



AFE
ARAB FEDERATION
OF EXCHANGES

ESG INTEGRATION IN THE ARAB REGION

2021

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Authors:
NICOLAS N ZOUGHEIB, CFA
RAMI EL-DOKANY
FADY KANSO

INTRODUCTION

ESG investing, also known sustainable investing, incorporates the environmental, social, and governance (ESG) considerations into the investment management process.

Recently, attention has increased that corporate exposure to environmental factors, social practices, and governance issues can materially affect long-term prospects and sustainability of a listed company. The ESG investing developments motivate companies to integrate ESG initiatives into their main strategies and governance activities to enhance their performance, and to attract more investors. Also, investors realize that the evaluation of an investment opportunity is incomplete if they don't consider and analyze properly ESG factors.

ESG continues to evolve as an investment strategy and it represents a growing portion of the overall capital market investment, and ESG strategies have been receiving higher inflows from new equity launched funds over the past twelve months. As ESG investing continues to accelerate, companies that address the appropriate social and environmental issues related to their business, and report effectively the needed information to the market, can benefit by achieving sustainable growth, attracting more funds, and receiving higher business valuation. The availability of reporting frameworks and guidance for ESG issues can help companies identify, measure and disclose material ESG information that help investors to perform more accurate valuation and make more appropriate investment decisions. Also, laws and regulations are required to simplify the methods used by issuers to report material risk factors, to organize and encourage transparency about disclosed information, and to impose obligations on ESG disclosures, therefore, making the reported information easier for investors to review and understand.

Exchanges act as a link between investors and issuers to promote highly-efficient and more transparent capital markets and to generate sustainable value for their participants. As both investors and issuers increasingly recognize the importance of ESG factors, providing voluntary or more preferably mandatory guidance to issuers on reporting ESG considerations gives exchanges an influential role to facilitate effective corporate communication. Regulators and exchanges for each individual market have adopted a range of disclosures guidance and global frameworks to follow. The obligation level required regarding ESG reporting also differ among these markets, ranging from voluntary, comply-or-explain basis, to mandatory.

The main objectives of this research

- ▶ Review ESG guidelines in the Arab Exchanges and compare it to the global practices in accordance with World Federation of Exchanges (WFE) and Sustainable Stock Exchanges SSE.
- ▶ Discuss the ESG regulations and disclosure requirements in many regions around the world, and suggest best practices for the Arab Exchanges.

GLOBAL ESG GUIDANCE

2014

Issuance of ESG guidance Model by SSE and WFE

Most countries around the world don't have regulations that oblige companies to report their ESG information, however, companies are left free to decide which ESG factors have material impact on their business performance, and to determine the type of information to disclose to investors. The lack of standardized and transparent frameworks about reporting ESG practices presents real challenge for investors to perform an effective investment analysis, also investment managers seek for solutions to the challenges originated by the lack of consistent, comparable and material information, and companies need to determine precisely their material ESG factors to generate sustainable long-term performance.

As of 2014, few stock exchanges around the world provided voluntary guidance to companies on reporting environmental, social and governance (ESG) information, and investors faced numerous obstacles while seeking comprehensive material issues about a company's ESG practices. This gap pushed many international organizations and UN initiatives to collaborate in order to develop Guidance Models to help exchanges develop their own, custom guidance. The United Nations Sustainable Stock Exchanges (SSE) initiative and the World Federation of Exchanges (WFE) each published an ESG Guidance Model, these two guidance aim to provide exchanges with a globally consistent base to start from as they work to create their own, locally customized, voluntary guidance, to help their issuers to report properly the ESG information required to meet the investors' need. The WFE and SSE guidance templates together offer an effective toolkit for Stock Exchanges to guide companies and investors alike on environmental, social and governance (ESG) reporting and measurement.

The Sustainable Stock Exchanges (SSE) initiative is a United Nations (UN) project that aims to provide a global platform to enhance the performance on ESG issues and promote sustainable investment, to provide technical assistance and advisory services, and also to encourage financial markets to support and finance the UN Sustainable Development Goals (SDGs).

In 2015, the UN SSE initiative built on existing local and international frameworks, guidelines and best practices to develop the "Model Reporting Guidance", this model serves as template for exchanges to develop their own voluntary guidance to issuers. The Model Guidance addresses that there are different types of investors and each type require different size and quality of information, however, consistency is needed while incorporating material ESG factors into the investment decision process. The Model Guidance sets up basic principles to clarify the business case for reporting ESG data and to guide the reporting process. It helps companies to create additional value from existing ESG initiatives and sustainability reporting frameworks. The Model Guidance provides exchanges with a globally consistent reference needed to create their local voluntary guidance; this will help the local issuers to better meet the investors' need for ESG information.

2015

SSE issues the "Model Reporting Guidance"

"The main ESG challenge is the quality of the reported data by companies about their Environmental, Social and Governance practices."

In November 2015, the World Federation of Exchanges announced the release of new WFE recommendations on ESG reporting. WFE recommends the use of the SSE Model Guidance released earlier since it provides comprehensive principles that assist companies on how to benefit from existing ESG frameworks for better ESG reporting. The WFE recommendations offered practical advice on how to handle enhanced sustainability disclosure, and that the adoption of the WFE guidance will help the exchanges that initiated a partnership with the UN's Sustainable Stock Exchanges initiative, to meet their SSE commitment. The WFE guidance offered all interested exchanges with practical advice on how to take their sustainability policies to an upper level, which will help those exchanges to meet their international sustainability benchmarks to which they have committed. The WFE's new recommendations help exchanges to develop their own key performance indicators (KPI) to measure performance in each ESG category as described in the SSE Model Guidance. SSE encourages all stock exchanges to use these new tools to create their own guidance on ESG reporting for listed companies.

The 33 Metrics of the WFE ESG-Guidance published in October 2015

Source: World Federation of Exchanges (WFE)

ESG	Metrics
Environmental (10 Metrics)	Direct & Indirect GhG Emissions Carbon Intensity Direct & Indirect Energy Consumption Energy Intensity Primary Energy Source Renewable Energy Intensity Water Management Waste Management Environmental policy Environmental impacts
Social (12 Metrics)	CEO Pay Ratio Gender Pay Ratio Employee Turnover Rate Gender Diversity Temporary Worker Rate Non-Discrimination Injury Rate Global Health Child & Forced Labor Human Rights policy Human Rights violations Board - Diversity
Governance (8 Metrics)	Board - Separation of Powers Board - Confidential Voting Incentivized Pay Fair Labor Practices Supplier Code (SC) of conduct Ethics Code (EC) of conduct Bribery/Anti-Corruption Code (BAC) Tax Transparency
Other (3 Metrics)	Sustainability Report Framework Disclosures External Validation, Assurance

In 2018, the WFE announced an updated version for the WFE's 2015 Guidance and Metrics. The update is performed to reflect the new sustainability developments, such as the UN Sustainable Development Goals (SDG) and the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and to incorporate all feedback received from investor groups on the initial WFE Guidance, and to adjust the metrics based on the implementation experiences in certain markets.

The resulted revisions to the 2015 Guidance and Metrics are:

- ▶ Investors are the main users for a company ESG disclosure, therefore the primary focus for exchanges is to ensure the availability of relevant decision-making information for investors.
- ▶ The provision of greater guidance around report preparation including:
 - Responsibility and oversight.
 - Reported information and business value should be linked clearly.
 - Provide useful definitions and approaches for materiality.
- ▶ The adjustment of the metrics, including:
 - Renaming some metrics to align with the TCFD Recommendations.
 - The removal of certain metrics that tended to not be reported, or investors indicated these were less important; the provision of guidance around certain metrics to specify a reporting methodology.
 - The creation of new metrics related to management of climate related issues.

