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Constant pressure from investors highly committed to inclusive and sustainable economies is generating increasingly forceful calls to action, with demands the companies they invest in incorporate, but above all act in accordance with the principles of responsible investment; environmental, social, and corporate governance (ESG) standards; and the 17 UN Sustainable Development Goals (SDGs). Collaboration and consensus among responsible investors are now so important that investors’ calls to action effectively require that companies act or, conversely, face divestment or exclusion.

In Panama, several companies have
oriented their efforts towards sustainable development, incorporating the identification of ESG risks in their management processes, and developing practices specifically aimed at addressing the SDGs.

Despite these efforts, it is necessary to accelerate the current pace and to encourage all companies listed on the Latin American Stock Exchange - Latinex to manage and promote transparent disclosure practices that facilitate the process whereby investors can make responsible and impactful investment decisions, including environmental, social, and corporate governance factors. For this reason, one of the Guide’s objectives is to inform issuers of the best current practices and global standards for the preparation of voluntary disclosure reports.

We, as securities exchanges, as the central contact point between issuers, investors, and market intermediaries, have been identified as important vectors in the transition towards sustainable development. We facilitate the investment in climate, social and corporate governance solutions by making a potential investor base available to issuers. In turn, we also support investors in the process of making responsible and impactful investments.

On the Latin American Stock Exchange - Latinex we are highly committed to promoting a sustainable and transparent Panamanian capital market. In 2018 we reaffirmed this commitment by our adherence to the United Nations Sustainable Stock Exchanges Initiative (UN SSE Initiative) and as signatories to the Women’s Empowerment Principles (WEP) of the United Nations Global Compact. In addition, Latinex is the first securities exchange in Latin America and the Caribbean to become a member of the Partners Program of the Climate Bonds Initiative and of Panama’s Sustainable Finance Working Group.

We thank IDB Invest for its constant interest and cooperation with the different initiatives to promote a sustainable Panamanian capital market and, especially, for its support in preparing this Guide for the Voluntary Reporting and Disclosure of ESG Factors, intended to promote the best international standards and practices in our market.
The integration of environmental, social, and corporate governance (ESG) factors in capital markets became a common goal in 2004 when the Secretary General of the United Nations, Kofi Annan, in the report Who Cares Wins, commissioned 18 financial intermediaries to outline recommendations to foster this integration. This and other initiatives led to a change in the conception of fiduciary duty, from a short-term orientation and an interest in maximizing shareholder returns, to a long-term, generational, comprehensive, and inclusive orientation which considers the interests of diverse actors.

This common goal, in an increasingly
interconnected world, is critical in today’s context. The COVID-19 pandemic highlights that land-use changes, the expansion/intensification of agriculture, and the trade/consumption of wildlife have been identified as the original causes biodiversity loss, deforestation, and climate change.\(^1\)

Advances in the dissemination of ESG factors over the past two decades have been significant. Of Word’s 250 largest companies, 35% reported ESG factors in 1999, whereas 96% reported them in 2020.\(^2\) The importance of disclosing ESG aspects has been promoted by both the public and private sectors. In Brazil, Peru and Paraguay, regulators require that reports include ESG factors,\(^3\) taking climate risk into account. And, recently, the Chilean Superintendency of Pensions incorporated guidelines for the inclusion of climate risk and other ESG factors.

At IDB Invest, through our sustainability framework which includes our sustainability and access to information policy, we promote sustainability, transparency, and broad access to information in all our loan transactions and sector initiatives. In 2019 we were the first development bank in Latin America to join the Working Group on Climate-Related Financial Disclosure (TCFD). In February 2021, IDB Invest issued a US$1 billion bond in accordance with our Sustainability Debt Framework, whose report to investors includes detailed impact indicators.

In Panama, IDB Invest responded to the Latin American Stock Exchange’s request to assist in the preparation of this Guide with the objective of helping Latinex become the hub for sustainable finance in the region. HPL, a sustainable finance consulting firm, supported the preparation of the Guide and designed a participatory process with the Panamanian capital market’s main players which collects and reflects the latest trends and advances in the dissemination of ESG issues. Our intention is to support Latinex in its goal of providing Panama issuers with a clear and timely guideline on why, how, and which ESG aspects to report on.

In these fateful and challenging times of public health crises and economic reconstruction, which will require the drive and commitment of private companies, the need to restore equilibrium with a long-term outlook is increasingly evident. The work of the Latin American Stock Exchange - Latinex in showing its issuers that “Who Cares Wins” and is worthy of admiration and has our support.

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2. KPMG (2020). The time has come: The KPMG survey of sustainability Reporting 2020. Online: https://tinyurl.com/4zhxxb6s

3. Giovanni Leo Frisari, et. al. (2020). Regulating climate-related risk: a map of financial regulations and industry practices in LAC.
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<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<td>ESG</td>
<td>Environmental, social, and corporate governance</td>
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<tr>
<td>IDB</td>
<td>Interamerican Development Bank</td>
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<td>BID Invest</td>
<td>Interamerican Investment Corporation</td>
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<tr>
<td>CAPAMEC</td>
<td>Cámara Panameña del Mercado de Capitales</td>
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<td>CBI</td>
<td>Climate Bonds Initiative</td>
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<td>CDSB</td>
<td>Climate Disclosure Standards Board</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>COP</td>
<td>Communication of Progress</td>
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<td>ETF</td>
<td>Exchange Traded Fund</td>
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<td>GHG</td>
<td>Greenhouse Gases</td>
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<td>GIIN</td>
<td>Global Impact Investing Network</td>
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<td>GLI</td>
<td>Gender Lens Investing</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>HPL.LLC</td>
<td>HPL.LLC is a consulting company specializing in sustainable finance</td>
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<td>IIRC</td>
<td>International Integrated Reporting Council</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<td>IR</td>
<td>Integrated Reporting</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>LATINEX</td>
<td>Latin American Stock Exchange</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>SDGs</td>
<td>United Nations Sustainable Development Goals</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>PRI</td>
<td>Principles for Responsible Investing</td>
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<td>SASB</td>
<td>Sustainability Accounting Standards Board</td>
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<td>SBN</td>
<td>Sustainable Banking Network</td>
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<tr>
<td>SVS</td>
<td>Green, Social and Sustainable (Social, verdes y sostenibles)</td>
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<td>TCFD</td>
<td>Task Force on Climate-Related Financial Disclosures</td>
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<tr>
<td>TAL</td>
<td>Absenteeism rate (Tasa de absentismo laboral)</td>
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<tr>
<td>TFA</td>
<td>Accident Frequency Rate (Tasa de frecuencia de accidentes)</td>
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<td>TIEP</td>
<td>Occupational disease incidence rate (Tasa de incidencia de enfermedades profesionales)</td>
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<tr>
<td>TOP</td>
<td>Lost day rate (Tasa de días perdidos)</td>
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<td>UNEP FI</td>
<td>United Nations Environment Programme Finance Initiative</td>
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<td>UNGC</td>
<td>United Nations Global Compact</td>
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<td>UN SSE</td>
<td>United Nations Sustainable Stock Exchanges Initiative</td>
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<td>WEPs</td>
<td>Women’s Empowerment Principles</td>
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<td>WFE</td>
<td>World Federation of Exchanges</td>
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1. Introduction
Sustainability: concept and benefits

- Introduction to the concepts of sustainability and the ESG factors.
- Benefits of the best sustainability practices and of reporting on progress towards the goals and objectives set out in the corporate strategy.
- Sustainability and reporting practices in Panama.

2. Implementación
Integrating sustainability: strategy and report

- Road map for the integration of sustainability in corporate activity
- Detailed explanation on how to undertake the preparation process of an ESG factors disclosure report
- Helpful tools in the process of integrating and disclosing the ESG factors.

3. Value of ESG information for the investor
The role of investors

- Analysis of the incorporation of the ESG factors in the investment strategies of investors in Panama.
- Responsible investment and the use of ESG information disclosed by companies.

ANNEXES
Additional Resources

- Resources and support information for the integration of sustainability in company strategies and the preparation of ESG factors disclosure reports.
1.1. The Need for Voluntary Disclosure of the ESG Factors

The analysis of financial statements has been the main investor tool to evaluate performance, determine credit risk and to develop financial models to estimate the value of companies. For this reason, the timely publication of standardized financial information has been a necessary condition for the globalization and proper functioning of the capital markets.

Recently, companies have experienced a change in perspective due to the growing importance of environmental, social, and corporate governance criteria, known as the ESG factors.

Environmental risks and opportunities (pollution, biodiversity, and climate change), social (human and labor rights, gender equality, etc.) and corporate governance (transparency, internal controls, and the composition of boards of directors, among other items), arise as catalysts for the integral management of companies.

Therefore, the management of ESG factors requires that investors analyze non-financial information with the same thoroughness as they do financial information. Given its relevance, the demand for the disclosure of ESG factors has grown and investors require access to this information. This information is expected to be published regularly and presented in standardized formats, much in the same way that investors obtain financial information. In this regard, and as evidenced in this Guide, the disclosure of ESG factors is in the process of evolving towards standardization.

Securities exchanges have fostered the exchange of relevant information between capital market players, so their role is key in the promotion of sound corporate governance practices and the implementation/disclosure by their issuers of the ESG factors.

According to the Sustainable Stock Exchanges Initiative (UN SSE), which has 100 affiliated exchanges around the world, 56 exchanges have published guidelines to support their issuers in preparing ESG disclosure reports. According to the Sustainable Stock Exchanges Initiative (UN SSE), which has 100 affiliated exchanges around the world, 56 exchanges have published guidelines to support their issuers in preparing ESG disclosure reports. In Latin America and the Caribbean, as of February 2021, the stock exchanges that have generated this type of guides are: B3 (Brazil), the Santiago Stock Exchange (Chile), the Colombian Securities Exchange, the National Stock Exchange (Costa Rica), the Mexican...

Against this background, the Guide’s objective is to assist Panamanian companies in the preparation of ESG factors disclosure reports, presenting existing tools, explaining what they consist of, and providing examples and recommendations on how they can be used. Similarly, the Guide aims to inform the reader about the latest trends and developments in the context of sustainability reports.

1.2. About this Guide

Latin American Stock Exchange - Latinex has promoted the development of this Guide with the intention of supporting companies in the development and implementation of their sustainability strategies and the subsequent communication of their environmental, social, and corporate governance performance.

In so doing, Latinex is positioned at the negotiation nucleus between local and foreign issuers and investors, providing capital market players with a centralized mechanism for securities market negotiations under the principles of transparency, efficiency, and equity. Aware of its role, Latinex is driving a series of initiatives aimed at promoting sustainability among financial market players. Graph 1 below highlights some of the sustainability initiatives promoted by the Latin American Stock Exchange - Latinex.

To develop this Guide, an investigation was conducted on the reporting practices of a sample of 16 institutions that issue securities through Latinex. Specifically, four issuers of thematic bonds, ten frequent issuers of fixed income instruments, one issuer of equities and one potential issuer. In the sample, the level of the reporting practices was similar to the one found by the KPMG survey (see section 1.4 of the Guide); namely, that 56% of issuers have published some type of ESG report.

This Guide facilitates the growth of the sustainable finance market and promotes transparency on sustainability issues in the capital markets. With more than 219 issuers operating through Latinex, this Guide seeks to:

1. Support companies to simplify and standardize the process of developing sustainability strategies.
2. Orient issuers in the process of preparing voluntary reports for the disclosure of ESG factors.
3. Contribute to the implementation and dissemination of best practices and global standards on matters of corporate sustainability, and to encourage issuers to follow them.

This Guide is aimed at debt and equity issuers listed on Latinex, and at Panamanian, regional and foreign investors who participate or wish to participate in the Panama securities market.

HPL, with the support of IDB Invest, carried out an investigation and a participatory process with the capital market’s main players.

For the development of this document: (1) to identify best practices, a comparative study of fourteen guidelines for the disclosure of ESG factors issued by securities exchanges in different geographical zones was undertaken; (2) the ESG information needs of Panama’s
Graph 1
Panama. Timeline of Initiatives Led by Latinex

- **09/2018**: Women’s Empowerment Principles - UN in support of "Women’s Empowerment Principles - UN in support of Sustainable Stock Exchanges - Official Supporters".
- **01/2019**: Commitment Declaration.
- **05/2019**: First Central American SVS Bootcamp.
- **01/2019**: Release of Latinex’s SVS Guide.
- **06/2019**: Climate Bonds.
- **06/2020**: Principles for Responsible Investment.

