

ESG EMERGES AS AN ISSUE IN HUNGARY

BACKGROUND

The risks and impacts of climate change or natural disasters, the consequences of infectious diseases, the rising overpopulation and poverty have drawn the attention of the governments, and market participants to sustainability and to the importance of environmental, social and governance (“ESG”) factors. At the same time, financial market participants increasingly recognize that corporate valuation models must include ESG criteria for a successful long-term investment and that their focus cannot be limited to profit maximization. Stock exchanges can influence and encourage sustainable investments, by promoting ESG disclosures and performance among the issuers.

BUDAPEST STOCK EXCHANGE ISSUES DRAFT ESG REPORTING GUIDE FOR CONSULTATION

The Budapest Stock Exchange (“BSE”) recently published a draft ESG Reporting Guide (“Guide”) for issuers on the BSE. The purpose of the Guide is to provide a basic understanding to issuers on the ESG approach in general, the importance of ESG reporting and the basic terms, actors and processes involved. To comply with the reporting requirements prescribed by the Guide, the issuers must understand potential ESG issues, and incorporate those into their decision making procedures, and shall continuously improve in addressing these issues.

The draft Guide establishes minimum standards related to ESG reporting. As a general rule the issuers must disclose information related to their ESG performance at least annually, but the depth and the format of the report is dependent on the issuers’ reporting capability:

- **Entry level:** In the entry level, the issuers disclose a standalone ESG report along with their annual financial reports in a basic format (i.e. not in accordance with ESG reporting standards). It is expected from issuers categorized in the entry level to advance to intermediate level within 2 years.
- **Intermediate level:** In the intermediate level the disclosure shall be made in a standalone report, developed in accordance with a reporting standard. The issuers shall set medium- and long term ESG targets and are required to reach the advanced level in 3 years.
- **Advanced level:** In the advanced level the issuers prepare an integrated report on their financial and ESG performance in accordance with an ESG reporting standard assured by an independent third party expert. In addition to that, the issuers shall update their ESG report on a quarterly basis. When setting up medium- and long term ESG targets, the issuers shall follow a BSE recommended target setting scheme (i.e. Task-Force on Climate-related Financial Disclosures, Science Based Targets Initiative, Carbon Disclosure Project). The advanced level issuers shall comply with all the related requirements within 3 years.

CONSULTATION

The BSE initiated a consultation about the draft Guide on 25 November 2020 (the Hungarian language questionnaire can be downloaded from the following link: <https://bet.hu/Kibocsatok/Ajanlasok-kibocsatoknak/bet-esg/-esg-konzultacio>) to which respondents may send their feedback by 31 January 2021. In the consultation form the respondents may provide feedback on the content of the Guide (e.g. the aforementioned categories and the corresponding criteria) or even on the Guide’s enforceability i.e. whether it shall only serve as a “good practice” or if its content should be mandatory to the issuers. The applicability of the Guide will be set by BSE depending on the conclusions of the consultation, but to not later than 2023 (for the financial year of 2022).

CONCLUSION

By issuing these draft guideline the BSE is proactively putting these issues on the agenda. Whatever feedback is received in the Consultation process it is likely that the guide adopted as a result of that process will not differ dramatically from regulations adopted in the larger market and that consequently the issuers on the BSE and all companies aspiring to access the capital market through the BSE will need to address these matters. This is likely to have a knock on effect on the wider market.

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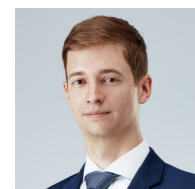
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