**ESG GUIDELINES FOR THE
ARAB EXCHANGES**

Among the seventeen members of the Arab federation of Exchanges (AFE), only ten exchanges are partners with sustainable stock exchanges SSE initiative, and 12 exchanges are members with the world federation of exchanges WFE. Only eight Arab stock exchanges issued written guidance on ESG reporting, two of them have mandatory reporting regulation. Only four exchanges launch annual sustainability report, while six exchanges offer ESG related training programs.

10

*Exchanges are
partners with SSE*

12

*Exchanges are
members with WFE*

08

*Exchanges issued
guidance on ESG*

02

*Exchanges have
mandatory reporting*

The ESG attributes for the AFE members

Source: The Sustainable Stock Exchanges (SSE),
database, exchanges

The Arab Federation of Exchanges Members	SSE Partner	Has annual sustainability report	ESG reporting required as a listing rule	Has written guidance on ESG reporting	Offers ESG related training	WFE Member
Abu Dhabi Securities Exchange (ADX)	✓	✓	✓	✓	✓	✓
Amman Stock Exchange (ASE)	✓	✗	✗	✓	✗	✓
Bahrain Bourse (BHB)	✓	✓	✗	✓	✓	✓
Beirut Stock Exchange (BSE)	✗	✗	✗	✗	✗	✗
Casablanca Stock Exchange (CSE)	✓	✓	✗	✓	✗	✓
Dubai Financial Market (DFM)	✓	✓	✓	✓	✓	✓
Damascus Securities Exchange (DSE)	✗	✗	✗	✗	✗	✗
Egyptian Exchange (EGX)	✓	✓	✗	✓	✓	✓
Iraq Stock Exchange (ISX)	✗	✗	✗	✗	✗	✗
Khartoum Stock Exchange (KSE)	✗	✗	✗	✗	✗	✗
Boursa Kuwait	✓	✗	✗	✓	✓	✓
Muscat Stock Exchange (MSX)	✗	✗	✗	✗	✗	✓
Palestine Exchange (PEX)	✗	✗	✗	✗	✗	✓
Qatar Stock Exchange (QSE)	✓	✗	✗	✓	✓	✓
Saudi Exchange (TADAWUL)	✓	✗	✗	✗	✗	✓
Tunis Stock Exchange (BVMT)	✓	✗	✗	✗	✗	✓
Dubai Gold and Commodities Exchange (DGCX)	✗	✗	✗	✗	✗	✗

Over the last decade, many non-profit organizations around the world and UN initiatives have developed sustainability reporting standards. Some issuers use these standards for their own sustainability reporting purposes, while others use them as a starting point for additional research on the subject. The GRI standards from the Global Reporting Initiative and the ten universally accepted principles of the United Nations Global Compact (UNGC) are widely used by local exchanges to develop their own ESG Key Performance Indicators (KPI). The main UN initiatives and non-for-profit organizations are:

The Global Reporting Initiative (GRI)

Is an international, not-for-profit organization working in the public interest towards a vision of a sustainable global economy where organizations manage their economic, environmental, social, and governance performance and impacts responsibly. GRI's activities are twofold: firstly, the provision of sustainability reporting guidelines and secondly, the development of engagement activities, products and partnerships to enhance the value of sustainability reporting for organizations.

The International Integrated Reporting Council (IIRC)

It is a group of international leaders from the corporate, investment, accounting, securities, regulatory, academic, standard-setting and civil society areas with a mission to create the Integrated Reporting Framework. The framework will provide material information about an organization's strategy, governance, performance and prospects in a concise and comparable format, a fundamental shift in corporate reporting.

The Sustainability Accounting Standards Board (SASB)

A non-profit U.S.-based organization, has a mission to create and disseminate accounting standards that reporting issuers can use to disclose material sustainability factors in filings with the Securities and Exchange Commission. The SASB Materiality Map is a visual tool that helps users identify SASB disclosure topics on an industry-by-industry basis and compare the potential materiality of various sustainability factors across different industries and sectors.

Carbon Disclosure Project (CDP)

It is a global not-for-profit organization, founded in 2000 and headquartered in London. CDP requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as "CDP signatories".





The United Nations Global Compact (UNGC)

It is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

The Climate Disclosure Standards Board (CDSB)

It is an international consortium of business and environmental NGOs. CDSB is committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. CDSB offers companies a framework for reporting environmental information with the same rigor as financial information. Collectively, CDSB aims to contribute to more sustainable economic, social and environmental systems.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The Task Force will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

The frameworks suggested by each Arab ESG guidance

Source: The Sustainable Stock Exchanges
(SSE) database, exchanges.

The Arab Federation of Exchanges members with written guidance on ESG reporting	GRI	SASB	TCFD	IIRC	CDSB	CDP	UNGC
Abu Dhabi Securities Exchange (ADX)	✓	✓	✗	✓	✗	✓	✓
Amman Stock Exchange (ASE)	✓	✗	✗	✗	✗	✗	✗
Bahrain Bourse (BHB)	✓	✓	✓	✓	✓	✓	✓
Casablanca Stock Exchange (CSE)	✓	✗	✗	✓	✓	✗	✓
Dubai Financial Market (DFM)	✓	✓	✓	✓	✗	✓	✓
Egyptian Exchange (EGX)	✓	✓	✓	✓	✓	✓	✓
Boursa Kuwait	✓	✓	✗	✓	✗	✓	✓
Qatar Stock Exchange (QSE)	✓	✓	✗	✓	✗	✓	✓

The ESG guidance of the Arab Exchanges differ substantially, as they don't contain the same list of metrics for each ESG category. The comparison between the Arab Exchanges' guidelines with three main global guidelines; the Euronext Guidelines to Issuers for ESG Reporting, the Nasdaq ESG Reporting Guide, and the London Stock Exchange Group (LSEG) Guide to ESG reporting, shows that global guidelines incorporate the new developments associated to climate and UN SDGs.

In addition, global guidance cover more detailed aspects about ESG reporting that help issuers to disclose all quantitative and qualitative ESG information.

List of the WFE metrics suggested in each Arab Exchange Guidance for ESG disclosure