Source: Latin American Stock Exchange - Latinex
main investors were identified; (3) current practices in matters pertaining to the dissemination of sustainability issues in the Panamanian market were evaluated, and; (4) a Guidelines Task Force Group composed of representatives of the main sectors of Panama’s capital markets was created. In four sessions, the Guidelines Task Force Group contributed with comments, suggestions, and observations to improve the quality and content of the Guide, as well as its adaptation to the distinctive characteristics and circumstances of the Panamanian market. As reflected in this Guide, HPL’s contribution highlights the latest trends and advances in the dissemination of ESG issues.

The terms referred to throughout this guide are listed with their corresponding definitions in ANNEX A. GLOSSARY OF TERMS.

1.3. Companies and ESG Factors

The definition of sustainability is derived from the concept of sustainable development and is understood as follows:

A process of change by means of which the use of natural resources, the direction of investments, the orientation of technological development, and institutional changes are in harmony and improve the current and future potential to meet the needs and aspirations of humanity.

The United Nations (UN) adopted the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs) and called on business leaders to adopt, support and implement values and principles of human rights, labor rights and environmental practices.

Applied to the corporate sector, sustainability is understood as the ability of a company to operate by weighing the interests and expectations of its stakeholders, and by monitoring and managing the impact of the ESG factors on its activity. This Guide considers the term ESG to encompass the set of environmental, social, and corporate governance considerations that affect a company’s ability to execute its business strategy, track its performance, and create long-term value.

For a better understanding, a detailed description of each of ESG factors is provided below, supplemented by illustrative examples:

ENVIRONMENTAL

The “E” in ESG refers to all environmental and climate factors related to a company and its operations.

The main environmental risks and opportunities are associated with climate change, natural resources management, and pollution prevention. The inadequate management of environmental risks can affect the financial performance of a company resulting, for example, in the possible imposition of sanctions and fines, the freezing of operations by environmental regulators, etc. Conversely, adequate management of these risks can contribute to a reduction of the company’s costs through, for example, the advantageous use of the waste residuals generated in its operations.

6 For the composition of the Guidelines Task Force Group, see the Acknowledgments and Contacts section on page 86.
8 For more information on the United Nations 2030 Agenda and the 17 SDGs, see: https://tinyurl.com/4d4kd8ua (accessed 17 Feb. 2021).
10 The ESG acronym, commonly used by investors, is prioritized in this Guide. However, eventually preference will be given to the concept of ‘sustainability’, with which companies are more familiar. In any case, both terms are synonymous in this document.
which would in turn result in an increase of the value of the company’s assets.

**Typical examples of environmental factors** are:
- Greenhouse gas (GHG) emissions
- Air quality
- Energy management
- Water and wastewater management
- Waste residuals and hazardous materials management
- Mitigation of ecological impacts
- Natural disasters

According to the World Economic Forum, climate change is the greatest risk to the global community in terms of impact and probability of occurrence. In addition, it also has a financial impact on companies.

The disclosure of climate-related financial information improves the understanding of how climate impacts the business, allowing for better ways to analyze, evaluate and manage climate risks. To the extent companies become more effective in measuring and disclosing these risks, investors’ decision-making will be better informed.

The risks, opportunities and impacts associated with climate change are detailed in **ANNEX B. CLIMATE RISKS AND OPPORTUNITIES AND THEIR FINANCIAL IMPACTS.**

**SOCIAL**

The “S” in ESG encompasses the social factors that can pose risks and opportunities for companies and the stakeholders with which they interact. There are three main stakeholder groups with which the company interacts: employees, customers, and the communities in which it operates.

**Typical examples of social factors** are:
- Labor rights
- Talent retention
- Occupational health and security
- Client relations
- Community security

The main elements to consider in relation to a company’s employees are diversity, compliance with labor norms and safe and optimal working conditions. Although these elements can generate areas of risk to the company, they also represent opportunities. For example, effective human resources management can improve company productivity, in addition to ensuring talent retention.

On the other hand, the proactive management of relationships with clients, consumers, or end users of the products or services offered by the company, provides opportunities for the development over time of a sustainable business. Thus, the application of high quality and security standards in production systems, and the use of advanced and innovative technology, can generate benefits such as brand loyalty and increased sales, further, they preventing litigation and reputational damage.

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The way the company manages its relations with communities is also important, acknowledging their rights and needs, and how the company’s operations and activities affect them. Establishing a strategic and continuous dialogue with relevant communities can protect and strengthen the company’s reputation and value, in addition to obtaining a social license for its operations.

**CORPORATE GOVERNANCE**

The “G” in ESG refers to the corporate governance of a company. According to the Organization for Economic Cooperation and Development (OECD), corporate governance involves a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and how attaining those objectives and monitoring its performance are determined.\(^\text{12}\)

In corporate governance, the robust, internal management of companies – namely one that ensures integrity, credibility, and transparency – is particularly relevant. Good corporate governance can prevent and avoid scandals, corruption and other conflicts that affect the value of the company.

Some examples of good corporate governance are:

- Effective controls
- Diversity in the composition of the board of directors
- Adequate compensation of the management team
- A solid corporate culture
- An effective corporate strategy
- Due care for the values and corporate mission of the company
- Disclosure and transparency

On the other hand, the design of strategies that include codes of conduct and policies to promote ethical, inclusive, equitable and fair business practices can contribute to effective decision-making. It will also prevent and avoid reputational risks, penalties and fines that can affect the financial performance of the company.

As we have seen, establishing good corporate sustainability practices, reflected in the proper management and disclosure of the ESG factors, is an excellent business decision, for at least the following three reasons:

**First:** Good ESG practices are important for investors, as established by various studies that show a positive correlation between these practices and superior company valuations (see **ANNEX C. CORRELATION BETWEEN ESG PERFORMANCE AND THE COST OF CAPITAL**).

**Second:** Access to standardized and quality ESG information is beginning to be incorporated into regulations around the world, starting with Europe, which heralds a macro-trend that, as entrepreneurs, it is important to consider (see **ANNEX D. REGULATORY OVERVIEW ON THE DISCLOSURE OF ESG FACTORS**).

**Third:** It is important, by demonstrating the company’s commitment to sustainability, to satisfy the interests of other stakeholders such as employees, consumers, users, and communities. A good reputation for

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sustainability helps attract and retain talent. Similarly, consumers assign greater value to products and services perceived to be socially and environmentally sustainable.

1.4 Corporate Sustainability in Panama

The Panamanian business sector is currently in an initial evolution stage in terms of ESG factors disclosure. To study ESG disclosure practices in 52 countries, KPMG, a global auditing, and advisory firm, has in recent years undertaken surveys in these countries, interviewing the 100 best-selling companies in each one. The 2020 survey indicates that 60% of the 100 Panamanian companies surveyed published a sustainability report. This is a significant improvement when compared to 2017, when none of these companies had a sustainability report. However, it is still lower than in other countries in the region such as Mexico (100%), Brazil (85%), Argentina (83%), Colombia (83%) and Peru (66%).

According to the International Integrated Reporting Council (IIRC), the number of companies that produce an integrated report is another way to assess the country’s progress in incorporating sustainability into business models and the disclosure of ESG factors. To date, there are no Panamanian companies reporting under IIRC and none that are included in any sustainability index such as the Dow Jones Sustainability Index (DJSI), FTSE4Good, Business Social Compliance Initiative (BSCI), or Corporate Human Rights Benchmark.

Through this research, the main barriers in Panama to the disclosure of ESG factors were identified, namely: (1) the additional costs involved in preparing this type of reports, (2) the perception of no explicit interest on investors’ part and, (3) lack of knowledge of the standards and tools available for disclosure of ESG information.

There is disparity in the entities studied regarding the content and format of this type of report, with financial institutions exhibiting the best reporting practices.

On the other hand, through interviews conducted with three important investment funds in Panama and two regional institutional investors, an investigation was also carried out on the interest and need for ESG information. While investors recognize the importance of considering ESG issues, there is no uniformity on the content they expect to see in the reports. In terms of their investment process, investors also exhibited varying levels of sophistication and ESG factor analysis integration. All the interviewed companies agreed on the importance attributed to transparency in corporate governance.

For the reasons highlighted above, the time is right for Panamanian companies to adopt better ESG disclosure practices.

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14 Elena Ruiz and Paula Ruiz (Forética) for the Government of the Republic of Panama (April 2019). Diagnóstico Nacional de la Situación de la Responsabilidad Social en Panamá. Online: https://tinyurl.com/l44u6u5i
15 Id.
This section explains the steps companies must follow to implement sustainability. First, the integration of sustainability at the corporate strategy level is addressed. Second, the main currently available tools for the preparation of sustainability reports are detailed and, finally, recommendations are provided for the voluntary disclosure of ESG factors.

The development of a sustainability strategy for the company and the preparation of ESG factors disclosure report reinforce each other. Some actions in the design of the strategy, such as carrying out a materiality diagnosis or mapping stakeholders, will become inputs for the preparation of the report. Similarly, the process of preparing the report helps the company to measure its performance in terms of ESG factors and its progress towards the sustainability goals it has set out in its strategy.

### 2.1. Strategy Integration

**Designing a sustainability strategy** is essential to the integration of ESG factors with the business activity. Some basic criteria can be applied to all companies pursuing this objective, regardless of the sector in which they operate, their size, their geographical location, or their degree of progress in integrating sustainability.

This section presents the main steps to integrate sustainability with the company’s operations, taking into consideration the policies and practices suggested by the highest international standards in corporate sustainability.

#### 2.1.1. Involve Senior Managers and the Board of Directors

For the design and implementation of a sustainability agenda/strategy to be effective and add value to the organization, the required guidelines must come from senior management. Frequently, the adoption of a business strategy that incorporates sustainability implies changes in the culture of the company. Therefore, for this change to be effective, it must be led and promoted from the highest levels of the organization. According to the survey conducted by the United Nations Global Compact (UNGC) in collaboration with Accenture (2019), 94% of top global CEOs say that sustainability...
Graph 2
Integration of Sustainability and the Disclosure of ESG Factors

1. Identify Stakeholders and their Needs
2. Identify the ESG issues to be Reported
3. Define Indicators and Monitor Results
4. Information Quality
5. Presentation Format and Accessibility
6. Communications Strategy
7. Report Process
8. Communication and Public Commitments Strategy
9. Develop a Sustainability Policy
10. Identify Gaps
11. Establish Goals and Priorities
12. Identify Priorities
13. Materiality Diagnosis
14. Map Stakeholders
15. Involve Management and the Board of Directors

Source: Developed by Latinex / BID Invest / HPL
issues are important for the future success of their business.

To achieve the adoption of a corporate sustainability culture some of the initiatives can be to:

- Create a sustainability committee on the board of directors.
- Appoint/hire a person responsible for sustainability and to develop training programs and internal education and awareness campaigns on sustainability issues.
- Include ESG factors in the evaluations and objectives for executives and other leadership positions.

2.1.2. Involve All Stakeholders

The next step to successfully integrate sustainability with the business activity is to undertake a mapping process of all the internal and external actors that interact with the company. The mapping will make it possible to analyze the interests, needs and expectations of all stakeholders. The company will thereby develop an awareness of how its activities impact both the environment and society. This knowledge, when the impacts are known to be negative, is key to taking appropriate mitigation or compensation measures, or to create products and/or services in keeping with stakeholder needs and demands.

There are different ways to involve stakeholders. Some initiatives to involve the internal organization in the company’s commitment to sustainability consist of, among others, developing training programs, codes of conduct and codes of professional ethics, or internal communication campaigns. For its part, to involve external stakeholders, the company can use traditional communication channels such as individual or group meetings, workshops, conferences, public hearings, the creation of councils or committees, collective bargaining, customer service centers, etc. Online media such as forums on the company website or social media should also be considered.

Other forms of communication with stakeholders are customer satisfaction surveys, supplier evaluations and ratings, internal surveys, and regular meetings with investors and analysts.

With these instruments, the company will establish a dialogue with all stakeholders, which, it is recommended, must be transparent and open, constant and proactive, inclusive and effective.

Finally, it is essential that communications flow in both directions. That is, the company must also inform its stakeholders about its management and performance on material ESG issues. This is another reason for the importance of the ESG disclosure report, which must be publicly available.

2.1.3. Conduct a Materiality Diagnosis of the ESG Factors

In the context of corporate sustainability, an issue is material when it has a significant impact on the growth, cost and/or risks of the business and, in addition, it is an issue important to stakeholders. Therefore, it is essential to identify the ESG factors of relevance to the company’s operations, to classify them and to establish priorities. For
this, **two variables** must be considered:

- ESG issues and issues **relevant to the company’s business strategy and operating model**. For example, the risk of drought is a relevant environmental factor for a company in the agricultural sector (physical impact of climate change on its production capacity). To manage this financially material risk, the company could invest in equipment to optimize water resources (drip irrigation systems, for example).

