustainable-finance )

Qu 6. Would you suggest any changes or additions to the approach/guidance on Governance and if so, why?

Qu 7. Would you suggest any changes or additions to the approach/guidance on Assessments and if so, why?

Qu 8. Would you suggest any changes or additions to the approach/guidance on Disclosures and if so, why?

Qu 9. What other features would make green equities attractive and are there any further steps that could be taken to avoid greenwashing?

Q 10. Do you believe that the Principles and Guidance should be reviewed and if so, when? (2 years from now, or, 3 years etc. Or no specific date for a review specified but dependent on developments?)

**The consultation closes on 15 January 2024. Please submit your response to consultations@world-exchanges.org with your contact details and indicate if you are happy for your response to be made public**. Please note, if we do not receive an indication, we will assume you are happy for the response to be made public.

**Background**

The World Federation of Exchanges (WFE) [7]is the global industry association for operators of regulated exchanges and clearing houses (CCPs). This includes everything from local entities in emerging markets to international groups based in major financial centres, with 34% based in Asia-Pacific, 45% in EMEA and 21% in the Americas. Collectively, they run some 250 pieces of market infrastructure, which includes standalone CCPs as well as integrated exchanges-cum-clearing houses.

As of end-2022, around $145 trillion (equivalent) in share trading annually passes through WFE members, who are home to over 55,000 listed companies, with an aggregate market capitalisation of over $100tr. WFE member's 90 CCP offerings collectively ensure that risk takers post some $1.3tr (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of companies and market participants wishing to raise capital, invest, trade, and manage financial risk.

Established in 1961 and headquartered in London, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

[7] Transparency Register number 973382524675-69

WORLD FEDERATION OF EXCHANGES

**The WFE Green Equity Principles**
**23 March 2023**

## *Introduction*

1. The **WFE Green Equity Principles (the Principles)** set out a global framework that individual exchanges can use to establish a 'green' offering for listed equities, thus improving the flow of funding towards the financing of more sustainable economies.

2. These voluntary Principles define 'green' criteria for equities (including initial public offerings [IPOs]) which, if met, will allow the listed equities to obtain the **'WFE Green Equity Classification.**'

3. Individual exchanges can choose to apply and manage the Principles in their own jurisdictions assuming that doing so would not contravene existing jurisdictional legislation.

4. The Principles have been developed in response to WFE members around the world seeking to tailor offerings to clients who wish to obtain greater visibility of green activities. Exchanges are striving to bring clarity, consistency and rigor to the concept of green and to counter greenwashing. By establishing the Principles, the WFE aims to contribute to international recognition amongst various offerings, thereby supporting cross-border investment activities.

5. The goal behind the Principles is to promote all regulated equity markets in supporting progress towards a sustainable economy – similarly to other offerings, such as green bonds[8], social bonds[9], sustainability bonds[10] and sustainability-linked bonds.[11] As evidenced by the WFE's own Annual Sustainability Survey[12] – in 2021, green bonds were the most popular sustainable green securities offering globally.

6. As gatekeepers and guardians of the regulated equity markets, exchanges play a key role in creating access to capital markets by enabling deep and liquid pools of capital, by enabling price discovery, and by supporting wealth creation. The role they play in sustainable

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[8] Green bonds are issued by governments and companies who are specifically looking to fund new and existing projects with environmental benefits, such as renewable energy or energy efficiency projects.

[9] Social bonds have emerged as a means of funding causes, including: (i) access to education; (ii) affordable basic infrastructure (like clean drinking water); and (iii) food supply protection.

[10] Sustainability bonds are used to finance or re-finance a combination of both Green and Social Projects.

[11] Sustainability-linked bonds are any type of bond instrument for which the financial characteristics can vary depending on whether the issuer achieves a set of pre-defined sustainability objectives. They are a forward-looking performance-based instrument which commits issuers to future improvements in sustainability outcomes within a pre-defined timeline.

