Request to stations regarding disclosure of information environmental, social and government corporate

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Introduction

Climate change is the greatest risk to the global community in terms of impact and probability of occurrence, according to the *World Economic Forum* . [1] In 2016, a A group of 197 countries established a goal not to increase the temperature beyond 1.5 ° C above pre-industrial levels, through the Paris Agreement. To do this, it is It is necessary to reduce anthropogenic emissions of Greenhouse Gases (GHG) in 45% by 2030 compared to 2010, and be equal to zero by 2050. [2]

Despite the commitments made by the different nations, the best estimates made by independent bodies indicate that we will not reach the fulfillment of these goals. The current emissions trajectory indicates that we could reach an increase of 1.5 ° C between 2030 and 2052. In 2019 it is estimated that humanity has already reached 1 ° C above pre-industrial levels and the amount of greenhouse gases greenhouse that we can still emit to restrict the rise to 1.5 ° C is increasingly limited and is estimated at 2,200 $GtCO_2$ (Gigatonnes of CO_2 equivalent) , which we are consuming at a rate of 42 $GtCO_2$ per year. [3]

Given the current trajectory of GHG emissions, it is expected that in the next decade develop more stringent regulations to mitigate climate change and deterioration environmental effects, which could have catastrophic effects for large sectors of the entire economy and countries. The Bank for International Settlements has named the set of these " *Green Swan* " events, making a similarity to the concept of " *Black Swan* ", developed by Nassim Nicholas Taleb. [4] In some countries these regulations are already in place in the form of carbon prices, taxes, asymmetric treatments that favor green technologies and bans on some technologies, such as the generation of electricity from coal.

Mexico is the largest GHG emitter in Latin America, excluding deforestation, and the second largest emitter in terms of emissions per capita, after Chile [5] . Our country is one of the most vulnerable to climate risks due to its conditions geographic and socioeconomic [6] . Mexico lies between two oceans with a line 9,330 km of coastline and almost half of its population is submerged in a situation of poverty. These two conditions could cause Mexicans to be affected disproportionately due to the physical and transition risks arising from the change climate.

[1] Global Risks Report 2020. World Economic Forum. https://www.weforum.org/reports/the-global-risks-report-2020
[2] Global Warming of 1.5 ° C. IPCC. https://www.ipcc.ch/sr15/

3 Global Warming of 1.5 ° C. IPCC. https://www.ipcc.ch/sr15/
4 The green swan. Central Banking and financial stability in the age of climate change. 2020. BIS.
5 Muntean, M., Guizzardi, D., Schaaf, E., Crippa, M., Solazzo, E., Olivier, JGJ, Vignati, E. Fossil CO_2 emissions of all world countries - 2018 Report, EUR 29433 EN, Publications Office of the European Union, Luxembourg, 2018, ISBN 978-92-79-97240-9, doi: 10.2760 / 30158, JRC113738.
6 Intended Nationally Determined Contribution. Mexico. 2016

The situation is urgent and demands strong actions from all actors involved. The financial sector plays a key role in the orderly transition to a low-carbon economy, contributing to risk mitigation and taking advantage of opportunities presented by climate change. In this sense, the members of the Green Finance Advisory Council (CCFV), as well as all the signatory institutions of this application, we acknowledge that we have the responsibility to contribute to mitigation and adaptation to climate change through of the investments we make and join the global efforts to achieve the objectives of the Paris Agreement.

We consider that the incorporation of environmental and climatic criteria in our Investment strategies will not only help meet the goals of the global community, it will also allow us to make more efficient capital allocation decisions. Without However, a robust analysis of the climate implications for the portfolios of investment is impossible without quality information from the broadcasters in which we invest. Therefore, the members of the CCFV undertook the task of preparing the present document, through which we aspire to form a consensus between the institutional investor community on the efforts we require from of debt and equity issuers in Mexico to contribute to the mitigation of exchange rate climate and disclose ESG information, in accordance with international standards.

