

ESG (Environmental, Social and Governance) in Focus by Stock Exchanges and in Investment Decisions

November 9, 2015 | Client Update | 2-minute read

A global trade association of 64 stock exchanges, the World Federation of Exchanges (WFE), has recommended that its member exchanges voluntarily incorporate a set of 34 ESG factors into listed company disclosure standards.

The WFE, which includes the NYSE and NASDAQ, highlights 34 key performance indicators that the group believes demonstrate the best sustainability practices, such as energy consumption, water management, CEO pay ratio, gender diversity, human rights, child and forced labor, temporary worker rate, corruption and anti-bribery, tax transparency, supplier code of conduct and codes of ethics. The purpose and methodology is [explained here](#) and the full list of indicators is [set forth here](#).

ESG factors can also play a role in allocations by investors. The Department of Labor recently issued new guidance to clarify that pension fund fiduciaries can consider ESG factors in their investment decisions. “Economically targeted investment” (ETI) refers to any investment that is selected, in part, for its collateral benefits that go beyond the investment returns. While fiduciaries may not accept lower expected returns or take on greater risks in order to obtain those collateral benefits, they can act as “tiebreakers” when investments have equal economic and financial characteristics.

In addition, the DOL guidance recognizes that ESG factors may even have a direct relationship to the economic and financial value of an investment. In those cases, they can be evaluated as proper components in the overall investment analysis, and not just as tiebreakers.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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