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NIRI-Chicago: Developing Your ESG Program and Disclosure

Sustainability and ESG Data

November 13, 2020

Polling Question:

What role do you play in ESG/Sustainability?

- I lead ESG/Sustainability efforts for my company
- I actively support another function that leads these efforts
- I have minimal involvement
- What is ESG?

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Polling Question:

What portion of your time is spent on ESG/Sustainability?

- <25%
- 25-50%
- 50%+

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Sustainability and ESG integration and high-quality disclosure

Deloitte's recommended roadmap and key steps



Governance and organizational structure

- Understand ESG objectives and governance mechanisms to support a strategic framework

Benchmarking and roadmap development

- Evaluate the company's ESG objectives, audience, and outlets compared with those of peers to understand industry trends

Materiality assessment

- Engage with key stakeholders to understand ESG priorities and align with the business strategy and leading measurement and reporting standards

Integration into strategy

- Integrate ESG objectives into strategic planning and resource allocation

Data and process management

- Evaluate reporting processes and controls under the framework established by the Committee of Sponsoring Organizations of the Treadway Commission

Target setting and alignment with business goals

- Establish goals and targets for priority ESG topics and execute on KPI performance.
- Integrate priority ESG topics into enterprise risk management practices

Internal audit and external assurance

- Integrate sustainability into the internal audit plan.
- Evaluate the type and level of external assurance to meet stakeholder expectations

Disclosure preparation

- Develop a regular cadence of timely disclosure in accordance with a recognized standard

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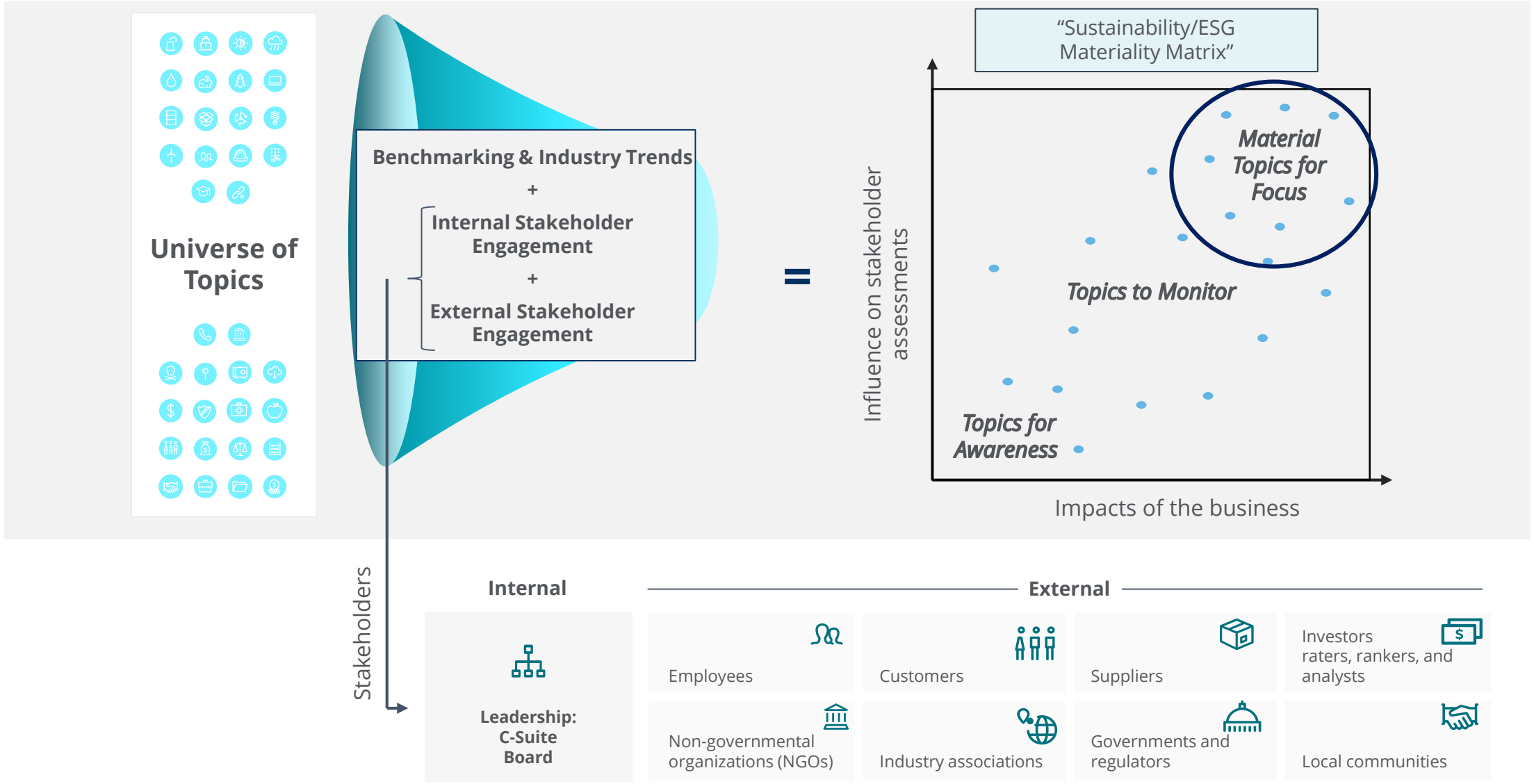
ESG/Sustainability materiality assessment