[12] https://www.world-exchanges.org/our-work/articles/wfe-annual-sustainability-survey-2022

finance[13] will be even greater in fostering inclusive, sustainable global growth and encouraging long-term horizons for financial decision-making. Green Equities can play an important role in helping to create a more sustainable world.

7. Exchanges should explore how these Principles might be applied within their own jurisdictions, while taking existing legislative and regulatory requirements into account. Whilst these Principles are not mandatory nor do they place any new formal additional listing standards, the minimum criteria outlined in these Principles must be met in order for an exchange to use the WFE Green Equity classification as part of its offerings.

8. This paper focuses on how the Principles would apply where public markets and publicly listed companies already lead efforts to create a more sustainable market, however, a separate approach for establishing green classifications for privately held companies could be developed.

9. The WFE welcomes further discussion and input on these proposals and will publish a guidance note to accompany these Principles.

10. The WFE intends to work on a WFE Green Equity Transition classification once more progress has been made globally on transition planning methodologies including the understanding of Just Transition[14] planning.

11. These Principles have been developed in collaboration with members of the WFE's Sustainability Working Group. The WFE Green Equity Principles will be reviewed and updated at regular intervals as the market evolves.

12. This paper covers the following:
    - The Purpose of the WFE Green Equity Principles (the Principles)
    - Overarching Pillars of the Principles
    - The WFE Green Equity Classification – Criteria
    - Questions and Answers (Q & As)
        - Who can the WFE Green Equity Principles apply to?
        - What if an exchange already operates a Green Equity classification?
        - On what basis would the relevant stock exchange revoke the classification?

[13] Sustainable Finance is the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (European Commission). It has become a powerful movement led by regulators, institutional investors and asset managers globally. (Source: https://www.worldbank.org/en/topic/financialsector/brief/sustainable-finance )

[14] The International Labour Organisation (ILO) defines a Just Transition as greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.

## *The Purpose of the WFE Green Equity Principles (the Principles)*

13. The purpose of these Principles is to outline recommendations for exchanges that wish to develop offerings of Green Equities that:

    (i) promote improved access to capital by issuers whose activities are primarily green; and

    (ii) provide investors with additional information on green activities to aid their capital allocation decisions.

14. From an issuer's perspective, an accreditation system should help to provide clarity on the types of activities undertaken that are environmentally positive. A classification or kitemark enables issuers to:

    (i) raise their profiles among investors that are actively looking to deploy capital to companies committed to sustainability;

    (ii) use the classification as a marketing and communications tool; and

    (iii) increase visibility of their green credentials and commitment to the green economy which can help to mitigate against greenwashing.

15. From an investor's perspective, a Green Equity classification will provide investors with information that will assist them with their investment decision-making. This classification could increase the investible universe in green investments as some environmental solutions are not immediately obvious to investors.

## *Overarching Pillars of the Principles*

16. The eligibility criteria for the WFE Green Equity Principles[15] consist of the following five pillars:

    - **Revenues/Investments:**
        - The percentage of revenues that contribute to the green economy should be based on the issuer's latest publicly available financial statement. For pre-revenue stage issuers, the expected revenues could be assessed from available business plans.

[15] The WFE Green Equity Principles have been created with reference to the existing models from Nasdaq and the London Stock Exchange. Both the London Stock Exchange and Nasdaq have created their own classification systems which help investors to assess the growing number of companies that are generating revenue from products and services that contribute to positive environmental outcomes. Switzerland has also introduced Climate Scores for financial investments.

- The percentage of investments allocated to activities considered green by pre-revenue stage issuers should also be based on the issuer's latest publicly available financial statement. All investments should be assessed by the reviewer.
- Exchanges will have to define and publish what is meant by green activities under their respective classifications within the parameters of these Principles and can take into account any existing relevant legislation to this effect. This could include a reference to mandatory taxonomies in their jurisdictions supplemented by criteria and definitions for activities where taxonomies are not yet available.[16]

- **Taxonomy:**
    - The eligible taxonomy utilised to determine green revenues or investments can be defined by the exchange and must be made public.
    - An exchange can designate any available green taxonomy that is clear, objective, and transparent as the reference taxonomy or can establish the criteria and definitions for activities considered as green.
    - Finalised and recognised taxonomies in the exchange's jurisdiction, can be utilised to determine which revenues or investments can be considered as green.
    - For some activities which could be considered green, but where there is no finalised and recognised taxonomy available, the utilised taxonomy can be supplemented by criteria and definitions for activities considered green. These must be publicly stated.