- The priorities of the stakeholders with whom the company interacts. For example, to promote the reconciliation of work and family life for its employees, a company can implement measures such as offering bus transportation to the workplace, providing childcare services for the children of its employees, etc.

Identifying the most important ESG factors for the company and its stakeholders will enable the design of an action plan that prioritizes the action areas and projects that will lead the organization to create shared value with its stakeholders at the economic, social, and environmental levels.

The main global initiatives and organizations dedicated to developing standards and frameworks for the preparation of ESG disclosure reports **adopt different materiality** concepts, as outlined in Table 1.
### Table 1
Materiality Concepts Adopted by the Main Organizations Developing Standards and Reference Frameworks

<table>
<thead>
<tr>
<th>ORGANIZATION / INITIATIVE</th>
<th>MATERIALITY CONCEPT</th>
</tr>
</thead>
</table>
| **The Value Reporting Foundation (SASB + IIRC)** | The SASB standards and the IIRC integrated reporting framework adopt a concept of financial materiality of the ESG factors; i.e., those that have a reasonable probability of affecting the economic and/or operating performance of a company.\(^{18}\)  
Audience: investors. |
| **Global Reporting Initiative (GRI)** | The GRI standards adopt a concept of dual materiality: they help companies identify material ESG issues based on 1) the impacts\(^{19}\) generated by the company on the economy, society, and the environment, and 2) the importance of ESG issues to their stakeholders.\(^{20}\)  
Audience: investors + other stakeholders. |
| **Task Force on Climate-related Financial Disclosures (TCFD)** | The TCFD recommendations\(^{21}\) seek to support companies in the improvement of the content and quality of general financial information related to the possible effects of climate on the company, now and in the future (risks and opportunities associated with climate change).  
They follow a concept of financial materiality for climate-related issues.  
Audience: investors. |

Source: Developed by Latinex / BID Invest / HPL

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\(^{19}\) Impact*, according to the GRI, refers to the effect an organization has on the economy, the environment and/or society, which in turn may reflect its contribution (positive or negative) to sustainable development. It does not refer to the effects on an organization, such as a change in its reputation.


\(^{21}\) Task Force on Climate-related Financial Disclosures (June 2017). Reporte final. Recomendaciones del grupo de trabajo sobre declaraciones financieras relacionadas con el clima. Online: https://tinyurl.com/572et8ud
2.1.4. Identify Priorities

Once the company’s material ESG factors have been identified, the next step is to classify them by topic and to establish priorities. A rigorous process of identifying priority issues can be carried out with the help of a materiality matrix. Below is a generic example of a materiality matrix and a separate one on the results of a materiality diagnosis of a company in the production and distribution of consumer goods and food sector.22

Graph 3
Example Results of a Materiality Diagnosis of a Company in the Food and Consumer Goods Sector

<table>
<thead>
<tr>
<th>STAKEHOLDERS RELEVANCE LEVEL</th>
<th>LOW IMPACT LOW RELEVANCE</th>
<th>LOW IMPACT HIGH RELEVANCE</th>
<th>HIGH IMPACT LOW RELEVANCE</th>
<th>HIGH IMPACT HIGH RELEVANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fiscal and Economic Contribution</td>
<td>Biodiversity</td>
<td>Security and Data Privacy</td>
<td>Climate Change</td>
</tr>
<tr>
<td></td>
<td>Tests and Animal Well-Being</td>
<td>Responsible Advertising and Marketing</td>
<td>Sustainable Innovation and Technology</td>
<td>Corporate Governance Responsibility and Culture</td>
</tr>
</tbody>
</table>

Source: Development in-House

Issues that are both highly relevant to stakeholders and of high environmental and social impact will be those the company should place at the center of its sustainability agenda. It will also mark the focus of the ESG disclosure report.

2.1.5. Set Goals and Define Indicators

The next step is to establish a broad space for discussion between senior executives and company management on the strategic priorities of the company and to set the goals of the company’s sustainability agenda, which are at the heart of an effective sustainability strategy. To ensure success, the agreed upon goals, must be measurable, clear and achievable.

Once the sustainability goals of the company have been established, it is crucial to define the indicators that will allow for the measurement of current performance, as well as its evolution, and, moreover, will allow the company to inform its stakeholders clearly and effectively about its progress.

Currently, there are numerous market benchmarks that can help companies choose what to measure for each identified material ESG factor. As a reference framework, we recommend consulting the indicators established in the Guide prepared by the United Nations Sustainable Stock Exchanges Initiative (SSE),23 the Guide of the World Federation of Exchanges (WFE),24 and the Global Reporting Initiative (GRI) standards.25

2.1.6. Identify Gaps in ESG Issues

The materiality diagnosis will make it possible for the company to identify the areas for which the organization needs to implement new structures, processes, and systems, as well as others that must be maintained because they address previously identified needs. As part of this process, it is recommended that the company carry out a study of its corporate governance and environmental and social management model. Instituting a conversation/interview process with managers from all areas of the company, consulting interested parties, and participating in local forums and groups whose focus is corporate sustainability is also recommended.

There are consulting firms specializing in this type of service, helping companies identify opportunities and areas for improvement. However, this exercise, by creating a sustainability committee with representatives from different departments of the organization, can also be carried out internally. The foregoing notwithstanding, it is in this regard important to again emphasize that for this exercise to be effective, the leadership and commitment of the company’s senior management is critical.

2.1.7. Develop a Sustainability Policy

To advance in the implementation of a sustainability agenda, it is advisable to design a sustainability policy based on the current business strategy of the company, with a vision of the future and considering all available resources available. This is

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a key step in transforming company’s sustainability strategies and commitments into clear objectives and efficient ESG management systems.

A good sustainability policy must contain the basic instructions to manage sustainability in the company, facilitating the planning and execution of actions in the different areas of the business. The sustainability policy must serve to align the company’s activities with its sustainability strategy.

It is advisable the resulting policy document be objective, brief, demonstrate credible commitment and indicate how this commitment is integrated company’s priorities. Similarly, this document must be distributed to all stakeholders, including the internal members of the organization (employees, managers, directors, etc.).

Measures that can be adopted to ensure the success of a sustainability policy are:

- Establish economic/salary-based incentives for meeting specific objectives on the performance of the ESG factors, associated with a variable remuneration arrangement, or staff promotions.
- Establish sustainability goals or objectives for departments or business units, under the supervision of the company’s managers.

### 2.1.8. Communications and Public Commitments Strategy

Communication of the sustainability strategy to all stakeholders is essential to achieve an accurate understanding of the organization’s sustainability profile. Some of the important elements to consider when designing the communication strategy are:

- Define the main issues to be reported.
- Involve stakeholders in the company’s communications strategy through suitable feedback arrangements.
- Consider communication processes designed to address financial information as well as results/non-financial information.
- Define the content, scope, and periodicity of communication with stakeholders.
- Choose communication formats suitable for each stakeholder group. They must be culturally appropriate, and each group’s habitual forms of communication should be considered.

On the other hand, it is important for the company to publicly affirm (through press conferences and notes, blogs, etc.) what its commitments to sustainable development are and what it intends to accomplish through the implementation of its sustainability strategy.
2.1.9. Establish a Reporting Process

Finally, one of the most powerful ways to demonstrate a company’s commitment to sustainable development is to report transparently, periodically, and reliably on the status and evolution of the implementation of its sustainability strategy. In this regard, the disclosure of the company’s management and performance in respect of the identified and material ESG issues should be the object of particular attention.

In addition, the periodic publication of the ESG factors disclosure reports can, in practice, be used as an internal management tool which helps to organize, monitor, and analyze the information in respect of the performance indicators previously selected by the company.

2.2. Tools

Numerous international initiatives and organizations have developed tools for the preparation of sustainability reports: principles, standards, reference frameworks, and questionnaires. However, since their purpose and utility differ, they are not all the same, and it is therefore recommended they be used in a complementary manner.26, 27 This, in turn, will lead to better results in the dissemination of ESG information.

26 For example, in 2020, with the purpose of sharing lessons learned, GRI and SASB released a joint work plan on companies that applied both standards in the same report. Both organizations offer different, albeit compatible, standards to generate a sustainability report. The difference between the two lies in the audience they seek to satisfy and the materiality concept/approach they choose to adopt.

### Table 2
Differences Between Sustainability Principles, Standards, Reference Frameworks and Questionnaires (Includes Examples)

<table>
<thead>
<tr>
<th></th>
<th>Sustainability Principles</th>
<th>Standards</th>
<th>Reference Frameworks</th>
<th>Questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Global sustainability priorities, objectives, and goals. Generally used for the selection of strategic goals.</td>
<td>They address the specific requirements and details on “what” information to report on each ESG issue.</td>
<td>Set of broad principles and guidelines on how to structure the report and present the information.</td>
<td>Generally focused on a specific topic, they help companies report detailed information through responses to a formal questionnaire.</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>Principles for Responsible Investment (PRI)</td>
<td>The Value Reporting Foundation (SASB + IIRC)</td>
<td>CDP (formerly, the Carbon Disclosure Project)</td>
<td>Sustainable Development Goals (SDG) Global Reporting Initiative (GRI)</td>
</tr>
<tr>
<td></td>
<td>The UN Global Compact (Ten Principles on human rights, labor, environment, and anti-corruption)</td>
<td>Task Force on Climate-related Financial Disclosures (TCFD)</td>
<td>DJSI / Corporate Sustainability Assessment</td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed by Latinex / BID Invest / HPL
There are multiple actors that interact in the sustainability reporting ecosystem. Examples of the main types of actors that interact in the context of the sustainability reports are presented in ANNEX E. MAIN ACTORS IN THE SUSTAINABILITY REPORTING ECOSYSTEM.

Each company must adopt the principles, standards, reference frameworks and questionnaires that best suit its business and the information it wants to report to its stakeholders. To decide which principles, standards, and reference frameworks to follow, it is important for each company to assess its stakeholders’ preferences, its investors’ geographic location, the existence or lack of specific standards for the sector or industry in which the company operates, and the concept of materiality the company wishes to adopt at a strategic level.

ANNEX F. PRINCIPLES, STANDARDS, REFERENCE FRAMEWORKS AND QUESTIONNAIRES details the characteristics of the principles, standards, reference frameworks and questionnaires most widely used worldwide.

As the following graph illustrates, global organizations and initiatives have been working for more than two decades on the development of tools, both public and free, for the preparation of ESG issues disclosure reports.

Graph 4
Evolution Timeline of the Standards and Reference Frameworks Ecosystem 1997-2020
As Graph 4 illustrates, at the end of the 1990s several organizations developing standards and reference frameworks began to emerge, such as GRI, CDP, CDSB, SASB and IIRC, known today as the “group of five”. Each of these organizations developed different reporting methodologies and criteria used by companies to disclose ESG information.

There has been a recent, notable interest on the part of these organizations in unifying the standards and reference frameworks, as well as significant advances towards the disclosure of financial and sustainability information in an integrated manner. In September 2020 the IFRS Foundation published the document Consultation of Information on Sustainability with the purpose of investigating the need for global sustainability standards and, as the case may be, the role of the IFRS in their development.

Responses showed different definitions of some key concepts and different positions on how sustainability information should be reported. At the same time, the group of five announced their shared vision for a comprehensive integrated corporate reporting system that includes financial accounting and the disclosure of ESG information. In December 2020, the same group published a standard weather-related financial disclosure prototype, which exemplifies its vision of integrated climate-related disclosure reporting. Consequently, it is likely that in coming years there will further unification of standards and reference frameworks, in tandem with significant advances in the integrated disclosure of financial information and sustainability information.

2.3. Disclosure

This section details the steps and recommendations for the preparation of an ESG factors disclosure report.

2.3.1. Identify Stakeholders and their Needs

The precondition for the preparation of the ESG factors disclosure report is that the company has a sustainability strategy in which the material ESG issues are identified. However, not all ESG aspects material to the company’s strategy and sustainability management will also be material for the purpose of their inclusion in the report. Therefore, it is important the company identify:

- Stakeholders
  - The information interests, needs and expectations of such stakeholders. In other words, a reflection of ESG issues the company is expected to report, and the format and detail of the data to be included in the report.