Utilizing stakeholder feedback to drive ESG prioritization



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Polling Question:

Has your company completed a materiality assessment?

- Yes – formal materiality assessment completed
- Partially – internal feedback captured
- No
- I have no idea!

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Key standards and frameworks

Mapping material topics to recognized standards and frameworks to drive effective disclosure

	Global Reporting Initiative (GRI) Standards	Sustainability Accounting Standards Board (SASB)	Task-force on Climate-related Financial Disclosures (TCFD)
Purpose:	Enables organizations to report on a broad set of material ESG issues.	Helps companies to report on industry relevant financially material ESG topics.	Encourages companies to align climate-related financial risk disclosures to investor needs.
Audience:	Stakeholders (broadly defined) with varying interests	Investors	Financial stakeholders— investors, lenders, insurers etc.
Materiality:	Reflects the organization's significant impacts or substantively influences stakeholder decisions	Financial materiality – an omission or misstatement would significantly alter a reasonable investor's view	Financial materiality – use consistent approach to other information included in financial filings
Focus areas:	• Broad set of reporting disclosures that assist organizations to report their performance in managing their impacts on society and the environment	• Industry-specific disclosure standards across environmental, social, and governance topics • Enable reporting of financially material, decision-useful information	• Focuses on building consistent climate-related disclosures
Structure:	• Modular, interrelated, and designed to be used as a set • Topic-specific standards within the categories of *economic, environmental, and social*	• Materiality map indicates which issues are relevant based on industry • On average 8-12 metrics assigned by industry across *environment, social capital, human capital, business model and innovation, and leadership and governance*	• Industry-agnostic • Framework to report on *governance, strategy, risk management, and metrics/targets* related to climate

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GRI Standards

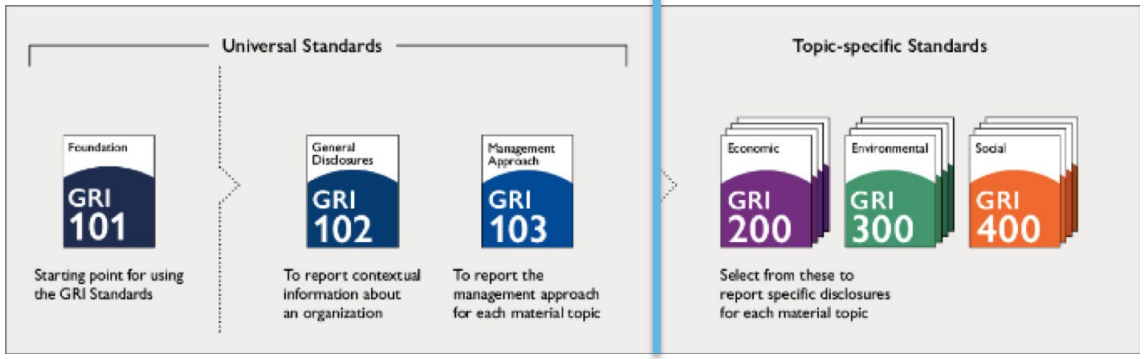
The GRI was founded in 1997 and exists to help organizations be transparent and report on impacts

Universal Standards (100 Series)