- **Governance**:
    - Issuers will be subject to existing listing requirements implicit in being a publicly listed business.

- **Assessment:**
    - Annual assessments of compliance by issuers with the classification standards must be conducted by an approved reviewer.
    - Exchanges can determine a list of approved reviewers or can set separate criteria to determine the appropriateness of reviewers.
    - Templates can be established to assist reviewers with their assessments.
    - Exchanges may also determine criteria for situations where a third-party reviewer may not be necessary.

- **Disclosure:**
    - Issuers must make appropriate disclosures about their claims to meet the green classification criteria.
    - Exchanges must publicly disclose which green taxonomies will be used. Where no taxonomy is available, the criteria and definitions for activities considered green must also be made public. These should also be stated in the assessment reports.
    - The criteria and methodology used for assessments by approved reviewers must be published.
    - Exchanges or issuers must publish the outcomes of assessment reports on issuers that qualify for the green classification.

[16] Some jurisdictions are still in the process of finalising legislation surrounding green taxonomies.

## *The WFE Green Equity Classification - Criteria*

17. The **WFE Green Equity Classification** can be offered by exchanges to issuers that meet certain criteria – normally, this classification would be awarded to issuers that demonstrate a high commitment to the green economy.

18. The following criteria must, at a minimum, feature as part of this classification:

- **Revenues:** Listed issuers will need to generate more than 50% of their total annual revenues from activities that contribute to the green economy. For issuers that are in the pre-revenue stage[17], more than 50% of their investments must be allocated to activities considered green[18] or 100 % of their expected total annual revenues must be from activities that contribute to the green economy. Exchanges can determine which of these two pre-revenue stage criteria they apply.

- **Taxonomy:** For the purposes of the classification assessment, the issuer must disclose the taxonomy utilised along with any other criteria and definitions used to ascertain that revenues are green or that investments are contributing to the green economy. The taxonomy and criteria and definitions used must be made public and stated in the assessment report.

- **Governance:** Issuers will be subject to existing listing requirements implicit in being a publicly listed business on the exchange(s) on which they are listed.

- **Assessment:** An assessment of the activities and the related revenues (or investments or expected revenues for pre-revenue stage issuers) that are contributing to the green economy must be carried out by an exchange-approved reviewer on an annual basis. The reviewer will apply its own publicly available methodology for the assessment. Exchanges may also determine criteria for situations where a third-party reviewer may not be necessary.

- **Disclosure:** Appropriate disclosures relating to how the listed issuer meets the criteria for this classification must be made available. The criteria, methodology used, and outcomes of the assessment reports for issuers that qualify for the green classification must be made public.

[17] The expectation is that these issuers will have business models that are considered very green.

[18] Green investments are investments done over the previous financial year whereby real and verified green action has been taken. The investment calculation can be a combination of capital expenditure (capex) and operational expenditure (opex).

19. After the exchange has determined that the issuer meets the relevant criteria, the participating exchange will be able to issue a classification in the form of a WFE Green Equity Classification.

## *Questions and Answers (Q & As)*

***Who can the WFE Green Equity Principles apply to?***

20. The Principles can be voluntarily applied by exchanges that have established a process to meet the criteria. These exchanges will be able to publicly state that they subscribe to the WFE Green Equity Principles. Exchanges can design their own classification designations or logos.

21. Issuers listed on exchanges that would like to receive the WFE Green Equity Classification and that meet the criteria set out in these Principles can request the classification from exchanges that apply the Principles. Issuers in the listing process can apply for a classification ahead of admission to trading if they have the necessary supporting documentation to meet the criteria.