Metric	ADX	ASE	BHB	CSE	DFM	EGX	BK	QSE
Direct & Indirect GhG Emissions	✓	✗	✓	✓	✓	✓	✓	✓
Carbon Intensity	✓	✗	✓	✓	✓	✓	✓	✓
Direct & Indirect Energy Consumption	✓	✓	✓	✓	✓	✗	✓	✓
Energy Intensity	✓	✓	✓	✗	✓	✗	✗	✓
Primary Energy Source	✓	✓	✓	✗	✓	✗	✗	✓
Renewable Energy Intensity	✗	✗	✗	✓	✗	✗	✗	✓
Water Management	✓	✓	✓	✓	✓	✗	✓	✓
Waste Management	✓	✓	✓	✓	✗	✓	✓	✓
Environmental policy	✓	✓	✓	✓	✓	✓	✓	✓
Environmental impacts	✓	✓	✓	✓	✓	✓	✗	✓
CEO Pay Ratio	✓	✓	✓	✗	✓	✓	✗	✓
Gender Pay Ratio	✓	✓	✓	✗	✓	✗	✓	✓
Employee Turnover Rate	✓	✓	✓	✗	✓	✗	✓	✓
Gender Diversity	✓	✓	✓	✓	✓	✓	✓	✓
Temporary Worker Rate	✓	✗	✓	✗	✓	✗	✗	✗
Non-Discrimination	✓	✓	✓	✗	✓	✓	✗	✗
Injury Rate	✓	✓	✓	✗	✓	✓	✓	✓
Global Health	✓	✓	✓	✓	✓	✓	✗	✓
Child & Forced Labor	✓	✓	✓	✗	✓	✗	✓	✓
Human Rights policy	✓	✓	✓	✓	✓	✓	✓	✓
Human Rights violations	✗	✗	✗	✗	✗	✓	✗	✓
Board – Diversity	✓	✓	✓	✓	✓	✓	✗	✓
Board – Separation of Powers	✓	✓	✓	✓	✓	✓	✓	✓
Board – Confidential Voting	✗	✓	✗	✗	✗	✓	✗	✗
Incentivized Pay	✓	✓	✓	✓	✓	✓	✗	✓
Fair Labor Practices	✗	✓	✗	✗	✗	✗	✗	✗
Supplier Code (SC) of conduct	✓	✓	✓	✓	✓	✓	✗	✓
Ethics Code (EC) of conduct	✓	✓	✗	✗	✗	✓	✗	✓
Bribery/Anti-Corruption Code	✗	✓	✓	✓	✓	✓	✗	✓
Tax Transparency	✗	✓	✗	✗	✗	✗	✗	✗
Sustainability Report	✓	✗	✓	✓	✓	✓	✓	✓
Framework Disclosures	✓	✗	✓	✓	✓	✓	✗	✗
External Validation, Assurance	✓	✗	✓	✗	✓	✓	✗	✓

The revised Nasdaq Guide (2019) eliminates and revise uncommon or impractical metrics, incorporate new developments in the marketplace such as TCFD, SDGs, and GRI Standards.

The guide simplifies and standardize guidance, labels, and calculations, it also improves ESG engagement for small and medium sized business enterprises. The Guide lists the metrics with associated questions to get answered, companies use a "respond or explain" rationale, if a certain response is omitted, a comment should be written to explain the reasons. All responses are intended to be reported annually, unless otherwise indicated, and the time scope should be noted.

The Euronext guidelines strives to promote transparency on climate risks and opportunities in the financial markets, the guidance lists Key EU and national ESG reporting regulations, introduces guidance to help issuers in preparing their ESG report, and review the objectives for reporting ESG information.

The LSEG guide is a detailed and well-structured document that aims to make companies more aware of the importance of providing high quality ESG information and engaging investors on sustainability-related issues. The Guide will enable richer data flows and dialogue on ESG between issuers and investors, support the consolidation of sound global reporting standards, and enable investors to make better informed investment decisions.

Providing voluntary guidance doesn't guarantee that companies will report sufficient ESG information, companies in the Arab region need to address increasingly ESG factors into their business models to improve their ESG rating.

Arab companies are lagging behind their peers in the world regarding ESG performance, for this purpose an ESG rating investigation of sample Arab companies is performed and the result shows that they have poor ESG ranking, this rating assessment is performed using three main rating criterias which are; "Refinitiv ESG scores", "MSCI ESG Ratings" and "Sustainalytics' ESG Risk Ratings".

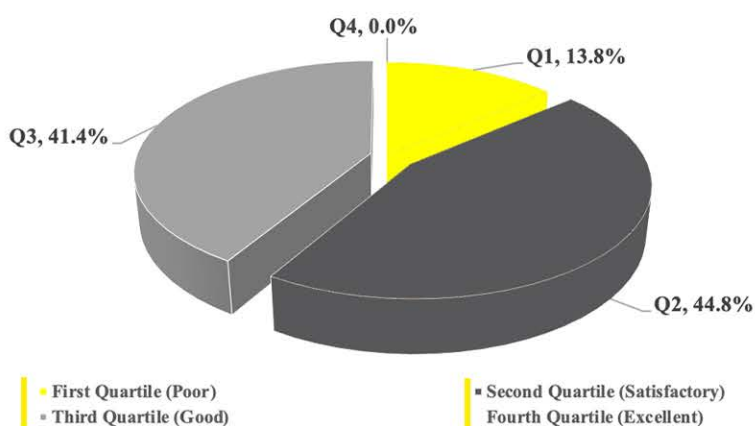
ESG ratings aim to help investors identify and understand financially material ESG risks for a business. Companies are evaluated according to their publicly available information from annual reports or media sources, the companies' scores are used by investors as an ESG performance proxy. The ESG ratings are benefitable for both investors and issuers, companies that score well on ESG metrics are believed to better anticipate future risks and opportunities, be more disposed to long term strategic plans, and focused on sustainable value creation.

Sample of the Rating of different Arab Companies by different Providers

Country	Listed Companies	Industry	Refinitiv		MSCI		Sustainalytics	
			ESG Score (out of 100)	Description	ESG Rating	Rating Level	Score	Risk Level
Saudi Arabia	AlMarai Co.	Food Products	64	Q3 - Good	BBB	Average	37.2	High
	Emaar the Economic City	Real Estate	12	Q1 - Poor	B	Laggard	27.4	Medium
	Jarir Marketing Co.	Retail	33	Q2 - Satisfactory	BB	Average	20.7	Medium
	Medgulf Cooperative Insurance Co.	Insurance	19	Q1 - Poor	-	-	-	-
	National Industrialization Co.	Commodity Chemicals	28	Q2 - Satisfactory	BB	Average	31.7	High
	Sahara International Petrochemical Co.	Commodity Chemicals	38	Q2 - Satisfactory	BB	Average	26.7	Medium
	Saudi Arabian Oil Co.	Integrated Oil & Gas	44	Q2 - Satisfactory	BB	Average	48.1	Severe
	Saudi Basic Industries Corp.	Commodity Chemicals	66	Q3 - Good	BBB	Average	27.3	Medium
	Saudi Electricity Co.	Utilities	53	Q3 - Good	B	Laggard	52.8	Severe
	Saudi Telecom Co.	Telecommunications	43	Q2 - Satisfactory	CCC	Laggard	29.0	Medium
UAE	Savola Group Co.	Food Products	51	Q3 - Good	BBB	Average	38.7	High
	Abu Dhabi Commercial Bank	Banks	69	Q3 - Good	A	Average	30.1	High
	Dubai Financial Market	Financial services	45	Q2 - Satisfactory	-	-	-	-
	Emirates NBD Bank	Banks	40	Q2 - Satisfactory	BBB	Average	30.5	High
	Emirates Telecommunications Group Co.	Telecommunications	52	Q3 - Good	BBB	Average	24.2	Medium
Kuwait	National Bank of Abu Dhabi	Banks	-	-	-	-	-	-
	Agility Public Warehousing Co.	Air Freight & Logistics	69	Q3 - Good	B	Laggard	-	-
	Kuwait Finance House	Banks	28	Q2 - Satisfactory	BBB	Average	-	-
	Mabane Co.	Real Estate Management	28	Q2 - Satisfactory	CCC	Laggard	-	-
	Mobile Telecommunications Co.	Telecommunications	65	Q3 - Good	BB	Average	-	-
Qatar	National Bank of Kuwait	Banks	52	Q3 - Good	BBB	Average	-	-
	Doha Bank	Banks	55	Q3 - Good	-	-	-	-
	Ezdan Holding Group	Diversified investments	8	Q1 - Poor	-	-	-	-
	Qatar Fuel Co.	Oil & Gas	20	Q1 - Poor	A	Average	32.2	High
	Qatar National Bank	Banks	73	Q3 - Good	AA	Laggard	27.2	Medium
Egypt	Commercial International Bank	Banks	26	Q2 - Satisfactory	BBB	Average	23.2	Medium
Jordan	Arab Bank	Banks	49	Q2 - Satisfactory	-	-	-	-
Oman	Bank Muscat	Banks	56	Q3 - Good	-	-	-	-
Morocco	Itisalat Al Maghreb	Telecommunications	41	Q2 - Satisfactory	-	-	-	-
Bahrain	National Bank of Bahrain	Banks	48	Q2 - Satisfactory	-	-	-	-