Identifying the stakeholder groups and their needs will help the company define ESG aspects it must include in the report. Below is a mapping example of a company’s stakeholders and their respective priorities:

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30 SASB (2020). Global sustainability and integrated reporting organizations launch prototype climate-related financial disclosure standard. Online: https://tinyurl.com/13a6o8n5

### Table 3
Examples of the Mapping Components of Stakeholders and their Priorities

<table>
<thead>
<tr>
<th>STAKEHOLDERS</th>
<th>EXPECTATION EXAMPLES</th>
<th>HOW TO CONDUCT THE DIALOGUE?</th>
<th>EXAMPLES OF ACTIONS TO BE UNDERTAKEN BY THE COMPANY</th>
</tr>
</thead>
</table>
| **Investors** | ✓ Report on climate-related risks  
✓ Information on the volume of GHG emissions | ✓ Meetings with investors and analysts  
✓ Quarterly presentations | ✓ To report on GHG emissions and to communicate the emission-reduction objectives;  
✓ To carry out a due diligence on human rights |
| **Clients** | ✓ Corruption prevention  
✓ Product security | ✓ Meetings with clients, seminars, online communication channels | ✓ Development of guides on professional ethics  
✓ Undertake client satisfaction surveys  
✓ Participation in sector forums |
| **Neighbors** | ✓ Jobs creation  
✓ Minimizing negative impacts such as traffic, noise pollution, or GHG emissions. | ✓ Meetings with local residents  
✓ Consultations with neighbor associations  
✓ Open-door events | ✓ Hiring local residents  
✓ Analyzing traffic patterns and implementing measures to reduce noise volumes and risk situations |
| **Employees** | ✓ Guarantee and secure jobs  
✓ A positive work environment | ✓ Cooperation with worker/labor unions  
✓ Company-wide meetings  
✓ Meetings by departments | ✓ Provide information on the company’s business strategy and financial performance  
✓ Undertake worker satisfaction surveys |

Source: Developed by Latinex / BID Invest / HPL
ANNEX G. QUESTIONS TO GUIDE THE PREPARATION OF THE REPORT. This annex is intended to serve as a guide for the preparation of the sustainability report, in particular on aspects of the dialogue with the company's stakeholders.

2.3.2. Identify ESG Issues to be Reported

It is entirely possible that, at the strategic and implementation level, the company will discover a long list of material ESG issues on which it could disclose information. The information to be reported will be different for each company.

Although there is no uniformity on the minimum number of ESG issues on which to report, the different initiatives and organizations developing standards and reference frameworks for the preparation of reports (such as SASB and GRI), provide useful tools for the identification of ESG issues considered advisable to include.

Table 4
Example of ESG Issues to Report on According to the GRI and SASB Standards

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>TOOLS TO IDENTIFY ESG ISSUES</th>
<th>EXAMPLE OF ESG ISSUES</th>
</tr>
</thead>
</table>
| GRI      | GRI has modular standards: a set of ‘universal’ standards (GRI 101, GRI 102 and GRI 103), which serve as a general reference framework for the preparation of the report; and three sets of thematic standards divided into series: economic (GRI 200), environmental (GRI 300) and social (GRI 400). All four sets detail the ESG factors to report on and the indicators to be measured and tracked. | Economic (GRI 200)  
- GRI 201: Economic Performance  
- Environmental (GRI 300)  
- GRI 301: Materials  
- GRI 302: Energy  
- Social (GRI 400)  
- GRI 401: Employment  
- GRI 402: Worker-Company Relations |
| SASB     | SASB standards focus on the industry in which the reporting company operates, with industry standards that help companies report ESG factors that have a high potential to generate material financial impacts on the companies in any given sector. SASB provides metrics to report on 26 general thematic categories organized in five dimensions: 1) Leadership and Corporate Governance; 2) Environmental Capital; 3) Human Capital; 4) Social Capital; and 5) Business Model and Innovation. | Leadership and Corporate Governance  
- Corporate ethics  
- Environmental Capital  
- Greenhouse gas emissions  
- Air quality  
- Human Capital  
- Labour Practices  
- Social Capital  
- Human rights and community relations  
- Business Model and Innovation  
- Supply chain management |

Source: Developed by Latinex / BID Invest / HPL based on the GRI and SASB standards

For more information on the ESG aspects presented in the SASB and GRI standards and by others, see Annex H. GRI, SASB and the United Nations Global Compact as Tools to Determine ESG Issues on Which to Report.
Regardless of the decision to report on multiple ESG factors or just a selection of priority factors, the report should cover the ESG issues that are relevant to the company’s corporate sustainability strategy and illustrate, to the extent possible, the link between these factors and the short- and long-term value the company can create.

The Model Guidance on Reporting ESG Information to Investors (2015) suggests companies reflect on each of the components that make up their value chain and ESG issues that could have the greatest influence on each of them. Similarly, that they consider the risks the company has previously identified in its annual financial reports.

Finally, the number of factors to be reported on will also depend on the size of the company, the sector in which it operates, its market niche and its degree of maturity in the process of integrating sustainability with its corporate strategy. In addition, on an annual or biannual basis, the materiality of ESG issues identified as priorities should be reviewed periodically; for example, to assess the ongoing relevance of the issues included in the report.

2.3.3. Define Indicators and Monitor Results

Once the company has defined the material ESG issues to report on, the next step is to select the performance indicators to be used to measure and track its progress in managing the risks and opportunities associated with the selected ESG issues.

Performance indicators can be generic, industry specific, or specifically designed for the reporting company. The best practice we recommend in this Guide is to use indicators that are widely accepted by the market and designed by global initiatives, platforms, or standards.

GRI developed reporting standards that include specific metrics for the disclosure of ESG impacts generated by companies. Companies around the world use these standards extensively in the preparation of their corporate sustainability reports. These standards are publicly available on the GRI website, which, in addition, also provides a detailed guide on how to apply their standards with the respective indicators.

For its part, SASB has specified the issues to be reported on and the metrics (key performance indicators) to be used to measure the impact of the issues considered material to each industry. The metrics suggested by SASB for each industry vary depending on the sector in which the reporting entity operates and can also be found in the materiality map available on the SASB website.

Similarly, the World Federation of Exchanges (WFE) has developed a public guide, the WFE’s ESG Guidance & Metrics, prepared by the WFE Sustainability Working Group. First published at the end of 2015 (and revised in 2018), this Guide provides a series of ESG metrics that can serve as a reference for the exchange of information on these issues between issuers and investors. This guide can be downloaded in Excel format and contains 10 examples of key performance indicators for 10 environmental issues, 10 social issues, and 10 corporate governance issues.

For the measurement of performance and performance...
the management of risks and opportunities associated with climate change, another useful resource is the TCFD Implementation Guide, designed to optimize the presentation of information related to climate risk.

In general, it is important to use metrics that provide quantitative information, since it is this type of information which will allow investors to make comparisons for different periods, or to compare the data with that of other companies.

Table 5
Example of Key Performance Indicators of Certain ESG Issues Based on Different Standards, Frameworks, and Principles

<table>
<thead>
<tr>
<th>Standard, Reference Framework, Principle</th>
<th>ENVIRONMENTAL GHG Emissions</th>
<th>SOCIAL Security in the work environment</th>
<th>CORPORATE GOVERNANCE Ethics and Anti-corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GRI</strong></td>
<td>Gross value of direct GHG emissions (scope 1) in metric tons of CO2 equivalents</td>
<td>Types of accidents, accident frequency rate (AFR), occupational disease incidence rate (ODIR), lost days rate (LDR), absenteeism rate (AR), and deaths from occupational accidents or occupational disease for all employees, broken down by (1) region and (2) sex.</td>
<td>Total number and percentage of operations evaluated in relation to the risks related to corruption.</td>
</tr>
<tr>
<td><strong>SASB</strong></td>
<td>Scope 1 gross global emissions</td>
<td>(1) Total recordable incidents rate, (2) Mortality rate, (3) Near-accidents frequency rate</td>
<td>Management system for the prevention of corruption and bribery throughout the value chain</td>
</tr>
<tr>
<td><strong>WFE</strong></td>
<td>Total amount, in CO2 equivalents, for Scope 1 (if applicable)</td>
<td>Percentage: frequency of injury events relative to total workforce time</td>
<td>Does your company follow an Ethics and/or Anti-Corruption policy? Yes/No</td>
</tr>
<tr>
<td><strong>SDGs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed by Latinex / BID Invest / HPL

Once the company has identified the key performance indicators it will use to report its management and performance in respect of the ESG issues, it is important to maximize their use. To this end, some suggestions are:

1. Report on the historical trends of the industry and the company in relation to these indicators.
2. Clearly indicate the relationship between these indicators and the company’s corporate sustainability objectives.
3. Use qualitative performance indicators to support quantitative metrics.
4. Explain the data collection methodologies, along with the reasons why they were used.
5. Relate the result of the indicators to the company’s financial performance.
6. Explain why the indicators increased or decreased from one year to the next, the company’s perception thereof and how this could change in the future.
7. Show relevant ranges and averages for the industry.
8. Highlight the challenges and achievements detected in the report preparation process.

2.3.4. Information Quality

It is understood that the information presented in the report is of the required quality when it allows the readers to assess, in general, the ESG factors performance of the company, as well as in respect of the factors that are of particular interest.

In fact, the higher the quality of the information contained in the report, the higher its contribution to the decision-making process and the assessment of the company by stakeholders.

First, the company should evaluate its internal systems and capabilities to collect accurate, reliable, and comprehensive ESG information. Ideally, instead of creating new information collection channels, companies should make use of existing data control, risk, and internal audit verification systems. If internal systems are deemed insufficient, companies may then decide to invest in new ways of collecting information.

When we refer to the quality of the disclosed information, we are highlighting that the information must be detailed and complete, comparable, compatible with the needs of the report’s users and its relevance to them, timely or punctual, accessible, and easy to use.
GRI: Principles to define the quality of the sustainability reports

1. Accuracy

The communicated information must be sufficiently detailed and precise to allow for the evaluation of the reporting organization’s performance by stakeholders.

2. Balance

The reported information should reflect the positive and negative aspects of the reporting organization’s performance to allow for a reasoned evaluation of overall performance.

3. Clarity

The reporting organization must present the information in a way that is clear and accessible to the stakeholders making use of it.

4. Comparability

The reporting organization must select, collect, and communicate the information in a coherent manner. Reported information should be presented in a way that enables stakeholders to analyze changes in the organization’s performance over time and that can support the analysis relative to other organizations.

5. Reliability

The reporting organization must gather, record, compile, analyze and communicate the information and the processes used to prepare the report so they can be subjected to review and to establish the quality and materiality of the information.

6. Punctuality

The reporting organization must prepare the reports according to a periodic schedule, so the information is available on a timely basis for stakeholders to make informed decisions.

2.3.5. Presentation Format and Information Accessibility

Selecting an appropriate dissemination channel is key to ensuring stakeholders receive the information they consider relevant in an easy, comparable, and timely manner. To adapt to the different stakeholder information needs and interests, companies can use different communication channels such as, for example, their website, periodic presentations to investors, the annual corporate sustainability report and other company reports.

Using more than one communication channel can be an effective way to ensure that all stakeholders receive ESG information. In the same manner, depending on the profile of the company’s stakeholders and their information needs and expectations, the organization may include ESG information in its annual financial reports, even if it is not a regulatory requirement in the jurisdiction in which the company is located.

Three typical examples of communication channels companies can use for ESG disclosure are stand-alone ESG reports, financial reports with material ESG issues, and integrated reports. 38

- Sustainability reports focused only on addressing the access needs to ESG information of investors and, sometimes, that of other stakeholders such as consumers or civil society.
- When a company has determined there are certain ESG issues that are important to its business within a specific time horizon, it may decide to include this information in its financial reports (generally only some ESG issues are covered).
- An integrated report is a concise communication on how an organization’s strategy, its corporate governance, performance, and prospects, in the context of its external environment, lead it to create value in the short, medium, and long term.

These communication channels are not mutually exclusive and can be used in complementary ways.

Regardless of the selected format, we suggest companies follow the following practices:

- If they choose to report ESG information in a report separate from the company’s annual reports, it is recommended both reports refer to the same period. This will allow investors to consider financial and non-financial information for the same time cycles.
- Incorporate cross-references between the ESG information disclosure reports and the company’s annual financial report.
- Ensure coherence between the different communication channels.

Access to reported information must be easy to locate; therefore, the company can design an online table of contents with hyperlinks to optimize digital accessibility to ESG information. In general, reports are more effective when the language used and the way the information is presented is clear and relevant to stakeholders. Also, when the report relates to the company’s capability

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to create value in the short, medium, and long term. To facilitate access to information for international investors, companies can also elect to disseminate the report and information in a globally-used language.