The request made here is summarized in a general way in the following points, which will be developed throughout the document:

1. **Establish a** clear **strategy** to reduce Greenhouse Gas emissions Greenhouse (GHG - measured using *Greenhouse Gas Protocol* [7]) , through its entire value chain, in line with Science-Based Objectives [8] ; and decrease other environmental impacts resulting from its operations.

2. **Incorporate the risks and opportunities presented by climate change** in all its capital allocation decisions, as well as to assess the sustainability of its business model.

3. **Build a corporate governance framework from the Board of Administration** that establishes and evaluates the environmental and change strategy company climate, and align the incentives of management teams with improvements in environmental indicators.

[7] About the GHG Protocol. Green House Protocol. https://ghgprotocol.org/

[8] What is a Science Based Target. Science Based Target. https://sciencebasedtargets.org/what-is-a-science-based-target /

4. **Reveal progress on the environmental and climate change strategy** to the investors, considering risks, opportunities, and indicators of performance.

5. **Report ESG information according to recognition standards international standards issued by the** *Sustainability Accounting Standards Board* **(SASB)** , using as a frame of reference the standards issued by *Task Force on Climate-related Financial Disclosures* **(TCFD)** .

Scope

The consideration of environmental, social and corporate governance criteria (ESG, for by the investment industry has become more relevant during the last decade. In 2004 the term ESG was coined by the Secretary General from the United Nations, Kofi Annan. Since then, it has been used to generally refer to the sustainability of the company with respect to relationships and the impact on its different stakeholders.

The focus of this application is on environmental and climatic criteria, due to the systemic risk they represent for the entire financial system and the damages catastrophic potentials for humanity that it can bring. However, we do reference to the disclosure of ESG criteria, since the disclosure standards of developed information, which have greater convergence at the international level, include not only environmental information, but also information related to social and environmental criteria. corporate governance.

The requests made through this document apply to all entities that issue debt and equity in the Mexican financial market , regardless of their capitalization value, including alternative instruments investment, such as FIBRAS, CKDS and CERPIS. Combat and adaptation to change climate should be a collective effort, and proportional to the capacity of each of our institutions.

This application was developed by the members of the CCFV, having made a research paper on ESG information disclosure standards more used globally and that concentrate the most relevant content for investors, as well as the most appropriate format for its disclosure.

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1. Strategy to reduce emissions and environmental impacts

The strategy must be based on an appropriate materiality analysis, since the risks climatic and environmental are different for each company, depending on the industry to which it belongs and the progress it has in adopting sustainability practices.

Likewise, it is necessary to carry out a measurement of GHG emissions and a subsequent verification by an independent third party, so that the company can manage your emissions in the best way. Once the analysis of materiality and the measurement of emissions, a reduction strategy should be proposed of GHG emissions according to Science Based Objectives.

The objectives adopted by companies to reduce greenhouse gas emissions greenhouse (GHG) are considered "science-based" if they are in line with what the Latest climate science says it is necessary to achieve the Accord's goals of Paris not to increase the temperature by more than 1.5 ° C. [9]

Communication of the strategy to shareholders is essential to form a criterion on the resilience of the company in the future and adequately assess the risk associated with each company.

The design, promotion and supervision of the environmental and social strategy should be governed by the corporate governance of the issuer, be it debt or equity. It requires the participation of the board of directors and the management team of the company to ensure that it obtains the greatest possible impact within the organization, as well as in designing more appropriate incentives to align governance bodies with The strategy of the company. It is recommended that this strategy be ambitious and realistic, as well as that it is constantly reviewed and updated, adapting to the changes in the environment and the organization itself.

2. Materiality

To determine what ESG information should be disclosed, companies will need to analyze what criteria are important to your business model. To do this, broadcasters may consider the following:

1. Materiality matrices, industrial or sectoral, published in standards of

international recognition for information disclosure.