* The 30 companies constitute the existing Refinitiv-AFE low carbon index

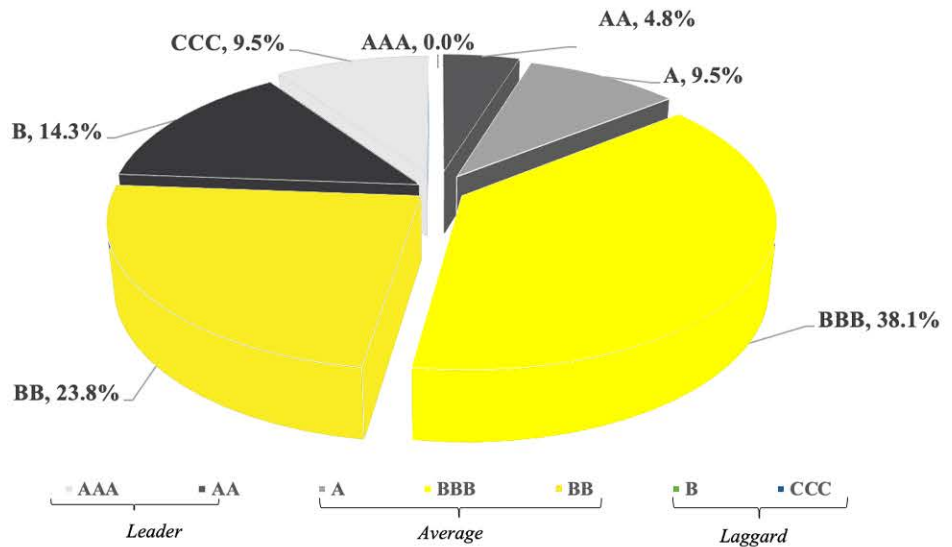
Breakdown of the selected 30 companies by Refinitiv ESG scoring metrics



ESG scores from Refinitiv are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes (emissions, environmental product innovation, human rights, shareholders, etc.) based on publicly-reported data. Refinitiv ESG scores reflect the underlying ESG data framework and are a transparent, data-driven assessment of companies' relative ESG performance and capacity, integrating and accounting for industry materiality and company size biases. The Refinitiv ESG score measures the company's ESG performance based on verifiable reported data in the public domain. It captures and calculates over 450 company-level ESG measures, of which a subset of 186 of the most comparable and material per industry power the overall company assessment and scoring process.

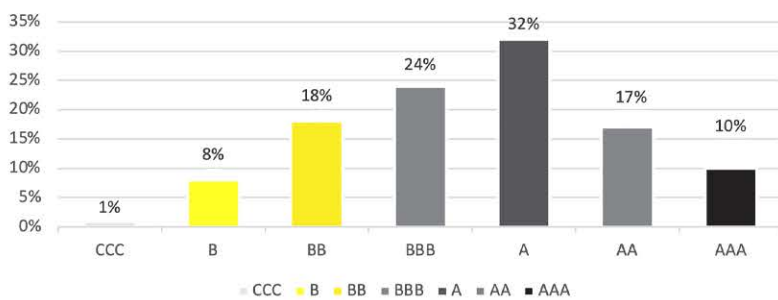
MSCI ESG Ratings aim to measure a company's resilience to long-term, financially relevant ESG risks, this rules-based methodology is used to identify industry leaders and laggards. The companies' rating ranges from 'AAA to CCC' scale according to their exposure to ESG risks and how well they manage those risks relative to peers. MSCI also rates countries and mutual funds and ETFs, MSCI ESG Ratings provide insights into potentially significant ESG Risks so investors can make better investment decisions and communicate with their clients.

Breakdown of the selected 30 companies by MSCI ESG scoring metrics

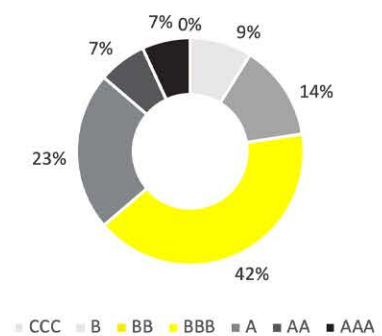


The following charts summarize the ESG Risk Score (in percentages) for selected global industries, using the MSCI rating metrics:

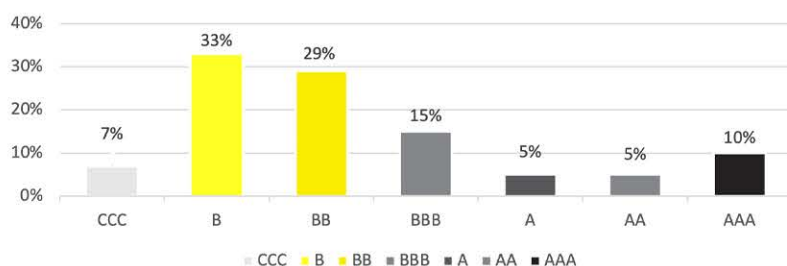
Banks Global Industry



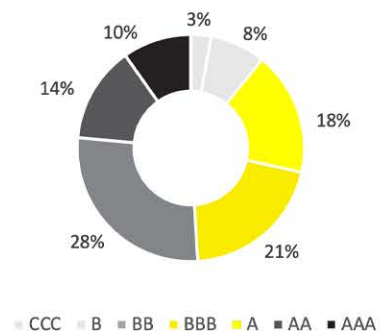
Oil & Gas Refining Global Industry



Real Estate Development Global Industry

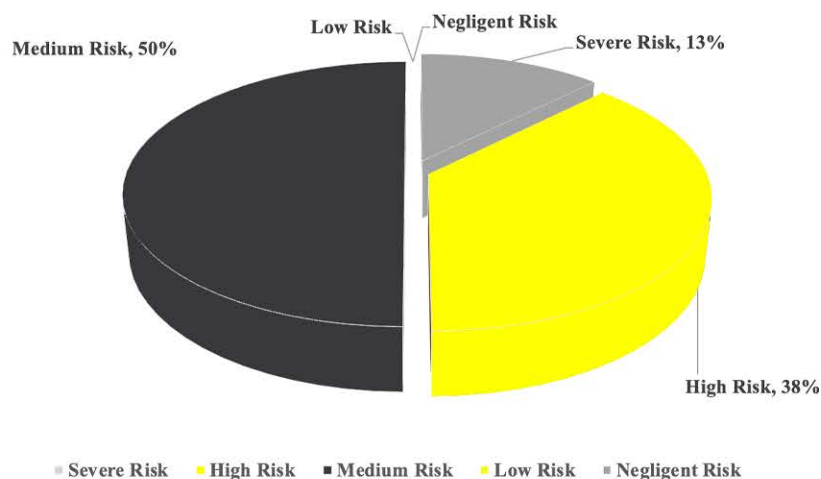


Telecommunication Services Global Industry



Sustainalytics' ESG Risk Ratings are designed to help investors identify and understand financially material ESG risks at the security and portfolio levels and how they might affect the long-term performance for equity and fixed income investments.

