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As updated 14 August 2023

GUIDANCE NOTE NUMBER 3
CTSE EQUITY AND DEBT MARKET IMPACT BOARD

Background

As part of the CTSE commitment to be more than an exchange, with our aim to support growth companies looking to build up both the South African and broader African economies, we set out our eligibility for the CTSE Impact board. The Impact Board establishes voluntary requirements for the CTSE equity and CTSE debt markets at a portfolio level. The requirements seek to counter greenwashing and aid capital flows. Furthermore, we aim to do our part to unlock access to sustainable finance and stimulate capital allocation to support a development-focused and climate-resilient economy as set out in the National Treasury draft Technical Paper on "Financing a Sustainable Economy."

We further want to enable qualifying available Green Projects for Green Bonds, facilitate pipeline development at asset, project, or company level through disclosure, and support investor and capital markets engagement.

CTSE has used a South African domestic-appropriate Taxonomy, such as the South African Green Finance Taxonomy, and Internationally-compatible Taxonomy, such as the EU Taxonomy, as "best practices" to reference green financial products. As the field develops and social Taxonomies are created, the CTSE commits to update the guidance note with the same.

Purpose

The purpose of these principles is to outline requirements for CTSE Issuers (as defined in the CTSE Listing Requirements) that wish to be classified as Impact or Green Equities or Green Bonds (at the Green Project level) that 1) promote improved access to capital by Issuers with Sustainable Activities and 2) provide investors with additional information on Sustainable Activities to aid their capital allocation decisions.

From a CTSE Issuer perspective, an accreditation system should help clarify the types of activities undertaken that are environmentally or socially positive. A classification or kitemark enables Issuers to:

1. Raise their profiles among investors that are actively looking to deploy capital to companies committed to sustainability and, in the process, unlock significant investment opportunities for South Africa in a broad range of green, climate-friendly, and social assets;
2. Use the classification as a marketing and communications tool; and
3. Increase the visibility of their Sustainable Activity credentials and commitment to the sustainable economy, which can help to mitigate against Greenwashing and Impact Washing.

From a CTSE Investor perspective, Sustainable Activities (at the Impact Issuer, portfolio, or Impact Project level) classification will provide investors with information to assist them with their investment decision-making. In addition, this classification could increase the investible universe in green or impactful investments as some environmental solutions are not immediately obvious to investors.

Scope

It is the ambition of CTSE to expand the scope of the CTSE impact board to include Sustainable Activities with underlying social objectives in the future, as and when international or locally accepted social Taxonomies are created to reference the Sustainable Activities to ensure that the proposed label ensures transparency for investors. Although social objectives references are currently included in drafting the guidance note, CTSE will not accept any applications with only a social contribution focus.

Future stakeholder engagement

We acknowledge that this is an evolving sector, and this Guidance note will be updated with additional future technical development, technical review, and findings after stakeholder engagement. CTSE welcomes feedback and stakeholder collaboration. Comments can be sent to ird@ctexchange.co.za.

Definitions

The following definitions apply to the standard timelines regarding the approval of documents.

"Company"	means a juristic person, wherever incorporated or established, including any undertaking, association of persons or entities or similar entity, wherever established, that issues Securities;
"CTSE Impact Reviewer"	means an Issuer Agent (internal or external) on the CTSE Register of Issuer Agents or a Reporting Accountant;
"CTSE Debt LR"	means the CTSE Debt Listing Requirements;
"CTSE Equity LR"	means the CTSE Equity Listing Requirements;
"**CTSE News Service**"	means the CTSE News Service as defined in the CTSE Listing Requirements;
"**DNSH**"	means do no significant harm;
"**ESG"**	means environmental, social, and governance;
"**ESG Policy**"	means an ESG policy specifying an Issuers environmental, social, and governance risk identified and related practices introduced;
"**ESMS**"	means an Environmental and Social Management System, a set of policies, procedures, tools, and internal capacity to identify and manage an entity's exposure to the environmental and social risks of its clients/investees;
"**EU Taxonomy**"	means EU 2020/852 Taxonomy Regulation, a unified classification system designed to identify economic activities that can genuinely be classified as environmentally sustainable on a measurable and empirical basis for the purposes of establishing the degree to which the investment is environmentally sustainable and avoid greenwashing;
"**EU Taxonomy Compass**"	means the EU Taxonomy Compass, which provides a visual representation of the contents of the EU Taxonomy;
"EU Taxonomy Sustainable Investment"	means an investment that 1) Contributes substantially to one or more of the six environmental taxonomy objectives as defined in the EU Taxonomy, 2) does not significantly harm any of the other environmental objectives, 3) is carried out in compliance with the minimum safeguards as defined, and 4) complies with Technical Screening Criteria as defined;
"EU Taxonomy Sustainable Objectives"	includes 1) Climate Change Mitigation, 2) Climate Adaption, 3) sustainable use and protection of water and marine resources, 4) transition to a circular economy, 5) pollution prevention and control, 6) protection and restoration of biodiversity and ecosystems;
"Financial Products"	means under SFDR, financial products categorised under the Scope of Article 6, 8, or 9 of SFDR;
"FMA"	means the Financial Markets Act, 19 of 2012;
"Green Bonds"	means any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or full, new and/ existing eligible Green Projects;
"Green Projects"	means projects with clear environmental benefits, which will be assessed and, where feasible, quantified by the Issuer;