2. Information published by its national and international peers.

[9] What is a science-based target? Science Based Targets. https://sciencebasedtargets.org/what-is-a-science-based-target /

3. Materiality analysis done by the company to consider which ESG criteria Additional items could affect your operational and / or financial performance in the long run. term, as well as the direct impact of its business model on society.

By focusing on relevant information, the company will have the opportunity to communicate to its investors the data that allows them to form a better idea about its value prospective.

3. Characteristics of the information

ESG information disclosed by broadcasters is required to at least comply with the following characteristics:

Comparability

When reporting in accordance with international standards, broadcasters must ensure that the information they provide is comparable and consistent. As well as establish the units or names of the data that are clearly disclosed. This facilitates comparison of company information between different periods, or against other companies in the same sector or industry or country.

Reliability

Because the information disclosed is considered material to determine the value intrinsic to the companies, it must follow a treatment equal to the information financial management of the company in terms of controls for its preparation, review and publication. It is important that the published information is audited by a third party part to give investors certainty about the veracity of the data and help the company to improve the production, quality and standardization of information in accordance with best practices.

Temporality

It is essential that companies report ESG information that covers the same period as financial information. Likewise, it is required that the company clarify the risks and opportunities for different future periods (ie short, medium long term).

The signatories acknowledge that governments, companies, investors and individuals should consider climate change as an emergency for which they must take urgent and decisive action. In this sense, we recommend that companies to those that climate change is a material criterion, report ESG information quarterly and annually. This will allow a very close monitoring of the progress by companies to reduce GHG emissions and other initiatives to improve its climate and environmental impact.

Balance

It is important for investors to have objective and balanced ESG information, in such a way that broadcasters publish not only their achievements in terms of sustainability, but also their material risks, areas of opportunity and percentage of progress against their objectives.

Quantitative information

Qualitative information helps investors understand the level of knowledge of the issuers' management regarding their main risks and opportunities associated with ESG criteria. However, it is necessary that companies quantify these risks and opportunities in monetary terms potentials (income, expenses, investments in capital goods, taxes, etc.), and the disclose to their investors along with their action plans with performance indicators specific, transparent and robust performance.

4. Global reporting standards

The number of requirements to deliver ESG information is increasing for companies stations. Investors, rating companies, index generating companies, non-governmental organizations, among other interest groups, send information requirements in the form of questionnaires or forms to the broadcasters. We believe that despite the fact that this practice has a positive impact on the stations to raise awareness regarding ESG criteria, it is not sustainable in the medium term due to the fact that 1) the companies do not have the necessary resources to attend an increasing number of individual questionnaires; and 2) companies run the risk of disclose material non-public information by answering questionnaires privately.

The standardization of information and its publication is essential to achieve access suitable among the investing public. In the effort to have better information ESG, a large number of standards have been created in the world with different approaches. There is currently no global consensus on which standards should use the stations. However, the signatories consider it essential to generate a broad consensus among the investment community in Mexico on which standards are the most suitable for the disclosure of ESG information that is useful for making

decisions. In this way, broadcasters will benefit from knowing where they should focus its disclosure efforts and investors will be able to identify what capacities we must reinforce within our organizations for the processing and analysis of said information.

In this sense, we ask the debt and equity issuers listed in the market Mexican financial institution that adopt the information disclosure criteria issued by Sustainability Accounting Standards Board (SASB), using as a reference framework the standards issued by the Task Force on Climate-related Financial Disclosures (TCFD).

Below is a brief description of both standards:

SASB - Sustainability Accounting Standards Board

The SASB was founded in 2011 in the United States as a non-profit organization. profit, with a structure similar to the Financial Accounting Standards Board (FASB). The The guidelines published by SASB are intended to establish reporting standards regarding various ESG criteria, including issues regarding risks and opportunities around climate change, which are financially material for companies, from in accordance with the materiality criteria identified for 77 different industries. The The guidelines seek to facilitate communication between companies and investors regarding to sustainability information that serves for decision-making. [10]