Breakdown of the selected 30 companies by Sustainalytics ESG scoring metrics



In conclusion the three rating providers almost yield the same unfavorable rating for the selected Arab companies and to improve their ratings, Arab companies need to address and understand more seriously ESG factors.

Beside issuing ESG reporting guidance to guide companies to prepare sustainable reports, exchanges are encouraged to prepare annual Sustainability Report to demonstrate their commitment to deliver on the goals and initiatives toward their capital markets. The annual Sustainability Report aims to set up sustainability strategy and provides comprehensive information on how various initiatives and practices are engraining sustainability within the exchange's constituents. According to SSE initiative, fifty exchanges issue annual sustainability reports, among them only five Arab exchanges issue this report .

5

ADX
DFM
EGX
BHB
CSE

Exchanges
Issue Annual Sustainability Reports

After reviewing sample ESG annual reports for large US and European corporations, and the main ESG guidance and annual reports for the main Arab and Global exchanges, a series of useful outcomes are extracted that will be used to develop a standardized ESG Guidance and recommendations for the Arab Exchanges:

61%

Of European Sustainability reports use GRI standards.

100

New mandatory instruments have been introduced across 64 countries.

60%

Of assets managed for EU investors incorporate sustainable investment strategies.

58%

Of companies on the Canadian S&P/TSX Composite Index have published a sustainability report in 2019.

83%

Of European asset owners reported that their organization is currently implementing or evaluating ESG considerations in their investment strategy.

60%

Of the Russell 1000 Published Sustainability reports in 2018, however of the smallest 500 by market cap only 34% are reporting, compare to 86% of the largest 500.

82%

Of the green bond market is investment grade; BBB rated or higher.

90%

Of S&P 500 Index Companies Publish Sustainability Reports in 2019, 51% of the S&P 500 reporting companies use GRI, 14% of S&P 500 reporters presented alignment with SASB, 5% of S&P 500 reporters presented alignment with TCFD, 36% of S&P 500 reporters presented alignment with specific UN SDGs, 29% of S&P 500 reporters utilized external assurance, and 65% of S&P 500 companies respond to CDP.

80%

Of the green bond market is investment grade; BBB rated or higher.

Many Arab Exchanges launched sustainability plans to encourage their participants to introduce climate-friendly products and to implement sustainable strategies, such plans are also aligned with sustainable future visions launched by most Arab governments.



Dubai Financial Market (DFM)

In 2019, Dubai Financial Market (DFM) launched its Sustainability Strategic Plan 2025 to promote ESG best practices for its market participants. The Strategy aims to create long-term value for DFM participants, and become the sustainable financial market leader by 2025. The basics of this strategy are; Sustainability Reporting & Disclosures, Sustainable Investment Education, Green Products & Listings, and Gender Balance & Empowering People. The DFM has formed Sustainability Committee to follow up the implementation of the Sustainability Strategy, the committee is expected to embed DFM's sustainability policy and practices across DFM business operations, and to launch a series of initiatives to increase the awareness on of ESG investing and encourage issuers to adopt ESG reporting guidance, this will reinforce the companies' ability to attract investments through good governance practices. In 2020, Dubai Financial Market (DFM) launched the UAE Index for Environment, Social and Governance (ESG), the index is designed to measure listed companies embracing ESG best practices. The S&P/Hawkamah UAE ESG Index is developed in collaboration with S&P Dow Jones Indices and the Hawkamah Institute for Corporate Governance in the UAE (Hawkamah).



Abu Dhabi Securities Exchange (ADX)

On July 2019, Abu Dhabi Securities Exchange (ADX) launched its ESG disclosure guidelines for listed companies. The ADX strategy aims to encourage sustainable economic growth, while providing ESG training programs to encourage the business community to adopt ESG best practices. The comprehensive released standards (31 KPIs) will enhance ADX's competitiveness and attract more responsible investments, the guiding principles will help ADX to promote sustainability in financial markets, and this is aligned with the UAE National Vision 2021 and Abu Dhabi Economic Vision 2030, both visions aim to implement approaches based on sustainable and knowledge-based economy.

Starting January 2021, the UAE Securities and Commodities Authority (SCA) requires public joint stock companies listed in the UAE to adhere to specific ESG disclosure requirements

تداول السعودية
Saudi Exchange

Saudi Exchange (TADAWUL)

TADAWUL, the Saudi Arabia's stock exchange, is the world's 9th largest stock market with market capitalization around \$2.5 trillion, plans to cooperate with global index provider MSCI to launch an environmental, social and governance (ESG) during 2021, the index will include around 70 Saudi listed companies. This plan, which will increase the awareness about ESG investing across all Arab Exchanges, is a response to the global increase for climate-friendly and sustainable products, also COVID-19 pandemic accelerates the integration of sustainable investments into Saudi Arabia and other MENA countries with many international investors shift their focus on to sustainable businesses with low-carbon models.



Qatar Stock Exchange (QSE)

QSE has accelerated the efforts to promote sustainability after it launched the ESG reporting Guidelines in 2016. Qatar's National Vision 2030 emphasizes that developments should be carried out with responsibility and respect for people and the environment. Qatar Stock Exchange strongly supports the transition into an investment environment that contributes to the realization of the human, economic, social and environmental pillars of Qatar National Vision 2030. In 2018, QSE has launched the first sustainability platform in the region to encourage listed companies to disclose their reports on sustainable development, Qatar Stock Exchange Sustainability and ESG Dashboard is designed to accelerate the objectives of the ESG Guidance on reporting and to help listed companies to communicate their ESG and sustainability performance efficiently with investors and other relevant stakeholders.



Boursa Kuwait (BK)

In 2017, Kuwait launched a plan to transform its economy by 2035 through 164 strategic development programs. The plan is intended to transform the economy by attracting direct foreign investments, create partnerships and transfer information about renewable energy, service sectors, and information technology. The Kuwait National Development Plan also aims to focus on sustainable investments that are aligned with environmental and social factors, and to introduce social and economic empowerment programs targeting youth, women, SMEs, and the elderly. Boursa Kuwait has developed sustainability disclosure guidance with the aim to support Kuwait listed issuers to report on Environmental, Social, and Governance (ESG) issues in order to meet the growing information needs of various stakeholders including investors, customers, suppliers, and regulators. The guide proposes an initial set of 26 sustainability indicators that are in line the State of Kuwait's sustainable development ambitions as set out by the Kuwait Vision 2035 and the National Development Plan "New Kuwait".



Egyptian Exchange (EGX)

The Egyptian Exchange (EGX) strives to improve transparency in Egyptian Capital Market, and ensure that sustainability is well defined and disclosed by listed companies. The guide is designed to assist EGX' listed companies in integrating environmental, social and governance (ESG) information into effective capital market communication, this will be essential to implement the Egypt Vision 2030 that aims to achieve the Sustainable Development Goals (SDGs). The national strategic plan provides programs, and policies that help Egypt to move steadily toward sustainable development. The Government of Egypt is committed to implement the economic reforms needed to create suitable environment for inclusive growth and sustainable development. The Egyptian private sector and civil society will be engaged to implement the Egypt 2030 Vision and Agenda. The 2030 Agenda is inclusive and will transform radically the Egyptian economy, and the entire society and sectors should contribute in the achievement of the proposed goals.