"Green Finance Taxonomy" or "GFT"	means a classification system or catalogue that defines a minimum set of assets, projects, activities, and sectors eligible to be defined as 'green' in line with international best practices and national priorities. It can be used by investors, issues, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities more confidently and efficiently;
"Greenwashing"	means the act of providing the public or investors with misleading or outright false information about the environmental impact of a company's products and operations;
"GIIN"	means the Global Impact Investing Network, an organisation dedicated to increasing the scale and effectiveness of impact investing;
"IMP"	means the Impact Management Project by Impact Frontiers, which is a logic method/ value chain for managing impacts on people and the planet. (https://impactfrontiers.org);
"Impact Issuer"	means a company whose assets are Listed on the CTSE with the intention to generate positive, measurable social or environmental impact alongside financial return;
"Impact Washing"	means the act of providing the public of investors with misleading or outright false information about the environmental or social impact of a company's products and operations;
"Impact Objectives"	means the objectives set out by an Impact Issuer, which specifies the social and/or environmental impact to be achieved within the Impact Issuer's business model;
"Impact Portfolio Company"	means an unlisted entity, asset, or portfolio which complies with the CTSE Impact Board requirements;
"IRC"	means the Issuer Regulation Committee, which is responsible for listing matters established by the CTSE Board which has the responsibility of ensuring compliance with the CTSE Equity LR and CTSE Debt LR and taking the appropriate actions as may be necessary to manage non-compliance with the CTSE Equity LR or CTSE Debt LR by Issuers and any risks arising as a result of non-compliance;
"IRC Approval"	means the IRC grants approval with or without conditions in accordance with the CTSE Impact Board Requirements;
"IRD"	means the Issuer Regulation Division of CTSE, which carries out, *inter alia*, the day-to-day administration, management, enforcement, and implementation of the CTSE LR;
"IRD Approval"	means all documents that are found to be in compliance with the CTSE Equity LR or CTSE Debt LR, and the application is referred to the IRC for final approval (to the extent applicable);
"IRIS+"	means the generally accepted system for measuring, managing, and optimising impact managed by GIIN (https://iris.thegiin.org), which will be used to define the Impact Issuer's KPIs;
"Issuer"	means any Company whose Securities are Listed or are proposed to be the subject of an application for Listing or some of whose Securities are already Listed;
"Issuer Agent"	means an Issuer Agent as defined in the CTSE Equity or Debt Listing Requirements;
"KPIs"	means key performance indicators;
"Listed"	means admitted to the Official List, and the terms **"List"** and "**Listing**" shall be construed accordingly;
"Mandatory PAIs"	means the SFDR mandatory PAIs, which include 1) GHG emissions scope 1,2,3; 2) carbon footprint; 3) GHG intensity of investee companies; 4) Exposure to companies active in fossil fuel sector; 5) share of non-renewable energy

