RABIA
TRANSITIONS INITIATIVE

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Via email: sustainability@jse.co.za
28th February 2022

Dear Shameela and JSE colleagues,

COMMENTS ON THE JSE SUSTAINABILITY AND CLIMATE DISCLOSURE GUIDANCE DOCUMENTS

The leadership role adopted by the JSE on sustainability related issues is commendable and the disclosure guidance shows this commitment to implementing change and creating a foundation for greater information dissemination across the country.

Thank you for the opportunity to share our comments with you, which are firmly focused on instilling the JSE's vision, allowing it to be clearer for companies to follow and extracting the most value for the people in our country. The comments that will be elaborated on further relate to reducing the vagueness of the guidance, the incorporation of more social and biodiversity metrics, understanding the process of implementation, creating benchmarks with other industry players, and finding the links between the various reports that will be introduced by the JSE on other sustainability related disclosures. Kindly read this document in conjunction with the detailed comments in the accompanying spreadsheet on specific areas in the guidance.

A. Definitions, disclosure and intended impact

The disclosure guidance generally lacks clarity and conveys vagueness of the sustainability and ESG definitions used in the text, and how these are adapted to the South African context. While the disclosure guidance discusses the various definitions that were created by global bodies and indicates their purpose to assist companies navigating this dynamic landscape, it could benefit from more explicit indication of how these global initiatives are tailored to the South African context.

The disclosure requirements are also relatively ambiguous, which leaves significant room for companies to potentially focus on a compliance approach to climate and sustainability – rather than these disclosures being a tool for assessing such companies real world contributions. We highlight this as a key risk if these disclosures are intended to showcase the actions of companies whereby stakeholders (including shareholders) can hold companies accountable for their actions. The disclosure guidance and reports they generate from the companies should fundamentally showcase the "substantial and significant contribution" of the companies to sustainability and climate response over time, and relative to South Africa's climate and sustainability policies.

We note that the JSE indicates that stock exchanges are in a unique position to "drive climate disclosure", which is commendable. However, we strongly encourage a stronger statement by the JSE, as climate disclosure itself does not trigger behavioural change. It depends on those preparing the reports, and those who are responsible for driving action within listed companies. We encourage the JSE to propose an explicit and ambitious driver for climate disclosure: that the climate disclosure aims to "*encourage behavioural change, so that companies contribute to a just and inclusive transition for South Africa as it responds to climate change and builds resilience to its disruptive effects on society, biodiversity and the economy*".

B. Process of implementation

The lack of clarity in definitions and disclosure leads to the next issue that focuses on whether this guidance will eventually shift from being voluntary to becoming mandatory, and which aspects of the guidance will follow this path. We encourage the JSE to consider certain categories of mandatory disclosures. Specifically, the JSE should require companies to evidence their contribution to meeting the NDCs by 2025 and 2030, and indicate how they are initiating and contributing towards a just transition and building resilience to climate and other systemic sustainability related shocks that may arise (e.g. health as in case of Covid-19 and social disruption as in case of July 2021 riots).

The JSE also needs to be clearer on their implementation and enforcement plan of the guidance documents. We understand that the process that will be taken to notify companies and onboard them is being developed, and request that such process as well as the training tools that will be used to assist new companies needs to be outlined and made publicly available.

C. Social, environmental and transition metrics

The metrics included in the report are useful starting points, however the unique South African context of rising civil unrest, unemployment and unequal access to resources and basic services suggest that these metrics should be deepened to better reflect national circumstances. The social context of South Africa begs the question whether companies listed on the JSE incorporate strategies to identify and respond to the unique social concerns in their business strategies.

Further, the Intergovernmental Panel on Climate Change (IPCC) recently warned that climate change risks are greater than anticipated, with irreversible impacts. And even further, Covid-19 laid bare the fragile and poor preparedness of developing and developed countries alike to health shocks, with devastating social consequences. Thus, the disclosure guidance could be a valuable tool for showcasing how companies are contributing towards improving the status quo within the timeframes required by science, and real-world events as they unfold.