***What if an exchange already operates a Green Equity classification?***

22. If an exchange already offers its own Green Equity classification that meets the criteria of the WFE Green Equity Principles, then that exchange can also publicly disclose that they subscribe to the WFE Green Equities Principles. The exchange can choose to apply the relevant WFE classification concurrently with its own classification.

***On what basis would the relevant stock exchange revoke the classification?***

23. Exchanges that have adopted the Principles reserve the right to exclude an issuer at any time from the classification. For example, an issuer that drops below the required green thresholds or refuses to undergo an assessment by an eligible reviewer may have its classification revoked.

**Guidance Note on the WFE Green Equity Principles**

**13 September, 2023**

## Introduction

The WFE Green Equity Principles (the Principles) were launched in 2023 and set out a global framework that individual exchanges can use to establish a 'green' offering for listed equities. The Principles are a ground-breaking initiative supporting the financing of the green economy.

This note provides operational guidance for exchanges that wish to establish offerings aligned with the WFE Green Equity Classification for listed issuers on their exchanges. Any questions related to this guidance should be directed to consultations@world-exchanges.org.

The guidance covers general operational matters for exchanges and further information on how the five pillars of the Principles can be implemented.

- **Operational suggestions** on how exchanges can apply and manage the Principles include:

    - Allocation of adequate resources
    - The development of processes including criteria for revoking the classification
    - The development of the classification mark/logo and provision of public information
    - Criteria for assessing the appropriateness of the reviewer.

- Guidance on the overarching **five pillars** of the Principles includes information on:

    1. **Revenues**: definitions for listed equities and Initial Public Offerings (IPOs) and pre-revenue stage issuers; and publication of what is meant by green activities.

    2. **Taxonomy**: how the development of green taxonomies vary across jurisdictions; the choice of taxonomy; and the transparency as to the selected taxonomy.

    3. **Governance**: the importance of overarching existing governance requirements.

    4. **Assessment:** the choice of reviewer; the transparency of the reviewer's assessment process; the frequency of assessments; assessments of pre-revenue stage issuers; and optional assessment templates.

    5. **Disclosure**: the avoidance of disclosure of confidential or sensitive information; and elements to be disclosed.

**Qu 1. Do you think the five pillars are comprehensive or that any further considerations should be added, either to the pillars or the related operational suggestions? If so, what would you suggest should be added?**

**Operational guidance**

***Adequate resource***

Exchanges that are planning to establish a green equity offering in line with the WFE Green Equity Classification should ensure that they designate responsibility to a specific employee or team with appropriate competence/experience ('designated function') to manage the information associated with the classification.

***Processes including criteria for revoking the classification***

The designated function should set out the system by which listed issuers can request the classification including the timeframe for analysing the necessary supporting information and providing the response. Exchanges can determine whether they would like to set up a formal application form/template in this regard.

The designated function should also establish internal processes to monitor whether an annual (or more frequent) assessment has been conducted and whether issuers still meet the qualifying criteria.

The designated function must also establish the criteria by which a classification could be revoked. The revocation should take place if the green revenues percentage (see section on revenues below) is below 50% at the annual review. This is to prevent greenwashing and to lower the risks to investors who want to show they are investing in investments that meet green credentials.

Exchanges may also take into consideration material interim disclosures, media reports or information disclosed by whistleblowers in determining whether to maintain the listed issuer's WFE-aligned Green Equity Classification.

In circumstances where the classification has been revoked, the issuer should have the opportunity to regain the classification once any remedial actions have taken place and when the issuer meets the required criteria.

**Qu 2. Do you think the processes listed are appropriate? Is anything significant omitted? If so, please outline what you think should be added to the processes and what risk it would address?**

***Classification mark/logo and provision of public information***

The exchange can design its own classification mark or logo and can specify that it subscribes to the WFE Green Equities Principles. The exchange should explain on its website and in other literature that it offers the classification along with descriptive information on how the exchange manages the classification and what is meant by green activities.