It is also necessary to consider the possibility that the communication channels are determined by the regulatory context in which the company is located. For example, in the case of Panama, the Superintendency of the Securities Market requires that, on an annual basis, issuers complete a corporate governance questionnaire, attached to the financial report (Form F5), and that it be submitted through a digital tool within three months following the close of the fiscal year. See Annex D, Regulatory overview on disclosure of ESG factors.

2.3.6. Communication Strategy

As highlighted in this Guide, involving stakeholders in the discussion on which ESG issues are material and of interest to them, as well as the specific information they are looking for and how they prefer to receive it, are elements that can help the company to identify, mitigate and manage the risks and opportunities associated with the ESG factors.

Establishing a commitment to continuous communication with stakeholders can be a source of innovation, new opportunities and alliances that drive the growth of the company and the implementation of its sustainability agenda. Through their participation, stakeholders can better understand how the company is integrating the ESG factors into its business strategy. In addition, stakeholder participation contributes to improving the credibility of the organization and its positioning as a leader in sustainability. The systematic involvement of stakeholders in the ESG disclosure process enhances the responsiveness and usefulness of the disclosed ESG information.

Using the report as a form of continuous dialogue with stakeholders can be a strategic instrument to improve the understanding of the company by its strategic partners and what resources they can offer. It can also strengthen the relationships with stakeholders and foster higher levels of trust from external parties in respect of the company’s actions and reports.


Table 6
Examples of ESG Factors Disclosure Reports Following Different Formats, Principles, Reference Frameworks, Standards, and Questionnaires

<table>
<thead>
<tr>
<th>REPORT TYPE</th>
<th>PRINCIPLES, STANDARDS, FRAMEWORKS, AND QUESTIONNAIRES</th>
<th>TITLE</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability Report</td>
<td>Contribution to the SDGs</td>
<td>Banco General (Panama) (2019). Informe de Responsabilidad Social(42)</td>
<td>Includes external audit performed by an independent auditing firm (pages 35 through 39)</td>
</tr>
<tr>
<td></td>
<td>GRI Standards (contents index on pages 32 through 34)</td>
<td></td>
<td>Contains condensed versions of the company’s Statement of Financial Position and Statement of Activities (pages 28 and 29)</td>
</tr>
<tr>
<td></td>
<td>Communication on Progress (CoP)(41) (pages 30 and 31)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>GRI Standards</td>
<td></td>
<td>Includes the 2019 financial results report based on IFRS standards (pages 77 through 92)</td>
</tr>
<tr>
<td></td>
<td>IFRS Standards</td>
<td></td>
<td>Itaú, in addition, prepares a separate report, exclusively on the ESG factors(44)</td>
</tr>
<tr>
<td></td>
<td>Application of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (pages 47 and 49)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IIRC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainability Report</td>
<td>Contribution to the SDGs</td>
<td>Grupo Red Eléctrica (2019). Informe de Sostenibilidad 2019(45)</td>
<td>Includes external audit performed by an independent auditing firm (page 393)</td>
</tr>
<tr>
<td></td>
<td>GRI Standards (contents index on pages 379 through 391)</td>
<td></td>
<td>Includes an independent GHG inventory assurance report (page 394)</td>
</tr>
<tr>
<td></td>
<td>SASB Standards for the following sectors: utilities, electricity producers and telecommunication-service providers (contents index on page 392)</td>
<td></td>
<td>Includes an executive report on the management of the code of ethics (pages 374 through 378)</td>
</tr>
<tr>
<td></td>
<td>Application of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)</td>
<td></td>
<td>Separately, the company provides answers to the CDP questionnaire</td>
</tr>
<tr>
<td></td>
<td>Communication on Progress (CoP) (page 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IIRC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDP Questionnaire on Climate Change</td>
<td>CDP Questionnaire on Climate Change for companies</td>
<td>CEMEX - Climate Change 2020(46)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed by Latinex / BID Invest / HPL

41 The communication of progress (COP) is the report participants in the United Nations Global Compact are required to submit annually, communicating progress in the implementation of the ten principles of the Global Compact on human rights, labor rights, the environment and anti-corruption.
3.1. Towards the Integration of the ESG Factors in the Investment Decisions in Panama’s Capital Markets

As part of the process of preparing this Guide, a mapping was undertaken of the current integration practices of the ESG factors in the investment decisions of investors operating through the Latin American Stock Exchange - Latinex. Among other objectives, one was to identify the main barriers investors face in assessing how a company manages the risks and opportunities associated with ESG issues.47

Investors interviewed indicated taking certain ESG issues into account in their credit and risk analysis prior to investing. In particular, they look for transparency in corporate governance matters, and stated that, depending on the sectors in which they invest, they focus more on certain ESG issues than on others. Investors interviewed have an exclusion list of the project types or issues they do not invest in. In addition, to access non-financial information, they claim to mainly use their direct relationship with the company (interviews with managers; customized, thematic questionnaires focused on specific companies, etc.). The general impression is that, in the absence of publicly reported information, investors tend to collect ESG information through direct conversations with the company and monitor identified risks by means of regular follow-up meetings.

The following are the main barriers identified to access information on ESG factors:

- Scarce information disclosed voluntarily by the companies.
- Existing information is not comparable, is not presented in an orderly manner, or is not included in official reports.
- Reporting cycles do not coincide with the cycles being evaluated by the investor.
- ESG information providers do not add value in Panama since their databases are mainly sustained through information reported by the companies themselves.

The following table displays the degree of participation of local and regional investors in internationally recognized initiatives that promote the integration of the ESG factors:

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47 The investment policies of three global funds, three Panamanian funds and four regional institutional investors were analyzed, including interviews with the three Panamanian funds and two of the four regional institutional investors.
Table 7
Number of Companies Participating at the Global, Regional and Panama Levels in the Main Initiatives Dedicated to Promoting the Integration of the ESG Factors

<table>
<thead>
<tr>
<th>INITIATIVE</th>
<th>DESCRIPTION</th>
<th>GLOBAL</th>
<th>LAC</th>
<th>PANAMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN Principles for Responsible Investment</td>
<td>Principles developed by a coalition of institutional investors at the request of the Secretary-General of the United Nations.</td>
<td>3684</td>
<td>86</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td><strong>Objective</strong>: to engage and guide investors in the integration of the ESG factors.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principles for Responsible Banking</td>
<td>Principles developed by a group of 30 banks through the Finance Initiative of the United Nations Environment Program (UNEP FI).</td>
<td>206</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td><strong>Objective</strong>: to guide banks on how to align their strategy with the SDGs.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principles for Sustainable Insurance</td>
<td>Principles developed by the Finance Initiative of the United Nations Environment Program (UNEP FI).</td>
<td>91</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td><strong>Objective</strong>: to provide a reference framework for the insurance companies sector to address the risks and opportunities associated with ESG issues.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable Banking Network (SBN)</td>
<td>Community of regulators and banking associations in emerging markets under the secretariat of the International Finance Corporation (IFC).</td>
<td>58</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td><strong>Objective</strong>: to promote sustainability in the financial sector, improve ESG risk management and direct funds to projects with a positive impact on the environment.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed by Latinex / BID Invest / HPL based on information from the organizations’ websites

48 Datos a 1º de febrero de 2021. No incluye Brasil
50 Directorio de signatarios de los Principios de Inversión Responsable de la ONU, consulta a 29 de enero de 2021. En línea: https://tinyurl.com/2nez2m44 (acceso 1º/3/21).
While the main institutional investors in Latin America and the Caribbean are effectively integrating ESG issues into their investment strategies, Panamanian investors acknowledge that they are still in the initial stages of this process.

3.2. Responsible Investment Techniques to Integrate the ESG Factors

To get started in the process of integrating the ESG factors, investors can use different methodologies.

First, it is useful to clarify the concept of responsible investment, defined by the UN Principles for Responsible Investment as “a strategy and practice that incorporates environmental, social and corporate governance (ESG) factors in investment decisions and asset management. In addition, it complements traditional financial analysis and portfolio construction techniques.” For its part, the CFA Institute defines ESG investments as those in which investors apply non-financial ESG factors as part of their analysis process to identify material risks and growth opportunities.

The responsible investment techniques used by the leading investors in sustainable finance in the region are a combination of the following methods: (1) filter evaluation (positive or negative screening), (2) thematic investment, active ownership exercise or responsible management, (3) impact investment and, (4) ESG integration.

In Panama, interviewed investors mainly use negative screening techniques, combined with the active exercise of ownership and ESG integration at the level of credit risk analysis. These methods are not mutually exclusive and are often used in combination.

3.2.1. Negative Screening

It consists of defining a list of issues, sectors, or countries in which no investments will be undertaken. Each investor can prepare a different list depending on the principles, standards, and norms on which he has based his investment policies. For example, the International Finance Corporation (IFC) has an exclusion list that contains and details the types of projects that IFC will not finance. Reasons for not funding such projects range from the economic to the cultural.

Applying an exclusion list is the oldest form of responsible investment.

3.2.2. Positive Screening

In this case, the investor establishes a selection process for the shares or financial instruments issued by the best-rated companies in their industry or sector in respect of their performance managing the ESG factors. For this relative classification of selected companies in a responsible investment portfolio, investors can use

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60 Id.
ratings provided by entities specialized in ESG issues such as MSCI, Sustainalytics, Refinitiv, ISS, Vigeo Eiris, among others. Alternately, some investors establish their own rating criteria to identify the entities with the best practices in each sector.

Sustainability indices are very useful tools for investors who opt for a responsible investment methodology based on positive selection. For example, the Dow Jones Sustainability MILA Pacific Alliance Index, which covers the capital markets of Chile, Colombia, Mexico and Peru, measures the performance of companies that outperform their peers in terms of sustainability. This index can also be used as a benchmark to compare the performance of funds that develop and pursue positive selection strategies. For example, IndexAmericas, created by the IDB group in collaboration with S-Network Global Indexes, is a corporate sustainability index that seeks to promote sustainability in Latin America and the Caribbean. This sustainability index identifies the 100 most sustainable companies listed on securities markets in Latin America and the Caribbean.

3.2.3. Thematic Investing

Thematic investment is based on, among others, social, industrial, demographic, political or environmental trends. There are some investment fields based on ESG factors, such as renewable energy, gender equality, sustainable agriculture, education, or health. Although thematic investment is not limited to ESG issues, in this Guide we consider as thematic investments those associated with some of society’s most salient ESG issues.

Investing with a gender perspective (GLI) is an example of this methodology, which consists of promoting investments that ensure both the generation of returns, as well as positive impacts for women.

3.2.4. Active Exercise of Ownership or Responsible Management

Through the active exercise of ownership (engagement), the investor makes his position as shareholder prevail to influence corporate decision-making. The active exercise of ownership can take various forms. One of them consists of supporting proposals and resolutions at the annual shareholders’ meetings. Further, institutional investors can establish coalitions to make this pressure more effective.

Investors who invest in green or sustainable Exchange Traded Funds (ETFs) will not be able to make individual share selections, but they can improve the ESG factors performance of the companies included in the ETF through the active exercise of their property rights. However, obtaining results through this methodology takes time, a lot of dedication and involves a series of costs.

In the context of the Guide’s development, interviewed Panamanian investors indicated they trust this methodology, mainly to secure ESG information.

3.2.5. Impact Investing

Impact Investing is an investment...
methodology by means of which the investor publicizes his intention to generate certain positive social or environmental impacts that translate into measurable benefits, while simultaneously seeking investment returns.

According to the Global Impact Investing Network, Impact Investing exhibits four essential characteristics:

1. Investors intend to generate a social and/or environmental impact.
2. Investments are expected to generate a financial return on capital and, at a minimum, a return on capital.
3. Investments must generate returns ranging in rate from below the market rate up to the risk-adjusted market rate.
4. Investors undertake to measure and report the generated social and environmental impacts.

### 3.2.6. ESG Integration

ESG integration consists of providing portfolio managers with the necessary tools and information to identify risks and opportunities related to financially material ESG factors to make investment decisions. In this manner, the investment process is enhanced by incorporating non-financial factors into the analysis.

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In sum, to allow for investors to consider ESG factors in their decision-making process and, in turn, allocate an increasing percentage of their capital to investments incorporating social and environmental aspects and which generate positive impacts, they require of companies and potential investees the disclosure of specific and relevant information.

For this information to fulfill investors’ information requirements and that of other stakeholders, we believe company report should comply with most, if not all, of the main recommendations proposed in this Guide, in particular:

1. Companies’ senior managers should lead the sustainability integration process and ensure the development of a sustainable business culture and, concurrently, a robust and effective information disclosure process.

2. Companies should incorporate the point of view of their investors and other stakeholders in their periodic strategic planning processes.