This context also suggests stronger and more specific biodiversity metrics, in addition to those proposed in the disclosure guidance. The rapid loss of biodiversity combined with inadequate investment into it will lead to food and water systems collapse, which will result in more devastating effects (including social conflicts). Thus, the disclosure guidance needs to highlight the direction of investment needed e.g. restoration, and regeneration of livelihoods and environment in, for example, mining, and agriculture sectors impacted by climate change and response strategies. Aside from these fragilities, the rich biodiversity of South Africa is the basis for the tourism and hospitality sectors, among others, and requires targeted focus in the climate and sustainability response. We therefore strongly recommend that the JSE offer deeper biodiversity disclosure guidance for listed companies. The Biodiversity Disclosure Project by the Endangered Wildlife Trust and the seminal report on the Economics of Biodiversity offer useful insights here.

https://www.nbbnbdp.org/uploads/1/3/1/4/131498886/2020_biodiversity_performance_ratings_of_sa_companies.pdf).

We further strongly suggest expanding the JSE narrative disclosures to include "transition metrics" which should be a new category alongside the current three (environmental, social and governance) – expanding Figure 5 specifically. The latter three categories are relevant for a pre-2015 guide, which defined targets for climate change, and the SDGs but is presently criticised as failing in its focus on implementation, which is a post-2015 priority. As South Africa is a fossil fuel intensive country, we must be focused on our defined goals (NDCs) and international commitments. The disclosure guidance has potential to sharpen the focus on implementation as the business community plays an essential and elemental role in the country's transition.

The transition indicators are presently located within a sub-category of climate change, in the environmental aspect. In its present formulation, the transition focus within the disclosure guidance lacks focus and specificity and distracts from its cross cutting nature. Neither does it convey the intensity of response required by listed companies, nor the contribution that companies may begin making across their environmental, social and governance dimensions. For example, at governance level in the context of strategy, companies exposed to particular export commodities that are fossil fuel intensive require precise transition strategies, given the net zero targets of South Africa's trading partners. Similarly, companies particularly dependent on biodiversity require transition strategies to reinvest, preserve and build resilience.

The aggregate transition response of listed companies is relatively fragmented and messaging "lost" in the absence of specific "transition metrics". Users of the disclosure reports may include National Treasury and the South African Reserve Bank for example, who are equally concerned around the economic, and social contribution of business sector to the transition – such a category would therefore offer a clear alignment with potential frameworks and regulatory guidance that may emerge from such authorities. Figure 2.1, for example, in the Climate disclosure guidance presents a framing of TCFD risks – whereas the social risks and focus on just transitions is markedly absent. Being a particular concern for South Africa, we believe there is room to add a bespoke category for transitions.

We suggest below particular groups and metrics to enhance the current ESG and “Transition” (transition) metrics to embed in the Sustainability and Climate Disclosure guidance.

Metric Group (pg32)	Metric	Description
		A. Social
Employment and wealth creation	Employee turnover	Measuring the total number of employees who leave a company in a given period of time. This can be a measure of how employees are treated in the company.
	No. of laid off and retrenched workers	Measure the annual number of full-time employees who have been retrenched and laid off at the company.
Pay equality	Executive compensation vs. employee compensation	Ratio of executive total annual compensation to median annual compensation of all employees excluding the executive.
Skills for the future	Skills development spend per employee category	The total amount spent on skills development annually split by level of employee.
Diversity and inclusion	Male to female average salary	Annual ratio of average male compensation in the company to average female compensation by grade of employment.
	Age profile	Distribution of age profile, and level of their work
Collective Bargaining	Strikes and related employee dissatisfaction	Description of what the complaints relate to and the processes in place for the company to deal with it
Pay equality	Increases relative to domestic inflation	Annual salary increases per employee category
Economic contribution	CSI and community development initiatives	Description of organisations community engagement plan, type of projects invested in and outcomes of these projects (the focus here being on the consequences and impacts of actions taken by the company to improve livelihoods, and their methodologies to identify material stakeholders and formal mechanisms for engagement)

