



Israel Securities Authority

**Disclosure of Corporate Social Responsibility (CSR)
and Environmental Social and Governance (ESG)
Risks -
A Proposed Outline**

April 2021

Disclosure of Corporate Social Responsibility (CSR) and Environmental Social and Governance (ESG) Risks

Executive Summary

In recent years, capital market investors around the world have given increasing attention to socially responsible investments and are increasingly placing emphasis on environmental, social, and governance (ESG) considerations. Several major investment entities, mainly institutional investors and leading financial institutions, have begun incorporating in their portfolios investments with ESG effects; alongside these are various corporations that are increasingly devoting resources to taking such considerations into account in their operations.

Within this development, since early 2020 several significant developments have occurred in Israel's economic environment with respect to the information that public and private companies are making available concerning their CSR and ESG risks, and information concerning the inclusion of ESG considerations in the investment policies of Israel's institutional investors.

Against this backdrop, the Israel Securities Authority (ISA) examined the need to adopt regulation for disclosures by the reporting corporations whose securities are traded on the Tel Aviv Stock Exchange ("the Stock Exchange" or "TASE"). Accordingly, in July 2020 the ISA published a public consultation document¹ containing various questions related to such disclosures ("the Call"). The response to the Call was unprecedented: Dozens of entities and individuals submitted their responses to the questions posed in the Call.

Following analysis of the public input, ISA Staff conducted two round-table discussions in December 2020. The first was a local Israeli discussion attended by representatives of relevant domestic entities including public companies and institutional investors, the Association of Public Companies, the Stock Exchange, financial regulators, academic scholars, and law and accounting firms. The second was an international discussion attended by representatives of global investment entities and credit rating agencies, among others.

In the past year, ISA Staff also conducted a series of discussions with representatives of the Prime Minister's Office, the Ministry of the Environment, and the Ministry of the State Controller on this issue.

Based on these actions, ISA Staff developed the following recommendations regarding the desired outline:

1. The ISA invites **all reporting corporations** whose securities are traded on TASE to **publish an annual CSR report to public investors and other stakeholders**. Response to this call is entirely **voluntary**.
2. A corporation may publish annual CSR reports on its website or, if it so elects, may send a copy of its published CSR report to the ISA, for publication on a dedicated area on the ISA website. Such publication, if any, will not be subject to the Securities Law 5728-1968 (“the Securities Law”) or the regulations enacted under it. However, reporting entities that publish a CSR report through the MAGNA system should take into account that the publication of the report is subject to effect of the securities laws.
3. The ISA invites all reporting corporations that elect to publish an annual CSR report **to draft the report on the basis of generally accepted international standards such as GRI or SASB**. Nonetheless, reporting corporations that elect to publish an annual CSR report may draft the report on the basis of other acceptable standards.
4. The ISA calls all reporting corporations that elect to publish an annual CSR report, and that intend to **transit to English-language reporting** pursuant to the Securities Regulations (Reporting in English) 5781-2020, to publish said report in English. Publishing directly in English will serve the interests of those reporting corporations that would like to create exposure for their CSR report to international investors both private and institutional, as well as credit rating agencies that develop rating reports on the basis of ESG figures.
5. The ISA calls all reporting corporations that elect to publish an annual CSR report **to publish said report in proximity to the publication of their Periodic Report for the relevant reporting period**.
6. The ISA intends to provide support to reporting corporations that elect to publish a CSR report by **conducting professional training sessions and workshops** for representatives of the reporting corporations.

¹ For the consultation paper click [here](#)

It should be stressed that two relevant developments occurred this year, in addition to the ISA's initiatives and the proposed outline described above: In mid-2020, the Ministry of Strategic Affairs promoted a project entitled "Impact Nation" ("the Project"), which is designed to encourage private and public companies to publish CSR reports in order to optimally present to the public the environmental and social impact of their business activities, alongside a report on fair business practices.