- GRI 101 (Foundation): starting point; requirements; reporting principles
- GRI 102 (General Disclosures): info about organization and sustainability reporting practices
- GRI 103 (Management Approach): information about how an organization manages a material topic; included within each 200, 300, and 400 series disclosure

Topic Specific Standards (200, 300, 400 Series)

- GRI 200 (Economic)
  - 7 topics – economic performance, market presences, indirect economic impacts, procurement practices, anti-corruption, anti-competitive behavior, tax
- GRI 300 (Environmental)
  - 8 issues – materials, energy, water and effluents, biodiversity, emissions, waste, environmental compliance, supplier environmental compliance
- GRI 400 (Social)
  - 19 issues – across labor (e.g. H&S, training and education, diversity) and social impact (e.g. local communities, human rights, customer privacy)



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SASB Standards

SASB was founded in 2011 and aims to connect businesses and investors on the financial impacts of sustainability

Environment

- GHG emissions
- Air quality
- Energy management
- Fuel management
- Water and wastewater management
- Waste and hazardous materials management
- Ecological impacts

Social capital

- Human rights and community relations
- Customer privacy
- Data security
- Access and affordability
- Product quality and safety
- Customer welfare
- Selling practices and product labeling



Human capital

- Labor practices
- Employee health and safety
- Employee engagement, diversity, and inclusion

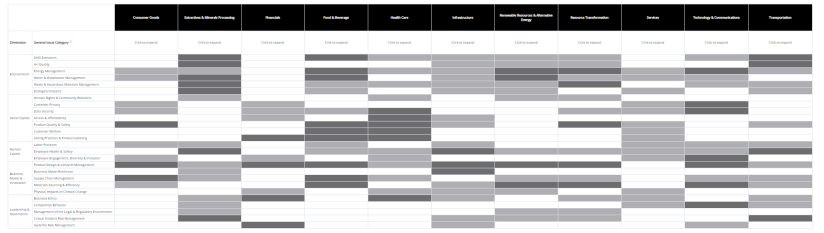
Business model and innovation

- Product design and lifecycle management
- Business model resilience
- Supply chain management
- Material sourcing and efficiency
- Impacts of climate change

Leadership and governance

- Business ethics
- Competitive behavior
- Management of the legal and regulatory environment
- Critical incident risk management
- Systemic risk management

Source: SASB Materiality Map



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TCFD Framework

TCFD was established by the Financial Stability Board in 2015 and aims to enable companies with a framework to provide climate-related financial risk disclosures to investors, lenders, and insurance underwriters

Governance

Disclose the organization's **governance around climate-related risks and opportunities.**

Recommended Disclosures:

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Disclose the actual and potential **impacts of climate-related risks and opportunities on the organization's** businesses, strategy, and financial planning where such information is material.

Recommended Disclosures:

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

b) Describe the impact of climate- related risks and opportunities on the organization's businesses, strategy, and financial planning.

c) Describe the resilience of the organization's strategy, taking into consideration **different climate-related scenarios, including a 2°C or lower scenario.**

Risk Management

Disclose how the organization **identifies, assesses, and manages climate-related risks.**

Recommended Disclosures:

a) Describe the organization's processes for identifying and assessing climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Metrics and Targets

Disclose the **metrics and targets used to assess and manage relevant climate-related risks and opportunities** where such information is material.

Recommended Disclosures:

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

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Evolution of sustainability and ESG disclosure

ESG frameworks and standards are maturing to support informed decision-making and risk mitigation; integration into mainstream corporate reporting accelerates more effective governance, strategy alignment, and ESG performance management

Voluntary ESG reporting → **Framework for business action toward a global system of ESG standards** → **Authoritative non-financial standards**

Sustainability Framework

TCFD | IIRC | CDSB

Principles-based guidance to identify ESG topics and determine ***how to structure and prepare*** ESG disclosure.

Sustainability Standard

SASB | GRI

Specific and detailed requirements to determine ***what specific metrics to disclose*** for each ESG topic.

