ALERT MEMORANDUM

Gulf Exchanges Announce Unified **ESG Disclosure** Guidance for GCC-Listed Entities

February 24, 2023

On January 9, 2023, the Exchanges Committee of the Gulf Cooperation Council ("GCC") published a set of unified indicators for voluntary ESG disclosures by local listed entities.

The Committee is chaired by the Saudi Exchange, and includes also the Abu Dhabi Securities Exchange, Bahrain Bourse, Boursa Kuwait, Qatar Stock Exchange, Muscat Stock Exchange, and the Dubai Financial Market.

Although the indicators are for the time being voluntary and do not replace existing ESG disclosure guidelines issued by the GCC's individual stock exchanges, they represent a significant development for entities and investors in the region. The ESG indicators also show that the six GCC countries, all of which are oil-producing nations, are serious and committed in their efforts towards fostering and integrating green and sustainable economy, and suggest that the direction of travel in the region may be towards further harmonization of sustainability-related regulations.

This alert memorandum briefly summarises the structure and purpose of the GCC's new ESG disclosure guidance, and places them in the wider context of global emerging regulations on ESG disclosures for listed companies.

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I. The GCC's unified ESG disclosure guidance

Unified GCC sustainability disclosure guidance

On January 9, 2023, the Exchanges Committee of the GCC launched a set of unified sustainability disclosure indicators, which may be adopted by all listed companies across the region.

The new guidance creates ESG indicators across all 3 pillars of sustainability: Environment (e.g. GHG emissions and climate risk mitigation), Social (e.g. child labor and global health), and Governance (e.g. board diversity and sustainability reporting). They comprise 29 indicators aligned with the World Federation of Exchanges ("WFE") and Sustainable Stock Exchanges ("SSE") Initiative. Please refer to the table below for a full list of the ESG indicators and their corresponding calculations.

The WFE operates as the global industry association for exchanges and clearing houses worldwide. Members of the WFE include the Abu Dhabi Securities Exchange ("ADX"), Dubai Financial Market ("DFM"), as well as other stock exchanges in the GCC region. The SSE on the other hand provides an avenue for examining how exchanges and relevant stakeholders (such as listed companies, investors, and regulators) can boost corporate transparency, enhance ESG initiatives, and encourage sustainable investment.

The GCC indicators are mapped against the Global Reporting Initiative ("GRI")'s sector-agnostic general standards. The GRI, an international, not-for-profit organization, has developed a set of guidelines that are used by thousands of corporate and public sector reporting entities in over 90 countries.

Pre-existing local sustainability disclosure regimes

Stock exchanges in the Gulf region adopted their own individual sustainability disclosure standards prior to the implementation of the unified guidance.

In the United Arab Emirates ("UAE"), each of the three stock exchanges (the ADX, DFM, and Nasdaq Dubai) has its own voluntary ESG disclosure guidance. On the regulatory front, financial free zones such as the Abu Dhabi Global Market (the "ADGM") have also proposed their own disclosure guidance. [1]

Although the GCC's new indicators are neither a comprehensive reporting framework nor a replacement for the existing disclosure standards, they should facilitate uniformity in ESG reporting by listed companies all across the region.

Whilst the Exchanges Committee is not a regulator, the new unified ESG guidance are an indicator that the GCC is positively responding to regulatory, political, and market pressures in the area of ESG. Ahead of COP 28 (which will be held in the UAE later this year), stock exchanges in the GCC may play a significant role in advancing the ESG narrative. In 2022, 51 IPOs were concluded in the Middle East and North Africa region. Of that number, the GCC had 27 IPOs: the highest number witnessed so far in local regulated markets.

Countries in the Middle East account for more than half of global oil reserves, with the GCC countries holding together approximately 47% according to data from the OPEC Annual Statistical Bulletin.

Hence, as more companies in the region gear up for potential IPOs, and as the region begin to evolve into mature markets with respect to sustainability, the desire to be fully compliant with sustainability regulations, and even voluntary guidance, should begin to improve ESG disclosure among the largest companies in the region.

We expect that these developments could exponentially increase the rate of the already booming foreign direct investment in the region, and expect to see such sustainability-related trend continue in 2023 and beyond.

[1] Our alert memorandum on the proposed ADGM sustainable finance regulatory framework is accessible here. Once in place, the framework will amend (among others) the ADGM Companies Regulations, the Financial Services and Markets Regulations, the ADGM Conduct of Business, Funds, and Markets Rulebooks, and the FSRA Glossary.