3. When carrying out materiality diagnosis exercises, a process whereby material ESG issues are identified should be an integral part these undertakings.

4. Companies, at a strategic level, must define, and, clearly and publicly, communicate their sustainability goals and objectives.

5. The contents of the ESG disclosure reports must cover the issues that are material to investors and companies’ other stakeholders. Similarly, reports should be prepared with the metrics investors and stakeholders prefer and are looking for.

6. The disclosed ESG information must be of quality, as well as comparable and accessible.

7. Ideally, reports should, over time, always cover the same period (for example, the fiscal year).

8. The communication channels companies choose to employ should be appropriate to their respective group of investors and stakeholders.
On the other hand, to make the most of the information disclosures, we advise investors to follow the following recommendations:

1. Establish transparent dialogues with the reporting entities and clearly state the ESG issues that are important to their investment strategies.

2. Investors should indicate the issues they wish to see reflected in the report and, if applicable, their preference in terms of ESG factors disclosure standards.

3. Indicate if there is a preference for certain indicators over others.

4. Indicate if there is a preferred periodicity in terms of accessing the results of selected performance indicators.

5. Clearly indicate preferences in respect of report formats (for example, independent sustainability reports as opposed to integrated reports).

We hope that with this Guide issuers can advance and improve their ESG information disclosure practices for the benefit of all the stakeholders they interact with and that, in turn, these stakeholders are thus able to make informed choices and decisions, the kind that will contribute to Panama’s sustainable development.
### Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental</strong></td>
<td>The E in ESG refers to the environmental and climatic factors that interrelate with a business and its operation.</td>
</tr>
<tr>
<td><strong>ESG</strong></td>
<td>It refers to the environmental (pollution, biodiversity, and climate change), social (human and labor rights, gender equality, etc.) and corporate governance (transparency, internal controls, and the composition of boards of directors, among others) risks and opportunities that arise as a motivation for a more comprehensive management of companies.</td>
</tr>
<tr>
<td><strong>Questionnaire</strong></td>
<td>Tool generally focused on a specific topic. The questionnaire helps companies to report detailed information.</td>
</tr>
<tr>
<td><strong>Sustainable</strong></td>
<td>&quot;A process of change by means of which the use of natural resources, the direction of investments, the orientation of technological development and institutional changes are in harmony and improve the current and future potential to meet the needs and aspirations of humanity.&quot; 67</td>
</tr>
<tr>
<td><strong>Engagement</strong></td>
<td>Responsible investment technique where through the active exercise of ownership (engagement), the investor makes his position as a titleholder prevail to influence corporate decision-making.</td>
</tr>
<tr>
<td><strong>Standards</strong></td>
<td>They address the specific requirements and details on “what” information to report on each ESG topic.</td>
</tr>
<tr>
<td><strong>Adaptation strategy</strong></td>
<td>Investments engaged in to hold financial assets or risks more resilient to the effects of climate change.</td>
</tr>
<tr>
<td><strong>Mitigation strategy</strong></td>
<td>Investments intended to achieve a net reduction of greenhouse gas (GHG) emissions to combat global warming.</td>
</tr>
</tbody>
</table>

**Investment Companies in Panama**

Equivalent to Investment Funds (IF). The term includes Open Funds, Mutual Funds, Closed Funds, Investment Funds, Investment Companies, Investment Trusts and, in general, all publicly offered collective investment products, regulated in the Panama securities market. Retirement or pension funds are not included.  

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**Greenhouse Gases**

The gaseous components of the atmosphere that absorb and emit radiation and cause the greenhouse effect, reflected in global warming.

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**Corporate Governance**

According to the Organization for Economic Cooperation and Development (OECD), the corporate governance of a company “involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and how attaining those objectives and monitoring its performance are determined.”

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**Stakeholders**

Actors who interact with the company both internally and externally.

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**ESG Investment**

Investments to which investors apply non-financial ESG factors as part of their analysis process to identify material risks and growth opportunities.

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**Gender Lens Investing (GLI)**

An example of thematic investment that consists of carrying out an investment analysis intended to ensure not only the generation of returns, but also positive impacts for women.

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**Impact Investing**

Investment methodology through which the investor publicly states his intention to generate certain positive social or environmental impacts that translate into measurable benefits, while seeking positive investment returns.

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**Responsible Investing**

Investment methodology that “incorporates ESG factors into investment decisions and asset management. In addition, it complements traditional financial analysis and portfolio construction techniques.”

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**Thematic Investing**

Investments based on, among others, social, industrial, demographic, political, and environmental trends.

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68 Republic of Panama (1999). Decreto-Ley Nr. 1 de 8 de julio de 1999 (modificado por las Leyes Nr. 42 de 2000, Nr. 29 de 2001, Nr. 11 de 2002, Nr. 45 de 2003 and Nr. 6 de 2005), por el cual se crea la Comisión Nacional de Valores y se regula el mercado de valores en la República de Panamá. Online: https://tinyurl.com/3mjf2x5w


<table>
<thead>
<tr>
<th><strong>ESG Integration</strong></th>
<th>Consists of providing portfolio managers with the necessary tools and information to identify risks and opportunities related to financially material ESG factors in the process of making investment decisions.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reference frameworks</strong></td>
<td>Set of broad principles and guidelines that deal with how to structure the ESG factors report and how the information should be presented.</td>
</tr>
<tr>
<td><strong>Dual materiality</strong></td>
<td>An issue is material when, on the one hand, it has a significant impact on the business in terms of growth, cost, or risk and, on the other, involves an important issue for the company’s stakeholders.</td>
</tr>
<tr>
<td><strong>Financial materiality</strong></td>
<td>An issue is financially material when it could have a significant impact, positive or negative, on a company’s business model and value drivers such as revenue growth, required capital, and risk.</td>
</tr>
<tr>
<td><strong>Transition risk</strong></td>
<td>Risks derived from the regulation and transition expectations associated with climate change.</td>
</tr>
<tr>
<td><strong>Acute physical risk</strong></td>
<td>Refers to the physical risks associated with climate change such as hurricanes, droughts and other natural disasters caused by climate change.</td>
</tr>
<tr>
<td><strong>Chronic physical risk</strong></td>
<td>Refers to the physical risks associated with climate change such as rising sea levels, the destruction of coral and marine fauna or the melting of glaciers.</td>
</tr>
<tr>
<td><strong>Negative screening</strong></td>
<td>Responsible investment technique that consists of defining a list of issues, sectors or countries in which investments will not be undertaken.</td>
</tr>
<tr>
<td><strong>Positive screening</strong></td>
<td>Responsible investment technique that consists of the investor establishing a process for selecting shares or financial instruments issued by the best-rated companies in any given industry or sector in respect of their performance in the management of ESG factors.</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td>The S in ESG encompasses the social factors that can pose risks and opportunities for companies and the groups with which they interact. The three main groups are: employees, customers, and the communities in which they operate.</td>
</tr>
</tbody>
</table>
Annex B
Climate risks and opportunities and their financial impacts

The TCFD developed a set of recommendations on the disclosure of climate-related financial information, with a focus on risks and opportunities related to climate change. These risks and opportunities are graphically explained in the following figure from the Task Force on Climate-related Financial Disclosures (TCFD).

Graph 5
Climate Risks and Opportunities and their Financial Impacts

The risks associated with climate change are of two types:

- **Physical risk**: derived from the direct effects of climate, which in turn can be:
  - chronic physical risks, such as the rise in sea level, the destruction of coral and marine fauna or the melting of glaciers and
  - acute physical risks, such as hurricanes, droughts and other...

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73 Task Force on Climate-Related Financial Disclosures (June 2017). Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures. Online: https://tinyurl.com/t2jh8v6d
74 Julia Moreno and Paula Ruiz (Forética) (2018). Los riesgos, las oportunidades y el impacto financiero del cambio climático: Guía para Practitioners sobre las recomendaciones del Task Force on Climate-related Financial Disclosures (TCFD). Online: https://tinyurl.com/8kd8xy8h
75 Task Force on Climate-Related Financial Disclosures (June 2017). Reporte Final, Recomendaciones del grupo de trabajo sobre declaraciones financieras relacionadas con el clima. Online: https://tinyurl.com/t2jh8v6d
76 Julia Moreno and Paula Ruiz (Forética) (2018). Los riesgos, las oportunidades y el impacto financiero del cambio climático: Guía para Practitioners sobre las recomendaciones del Task Force on Climate-related Financial Disclosures (TCFD). Online: https://tinyurl.com/8kd8xy8h
natural disasters caused by climate change. Physical risk has economic repercussions on companies, which vary from industry to industry. For example, a drought can harm the operation of the Panama Canal and financially affect its operating company. However, that same drought will likely have a minor impact on a fishing fleet. On the other hand, the destruction of marine fauna, which is also a consequence of climate change, will clearly have an effect on the fishing fleet.

**Transition risk:** derived from the regulations and the expectations of the transition associated with climate change or the stoppage and blocking of assets due to that transition. A good example of transition risk is the auto industry, which must adapt to produce more energy-efficient cars to meet **new regulations** on energy efficiency (miles/gallon). In the same industry, the effect of new technologies also generates impacts. For example, Tesla has had a disruptive effect on the automotive industry by bringing to market high-efficiency and cost-competitive electric vehicles.

The **market** for many products may change as consumers begin to develop preferences for more sustainable alternatives. A good example is the reduction in demand for meat in some markets where consumers are more aware of the effects of GHG emissions related to livestock. Generically, the **reputation** of companies with high emissions and that do not seek to reduce them, can be affected and lead to the search for improvements in the management of future emissions.

The risks associated with climate change are managed through two strategies:

- **Adaptation strategy** involves making investments to generate financial assets or to assume risks more resilient to the effects of climate change. A good example of resilience is investing in the construction of more resistant infrastructure and/or buying insurance against hurricane damage. Similarly, the efficient management of water resources is another example of an adaptation strategy since many climate change impacts are related to changes in the water cycle (water scarcity, floods, droughts, and others).

- **Mitigation strategy** refers to the net reduction of greenhouse gas (GHG) emissions to combat global warming. It involves a global effort by each country, including Panama, which in the context of the Paris Agreement has committed to reducing GHG emissions at the national level.\(^{77}\) This commitment seeks to reduce net GHG emissions by 45% by 2030 as compared to 2010, and to bring them down to zero by 2050.\(^{78}\) An increasing number of companies are embracing this commitment, announcing the tangible objective of achieving carbon neutrality (Net Zero Target) by 2050. For example, in May 2020, 155 companies signed a joint

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press release, urging governments to undertake a carbon-neutral post-pandemic economic recovery. The signatory companies have already established emission reduction targets or have committed to doing so.

There are also climate-related opportunities.

Climate change also represents an important opportunity for economic actors. For example, the financial sector has a grand opportunity to finance the transformation of today's economy to a low-carbon economy. According to Morgan Stanley, an investment of $50 trillion is required to reach carbon neutrality (Net Zero Target) by 2050.

For companies that invest in more energy efficient equipment, GHG reduction goes hand in hand with cost reductions.

There are also opportunities for startups offering disruptive products that displace unsustainable and/or high-carbon dependent business models. Companies in the electrical energy production industry that invest in renewable energy sources are displacing traditional companies with carbon-based production infrastructures. For example, technology companies, such as ZOOM, are replacing physical workspaces with virtual spaces, displacing the need for business travel and, in the process, reducing the carbon footprint.

All these innovations translate into energy efficiency, lower emissions, and cost reductions, and are opportunities for future entrepreneurs.

Some actors are concerned about the risk a company may be exposed to when publishing a report documenting partial or total non-compliance with the TCFD recommendations (known as liability risk). However, the effort to adopt these recommendations, even if initial compliance is only partial, will help companies assess and manage climate risk.

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79 Joint press release of the Science Based Targets Initiative, the UN Global Compact and the We Mean Business coalition (May 2020). Online: https://tinyurl.com/584xwhx7


81 Some 60 organizations in Latin America and the Caribbean have expressed their support for the TCFD, with the Latin American Stock Exchange - Latinex being the only Panamanian organization which, to date, has expressed their support for the TCFD.
Correlation between ESG performance and the cost of capital

Some business leaders share the perception that the cost of achieving superior performance on environmental and social issues negatively impacts the financial performance of the company. However, companies with proactive ESG management practices focus their investments on factors that are material to their industries and, therefore, avoid risks or identify opportunities that affect the company’s financial performance. Trends observed in recent years show that good corporate performance on ESG issues is positively correlated with a superior cost of capital for the company. Numerous studies support this thesis and suggest that companies that exhibit good management of material ESG factors significantly outperform other competitors in their sector exhibiting poor performance and management of these issues.