Bahrain Bourse's (BHB)

The Economic Vision 2030, which was launched in October 2008, focuses on shaping the vision of the government, society and the economy, based around three guiding principles; sustainability, fairness and competitiveness. The BHB's sustainable plan aims to enhance transparency and disclosure in Bahrain's capital market by supporting listed companies' alignment with Bahrain Economic Vision 2030 and the UN Sustainable Development Goals (SDGs). In June 2020, Bahrain Bourse launched its voluntary Environmental, Social & Governance (ESG) reporting guidelines for listed companies and stockholders along with annual sustainability reports.



Casablanca Stock Exchange (CSE)

Casablanca Stock Exchange is the second largest in Africa by market capitalization. With Morocco hosting the climate change conference COP22 (conference of the parties) in November 2016, the exchange has been instrumental in developing a roadmap of the Moroccan financial sector for sustainable development and the signing of the Marrakech Pledge. Casablanca has developed with the AMMC, the market regulator, in 2017 guidance on ESG reporting. The exchange also launched an ESG Index in collaboration with Vigeo Eiris in 2018 and published its sustainability report in 2021.

GLOBAL ESG REGULATIONS

The quantification of ESG data represents the greatest challenge for ESG investors since they examine non-financial corporate governance records for a company to predict its financial future. Acquiring and analyzing the required information are the main two obstacles in the quantification of the reported ESG information. Regulations about the disclosure of ESG information vary across countries, meaning there is no universal mandate for companies to report ESG data. Methods or metrics used to report and quantify ESG data are numerous and reporting is voluntary in most countries, this means data reported may be incomplete and not directly comparable across companies, sectors and countries. Probably, clear and consistent government regulation about ESG investing could improve the precision, transparency, and profitability of this practice.

For two decades, the European Union put sustainable development among the fundamental objectives of EU policies. The EU aims to achieve sustainable development through balanced and sustainable economic growth that benefits the society while protecting and improving the quality of the environment. In 2016, the EU made sustainable development a priority and it has been mainstreamed into EU policies and legislation.

The European Example

In 2018, the EU commission published its Action Plan on sustainable growth with key objectives:

1. Reorient the flow of funds towards sustainable investments and achieve sustainable and inclusive growth.
2. Manage financial risks related to climate change, environmental deregulations, and social issues.
3. Foster transparency in financial and economic activities.

The role of the EU was essential in shaping the global 2030 Agenda . The Agenda was consistent with the Europeans vision about sustainable development and it provided a shared blueprint to end poverty and hunger, and promoting global sustainable growth. In 2020, the European Securities and Markets Authority (ESMA) published its Strategy on Sustainable Finance, ESMA put Environmental, Social, and Governance (ESG) factors a priority in its working agenda. The strategy emphasizes on transparency obligations, investigating green bonds risks, ESG investing strategies, supervision, and convergence of national advisory practices on ESG factors, and taxonomy.

The key priorities for ESMA highlighted in the strategy are:

- ▶ Completing the regulatory framework on transparency obligations via the Disclosures Regulation. For this purpose, ESMA will work with the EBA and EIOPA to produce joint technical standards.
- ▶ Disclose trends, risks and vulnerabilities (TRV) of sustainable finance, including green bonds, ESG investing activities, and emission allowance trading.
- ▶ Use the available data to analyze financial risks from climate change and performing related stress testing in different market segments.
- ▶ Ensuring convergence of local advisory practices on ESG factors with a focus on mitigating greenwashing risk, and fostering transparency and reliability of the reported non-financial
- ▶ Participating in the EU Platform on Sustainable Finance that will develop and maintain the EU taxonomy and monitor capital flows to sustainable finance.
- ▶ Ensure that ESG guidelines are followed by all companies supervised directly by ESM, and accept any new supervisory mandates associated with sustainable finance.

Since 2019, the EU has initiated several legislatives and regulations to integrate ESG consideration into EU-based investment processes, and to incorporate the ESG factors into the non-financial data reported by European companies. In 2017, the Non-Financial Reporting Directive was the first ESG-related legislative that requires large EU companies, to disclose data about the impact of ESG factors on their firms and vice versa. At the heart of the EU's sustainable development agenda are the proposals for a unified EU classification system for sustainable economic activities (Taxonomy Regulation) and the EU Regulation (EU) (Disclosure Regulation), which provides disclosure standards for the participants in the financial market associated to the integration of sustainability risks into their investment processes.

The Disclosure Regulation issued in 2019 introduces new ESG disclosure requirements for companies and financial advisers. It also governs how ESG factors should be integrated into the companies' investment process. Most of the requirements set out in the Disclosure Regulation take effect in March 2021, with the Regulation due to take full effect in December 2022.

On June 18, 2020, the EU Taxonomy Regulation became a law. The Taxonomy Regulation is designed to establish a classification framework for the EU region that helps the financial market participants (FMPs) to identify the financial instruments and the economic activities that can be treated as 'environmentally sustainable'. On 22 June 2020, the Taxonomy Regulation was published in the Official Journal of the European Union, and it became effective on 12 July 2020. By December 31, 2021, the European Commission will issue a broader ESG taxonomy proposal, and the Commission committed also to adopt a Delegated Act by June 1, 2021, this act will specify the content, the presentation, and the methodology used to disclose the ESG-related information taking into account both financial and non-financial specifications and the technical screening criteria established under the Taxonomy Regulation.

As part of the EU's action plan, the European Securities and Markets Authority (ESMA) coordinates with both the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) to prepare the first technical guidelines, and the new framework is expected to be issued in 2020. The new framework will support and direct private capital towards investing in sustainable products, to support the EU's efforts to be carbon neutral by 2050.

EU law requires only large companies with more than 500 employees to disclose information about their social and environmental challenges. Approximately 6,000 large companies and groups across the EU are covered by this law. The published reports should disclose information about the policies they implement in relation to environmental protection, social responsibility, how they treat their employees, human rights, anti-corruption, and diversity on company boards. The EU companies have flexibility to decide the way they consider most useful to disclose ESG information, they may use international, European or national guidelines to prepare their reports.

ESG investing is becoming a trend in the United States and ESG investment products are growing in number, however, there is still ambiguity about what constitutes ESG investing. When US investors consider ESG investing, their investment advisors must comply with fiduciary duties that requires pursuing investment strategies driven mainly by risk-return principle, for this purpose advisors must act in the best interests of the investors and ensure an adequate disclosure of ESG information.

The factors associated with environmental, social and governance (ESG) differ largely between the US and Europe, compared to Europe, ESG investing in the US is at an earlier stage of development. The U.S. Securities and Exchange Commission (SEC) currently doesn't have any ESG disclosure rules or reporting standards, only some guidelines issued in 2010 regarding how its existing rules might apply to climate risks. Also, SEC doesn't require to include environmental, social, and governance (ESG) disclosures in a public company's filings, however, the record number of new ESG ETFs launched put an increasing pressure on US companies to disclose additional ESG information. Recently, Moody's agency warned that credit risk will increase if investment managers fail to address ESG concerns by investors. In 2020, US public companies understand the need to provide more ESG disclosures whether this is forced by legislation, by SEC requirement rule, or simply to satisfy the investors' growing demand for additional transparent and comprehensive information of this type.

