



Creating a
Global ESG Market Standard
for Owners, Lenders, Borrowers and
Impact Creators.

Minimum Voluntary ESG Standard

Short-Long Investment Dynamic: Short Activism

Objective

Undoubtedly, many short sellers and short activists have focused their campaigns on detecting fraud and poor governance over many yearsⁱ. Through their actions, they have contributed to advancing the 'G' component in ESG thinking on the global sustainable finance market. Recently, the debate has shifted towards creating impact by taking a more holistic approach to ESG when possibleⁱⁱ. More importantly, the agenda is shifting towards weeding out green, and social, washⁱⁱⁱ.

This dedicated voluntary standard offers a solid framework to enable short sellers to engage with environmental and social considerations to complement their campaigns. It will describe and clarify the specific elements that they should consider during their day-to-day dealings to demonstrate a consistent and dedicated commitment to environmental and social matters. Moreover, to facilitate the continual evolution of this standard, Global PSSSL will encourage and welcome ongoing feedback on the opportunities (and any limitations) encountered during its implementation.

Benefits to the Community of Short Sellers

Leadership: short sellers will be positioned as leaders in advancing the transparent sustainable finance agenda and co-creating a standard with an independent non-profit Global PSSSL/University of Exeter.

Filling the gap: short selling and short activism is 'a unique finance dynamic'^{iv} that does not benefit from a dedicated ESG standard.

Flexible and complementary: this standard does not aim at changing individuals' unique business models or to standardise short selling. Rather, it offers a consistent approach to engaging with environmental and social matters.

Ideologically independent: we do not prescribe what 'good action' is: the objective is to raise awareness and become a catalyst for action, when deemed appropriate by the short seller.

Recognition and validation: Global PSSSL can provide recognition for campaigns that react to environmental and social matters in line with this standard^v.

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Methodology – The ESG ACTION Guidelines

This standard encourages the continuous scrutiny of organisations' practices against their environmental and social responsibility. By following the ACTION Guidelines, short sellers not only enrich their due diligence but also contribute to the ongoing development of Global PSSSL and, in turn, the global sustainable finance agenda.



Be Aware

Choose a list of ESG focal points recommended by Global PSSSL, or use another list that's more pertinent to your business.

Global PSSSL will keep the list of environmental and social matters that short sellers use (on an anonymous basis).

Be Critical

Be critical and vigilant to any potential environmental or social malpractice at every stage of your due diligence.

There is no need to test unless something proves to be materially significant to you.

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Test for potential environmental and social malpractice and formulate a plan

See annex 1, below (test itself to be calibrated in as the implementation of the standard progresses):

- Investigate the authenticity of ESG claims (green wash and social wash).
- Identify potential environmental and social harm.

There is no need to formulate a plan unless you find evidence of malpractice.

Implement your plan

Global PSSSL will provide a non-exhaustive list of actions that may fall under your plan implementation, e.g.:

- Do nothing as the matter proved insignificant and/or commercially unviable.
- Short the stock immediately.
- Refer to an NGO/another organisation – anonymously or not.
- Invest more money into your own due diligence (e.g. hire consultants; commission new research).
- For extremely serious harm, inform appropriate authorities (e.g. environmental agencies or the authorities) – anonymously or not.

Observe the results

Observe and reflect on the outcomes of your plan, when appropriate, e.g.:

- If you did nothing, remain vigilant, as the matters could intensify in the future.
- If you shorted immediately, have the market/media/observers picked up environmental and social matters?
- If you invested more money, do you have stronger evidence for E/S malpractice? If you shorted subsequently, is there a return on your investment?
- For extremely serious harm, have authorities taken any action?

Notify Global PSSSL (to also gain recognition/validation at later stage)

Share 'lessons learnt' with Global PSSSL following the short selling disclosure and contribute to the further development of the standard to enhance its future application. Share the information in your report as appropriate.

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Annex 1: Test for potential environmental and social malpractice

Environmental Matters:	<p>A. Investigate the authenticity of ESG claims (green wash). Has the corporate:</p> <ul style="list-style-type: none">• Provided adequate environmental information in its annual reports, its marketing outputs etc.?• Followed all procedures as stated by the law/regulation?• Met environmental targets/quotas provided by law/regulation?• Met declared performance/quality outcomes? <p>B. Identify potential environmental harm.</p> <ul style="list-style-type: none">• Has the corporate caused harm to the environment? Examples to be provided.
Social Matters:	<p>A. Investigate the authenticity of ESG claims (social wash). Has the corporate:</p> <ul style="list-style-type: none">• Engaged with/provided adequate information to the public and concerned/employees/informal sector (=stakeholders) when required by law/regulation?• Met all stated inclusion/diversity targets?• Provided the redress mechanisms to stakeholders, when required? <p>B. Identify potential social harm. Has the corporate:</p> <ul style="list-style-type: none">• Caused human rights related harm to the stakeholders?• Caused labour rights related harm to the stakeholders?

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Disclaimer

Global PSSL and this minimum ESG Standard on Short-Activism are voluntary and do not create any legal rights or obligations. Global PSSL will work on the recognition scheme for short sellers. It will issue a mechanism by which issuers may also reflect upon the ESG statements in the campaigns that conform with the Global PSSL standard.

ⁱ Lou, X, Karpoff, M. J. 2010. Short Sellers and Financial Misconduct. The Journal of Finance Vol 65 (5): 1879-1913; Chen, L. 2016. The informational role of internet-based short-sellers: The evidence from short-sellers' reports on US-listed Chinese firms. Journal of Business Finance & Accounting 43 (9-10): 1444-1482.

ⁱⁱ Stech R. 2019. 'Sustainable Finance, the Law and Stakeholders: Towards Responsible Social Movements.' In: Onyeka, K. O, Ngwu, F. N. and Jamali. D. eds. Corporate Social Responsibility in Developing and Emerging Markets. Institutions, Actors and Sustainable Development. Cambridge University Press, pp. 365 -394

ⁱⁱⁱ The UK Competition and Markets Authority launched an investigation into an environmental misrepresentation: < <https://www.gov.uk/government/news/cma-to-examine-if-eco-friendly-claims-are-misleading>>, accessed on 29 March 2021.

^{iv} This finance dynamic is positioned in the overarching complex finance dynamic relating to sustainable securities lending and borrowing.

^v Global PSSL will work on the recognition mechanism in due course.