The WFE Green Equity Principles

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 rigour 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[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.

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

[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

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.

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[7] 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?

[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)

[7] 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[8] 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.

[8] 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.[9]

- **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.

[9] 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[10], more than 50% of their investments must be allocated to activities considered green[11] 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.

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

[11] 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.