Several public companies joined the first phase of the Project and expressed their willingness to publish CSR reports. Each company that publishes a CSR report will be eligible for a grant of NIS 100,000. The second phase of the Project is expected to be concluded in the near future. Joining the efforts to promote the Project to public companies, in January 2021 the ISA published a call to public companies, urging them to join the Project.²

At the same time, in early February 2021, the Capital Market, Insurance, and Savings Authority ("the Capital Market Authority") issued a draft³ circular on investment asset management, concerning the inclusion of investment considerations related to environmental, social, and corporate governance effects, with the aim of motivating local institutional investors to adopt ESG investment policies. In the forthcoming months, the Capital Market Authority will issue a final circular on this issue.

In this context, the ISA believes that the response of the reporting corporations to the ISA's Call to publish annual CSR reports may help interested investors to learn about ESG effects of the reporting corporations.

² See [here](#).

³ See [here](#).

The ISA believes that the proposed outline will serve as a foundation for reporting corporations' adoption of corporate responsibility and ESG risk management practices, and will promote the development of the Israeli capital market in this direction, in line with the world's advanced capital markets.

ISA Recommendations

As noted above, in recent years ISA Staff studied the need to adopt rules for ESG disclosures by reporting corporations whose securities are traded on the Stock Exchange. Accordingly, in July 2020, the ISA published a public consultation document,⁴ inviting the public to express its opinion on a range of questions related to ESG disclosures. The public's response to the public consultation document was unprecedented, and several dozen local and international entities and individuals submitted their responses. After processing the public comments, ISA Staff conducted two round-table discussions in December 2020. The first was a local Israeli discussion attended by representatives of relevant domestic entities including public companies and institutional investors, the Association of Public Companies, the Stock Exchange, financial regulators, academic scholars, and law and accounting firms. The second was an international discussion attended by representatives of global investment entities and credit rating agencies, among others. In the past year, ISA Staff also conducted a series of discussions with representatives of the Prime Minister's Office, the Ministry of the Environment, and the Ministry of the State Controller on this issue.

Based on these actions, ISA Staff developed the following recommendations for the reporting corporations with respect to CSR and ESG risk disclosures:

1. The ISA calls all reporting corporations whose securities are traded on TASE **to publish annual CSR reports to the investing public and other stakeholders**. Such reports are made on a **voluntary basis**.

Explanatory note to the recommendation: In view of the responses that ISA Staff received to the Call, it appears that **all the commenters share the opinion that public companies should publish disclosures** of their CSR and ESG risks. However, there is no consensus with respect to implementation — whether such disclosures should be mandatory or voluntary. Therefore, and in view of the fact that both in the EU and in the UK, the requirement to disclose ESG-related information in the reports of public companies **does not originate from securities laws but rather from other legislation** that does not necessarily apply to corporations that report under securities laws (the European Directive and the British Companies Law), and **due to the desire to trigger a gradual process of change** and prevent regulatory arbitrage among companies with similar features (public companies that would be required to publish such reports vs. private companies that would be exempt from such a requirement), ISA Staff's regulatory recommendation is to issue a call to all reporting corporations to publish

⁴ See [here](#)

annual CSR reports on a **voluntary basis**. In this context, it should be noted that in the process that ISA Staff conducted, at one point ISA Staff intended to publish the Call only with respect to companies whose shares are listed in the Stock Exchange's TA-125 index, but after the two round-table discussions conducted in December 2020, ISA Staff was persuaded that the disclosure should not be limited only to companies on the TA-125 index, but should also apply to smaller market cap companies, which may also wish to publish annual CSR reports and to participate in the training sessions and professional workshops that the ISA intends to conduct for the representatives of the companies that voluntarily publish such reports.

- 2. Reporting corporations may publish annual CSR reports on their respective websites** and if they so wish, they may send a copy of the published report to the ISA, for publication on a dedicated page on the ISA website. Such publications will not be subject to the Securities Law or to the regulations enacted under it.

Explanatory note to the recommendation: In response to the Call, commenters did not agree on the most suitable site for such publications. Some commenters argued that such reports could and should be published on the MAGNA system. Other commenters, however, argued that the publication of such reports on the MAGNA, even if voluntary, would impose liability on the reporting corporations, and consequently would deter reporting corporations from publishing CSR reports.