	consumption and production; 6) energy consumption intensity per high impact climate sector; 7) activities negatively affecting biodiversity-sensitive areas; 8) emissions to water (companies), and 9) unadjusted gender pay gap (companies);
"Material ESG Factors"	means financially material ESG factors, which are factors that could have a significant impact (which potentially can influence investment decisions) – both positive and negative – on a company's business model and value drivers, such as revenue growth, margins, required capital, and risk;
"Minimum Social Safeguards" or "MSS"	means minimum social safeguards considerations, including South African Labour Law and the following standards: 1) International Labour Organisation (ILO) core labour conventions; 2) OECD Guidelines on Multinational Enterprises (MNEs); and (3) UN Guiding Principles on Business and Human Rights;
"**Official List**"	means the List of all Securities admitted for a quotation on the official market of CTSE;
"PAIs"	means Principle Adverse Sustainability Impacts, which measure and disclose the unintended consequences of the Impact Issuer on an comply and explain basis;
"PAI considerations"	means the 19 mandatory PAIs to be disclosed in the Impact Issuer's Integrated Report;
"Reporting Accountant"	means a reporting accountant as defined in the CTSE Equity or Debt Listing Requirements;
"Paris Agreement"	means the legally binding international treaty on climate change adopted by 196 parties at COP21 in Paris on 12 December 2015 and entered into force on 4 November 2016, and ratified by South Africa;
"Securities"	has the meaning ascribed to it in the FMA and for the purposes of CTSE: a) the entire class or classes of an Issuer's ordinary share capital; and/ or b) the entire class or classes of an Issuer's preference share capital; 3) debentures, bonds, notes, commercial paper, and other fixed or floating interest instruments, irrespective of their form or title, issued or authorised to be issued by a profit company;
"South African Green Finance Taxonomy"	means the South African Green Finance Taxonomy 1st edition, released March 2022, which is a unified classification system designed to identify economic activities that can genuinely be classified as environmentally sustainable on a measurable and empirical basis for the purposes of establishing the degree to which the investment is environmentally sustainable and avoid greenwashing;
"SME"	means a small and medium-sized enterprise;
"SFDR"	means Regulation EU 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector;
"Sustainability Risk" or "ESG Risk"	means an environmental, social, or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment;
"Sustainable Activities"	means economic activities that contribute to an environmental and/or social objective provided that the activity does not significantly harm any environmental or social objective and that the investee companies follow good governance practices;
"Sustainable Finance"	means the process of taking environmental, social, and governance considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects;
"Sustainable Investment"	means an investment in an economic activity that contributes to an environmental and/or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices;

“Taxonomy” of “Taxonomies”	means a key list of acceptable environmentally sustainable economic activities, definitions, and disclosure requirements;
“EU Taxonomy Regulation”	means Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 and any updates which have been enforced since;
“Technical Screening Criteria” or “TSC”	means the TSC sets out the conditions under which an economic activity qualifies as contributing substantially to climate change adaptation or mitigation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives in the Taxonomy;
“Theory of Change” or “ToC”	means a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. The theory of change explains how activities are understood to produce a series of results that contribute to achieving the final intended impacts;
“UN SDGs”	means the United Nations’ Sustainable Development Goals; and
“WFE”	means the World Federation of Exchanges.

CTSE Impact Board Eligibility

Mandatory requirements

Requirement	Description
Minimum Requirements (size of impact)	<u>Requirement</u> Listed Impact Issuers must generate more than 50% of their total annual revenues from Sustainable Activities or Sustainable Investment. For new ventures in the pre-revenue stage, more than 50% of their investments must be allocated to Sustainable Activities or Sustainable Investment, or 100% of their expected total annual revenues must be from Sustainable Activities or Sustainable Investment. <u>Consideration</u> • The percentage of revenues that contribute to Sustainable Activities or Sustainable Investments should be based on the Issuer’s latest publicly available financial statement. In addition, the expected revenues could be assessed from available business plans or pro forma financial information for pre-revenue stage issuers. • The percentage of investments allocated to activities considered Sustainable Activities or Sustainable Investments by pre-revenue stage issuers should also be based on the Issuer’s latest publicly available financial statement. In addition, all investments will be assessed by the CTSE IRC. <u>Alignment with the chosen Taxonomy</u> • CTSE would require an Impact Issuer to align to available Taxonomies (as set out in this guidance note). • The Impact Issuer must disclose the Taxonomy aligned with and any other criteria and definitions used to ascertain compliance with the definition of Sustainable Activities or Sustainable Investments.

Impact Strategy	Must be clearly defined.
Impact Objectives	Must be clearly defined.
Impact Measurement	IRIS+ compliant KPIs Confirmation that KPIs will be annually disclosed in the Impact Issuers Integrated Report.
UN SDGs	Target UN SDGs.
IMP Logic model	Must be clearly illustrated.
Theory of Change	Must be clearly illustrated.
End beneficiaries/ Target population	Must be clearly defined.
ESG Policy/ ESMS	Approved by the board of directors of the Impact Issuer. The ESG Policy/ ESMS must be reviewed, adapted, and reconsidered by the board of directors every other year (earlier in case of material changes).
Directors Responsibility Statement	To be included in the ruling request, Listing Particulars (if applicable) and Integrated Report.
Board approval	Board approval by the Impact Issuer directors approving the request to be included on the CTSE Impact Board.
PAIs	Confirmation that PAIs will be annually disclosed in the Impact Issuers Integrated Report on a comply and explain basis at the group or fund levels.
Do No Significant Harm/ DNSH	As per the EU Taxonomy or SA Green Finance Taxonomy requirements (where and if applicable)
Minimum Social Safeguards/ MSS	Evaluate compliance with Minimum Social Safeguards.
SFDR and EU Taxonomy or SA Green Finance Taxonomy alignment	Disclosure and alignment of the Impact Issuer's activities against the SFDR, EU Taxonomy, or South African Green Finance Taxonomy on the Impact Issuer's website, Listing Particulars (if applicable), and in the Impact Issuers Integrated Report.