The US Example

The SEC's waiting strategy before its ESG rulemaking begins will come to an end soon. Although a growing number of companies are voluntary making ESG data available to investors and they are disclosing the ESG impact on their operations, however, investor prefer that those companies follow a sequence of regulations that resolve the grey areas between material and non-material ESG issues. Policymakers, investment advisors and managers, pension fund sponsors, and standard-setters like the CFA Institute, need to work with Sustainability Accounting Standards Board and other related organizations to develop effective metrics, and ESG reporting standard.

The Asia Pacific Example

In Asia Pacific, the disclosure of ESG-related data has increased but not all disclosures were useful and of the same quality. For many companies, the collection and reporting of additional information is costly and require excessive preparation time, which may not be feasible for small companies. Development of advanced ESG disclosures require an understanding of the benefits of such reporting, some emerging markets may improve ESG disclosures quicker than developed ones, where practices, laws and regulations are more entrenched and harder to change. Comply-or-explain basis for reporting ESG information is applicable in Hong Kong and Singapore. Since January 2016, if any listed company at Hong Kong has deviated from or does not report any ESG provision, it is required to provide considered reasons for doing so. The Singaporean exchange asked all listed companies to describe in detail how they manage material ESG risks starting with the financial year following December 31, 2017, and companies who fail to do so will be required to explain why they are not reporting on ESG issues. The reporting requirements is voluntary in Australia, India, Japan, and Thailand, however, there is a trend of ratcheting up of the level of disclosures, with China is planning to move from voluntary disclosure regime into mandatory one, with the introduction of mandatory ESG reporting.

The Middle East Example

In the Middle East, the integration of environmental, social and governance factors into the investment process is in its early development stage. The essential element to consider while discussing the integration of ESG in the Middle East is the presence of Islamic Finance, in which raising and investing capital follow the "shariah law". Some researchers think that Islamic finance and ESG investing are complimentary, both strategies promote good initiatives to the society and environment, and they both perform high levels of investigation to satisfy their precepts. More importantly, Islamic finance prohibits investments in specific industries and ESG investment products often contain screening policies that includes one or more criteria. To end this comparison, although Islamic finance and ESG investing are converging, they remain two separate investment approaches.

The Arabian Gulf companies start to expand globally to attract additional capital on the global market, this will change their consideration of environmental, social, and governance issues. International investors have increased their demand for additional ESG disclosures, and they provide sample guidance as to its application. This was a powerful driving force for regulators and companies to take ESG factors more seriously. In addition, local investors increase their demand for ESG products, they mentioned that integration of ESG factors was predominantly concentrated in the equity space rather than in the fixed-income space, where investors ask more about yields than about sustainability.

Although some companies in the Arab region disclose few ESG indicators to mitigate the reputational risk associated with poor ESG activities, in particular those associated to adverse environmental impact. However, ESG reporting still in its early stage of development and most investors in the region feel that governance is the most material factor in terms of its impact on security prices. Regulators in the Gulf region are limited in their ability to provide incentives to encourage the adoption of ESG standards, particularly tax reduction incentives. However, the region needs to focus on developing regulations that can be accessed by investors and issuers which aim to reduce the costs of complying with ESG regulations.

Regulators in the US and globally have been discussing the best practices that companies should follow to disclose their Environmental, Social, and Governance (ESG) information to investors and all other interested stakeholders. Currently, under the U.S. federal securities laws, public companies are required to include, in their filings to the Securities and Exchange Commission (SEC), all material ESG information. Most investors integrate into their investment process the ESG governance factor more than the environmental and social factors, however, the last two factors are progressively gaining more interest.

To derive best practices for ESG investing, investors should understand some important aspects associated to sustainable investing; ESG integration is more popular in the equity filed than in the fixed-income investments. Although most financial advisors integrate ESG factors into their investment process, however, few business models are adjusted based on ESG factors. The main drivers of ESG integration are investors demand for ESG data and decision-making risk management. Limited knowledge about ESG factors and the lack of comparable and standardized ESG data are the main barriers to ESG integration. The disclosure of ESG data have evolved, but quality data requires additional considerations. A single ESG reporting standard would accelerate ESG data collection and results in higher quality data.

Recently, companies have showed obvious progress in terms of voluntary ESG reporting, this means companies don't require more regulatory requirements mandating ESG disclosures, however comprehensive best practices should serve as a useful guide for companies to enhance their ESG disclosures. Best practices can help steer the development of a well-advanced approach to voluntary ESG reporting without imposing regulatory mandates. Furthermore, disclosure variability is usually required, because the relevance of certain ESG factors differs from industry to another and among companies in the same industry, other considerations also need disclosure flexibility such as the company's business model, and its geography.

RECOMMENDATIONS FOR ESG REPORTING

Based on the comprehensive review for the main ESG guidance and regulations particularly the SSE and WEF principles and metrics about ESG disclosure, the Nasdaq guidance, the Euronext guidance, and the LSEG guidance, the following recommendations are derived to serve as useful guide for companies to enhance their preparation for ESG reports:

Strategic ESG Factors

Companies must provide a clear strategic view about sustainability factors, such as climate change, and the impact of the companies' operating environments on their business models. Investors want to understand how issuers are responding to long-term and macroeconomic trends such as climate, demographic and technological change as well as political developments. The main information disclosed in this section are:

- ▶ The way the company is integrating ESG into its business.
- ▶ The approach used to address ESG factors and the business position on climate change.
- ▶ ESG performance highlights across specific areas.

Material ESG Information

To understand a company's long-term prospects, investors will rely on the most relevant or material information associated to any particular business. Issuers must have clear definition of materiality in their ESG report taking into consideration that investors have different views on what they see as material, and they should explain which ESG issues they see as most relevant or material to their business such as; legislation, reputational damage, employee turnover, license to operate, legal action or stakeholder relationships. They should then explain how these impacts may affect their business strategy and financial and operational performance. When presenting this information to investors, it is important to understand what information and data your investors are looking for. The following sample of ESG criteria would be included in the ESG report:

Environmental

- ▶ Energy management
- ▶ Environmental management
- ▶ Water and wastewater management
- ▶ Energy management (CO₂ emissions)
- ▶ Waste and hazardous materials management
- ▶ How green and sustainable products are designed to reduce environmental impact

Social

- ▶ Workforce training
- ▶ Workplace safety and employee wellbeing
- ▶ Diversity and Inclusion
- ▶ Human rights and community relations / Worker's Rights
- ▶ Customer privacy and data security
- ▶ Product quality and safety
- ▶ Full-Time Workforce
- ▶ Gender Diversity
- ▶ Gender Pay Ratio
- ▶ Employee Turnover Ratio
- ▶ Customer Retention Ratio
- ▶ Staff Rotation
- ▶ Children and Forced Labor
- ▶ Global Standards for health and safety

Governance

- ▶ Business ethics
- ▶ Shareholders' rights
- ▶ Executive compensation
- ▶ Internal controls and audits
- ▶ Independence of board and board committees / Board Diversity
- ▶ Fighting Corruption & Bribery

Investment Grade Data

When using ESG data to determine capital allocation and investment decision making, investors want ESG information to be complete, consistent, reliable, comparable and clear. Issuers should ensure that data they provide is accurate, timely, aligned with the issuer's fiscal year and business ownership model, and based on consistent global standards to facilitate comparability. To provide investors with a greater degree of confidence in their reported data, some issuers choose to have their ESG data assured. Companies are recommended to follow the basic principles in ESG reporting, which are:

- ▶ Reporting boundaries: use the same reporting boundaries as for the financial statements.
- ▶ Consolidation: follow the financial accounting standards for consolidating data.
- ▶ Period: follow the periods of the financial statements.
- ▶ Accounting standards: disclose the accounting standards used in the ESG section in the annual report.
- ▶ Performance and trends: clearly explain the historical performance for 2-5 years.