Exchanges must maintain a list of issuers that have been granted the classification and should put processes in place to ensure that the list is kept up to date. Exchanges may consider publishing the list on their websites and in other literature.

The WFE will maintain a list of exchanges that have advised the WFE that they offer the WFE Green Equity Classification.

***Criteria for assessing appropriateness of the reviewer***

The designated function may also have the responsibility to determine a list of approved third-party reviewers, in which case they would be tasked with establishing criteria by which to assess the appropriateness of reviewers. The criteria could include:

- Internal governance management
- Adherence to ethics and independence standards
- Management of conflicts of interests
- Adequate risk management controls
- Knowledge and experience of sustainability matters
- Understanding of green taxonomies
- Transparency of methodologies used to assess green revenues and general review process.

There may be cases where exchanges conduct the review themselves with transparent criteria. Please see Annex 1 for an operational checklist for exchanges.

**Qu 3: Would you propose any additions relating to the review process, including the criteria for assessing the appropriateness of the reviewer or, the operation checklist for exchanges in Annex 1? If so, please explain further what you propose should be added and why.**

## Guidance on the five pillars

### 1. Revenues

***Listed equities and IPOs***

As a minimum, listed issuers will need to generate more than 50% of their total annual audited revenues from activities that contribute to the green economy. Exchanges have the option to set a higher minimum percentage should they wish to. Thus, the formula by which an issuer will be able to attain the classification is:

$$\frac{Green\ Revenues}{Total\ Revenues} > 50\%$$

*Green Revenues*: revenues from the latest publicly available financial statement generated from activities that contribute to the green economy as defined by the exchange with reference to a specific taxonomy or to definitions publicly stated by the exchange.

*Total Revenues*: all revenues generated by the issuer from the latest publicly available financial statement (including revenues from activities that contribute to the green economy).

***Pre-revenue stage issuers***

For issuers in the pre-revenue stage, exchanges can choose between the following two options to determine if these issuers meet the criteria for the classification:

***Option 1***

*Expected total annual revenues from activities that contribute to the green economy = 100% [This can be demonstrated by the activities already taking place within the business.]*

*Expected total annual revenues from activities that contribute to the green economy*: expected revenues from activities that contribute to the green economy as defined by the exchange with reference to a specific taxonomy or to definitions publicly stated by the exchange. This can be demonstrated by the activities already taking place within the business. For this assessment, the latest publicly available financial statement can be utilised. Where no financial statement is available, then the following can be used: investment prospectus, investor presentations, website information, and/or the most recent board-approved business plan. It is expected that green activities will lead to green revenues.

***Option 2***

$$\frac{Green\ Investments}{Total\ Investments} > 50\%$$

*Green Investments:* investments made over the previous financial year based on the latest publicly available financial statement whereby real and verified green action has been taken. The investment calculation can be based on capital expenditure (capex) or on a combination of capex and operational expenditure (opex) ensuring that both the numerator and the denominator apply the same method.

*Total Investment*: all investments made over the previous financial year based on the latest publicly available financial statement. This calculation can be based on capex or on a combination of capex and opex ensuring that both the numerator and the denominator of the equation apply the same method.

***Publication of what is meant by green activities***
An exchange will have to define and publish what is meant by green activities within the parameters of the Principles taking into account the exchange's choice of taxonomy and/or published criteria and definitions for activities considered as green. (See Taxonomy section below).

**Qu 4. Is the approach regarding revenues appropriate? Would any further guidance on the assessment of revenues be necessary? If so, please outline what you would suggest should be added, and why.**

## 2. Taxonomy

***Development of green taxonomies vary across jurisdictions***
A green taxonomy is a classification system which sets out a list of environmentally sustainable economic activities. It also provides appropriate definitions and criteria for which economic activities can be considered environmentally sustainable. Some jurisdictions, such as the European Union (EU), have developed their own mandatory environmental taxonomy.[19] Taxonomies for other

[19] Further information on the EU Taxonomy can be found via the following link: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en
The International Platform on Sustainable Finance (IPSF) published the second version of their Common Ground Taxonomy (CGT) report, which includes 72 climate mitigation activities that are recognized by both the EU Sustainable Finance Taxonomy and China's Green Bond Endorsed Project Catalogue. More information can be found at: https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en

environmental objectives and for social aspects are under development[20]. Jurisdictions are at varying phases of taxonomy development[21] and some jurisdictions have not yet considered domestic green taxonomies.