II. Comparative remarks

National/regional regulations

The new GCC-wide ESG disclosure regime is, for now, entirely voluntary and only applies to listed companies. While a welcome step towards clarity and harmonisation in this area, some other countries and regions have gone further towards mandatory rules that apply more broadly. Since the approval of its 2019 landmark "EU Green Deal", the EU has notably affirmed itself as the global leader in corporate sustainability policy and regulation. The EU framework so far has included in particular the overarching "green" Taxonomy Regulation[2], the Sustainable Finance Disclosure Regulation on asset managers and fund disclosures ("SFDR"),[3] the Corporate Sustainability Reporting Directive ("CSRD") on generalised ESG disclosures for large and listed companies,[4] and in the coming year perhaps also the Corporate Sustainability Due Diligence Directive that would create a system of accountability over companies' negative ESG impacts.[5]

More recently, several other regulators across the world have begun to similarly consider the need for a mandatory sustainability disclosure regime.

This has notably included the U.S. and the UK.[6] The US Securities and Exchange Commission issued draft disclosure rules for US-registered issuers in 2022. In December 2020, the UK's Financial Conduct Authority ("FCA") introduced a requirement for UK premium listed companies to make disclosures, on a comply-or-explain basis, in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"). The FCA rule has been extended to issuers of standard listed shares and standard listed global depositary receipts representing equity shares. In addition, the FCA recently released the Sustainability Disclosure Requirements Consultation Paper which envisages transition plan disclosures for asset managers. Other countries, including in Asia, have made moves towards mandatory ESG disclosure regulations. These include jurisdictions such as Singapore, Malaysia, and Hong Kong. China's first set of voluntary ESG guidance came into force in June 2022.

International harmonisation efforts

Notable initiatives have also developed at the international level, with a view to creating a set of baseline (albeit voluntary) global standards. The International Financial Reporting Standards ("IFRS") Foundation have prepared the draft International Sustainability Standards Board ("ISSB") standards for investors in 140 participating countries. The ISSB standards is a comprehensive global baseline of sustainability disclosure standards which subject entities are expected to apply for their 2024 reporting. The ISSB standards could potentially replace the current ESG disclosure regimes available in the relevant countries, including at some point in the GCC region (subject to adoption by the government in the relevant jurisdiction). Given the lack of uniformity in reporting guidelines on a regional and global basis, we believe that this initiative would, among other things, foster investors' understanding of the relevant disclosure standards and a deeper meaning into what is being disclosed by companies.

Other stock exchange rules

Country regulators are not the only ones issuing rules in this space. Stock exchanges across the world have in

[2] Our alert memorandum on the EU Green Taxonomy is accessible here.

[3] For more information on the Sustainable Finance Disclosure Regulation, *see* our January 2021 Alert Memo, available here.

[4] Our April 2022 alert memorandum on the CSRD is accessible here. The CSRD came into force in January 2023. Please see our recently published update here.