Global Framework

Identify the indicators and standards which are most relevant to their investors. Consistent global frameworks provide an essential tool to allow investors to analyze and compare ESG risks across companies and sectors. Recommended Frameworks are:

- ▶ The Global Reporting Initiative (GRI)
- ▶ The International Integrated Reporting Council (IIRC)
- ▶ The Sustainability Accounting Standards Board (SASB)
- ▶ Carbon Disclosure Project (CDP)
- ▶ The United Nations Global Compact (UNGC)
- ▶ The Climate Disclosure Standards Board (CDSB)

Reporting period

If sustainability disclosure is separate from financial disclosure, it is recommended that the companies annual report and the ESG report to get published for the same reporting period. This will allow investors to consider financial information within the context of ESG information. Cross-references within these documents ensure connectivity and accessibility of information.

Reporting Format

Companies can report ESG information in their annual report through an explicit ESG themes reference, in a standalone sustainability report, or in an integrated report. It is often unclear which of these is most useful to investors. It is important to ensure that your reported data is of investment-grade quality, set out your views on materiality, and explain the strategic relevance of these ESG issues to your business. There are different advantages to each type of reporting, and each issuer should consider which approach will best suit their own needs and those of their investors.

It is increasingly common for larger listed companies to include explicit references to ESG themes within their annual reports. The integration of ESG issues into annual reports allows the process of gathering and verifying this data to be integrated into the processes and information controls that are already in place. It also means that ESG data is readily available to investors at the same time as wider information about the company.

Introducing a standalone sustainability or corporate social responsibility (CSR) report is an approach favored by many issuers. These reports provide a clear view for ESG content and consolidating the information in a single location. In addition, a standalone sustainability report does not necessarily need to align with the style of the annual report; issuers can adopt a style of presentation for raw data, tables and charts best suited to ESG information. The concept of an integrated report is that ESG information and data are presented in an integrated manner within the annual report. This model has been promoted by the International Integrated Reporting Council (IIRC) and aims to offer investors a more rounded, concise and holistic insight into business performance and impact over the short, medium and long term.

Regulation and Investor Communication

The volume of regulation concerning ESG reporting has increased substantially in recent years. If regulators in different countries and regions set different reporting requirements and standards, this can be problematic for both issuers and investors. Issuers should see regulation as a starting point for reporting. However, rather than taking a minimum compliance approach, you should use regulatory requirements as an opportunity to develop an investor focused approach to reporting. It is important that, as an integral part of the reporting you're required to produce, you identify and report on what you see as your most material issues.

To accommodate variable information needs and interests, it may be relevant to use different communication channels, including:

- ▶ Websites
- ▶ Regulatory filings
- ▶ Annual reports
- ▶ Sustainability reports
- ▶ Other company reports

Assessing and assuring

ESG reports are made more credible by strong internal assessment processes and/or external assurance, if resources permit.

CONCLUSION AND RECOMMENDATIONS

Sustainable and climate-friendly investments have been on the rise over the last few years and this trend has received an extra boost in 2020, with many investors globally shifting their focus on to businesses with more sustainable, low-carbon models. Sustainable investments represent an opportunity for the Arab region and specifically the GCC countries to diversify their economies and to promote long term inclusive growth. However, to achieve more sustainable growth, the Arab countries need to support the fiscal consolidation, economic diversification, and engage the private sector in this economic transition that leads to create more jobs, especially for women and young people.

Most Arab countries launched visions for the coming decade to promote sustainable economic growth, but the governments are required to take actions to implement major reforms to attract investors and boost competitiveness, such as easing business licenses, lowering fees, loosening foreign ownership of firms, reducing non-tariff barriers, and supporting women and young entrepreneurs. In recent years, many GCC countries has been working on strategies to attract investments, especially in non-hydrocarbon sectors, and to encourage non-oil exports, such as reforming legislation and creating free trade zones with generous incentives for investors. However, the direct inflows of funds in the GCC region have under-performed compared to other emerging markets.

Arab Exchanges bear the core responsibility to follow up their governments' visions and set up the required regulations that promote more transparent and effective disclosures. Exchanges need to create frameworks that stimulate their partnerships because individual efforts can't achieve the desired objectives, especially with the presence of global unions that work closely to exploit ESG and other investments opportunities. Arab exchanges should work closely to develop common ESG guidance that help issuers to report complete and competent ESG information.

Also, they should collaborate to develop common basic regulations such as:

- ▶ Incorporate mandatory ESG disclosure standards including comply or explain provisions into the ongoing listing rules.
- ▶ Make financial reporting as a requirement for all companies.
- ▶ Make it a listing requirement for companies to put their sustainability strategy.
- ▶ Play a leading role by improving their own ESG disclosure and performance if they are asking for similar standards from companies listed on their exchange.
- ▶ Encourage best practice among companies through development of indices that incorporate full ESG inclusion criteria.
- ▶ Promote cooperation with regulators, investors, companies, analysts, and wider stakeholders to help harmonize integrated reporting into a single regional framework.
- ▶ Periodically review any actions taken in line with the above recommendations for addressing ESG factors in order to help create a level playing field necessary to push the implementation of the sustainability agenda to a higher level.

Last but not least, when ESG factors first entered the world of ETFs, it was regarded as an investment theme, and the few players in the market offered only a limited range of solutions. Driving this change is the demand from institutional and retail investors, coupled with a growing demand for more transparency about how companies, investments, ETFs and portfolios align with specific sustainable objectives. 2020 will probably be remembered as one of humanity's most challenging years, but the Exchange Traded Funds (ETF) market provided a welcome ray of light amidst an array of gloomy headlines in the form of ESG ETFs. With accelerating asset flows, and myriad product launches, assets in ESG ETFs reached record highs in 2020, which may well go down as the year that ESG ETFs finally took off.

Within this context and since ESG data and analytics are becoming of critical importance for MENA financial markets, Refinitiv & The Arab Federation of Exchanges launched in October 2020 a Low Carbon Select Index in the Middle East and North Africa (MENA). The index represents an ESG benchmark offering investors the opportunity to commit capital to companies that actively promote and invest in low carbon activities across their business operations in MENA. It includes 30 companies in the MENA region as constituents that are investing to reduce energy consumption and hence contributing to lower the carbon footprint of the region, it is the best fit and generates the high interest and demand among investors.

As such, and since ESG ETFs are expected to play an important role in the future growth of sustainable investing as investors seek the benefits of daily liquidity, tax efficiency, low cost and holdings transparency offered by ETFs, the Arab Federation of Exchanges is looking to partner and license Refinitiv-AFE low carbon index with one or several asset managers, to explore with regional assets managers, over the coming period, the potential creation of an ETF on the back of the Refinitiv-AFE low carbon index. The ETF shall be listed in at least 2 regional markets to act as a tool for integrating markets, as local investors could take exposure for regional equities without the need to trade on these regional markets. Therefore, the Arab Federation of Exchanges will spare no effort to intensify its activities for its members to enhance their development and competitiveness globally in a way that supports joint Arab capital markets cooperation and a mean of strengthening the economies development of Arab countries and ultimately benefits individuals in the MENA region.