TCFD ; GRI; SASB; CDSB

WEF-IBC recommendations

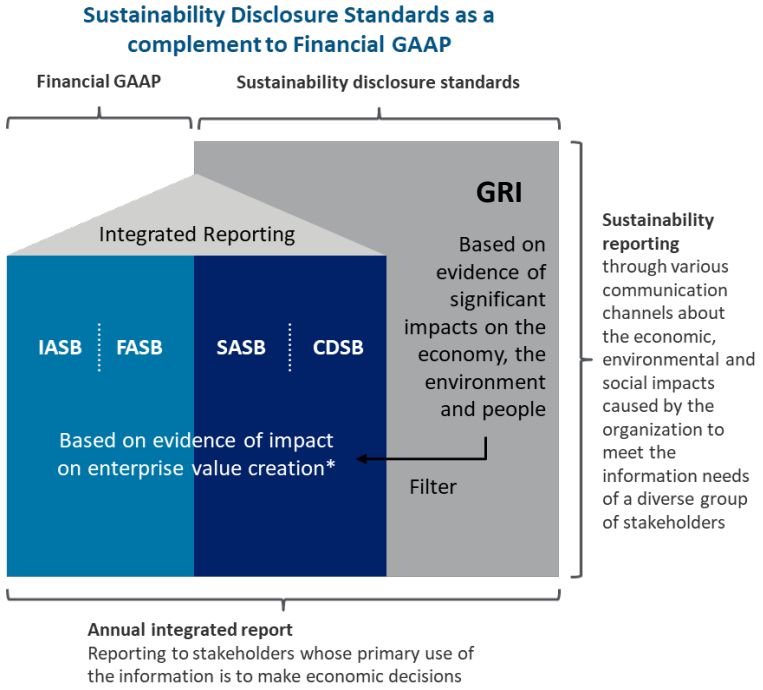


21 core metrics, 34 expanded metrics

Aligned to existing standards and frameworks

IIRC; WEF-IBC ESG metrics; Joint statement - Intent to work together towards comprehensive corporate reporting

Joint statement by five standard setters



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Polling Question:

Does your company use a recognized standard or framework for ESG/Sustainability reporting?

- Yes – GRI, SASB, TCFD, or others
- Partially – inspired by standards/frameworks
- No
- I have no idea!

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Digging into the functional roles and involvement in Sustainability/ESG disclosure

Example role involvement and activities

Sustainability / ESG	Develop the ESG disclosure. Manage and track the company's material topics and metrics.
Finance/ Accounting	Ensure consistent disclosure of material risks in financial reports. Manage the auditor relationship.
Risk	Include ESG within company-wide risk assessment and enterprise risk management (ERM).
Human Resources	Manage and track the company's workforce data, including labor relations, diversity, compensation, and recruitment.
General Counsel	Monitor and track the company's compliance with laws and regulations. Review company disclosures.
IT	Monitor technology system(s) used to track sustainability information.
Operations/ EHS	Track relevant ESG impacts (e.g., energy consumption, supply chain metrics). Identify potential areas for improvement.
Investor Relations	Address questions from key stakeholders regarding the company's disclosures.
Internal Audit	Assess the company's controls over ESG reporting.

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Data quality considerations

Enhancing confidence in ESG data management, governance, process, and controls

An ESG data and process management approach aligned with the COSO Internal Control Integrated Framework can help increase sustainability data quality.

1. Governance

2. Design	3. Capture	4. Record	5. Calculate	6. Compile	7. Report
How is the overall reporting program set up to meet management and stakeholder reporting requirements?	How is all relevant data captured timely and accurately?	How is source data recorded and documented enabling traceability of the data?	How is source data being utilized to calculate the relevant KPIs?	How is data compiled and prepared for reporting by the data owner(s)?	How is information reviewed, validated, self-certified, and presented; how often and for what purpose(s)?