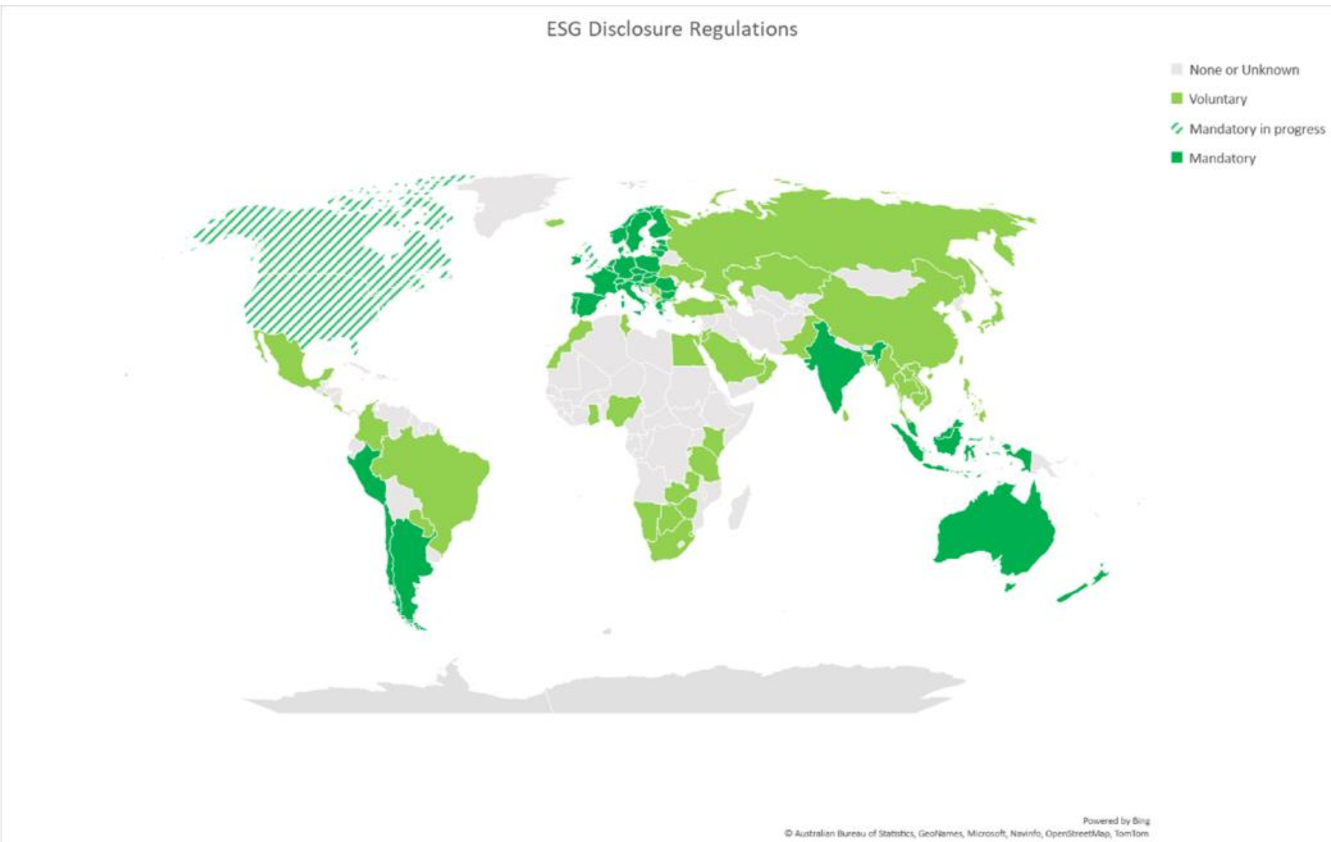
[5] For more information on the EU's New Corporate Sustainability Due Diligence Directive, *see* our March 2022 alert memorandum, available here.

[6] Our alert memorandum on Corporate Transition Plans in the UK, the EU, and the U.S. is accessible here.

fact also come a long way in providing guidance on ESG disclosures for the companies that trade securities on their regulated facilities. In Asia-Pacific, stock exchanges lead the implementation of mandatory disclosures, with most of them having adopted a 'comply or explain' policy for listed entities.

In 2022, at least a dozen stock exchanges adopted their own ESG disclosure guidelines including Euronext Brussels (Belgium), Euronext Paris (France), Athens exchange Group (Greece), National Stock Exchange of India (India), and Johannesburg Stock Exchange (South Africa). Although these do not have proper regulatory nature and are overridden by national laws, they have overtime contributed to the development of market practice in the various jurisdictions.

We have assembled below a colour-coded map which shows the current standing of sustainability disclosure rules for listed companies across the world. The chart focuses on the current wave of detailed, and strongly climate-focused, ESG disclosure rules, and does not take into account "lite" CSR-like (corporate social responsibility) and other similar "first generation" ESG disclosure regimes, which are not comparable to emerging rules by scope nor detail of the required disclosures.