***Choice of taxonomy***

Exchanges can utilise an existing taxonomy that is mandatory for use in its jurisdiction to determine green revenues, activities or investments under the WFE Green Equity classification. Alternatively, where a jurisdiction has not yet mandated the use of a taxonomy or where it would be beneficial to meet market needs, exchanges can designate any available green taxonomy that is clear, objective, and transparent as the reference taxonomy or they can establish the criteria and definitions for activities considered as green (which would also be considered part of the exchange's selected taxonomy).

An exchange could start out with reference to one taxonomy and then switch to a mandated taxonomy that becomes applicable in its jurisdiction, for example. In this case, the measurement and assessment criteria for green revenues will most likely need to be reviewed and the listed issuer must undergo another assessment against the new taxonomy criteria.

***Transparency of selected taxonomy***

In all cases, exchanges should specify on their website and in other literature which taxonomy they are referencing and/or any criteria and definitions for activities considered as green under the classification. This information will be essential for the assessment of compliance with the criteria for the classification.

It is important to highlight that, within each jurisdiction in which the exchange operates, the taxonomy designated by the exchange in that jurisdiction will be the reference point for measurement of the WFE Green Equity Classification as defined by the Principles and the Guidance. and should be applied in a consistent manner. An exchange should not designate more than one taxonomy per jurisdiction for this particular classification. The establishment by an exchange of one designated taxonomy per jurisdiction will encourage greater comparability and thus, potentially greater investment by a wider pool of investors.

Full comparability of equities with the WFE Green Equity Classification across jurisdictions may not be possible due to the use of different taxonomies mandated by or selected in different jurisdictions; a fact which reinforces the importance of full transparency regarding the choice of taxonomy. Additionally, there may be several exchanges in the same jurisdiction and transparency surrounding the use of taxonomy by the exchanges is essential.

**Qu 5. Would you suggest any changes or additions to the approach on Taxonomies or the related guidance and if so, why?**

[20] At the time of publication of this this document.

[21] Information about the development of Singapore's Green and Transition Taxonomy can be found via the following link: https://www.mas.gov.sg/development/sustainable-finance/taxonomy. Thailand's approach can be found at: https://www.bot.or.th/landscape/en/green/directions/taxonomy/. Information about the UK's approach can be found at: https://www.greenfinanceinstitute.co.uk/programmes/uk-green-taxonomy-gtag/. These are examples of green taxonomies under development (at the time of publication of this document) and are not meant to be an exhaustive list.

## 3. Governance

Listing rules in different jurisdictions apply their own legal governance requirements. It is expected that issuers applying for the WFE Green Equity Classification will comply with jurisdictional governance requirements. These requirements are subject to changes from time to time.

**Qu 6. Would you suggest any changes or additions to the approach/guidance on Governance and if so, why?**

## 4. Assessment

***Choice of reviewer***

An important aspect of the Principles is the assessment by an approved reviewer of compliance by issuers with the classification standards.

See the 'Operational guidance' section for a list of criteria that exchanges could use to assess the appropriateness of a reviewer. If possible, the exchange should set out a list of approved reviewers on its website and in other literature. It is especially important to assess conflicts of interest in this situation. Likewise, if an issuer requests that the exchange recommend a reviewer, conflicts of interest should also be managed and the issuer should be referred to the published list of reviewers.

There may be cases where exchanges conduct the review themselves with transparent criteria.

***Transparency of the assessment process***

The methodology that the reviewer utilises for the assessment must be made available and exchanges can provide a reference to the methodology via a link to the area of the reviewer's website that explains the methodology.