Continuing Obligations

Requirement	Description
Integrated Report/ Annual Report/ AFS (debt market portfolio companies)	• As per Annexure A, KPIs, and PAIs must be disclosed annually at a group or fund-level shareholders. • The percentage of revenues that contribute to Sustainable Activities or Sustainable Investments. • The Taxonomy used in the Sustainable Activities or Sustainable Investments classification. • The name of the entity that signed off on the annual assessment.
Annual assessment by a CTSE Impact Reviewer and IRC approval	An annual assessment of the activities and related revenues (or investments or expected revenues for pre-revenue stage issuers) that contribute to the Sustainable Activities or Sustainable Investments must be carried out.

	The CTSE Impact Reviewer must complete the CTSE Impact Board Annual Assessment checklist and sign off to confirm that the Impact Issuer complies with the CTSE Guidance Note Number 3. The annual assessment will include all applicable requirements of this guidance note. The CTSE IRC will vet the checklist and report, and compliance will be confirmed annually to the Impact Issuer. In the event that the Impact Issuer has an internal Issuer Agent (as per Chapter 4 of the CTSE Listing Requirements), no third-party assessment will be required. The assessment outcome will be available on the CTSE website and updated annually.
CTSE Impact Reviewer disclosure	Disclose the firm's name, the individual's name, and independence or non-independence to the Impact Issuer.

CTSE Impact Board Eligibility process

If an Impact Issuer wants to be included on the CTSE Impact board, the Issuer Agent, on behalf of the Impact Issuer, must submit a ruling request for IRD approval and IRC approval. Once an Impact Issuer application has been successful, a formal letter will be issued to the Impact Issuer, and an announcement will be distributed on the CTSE News Service of the inclusion.

END.

Annexure A – PAI considerations

Definitions

For the purpose of this Annexure, the following definitions shall apply -

"Biodiversity-sensitive areas"	means areas designated as legally protected or identified based on scientific criteria are characterised by their high biodiversity values, such as species richness, uniqueness, and irreplaceability;
"Companies active in the fossil fuel sector"	means companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining, or distribution, including transportation, storage, and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council;
"Energy consumption intensity"	means the ratio of energy consumption per unit of activity, output, or any other metric of the Issuer (including investee company/ies) to the total energy consumption of that Issuer (including investee company/ies);
"Enterprise value"	means the sum, at fiscal year-end, of the market capitalisation of ordinary shares, the market capitalisation of preferred shares, and the book value of total debt and non-controlling interests, without the deduction of cash or cash equivalents;
"**Greenhouse gas (GHG) emissions"**	means greenhouse gas emissions as defined in Article 3, point (1), of Regulation (EU) 2018/842 of the European Parliament and of the Council;
"Non-renewable energy sources"	means energy sources other than those referred to in the definition of Renewable energy sources;
"Renewable energy sources"	means renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic), and geothermal energy, ambient energy, tide, wave, and other ocean energy; hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas;
"Scope 1, 2 and 3 GHG emissions"	means scope 1, 2, and 3 GHG emissions' means the scope of greenhouse gas emissions referred to in points (1)(e)(i) to (iii) of Annex III to Regulation (EU) 2016/1011 of the European Parliament and the Council;
"Weighted average"	means a ratio of the weight of the investment by the Issuer in an investee company in relation to the enterprise value of the investee company;

Principle adverse impacts on sustainability factors

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken Actions planned Targets set (next reference period)
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG Emissions				
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				
	3. GHG intensity	GHG intensity of Impact Issuer (Included investee company/ies				
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				
	5. Share of non-renewable energy consumption and production	Energy consumption in GWH per million ZAR of revenue of Issuer (including investee company/ies)				
	6. Energy consumption intensity per high-impact climate sector	Energy consumption in GWh per million ZAR of revenue of Issuer (including investee company/ies) companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting biodiversity – sensitive areas	Share of investments in investee companies with sites/operations located in or near biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				
Water	8. Water consumption/ abstraction	Water consumption in m^3 or liters per million ZAR of revenue of Issuer (including investee companies.				
Waste	9. Emissions to water	Tonnes of emissions to water generated by investee companies per million ZAR invested, expressed as a weighted average.				

	10. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average				

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken Actions planned Targets set (next reference period)
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION, AND ANTI-BRIBERY MATTERS						
Social and employee matters	11. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments of Issuer (including investee company/ies) companies involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.				
	12. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	13. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies				
	14. Board gender diversity	The average ratio of female to male board members in investee companies expressed as a percentage of all board members				
	15. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				
INDICATORS APPLICABLE TO INVESTMENTS IN REAL ASSETS						
Fossil fuels	16. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels				
Energy efficiency	17. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets				

END.