New Generation Detailed ESG Reporting Rules

Environmental	Calculation	Corresponding GRI Standard
GHG Emissions	1) Total amount in CO2 equivalents, for Scope 1 2) Total amount, in CO2 equivalents, for *Scope 2* (if applicable) 3) Total amount, in CO2 equivalents, for *Scope 3* (if applicable)	GRI 305: Emissions 2016
Energy Usage	1) Total amount of energy *directly* consumed 2) Total amount of energy *indirectly* consumed	GRI 302: Energy 2016
Energy Intensity	Total direct energy usage per output scaling factor	GRI 302: Energy 2016
Environmental Operations	1) Does your company follow a formal Environmental Policy? Yes/No 2) Does your company follow specific waste, water, energy, and/or recycling polices? Yes/No 3) Does your company use a recognized energy management system?	GRI 103: Management Approach 2016
Climate Risk Mitigation	Total amount invested, annually, in climate-related infrastructure, resilience, and product development	
Emissions Intensity	1) Total GHG emissions per output scaling factor 2) Total non-GHG emissions per output scaling factor	GRI 305: Emissions 2016
Energy Mix	Percentage: Energy usage by generation type	GRI 302: Energy 2016
Water Usage	1) Total amount of water consumed 2) Total amount of water reclaimed	GRI 303: Water and Effluents 2018
Environmental Oversight (Management)	Does your Management Team oversee and/or manage sustainability issues? Yes/No	GRI 102: General Disclosures 2016
Environmental Oversight (Board)	Does your Board oversee and/or manage sustainability issues? Yes/No	GRI 102: General Disclosures 2016
Social	**Calculation**	**Corresponding GRI Standard**
CEO Pay Ratio	1) Ratio: CEO total compensation to median Full Time Equivalent (FTE) total compensation 2) Does your company report this metric in regulatory filings? Yes/No	GRI 102: General Disclosures 2016
Employee Turnover	1) Percentage: Year-over-year change for full-time employees 2) Percentage: Year-over-year change for part-time employees 3) Percentage: Year-over-year change for contractors/consultants	GRI 401: Employment 2016

Temporary Worker Ratio	1) Percentage: Total enterprise headcount held by part-time employees 2) Percentage: Total enterprise headcount held by contractors and/or consultants	GRI 102: General Disclosures 2016
Injury Rate	Percentage: Frequency of injury events relative to total workforce time	GRI 403: Occupational Health and Safety 2018
Child & Forced Labor	1) Does your company follow a child and/or forced labor policy? Yes/No 2) If yes, does your child and/or forced labor policy also cover suppliers and vendors? Yes/No	GRI 103: Management Approach 2016
Gender Pay Ratio	Ratio: Median male compensation to median female compensation	GRI 405: Diversity and Equal Opportunity 2016
Gender Diversity	1) Percentage: Total enterprise headcount held by men and women 2) Percentage: Entry-and mid-level positions held by men and women 3) Percentage: Senior- and executive-level positions held by men and women	GRI 102: General Disclosures 2016 GRI 405: Diversity and Equal Opportunity 2016
Non-Discrimination	Does your company follow non-discrimination policy? Yes/No	GRI 103: Management Approach 2016
Global Health & Safety	Does your company follow an occupational health and/or global health & safety policy? Yes/No	GRI 103: Management Approach 2016
Human Rights	1) Does your company follow a human rights policy? Yes/No 2) If yes, does your human rights policy also cover suppliers and vendors? Yes/No	GRI 103: Management Approach 2016
Governance	**Calculation**	**Corresponding GRI Standard**
Board Diversity	1) Percentage: Total board seats occupied by men and women 2) Percentage: Committee chairs occupied by men and women	GRI 405: Diversity and Equal Opportunity 2016
Incentivized Pay	Are executives formally incentivized to perform on sustainability?	
Ethics & Prevention of Corruption	1) Does your company follow an Ethics and/or Prevention of Corruption policy? Yes/No 2) If yes, what percentage of your workforce has formally certified its compliance with the policy?	
Sustainability Reporting	Does your company publish a sustainability report? Yes/No	

External Assurance	Are your sustainability disclosures assured or verified by a third-party audit firm? Yes/No	GRI 103: Management Approach 2016 is to be used in combination with the topic specific Standards
Board Independence	1) Does company prohibit CEO from serving as board chair? Yes/No 2) Percentage: Total board seats occupied by independent board members	
Supplier Code of Conduct	1) Are your vendors or suppliers required to follow a Code of Conduct? Yes/ No 2) If yes, what percentage of your suppliers have formally certified their compliance with the code?	
Data Privacy	1) Does your company follow a Data Privacy policy? Yes/No 2) Has your company taken steps to comply with GDPR rules? Yes/No	
Disclosure Practices	1) Does your company provide sustainability data to sustainability reporting frameworks? Yes/No 2) Does your company focus on specific UN Sustainable Development Goals (SDGs)? Yes/No 3) Does your company set targets and report progress on the UN SDGs? Yes/No	

Unified GCC ESG Disclosure Indicators

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