Metric Group (pg32)	Metric	Description
Community development	Community employment	No. of people employed from surrounding communities in a specific geographic proximity, including the level of employment
Social justice	No. of protests referring to the company	Annual no. of protests that relate to the company by civil society nationally and internationally.
	No. of consumer boycotts referring to the company	Annual no. of consumer boycotts and descriptions thereof that relate to the company by civil society nationally and internationally.
	B. Environmental *(adding focus on biodiversity)*	
Geospatial location	Location of the company and its operations relative to sensitive biomes	Describe the company's geospatial footprint relative to the sensitive biodiversity areas (such information is accessible via the detailed database held by the South African Biodiversity Institute)
Impact	Impact on the biomes within vicinity of company operations	Describe company's impact on the biodiversity in the vicinity of its geospatial footprint, and secondary practices
Dependency	Level of dependency (%) of company on biodiversity	Describe the company's dependency on biodiversity for its growth and sustainability, by specific fauna, flora or species or natural processes (e.g. agriculture, tourism, hospitality sector)
Response	Basis for responding to biodiversity threats	Describe the driver for the company's response to enhancing biodiversity (e.g. realised or anticipated loss, science based)
Investment in biodiversity	Annual investment by company in sensitive biodiversity regions	Amount of investment in conserving biodiversity across supply chain, and description of restorative and/or regenerative projects and programmes, and the impact of such investment
	C. Transition	
Benchmarking	Baseline (year)	Identify the base year established by the company against which their actions and pace thereof may be measured, relative to the actions required by science, the National Climate Change Bill and the NDCs (for example) and disclose status quo at this time
	Pace of transition	Annual rate % of the company's actions relative to the base year (e.g. rate of investment in climate and sustainability relevant activities, versus rate of divestment/ avoided investment in

Metric Group (pg32)	Metric	Description
		activities that are harmful to the environment and lower social resilience)
Quality of response	Type of interventions related to transitions and resilience building	Describe the quality and intended impact of company response to build resilience to environmental and social shocks (e.g. Covid-19, food, water and energy insecurity)
Economic consequences	Affected/ vulnerable asset base	Describe the company's affected asset base relative to its dependency on high GHG emission generating activities, and/or existing exposures to climate events (losses/gains experienced)
	Dependency on affected commodities/ processes	Describe the company's dependency on trading (national and international) partners that have set net zero targets
Social consequences	Availability of safety nets	Describe the level of preparedness of the company to mitigate the impact of systemic shocks on its staff, vulnerable and dependent suppliers (especially SMMEs) such as Covid-19, climate- or resource-scarcity induced conflict (e.g. indicate how company has prepared staff with work-from-home digital infrastructure to minimise job losses)

D. SA benchmarks and industry collaboration

The JSE disclosure guidance should enable stakeholders to identify a particular listed companies' progress towards a just and inclusive transition, which requires disclosing the relative rate of contribution of such companies (against certain baselines/ base year of reporting). The impact of the JSE disclosures should allow for an aggregate and systemic view – and comparability among companies. This may, in time, lead to special indices by the JSE to rank the progress of companies within high emitting and resource intense sectors, for example. Finally, companies should also disclose their approach to responding to the JSE guidance, so that within sectors it becomes possible to create comparable practices and benchmarks.

Further, the JSE disclosure guidance should ideally complement the regulatory guidance that may be forthcoming from the South African Reserve Bank and the National Treasury, particularly around tracking the quality and pace of South Africa's just transition relative to real-world challenges and as required by our climate and sustainability policies.

Listed companies may be aligned to broad industry groups, and be voluntarily embedding disclosures on sustainability and climate change that are bespoke for their industries. The JSE may need to engage these industry groups to align general and industry specific disclosures, particularly where the aims are to build resilience of different industries to climate change, and contribute to a just and equitable transition.

This can be used for more alignment with South African benchmarks per industry as it will most likely vary. Is there a possibility of the JSE setting their own benchmarks per metric per industry, so there are clear targets to work towards.

E. Relationship between the disclosure guidance

We understand that the Sustainability Disclosure Guidance is the "umbrella" guidance that the JSE is proposing to its listed companies. The Climate Disclosure Guidance appears to be intended as complementary to the sustainability guidance. However, we note that there is limited connectivity and rationale between these disclosures to convey to listed companies. It should be clear that there is a collective contribution to sustainability and climate change (and other issues as they emerge) expected from them. This may cause fragmentation of contribution, and confusion with the risk of "compliance" focused rather than a proactive contribution – more especially since the Climate Disclosure guidance is more aligned to the TCFD checklist, with some nuances for South African specific contexts.

We thank the JSE and its technical team for the opportunity to comment on the disclosure guidance on sustainabilty and climate change. We wish you well as you further refine and engage thereon, and trust our contributions are useful for your deliberations.

Yours sincerely,

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