For example, an analysis published by Invesco in July 2020 reports the results of a comparative performance analysis of the different components of the S&P 500 Index of the companies with the best 12-month ESG ratings prior to June 30, 2020 versus the companies with the worst. The results indicate that companies with the best ESG ratings outperformed the other groups. In particular, these companies presented lower volatility during the months of March and April 2020, which contributed to a superior overall performance.\(^{82, 83}\)

Another study by the Mirae Asset Investment Team\(^{84}\) concluded that, over the past decade, the MSCI Emerging Markets ESG Leaders Index, which includes companies with high performance on ESG metrics relative to their peers, outperformed the MSCI Emerging Markets Index, with, respectively, annualized returns of 6.30% versus 2.87%.\(^{85}\)

These and other studies\(^{86}\) demonstrate that betting on sustainability translates into superior financial returns and, consequently, into superior costs of capital.\(^{87, 88, 89}\)

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83 Factset and Sustainalytics (equal number of securities in each quintile). Sustainalytics’ ESG Rating is a proprietary rating system that offers investors in-depth and timely ratings and analyses of corporate ESG performance. Investors use their research for various applications, including corporate engagement, enhanced risk analysis, due diligence, exclusionary screens, best-in-class analysis, and portfolio management. For more information on Sustainalytics’ ESG ratings, please visit their website at sustainalytics.com/esg-research-ratings. Past performance does not guarantee future results. An investment cannot be made directly into an index.
84 Mirae Asset Investment Team (2020). The Case for ESG Integration in Emerging Markets. Online: https://tinyurl.com/27d4iz9t
85 Information dated 30 September 2020.
Annex D

Regulatory overview on the disclosure of ESG factors

Around the world ever more governments and regulators are responding to investor demands and that of other stakeholders to access ESG issues information from companies.

In Europe, Directive (2014/95 / EU) requires large companies with more than 500 employees to report non-financial information. The Directive, which is currently under review, includes voluntary guidelines for the disclosure of non-financial issues in a consistent and comparable manner. In addition, Regulation (EU) 2019/2088 (SFDR) on the disclosure of information related to sustainability in the financial services sector, requires the disclosure by companies of information related to the integration into their processes of sustainability risks and the analysis of adverse sustainability incidents. Further, it requires information on sustainability in respect of financial products.

In Chile, the Superintendency of Pensions published a regulation in November 2020 which obliges pension fund managers (AFPs) and the Severance Fund Administrator (AFC) to incorporate climate risk and the ESG factors into their policies investment and risk management policies.

In Peru, the Resolution of the Superintendency of the Securities Market approved in 2015 a rule that requires issuers to submit a corporate sustainability report as an annex to their annual report.

For their part, there are at least 39 governments around the world that have established some type of mandatory ESG disclosure for issuers. In Latin America and the Caribbean there are currently 80 instruments aimed at promoting the dissemination of ESG issues (43 are voluntary, 37 are mandatory).

Through the integration of ESG factors into a company’s corporate strategy and, especially, through the regular publication of ESG factors disclosure reports, companies can prepare to comply with present and future rules and regulations, and avoid penalties associated with non-compliance. Globally, regulations issued by government agencies has grown 74% in 4 years (2016-2020), in particular on issues related to climate change, human rights, labor and anti-corruption.
<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>YEAR</th>
<th>TITLE</th>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superintendency of the Securities Market (formerly the National Securities Commission, CNV)</td>
<td>2003</td>
<td>Agreement N° 12-2003 dated November 11, 2003, by which guidelines and principles of good corporate governance on the part of companies registered with the CNV are recommended</td>
<td>Disclosure of information related to the absence, partial or total adoption of corporate procedures must be made in the securities offer registry and in the yearly reports</td>
</tr>
<tr>
<td>SMV</td>
<td>2010</td>
<td>April 16, 2010, by which Agreement No. 6-2000 dated May 19, 2000, is repealed and the procedure for the presentation of applications for the registration of securities and the termination of registration with the CNV is adopted</td>
<td>Minimum disclosures regarding the identity of directors/officers, key executives and their compensation, corporate governance norms.</td>
</tr>
<tr>
<td>SMV</td>
<td>2018</td>
<td>Agreement N° 2-2018 dated May 9, 2018, by which the forms and content of the reports on the issuer and investment companies, their operations, businesses, and securities registered with the Superintendency of the Securities Market is adopted</td>
<td>Inclusion of the “F5” Report in the periodic Issuers of Securities reports: Annual Corporate Governance Questionnaire.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>YEAR</th>
<th>TITLE</th>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMV</td>
<td>2018</td>
<td>Agreement N° 6-2018 dated October 10, 2018, by which rules and principles of Good Corporate Governance to be followed by licensed subjects (Brokerage Houses, Investment Administrators, Self-Regulated Organizations, among others) are adopted</td>
<td></td>
</tr>
<tr>
<td>Superintendencia de bancos</td>
<td>2011</td>
<td>Agreement N° 005-2011 (dated September 20, 2011) by which a new Agreement updating the provisions on Corporate Governance is issued</td>
<td>Mandatory corporate governance provisions for official banks and banks with a general and international license. They must disclose updated information regarding their business profile and organizational structure through the superintendency’s electronic portal and other means elected by the bank.</td>
</tr>
</tbody>
</table>


Annex E
Main actors in the sustainability reports ecosystem

The principles of sustainability inform the definition of the standards, reference frameworks and questionnaires used by entities to prepare their ESG disclosure reports. In turn, the reports can be reviewed by independent external consultants, auditors, or verifiers, which constitutes good practice. On the other hand, investors, and other stakeholders -- that is, the final recipients of the information contained in the reports -- may also use other tools to satisfy their information needs, such as ESG information providers, ESG ratings and sustainability indices.

The following graph and table illustrate the interaction of these different actors as well as that of some of the main actors that interact in the context of the sustainability reports.
Graph 6
Interaction between the Different Actors of the Sustainability Reports Ecosystem

Sustainability Principles
- Fiscal and economic contribution
- Sustainable Development Goals (SDGs)
- Ten Principles of the UN Global Compact
- UN Guiding Principles on Business and Human Rights

Standards, Reporting Frameworks and Questionnaires
- The Value Reporting Foundation (formerly SASB and IIRC)
- Global Reporting Initiative (GRI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Carbon Disclosure Project (CDP)

Used by Reporting Companies to Develop
- ESG Factors Disclosures Reports

Other Publicly Available Information

Analysts and Ratings
- Moody’s
- S&P
- Fitch

Sustainability Indexes
- Dow Jones Sustainability Index (DJSI)
- MSCI ESG Indexes

Information aggregators
- Bloomberg
- Refinitv
- MSCI
- Sustainalytics

Inform

Auditors, Consultants and Reviewers
- KPMG
- PwC
- Deloitte
- Ernst & Young

Informations Users
- Consumers and Users
- General Public
- Investors
- Employees
- Neighboring Communities

Source: Developed by Latinex / BID Invest / HPL
Annex F
Principles, standards, reference frameworks and questionnaires

Table 9
Principles, Standards, Reference Frameworks and Questionnaires Mostly Used Globally

**PRINCIPLES**

- Intended for investors.\(^\text{105}\)
- Principles of Responsible Investment which translate into a series of investor commitments.
- They also provide a reference framework for the annual report on matters relating to responsible investment.\(^\text{106}\)

- 17 Sustainable Development Goals intended for the global community.
- Each SDG contains specific targets and indicators to track progress.
- Companies must contribute with actions aimed at ensuring these objectives are met.
- The Integration of the SDGs in Corporate Reporting: A Practical Guide\(^\text{107}\) of the United Nations Global Compact proposes that the specific definition of the SDG targets be considered as input for the preparation of the materiality diagnosis.
- The SDG Compass\(^\text{108}\) is a tool developed with the aim of helping companies align their strategies with the SDGs, measure and manage their contribution to their achievement.

- Largest global corporate sustainability initiative.\(^\text{109}\)
- Calls on companies and organizations to align their strategies and operations with the Ten Universal Principles\(^\text{110}\) on human rights, labor standards, the environment, and the fight against corruption.

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\(^\text{105}\) For more information on the Principles of Responsible Investment, please refer to Chapter 3: THE VALUE OF ESG INFORMATION FOR THE INVESTOR, on page 52 of the Guide.

\(^\text{106}\) PRI (2020). Reporting and Assessment. Online: https://tinyurl.com/2avd7mfn

\(^\text{107}\) Global Reporting Initiative (GRI) and the United Nations Global Compact (June 2019). Integrating the SDGs into Corporate Reporting: A Practical Guide. Online: https://tinyurl.com/4zp448z3


STANDARDS AND REFERENCE FRAMEWORKS

- **International Integrated Reporting Council (IIRC),** a global coalition of regulators, investors, companies, standards developers, accountants, academics and ONGs. At the end of 2020 the IIRC and the SASB merged, giving rise to The Value Reporting Foundation.
- Provides a reference framework for reporting on ESG issues.¹¹¹
- Promotes the preparation of integrated reports, that is, including financial and sustainability-related information.
- Can be used in a complementary way in conjunction with standards such as GRI or SASB.

- **Climate Disclosure Standards Board (CDSB)**
  - Provides a reference framework for the preparation of integrated reports with an environmental focus.¹¹²
  - Promotes the integration of information related to climate change in the general financial information.

- **Task Force on Climate-related Financial Disclosures**, an initiative created in 2015 at the request of the G20 with the aim of avoiding the potential negative impacts of climate change on the stability of financial markets.
- Promotes the disclosure of information on financial risks associated with climate as an input for informed decision-making by financial actors and other stakeholders.
- Can be used as a complement to any standard aligned with these recommendations such as GRI or SASB.
- Provides a reference framework for the disclosure of climate-related financial information, applicable to organizations in all sectors and jurisdictions.¹¹³

¹¹³ Task Force on Climate-related Financial Disclosures (2020). Reporte final. Recomendaciones del grupo de trabajo sobre declaraciones financieras relacionadas con el clima. Online: https://tinyurl.com/572et8ud
The Global Reporting Initiative (GRI) is an independent international organization that assists companies in the process of communicating their impact on matters relating to sustainability.

It provides a reference framework and standards for the preparation of sustainability reports.

The GRI standards are grouped by issues: economic (GRI 200), environmental (GRI 300), and social (GRI 400). They each provide, by topic, a detailed explanation of the factors and indicators to include. In addition, GRI provides a set of ‘universal’ standards (GRI 101, GRI 102 and GRI 103), which serve as a general frame of reference for the preparation of the report.

The GRI standards can be used in a complementary way in conjunction with the SASB standards.

The Sustainability Accounting Standards Board is an independent, non-profit organization focused on creating sustainability standards.

It identifies the ESG factors that can have a significant effect on the financial condition, operating performance, or risk profile of companies within an industry.

Standards developed by the SASB focus on the industry in which the reporting company operates. SASB has designed standards for the different sectors belonging to the same industry. On this basis, SASB has standards for 77 sectors within 11 industries. They are freely available to the public.

It provides metrics to report on 26 general thematic categories organized in five dimensions: 1) leadership and corporate governance; 2) environmental capital; 3) human capital; 4) share capital and 5) business model and innovation.

A focus on financially material ESG issues.

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116 The SASB standards in English are available for download on the following link: https://www.sasb.org/standards/download/
The Global Reporting Initiative (GRI) is an independent international organization that assists companies in the process of communicating their impact on matters relating to sustainability. It provides a reference framework and standards for the preparation of sustainability reports. The GRI standards are grouped by issues: economic (GRI 200), environmental (GRI 300), and social (GRI 400). They each provide, by topic, a detailed explanation of the factors and indicators to include. In addition, GRI provides a set of ‘universal’ standards (GRI 101, GRI 102 and GRI 103), which serve as a general frame of reference for the preparation of the report.

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It provides metrics to report on 26 general thematic categories organized in five dimensions: 1) leadership and corporate governance; 2) environmental capital; 3) human capital; 4) share capital and 5) business model and innovation.

A focus on financially material ESG issues.

The CDP (formerly the Carbon Disclosure Project) is an international non-profit organization. It promotes the measurement of the environmental impact of the actions and policies of private and public entities. It provides questionnaires with specific questions for companies with activities in sectors with a high impact on climate change, such as forests and water.\textsuperscript{117}
Annex G

Questions to guide the preparation of the report

Below is a list of questions developed by the United Nations Sustainable Stock Exchanges Initiative to guide those responsible for preparing the company’s ESG disclosure report.118

GENERAL

1. In what phase in the development and implementation of a corporate sustainability strategy is the company in?

2. How can ESG factors contribute to the achievement of the company’s strategic objectives?

3. What are the ESG disclosure requirements in the market(s) where the company operates?

RESPONSIBILITY AND CONTROL

1. How can the company use the ESG disclosure process to engage the board of directors, its senior managers and executives, and the company’s employees in establishing a corporate sustainability culture?