Consequently, **the recommendation to publish corporate CSR reports on the reporting corporations' websites clarifies that reporting is not required by securities laws and does not impose on the reporting corporations any new obligations beyond those defined in securities laws, and that a proper degree of balance is achieved by creating a dedicated webpage on the ISA website on which those reporting corporations that wish to do so may publish their CSR reports, and which will allow investors to compare corporations' reports.**

Furthermore, in view of the number of communications that ISA Staff received from reporting corporations regarding the option of publishing CSR reports on MAGNA, the recommendation clarifies that reporting corporations that elect to do so may publish their CSR reports on MAGNA, but they should take into account that such publication will be subject to securities laws. Such CSR reports should be published on MAGNA as general immediate reports.

3. The ISA invites all reporting corporations that elect to publish CSR reports **to draft and prepare these reports on the basis of accepted international criteria such as GRI or SASB**. Nonetheless, it is stressed that reporting corporations that elect to publish a CSR report are also permitted to draft the report according to other criteria.

Explanatory note to the recommendation: Most of the commenters to the Call believed that CSR reports published by reporting corporations should be required to base these reports on accepted international criteria. The underlying rationale stems from two main objectives: One, to facilitate comparisons between the reporting corporations in Israel and similar companies around the world that apply accepted international criteria; Second, to prevent the reporting corporations from including only positive CSR disclosures (“cherry picking”) and disregarding negative disclosures or disclosures that might damage their reputation.

4. The ISA urges all reporting corporations that elect to publish a CSR report and intend to **transit to English-language reporting**, pursuant to Securities Regulations (Reporting in English) 5781-2020, to publish said report in English. Publishing a CSR report in English potentially serves the interests of reporting corporations that wish to attract institutional and private international investors, as well as credit rating agencies and rating firms that are based on ESG information, by creating exposure to their CSR reports.

Explanatory note to the recommendation: Based on the responses that ISA Staff received to the Call, international investors and global credit agencies that base their ratings on ESG data are also very interested in obtaining information on the reporting corporations’ CSR and ESG risk management. In view of this interest, publication of reporting corporations’ CSR reports in English **can be expected to better support the interests of the reporting corporations, which in any case intend to transition to reporting in English**, given that the main target audience of their CSR reports is expected to include international entities, at least in the short term, until institutional investors in Israel also regularly demand such information.

5. The ISA calls all reporting corporations that elect to publish annual CSR reports **to publish them in proximity to the publication of their Periodic Report for the relevant reporting year**, although it is clarified that reporting corporations may publish CSR reports at a later date if they so choose.

Explanatory note to the recommendation: In view of the responses to the Call that ISA Staff received, and in view of accepted policy in the EU and the UK, ISA Staff believes that the most suitable timing for publishing a CSR report is close to the publication date of the annual report, in order to facilitate comparisons and for the sake of users' convenience.

6. The ISA will take steps to support reporting corporations that elect to publish CSR reports by conducting **training sessions and professional workshops** for the corporations' representatives.

Explanatory note to the recommendation: Following the responses to the Call that ISA Staff received, and in view of the ISA's interest in promoting the publication of CSR reports by reporting corporations, and in view of the Impact Nation project of the Ministry of Strategic Affairs, ISA Staff believes that training sessions and professional workshops for the representatives of the reporting corporations will contribute to the adoption of a CSR disclosure policy by an increasing number of reporting corporations.

These recommendations are relevant at the time they were written. ISA Staff will continue to monitor and review domestic and global developments, and may revise its position at any time, as necessary. In addition to ESG disclosures by traded companies, ISA Staff also plans to review additional measures, such as developing lists of environmentally friendly traded bonds, impact investments, and socially responsible bonds; rules for mutual fund managers' disclosures of their investment policy; and guidelines for investment portfolio managers, investment advisors, and investment marketers on addressing ESG considerations.

Contacts: Eli Daniel, Adv.; Galya Levy, Adv.; Reut Kessler, CPA.

email: ESGPROJECT@isa.gov.il

Tel: 02-6556444, 03-7109970