Exchanges may also determine criteria for situations where a third-party review may not be necessary and where an exchange may be able to determine directly if the issuer meets the criteria for the classification. Where this is the case, the exchange must be transparent and make the criteria for such cases publicly available. The exchange must make it clear who has conducted the review – whether themselves or a third-party reviewer.

Exchanges should ensure that all reviews are well-documented for audit-trail purposes.

***Frequency of assessments***

Assessments should be conducted at least on an annual basis utilising the latest publicly available annual financial statement. It is essential that the annual assessment confirms whether or not the issuer meets the criteria of the classification.

A reassessment should be carried out should there be reason to believe that a significant change has occurred that may impact the classification of the equity.

***Assessments of pre-revenue stage issuers***

For assessments of pre-revenue stage issuers, the information required should be garnered from the latest publicly available financial statements. Where no financial statement is available, then the following can be used: investment prospectus, investor presentations, website information, and/or the most recent board-approved business plan.

***Optional assessment template***
Exchanges can consider whether they would like to publish an assessment template for reviewers to utilise. This may make it easier to determine if a designated issuer meets the criteria and may make comparisons amongst issuers more effective. A sample template for reviewers is set out in Annex 2.

**Qu 7. Would you suggest any changes or additions to the approach/guidance on Assessments and if so, why?**

## 5. Disclosure

***Avoidance of disclosure of confidential or sensitive information***
Transparency is a key element of the Principles. In order to avoid greenwashing and to enable investors to have confidence in green-labeled equities, various types of disclosures must be made publicly available. Disclosures should, however, avoid the inclusion of confidential or sensitive information.

***Elements to be disclosed***
From the perspectives of different entities, these public disclosures should include the following:

- **Exchanges:** Exchanges that subscribe to the WFE Green Equity Classification and establish a green equity offering in line with the WFE Green Equity Classification should publicly disclose that they meet the criteria of the WFE Principles and the WFE Green Equity Classification. An exchange should provide descriptive information on how it manages the classification and which taxonomy or criteria should be used for the classification to determine green revenues or investments. The methodology that the reviewer utilises for the assessment must also be made available and exchanges can provide a reference to this via a link to the area of the reviewer's website that explains the methodology. The exchange should publish its list of approved reviewers. If the exchange conducts its own reviews, detailed information pertaining to the methodology used should be published. Disclosure for issuers that qualify for the green classification should be published. Exchanges should maintain a public, up-to-date list of issuers who have received the classification.

  The WFE will also maintain a list of exchanges that have advised the WFE that they offer the WFE Green Equity Classification.

- **Issuers:** Issuers must make appropriate disclosures about their claims to meet the green classification criteria. Issuers should publish assessments related to the classification conducted by approved reviewers.

- **Reviewers:** Reviewers must make public the methodology they use for their assessments of the green equity classification.

**Qu 8. Would you suggest any changes or additions to the approach/guidance on Disclosures and if so, why?**

**Qu 9. What other features would make green equities attractive and are there any further steps that could be taken to avoid greenwashing?**

**Qu 10. Do you believe that the Principles and Guidance should be reviewed and if so, when? (2 years from now or 3 years etc.? Or, no specific date for a review specified but dependent on developments?)**

# ANNEX 1

WORLD FEDERATION OF EXCHANGES

**WFE Green Equity Classification - Checklist for Exchanges**

Exchanges that are planning to establish a green equity offering in line with the WFE Green Equity Classification should ensure that the senior management of the exchange considers the following:

1. **Designated function:** Designate responsibility to a specific employee or team ('designated function') to manage the information associated with the classification.

2. **Process for issuers to request classification:** Set out the system by which listed issuers can request the classification including the timeframe for analysing the necessary supporting information and providing the response. This could involve setting up a template or list of information including the way in which the information is submitted (ie, via a portal on the website or via a specified email address). The reviewer's report along with any related financial accounts or available board-approved business plans will be the main items of information required.