2. From the CEO’s perspective, what are the key ESG issues and objectives?

3. How does the company involve the board of directors, its senior managers and executives, and the company’s employees in making decisions related to the management, monitoring and performance of the ESG factors?

MISSION AND RESPONSIBILITY

1. What are the main objectives the company intends to achieve through transparency and the disclosure of the ESG factors?

2. What are the company’s key ESG factors in terms of the risks and opportunities they represent for the development of its business strategy?

3. What are the company’s public commitments to sustainable development and corporate responsibility?

4. Who are the company’s priority stakeholders? What is the identification process to determine who they are and how often are the corresponding identification mechanisms updated? What system does the company employ to identify the priority ESG issues of its stakeholders?

5. What ESG factors are most relevant to the company’s current and potential investors?

6. How well does the company know its current investor base and its information needs?

7. What are the company’s aspirations in terms of diversifying and expanding its investor base in the next five years?

8. How well does the company know the information needs of the investors it wishes to attract?

RELEVANCE AND MATERIALITY

1. What is the company’s process to undertake a materiality diagnosis on ESG issues?
2. How do the ESG factors fit into the materiality assessment process?
3. Which ESG factors have the greatest impact on creating long-term value?
4. What ESG factors directly affect the company’s short-term financial performance?
5. Has the company identified the information its investors require?
6. How does the company maintain and improve its relationship with investors?
7. How does the company compare to its peers regarding ESG management and performance?
8. What ESG factors are related to current and future regulations that affect the company?

CREDIBILITY AND SUSTAINABILITY

1. How useful is the company’s ESG disclosure report for its investors and other stakeholders?
2. How can the company take advantage of the ESG factors disclosure process to deepen the relationship with its investors?
3. How can the company carry out a feedback process with its stakeholders to improve its performance and transparency on ESG issues?
4. What initiatives has the company implemented to involve its investors in ESG issues?
5. What alternative methods does the company need to explore to engage its investors?
6. How does the company use and incorporate the suggestions, comments, and recommendations of its stakeholders in the decision-making process?
7. How do financial disclosure controls and obligations apply to ESG disclosure?
Annex H

GRI, SASB and the united nations global compact as tools to determine the esg issues on which to report

GRI

The GRI standards are grouped by themes: economic (GRI 200), environmental (GRI 300), and social (GRI 400). They provide a detailed explanation of the factors and indicators to include. In addition, GRI provides a set of ‘universal’ standards (GRI 101, GRI 102 and GRI 103), which serve as a general frame of reference for the preparation of the report. The table below presents the list of the GRI standards.

Table 10
List of the GRI Standards

<table>
<thead>
<tr>
<th>UNIVERSAL STANDARDS (applicable to any organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 101: Foundations</td>
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</table>

<table>
<thead>
<tr>
<th>THEMATIC STANDARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic (GRI 200)</td>
</tr>
<tr>
<td>GRI 201: Economic Performance</td>
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<tr>
<td>GRI 202: Market Presence</td>
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<tr>
<td>GRI 203: Indirect Economic Impacts</td>
</tr>
<tr>
<td>GRI 204: Procurement Practices</td>
</tr>
<tr>
<td>GRI 205: Anti-corruption</td>
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<tr>
<td>GRI 206: Anti-competitive Behaviour</td>
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<td>GRI 207: Tax</td>
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<tr>
<td>Environmental (GRI 300)</td>
</tr>
<tr>
<td>GRI 301: Materials</td>
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<tr>
<td>GRI 302: Energy</td>
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<tr>
<td>GRI 303: Water and Effluents</td>
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<tr>
<td>GRI 304: Biodiversity</td>
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<tr>
<td>GRI 305: Emissions</td>
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<tr>
<td>GRI 306 (2016): Effluents and Waste</td>
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<tr>
<td>GRI 306 (20120): Waste</td>
</tr>
<tr>
<td>GRI 307: Environmental Compliance</td>
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<tr>
<td>GRI 308: Supplier Environmental Assessment</td>
</tr>
<tr>
<td>Social (GRI 400)</td>
</tr>
<tr>
<td>GRI 401: Employment</td>
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<tr>
<td>GRI 402: Labor Management Relations</td>
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<tr>
<td>GRI 403: Occupational Health and Safety</td>
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<tr>
<td>GRI 404: Training and Education</td>
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<td>GRI 405: Diversity and Equal Opportunity</td>
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<tr>
<td>GRI 406: Non-discrimination</td>
</tr>
<tr>
<td>GRI 407: Freedom of Association and Collective Bargaining</td>
</tr>
<tr>
<td>GRI 408: Child Labor</td>
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</tbody>
</table>
SASB

The standards developed by SASB focus on the industry in which the reporting company operates. SASB has designed a standard for the different sectors belonging to the same industry. Each of the industry standards helps companies to report ESG factors that have a high potential to generate material financial impacts on companies in that industry. In this regard, SASB has standards for 77 sectors within 11 industries. They are freely available to the public.

SASB provides reporting metrics on 26 general thematic categories organized in five dimensions: 1) Leadership and Corporate Governance; 2) Environmental Capital; 3) Human Capital; 4) Social Capital; and 5) Business and Innovation Model. These standards can be a good source for the identification of the ESG issues on which to report.

Source: Developed by Latinex / BID Invest / HPL with data from the Global Reporting Initiative (GRI) 2021


120 The SASB standards in English are available for download on the following link: https://www.sasb.org/standards-overview/download-current-standards/
Graph 7
Dimensions and Thematic Categories that Make Up the SASB Standards

- Professional Ethics
- Competitive Behaviour
- Management of the Legal and Regulatory Environment
- Risk management of Critical Incidents
- Management of Systemic Risks

- GHG Emissions
- Air Quality
- Energy Management
- Water and Wastewater Management
- Waste and Toxic Materials
- Biodiversity and Ecological Impacts

- Human Rights and Community relations
- Consumer Privacy
- Data Security
- Access and Affordability
- Product Quality and Security
- Consumer Well-Being
- Sales Practices and Product Labeling

Source: Rodríguez Trejo, Arturo (South/Latin America Outreach Director, SASB) (2020)
Presentation for the Latin American Stock Exchange - Latinex and its working group for the development of the ESG disclosure guides (p. 14)
United Nations Global Compact

The Practical Guide for the Integration of the SDGs in Corporate Reports (June 2019)\textsuperscript{121} proposes that the specific definition of the SDG goals be considered as inputs for the identification of the ESG issues on which to report. This document is a practical guide on integrating the SDGs with corporate reporting conducted in accordance with the United Nations Guiding Principles on Business and Human Rights,\textsuperscript{122} the Ten Principles of the United Nations Global Compact and the Framework for Preparation of Reports of the Global Reporting Initiative (GRI). The document details the process that companies can follow to “identify and prioritize their SDG goals, take action and report on their progress.” Similarly, the United Nations Global Compact offers a series of very useful tools for companies engaged in the preparation of corporate reports linked to the SDGs.\textsuperscript{123, 124, 125}

\textsuperscript{121} Global Reporting Initiative (GRI) and the United Nations Global Compact (June 2019). Integrando los ODS en los informes Corporativos. Online: https://tinyurl.com/4zp448z3
\textsuperscript{124} Global Reporting Initiative (GRI), UN Global Compact and PRI (2018). In Focus: Addressing Investor needs in Business Reporting on the SDGs. Online: https://tinyurl.com/549rmbx7
\textsuperscript{125} SDG Compass (2020). The Steps. Online: https://sdgcompass.org/
Annex I
Other tools and references

The following is a list of the main global ESG information disclosure organizations and initiatives.

1. Sustainable Development Goals (United Nations). There are different tools to guide organizations in including the SDGs in their sustainability reports. We recommend consulting them for a better incorporation of this approach in the reports:
   a. SDG Compass
   b. Integrating the SDGs into corporate reports: a practical guide
   c. Investors’ needs in the corporate report on contributions to the SDGs
   d. Linking the SDGs and the GRI Standards

2. United Nations Global Compact


4. Guidance for Responsible Agricultural Supply Chains of FAO-OECD

5. Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development

6. ISO Standards

7. Natural Capital Protocol

8. Tripartite Declaration of principles concerning multinational enterprises and social policy of the International Labor Organization

9. GRESB (ESG reporting standards for real assets).

10. UNEP Finance Initiative. Principles for Responsible Banking:
    a. Principles Signature Document
    b. Reporting and Self-Assessment Template
    c. PRB Guidance Document

11. GRESB and ESG Benchmarking
Composition of the Guidelines Task Force Group

For the preparation of this document, a working group, namely the Guidelines Task Force Group, was created in which the participants were representatives of the main sectors of Panama’s capital market. The group contributed with its observations, comments, and suggestions to improve the quality and content of this Guide, as well as to reflect in its contents the characteristics and circumstances of the Panamanian market. In particular, we are grateful for the comments and contributions of the following institutions and their representatives:

<table>
<thead>
<tr>
<th>REPRESENTATIVE</th>
<th>REPRESENTED ENTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elías Domínguez</td>
<td>Superintendency of the Securities Market of the Republic of Panama</td>
</tr>
<tr>
<td>Legal Adviser</td>
<td></td>
</tr>
<tr>
<td>Lic. Bilardo De La Victoria Borace</td>
<td>Superintendency of Banks of the Republic of Panama</td>
</tr>
<tr>
<td>Market Risk Manager</td>
<td></td>
</tr>
<tr>
<td>Marielena García Maritano de Siegrist</td>
<td>MMG Bank Corporation</td>
</tr>
<tr>
<td>Senior Vice president, Investment Banking</td>
<td></td>
</tr>
<tr>
<td>Viviane M. Macías</td>
<td>Cámara Panameña de Administradores de Fondos de Inversión y Fondos de Pensiones</td>
</tr>
<tr>
<td>member of the Sustainable Finance Group of CASIP</td>
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<tr>
<td>Michelle Nuñez</td>
<td>Banco General</td>
</tr>
<tr>
<td>Vice president, Investment Banking and Trusts</td>
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<tr>
<td>Susana del Granado Peñaranda</td>
<td>BID Invest</td>
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<tr>
<td>Environmental and Social Officer</td>
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<tr>
<td>Lisa Remke</td>
<td>Iniciativa de Bolsas de Valores Sostenibles de las Naciones Unidas</td>
</tr>
<tr>
<td>Associate Economic Affairs Officer at UNCTAD</td>
<td></td>
</tr>
<tr>
<td>Eduardo Alfonso Atehortua Barrero</td>
<td>Principles for Responsible Investment (PRI)</td>
</tr>
<tr>
<td>Director for Latin America</td>
<td></td>
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<tr>
<td>Carolina Barreto</td>
<td>Climate Bonds Initiative (CBI)</td>
</tr>
<tr>
<td>Leader, Green Finances Program of the Climate Bonds Initiative (CBI), Latin America</td>
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<td>REPRESENTED ENTITY</td>
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<tr>
<td>Valeria Dagnino Contreras, Assistant, Green Finances Program of the Climate Bonds Initiative (CBI), Latin America</td>
<td>Climate Bonds Initiative (CBI)</td>
</tr>
<tr>
<td>Roxana Cornejo Impellizeri, Vice presidente – Senior Credit Officer</td>
<td>Moody’s Local PA Calificadora de Riesgos, S.A.</td>
</tr>
<tr>
<td>Eduardo Trejos Murillo, Associate Director</td>
<td>Fitch Costa Rica Calificadora de Riesgos, S.A.</td>
</tr>
<tr>
<td>Alejandro Bertuol, Managing Director, Fitch, Latin American Group</td>
<td>Fitch Costa Rica Calificadora de Riesgos, S.A.</td>
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<tr>
<td>Víctor Espinosa, Director-President</td>
<td>Cámara de Emisores de Valores de Panamá</td>
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<td>Vielka E. Ramírez, Executive Director</td>
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<tr>
<td>Giorgio Tedesco Ramírez, Sustainable Finance Projects</td>
<td>Cámara Panameña de Mercado de Capitales (CAPA-MEC)</td>
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The facilitation process for this group was led by Isabel Montojo (HPL) and Kurt Vogt (HPL). For more information, please contact the Sustainability Department of the Latin American Stock Exchange - Latinex: sostenibilidad@latinexgroup.com