TCFD - Task Force on Climate-related Financial Disclosures

TCFD was created in 2015 by the Financial Stability Board, an institution created ad hoc by the G20. TCFD recommendations create a solid framework and consensus so that companies within all sectors disclose the risks and opportunities related exclusively to climate change. The information has for object to help investors, creditors and insurers gain an understanding of the better the impact on the future financial position of each of the companies in which they invest, and the strategic management decisions to face these risks, threats and opportunities. [eleven]

Other standards

There are public broadcasters that report under other standards such as *Global Reporting*

Initiative (GRI), or issuers that have answered questionnaires standardized by institutions that consolidate information such as CDP (formerly *Carbon Disclosure Project*), *Global Real Estate Sustainability Benchmark* (GRESB), SAM, among others.

[10] SASB Overview. SASB. https://www.sasb.org/standards-overview/
[11] About TCFD. TCFD. https://www.fsb-tcfd.org/about/

The reports made in accordance with GRI standards are usually directed to various interest groups as a target audience, so information is sometimes omitted fundamental for investors, such as the economic incidence of risks and opportunities associated with ESG factors, and a large amount of information is included material for investment decision making. By virtue of the foregoing, it is requested that issuers adopt the ESG information disclosure criteria mentioned throughout this application (SASB and TCFD), without prejudice to continuing to report in accordance with GRI standards in parallel. It is important to emphasize that in the design of its standards, SASB has aligned itself to the GRI indicators (to the extent possible) so as not to create an additional cost burden on companies seeking report financially material ESG information.

Regarding the different specialized reports such as GRESB and CDP, it is requested that the issuers make this information public, so that investors can benefit from the work that broadcasters have done in response to these questionnaires.

5. Reporting format

There are companies worldwide that report sustainability information in their annual report, while many others have chosen to do so by means of a report independent of sustainability. We believe that ESG information should be published in the same spaces that financial information is reported (reports annual and quarterly), since by doing so the following benefits are achieved:

- It is recognized that ESG information has the same relevance as information financial
- Investors would simultaneously obtain relevant integrated information about the station, whose publication would be governed by the times established in current regulation.
- The ESG information would be consolidated on the Internet pages of the Exchanges of Securities. Investors would have no difficulty finding the information published on different sites and formats within the internet pages of the Business.
- In case of future regulatory requirements to publish information ESG within the reports regulated by the authorities, issuers

they will probably already be meeting most of the requirements.

- It is achieved that the periods covered by the ESG information coincide with those included in the financial information, avoiding delays in the issuance of ESG information.
- It is also achieved that the ESG information follows the same processes of preparation, supervision and external audit of financial information.

6. Debt issuers

Debt issues generally have more particularities than debt issues.
capital in terms of maturities, structures and guarantees. Derived from the above, there are questions about what ESG information debt issuers should disclose to their investors and their report is usually little or incomplete. For example, it is valid question whether the company should disclose its long-term environmental risks (7 years) in a debt issue with a maturity of 3 years.

The signatories acknowledge that debt issuing companies are also subject to the risks and opportunities derived from climate change, in addition to share responsibility for mitigation and adaptation. It is because of that the scope of the request contained in this document includes debt issuers. The information disclosed will serve the company's creditors to assess its creditworthiness in the long term, which would benefit the issuer for the potential refinancing that debt.

7. Signatories

On December 14, 2018, a group of financial institutions signed the Investor statement on the disclosure of Environmental, Social and Corporate Governance in Mexico [12] . In it we recognized the importance and materiality of ESG information for decision-making and we encourage issuers to improve the disclosure of such information.

Today, the signatory institutions make a formal request to the companies in which we invest, taking a step forward in the standardization of the ESG information and the strengthening of measures to combat climate change. To the sign this document, we promise to promote this request during our regular interactions with broadcasters. We recognize that achieving consensus and adoption of new standards is a great challenge for our institutions, but it is not greater than the challenge we have as a society to counteract climate change and take care the future of the next generations.

[12] https://www.ccfv.mx/finanzas-verdes/documentos/reportes-2018

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