3. **Determine approved reviewers:** The designated function may also have the responsibility to determine a list of approved reviewers, in which case they would be tasked with establishing criteria by which to assess the appropriateness of reviewers. Criteria for assessing approved reviewer could include:

    - Internal governance management
    - Adherence to ethics and independence standards
    - Management of conflicts of interests
    - Adequate risk management controls
    - Knowledge and experience of sustainability matters
    - Understanding of green taxonomies
    - Transparency of methodologies used to assess green revenues and general review process.

    If an issuer provides an assessment report by a reviewer that is not pre-approved by the exchange, consideration should be given as to how this could be dealt with, ie, consider adding the reviewer to the approved list if it meets the relevant criteria.

    Exchanges should ensure that all reviews are well-documented for audit-trail purposes.

4. **Publication on its website and in other literature:** The designated function should ensure that the exchange's website and in other literature is kept up to date with the following disclosures:

    a. **Statement** that the Green Equity Classification provided by the exchange meets the criteria of the WFE Principles and the WFE Green Equity Classification.

    b. **Descriptive information** on how it manages the classification.

    c. Which **taxonomy or criteria** should be used for the classification to determine green revenues or investments in the jurisdiction in which the exchange operates.

    d. The **methodology** that the reviewer utilises for the **assessment** must be made available and exchanges can provide a reference to this via a link to the area of the reviewer's website that explains the methodology. If the exchange conducts its own reviews, clear information about this and the methodology used must be published.

e. The **assessment reports** for issuers that qualify for the green classification, if the intent is for these to be publicly disclosed. In lieu of assessment reports, an annual update must be provided.

f. A list of **approved reviewers.**

g. An **up-to-date list of issuers** that have received the classification.

5. **Annual monitoring:** The designated function should establish internal processes to monitor whether an annual assessment has been conducted and whether issuers that have received the classification still meet the qualifying criteria.

6. **Revoking classification:** The designated function must also establish the criteria by which a classification could be revoked.

WORLD FEDERATION OF EXCHANGES

# ANNEX 2

**WFE Green Equity Classification – Information Template for Reviewers**

**ISSUER NAME:** ___________________________________________

**Date of completion or of latest update**: _________________________

**ASSESSMENT provided by (name of organisation providing assessment):** ___________________

**Has the reviewer been pre-approved by the exchange?**

☐ Yes (if yes, please provide evidence) __________________________________________

☐ No

**Has the issuer met the WFE Green Equity classification criteria?**

☐ Yes (if yes, please include a copy of the assessment report)

☐ No (please explain including any actions required to reach a positive result) _____________

___________________________________________________________________________

**Description of business**

Brief description of business and its contribution to the green economy: ____________________

___________________________________________________________________________

**Use of methodology**

Brief description of methodology used for the assessment: ______________________________

___________________________________________________________________________

Link to published description of the reviewer's methodology /criteria: ______________________

**Assessment of the five pillars (as defined by the WFE Green Equity Principles and Guidance Note)**

Does the listed issuer generate more than 50% of its total annual audited revenues from activities that contribute to the green economy?

☐ Yes (please describe) ______________________________________________________

☐ No

**For Pre-revenue state issuers**

If the issuer is in the pre-revenue state, are 100% of its expected total annual revenues from activities that contribute to the green economy (this can be demonstrated by the activities already taking place within the business) or are more than 50% of its investments allocated to activities considered green?

Where no financial statement is available, then the following can be used: investment prospectus, investor presentations, website information, and/or the most recent board-approved business plan. It is expected that green activities will lead to green revenues.

☐ Yes (please describe including rationale for choice of metric used) _______________________

______________________________________________________________________________

☐ No

Please describe which taxonomy has been used to determine green revenues or investments.

______________________________________________________________________________

Please describe any other criteria and definitions used to ascertain that the revenues or investments contribute to the green economy.

______________________________________________________________________________

Has the taxonomy and any other criteria used been pre-approved by the exchange?

☐ Yes (if yes, please provide evidence) ___________________________________________

☐ No

Any other comments or observations? ______________________________________________

______________________________________________________________________________