8. Supporting infrastructure

Internal controls

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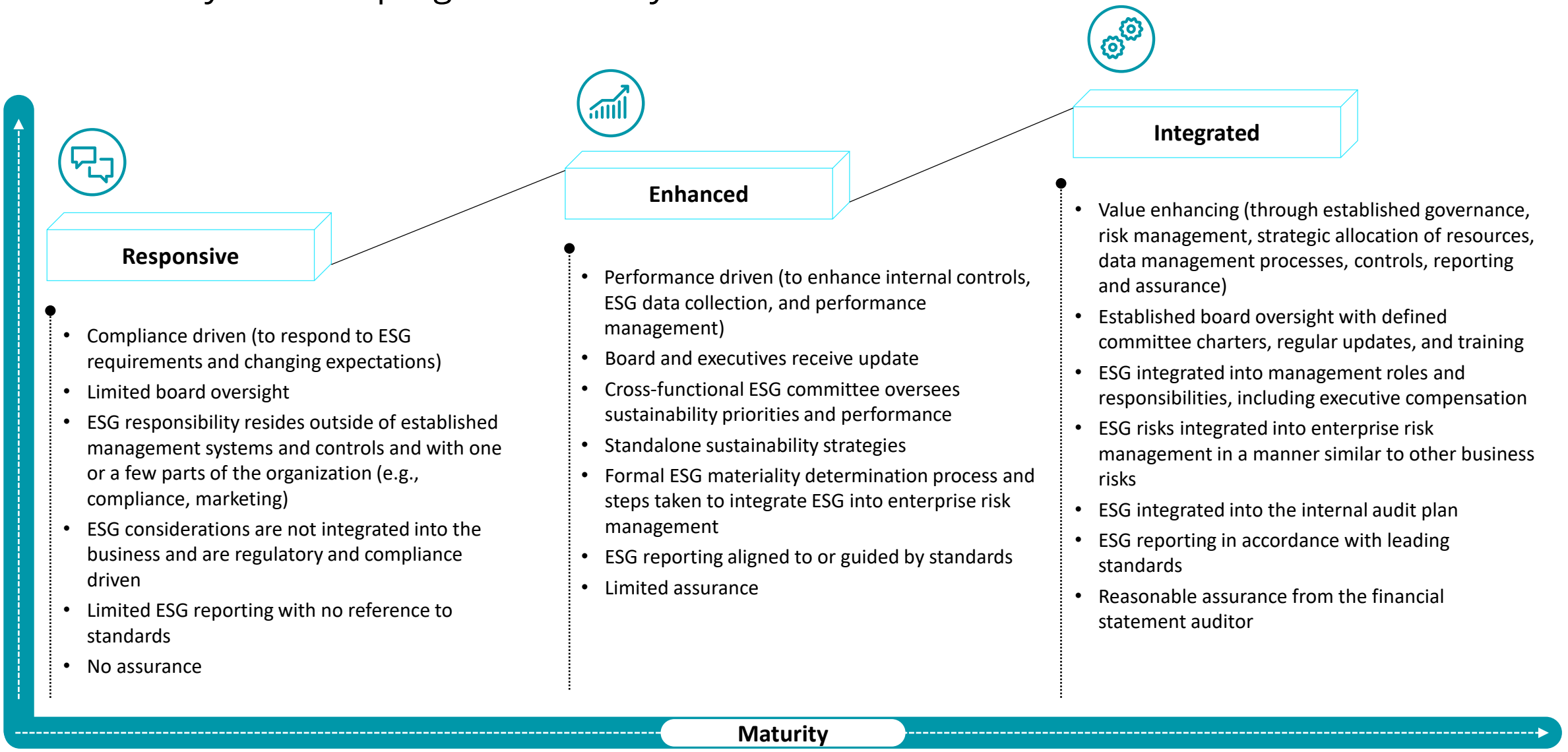
Sustainability and ESG program maturity



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Polling Question:

Where is your company on the ESG integration maturity scale?

- Responsive – compliance-driven
- Enhanced – performance-driven
- Integrated – value-enhancing

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ESG Raters & Rankers

Some of the common players

Carbon Disclosure Project

A not-for-profit charity that runs the **global disclosure system** for investors, companies, cities, states and regions to manage their environmental impacts. At the request of investors, purchasers and city stakeholders, CDP supports thousands of companies, cities, states and regions to **measure and manage their risks** and opportunities on **climate change, water security and deforestation**.

Dow Jones Sustainability Indices 20th Anniversary
In collaboration with SAM

DJSI

A family of best-in-class **benchmarks for investors** that track the stock performance of the world's leading companies in terms of economic, environmental and social criteria. The DJSI World applies a transparent, rules-based component selection process. **Only the top ranked companies within each industry are selected f**or inclusion in the Dow Jones Sustainability Index family.

Submission based ⇅ **Engagement focused**

SUSTAINALYTICS

The rater disclosed on Yahoo! Finance that leverages **raw historical data points** that covering a variety of environmental, social and governance themes. There are **over 220 indicators** for over 11,000 companies (2,000 on Yahoo! Finance).

ISS ESG

Brings globally recognized expertise across the full range of **sustainable and responsible investment issues, including climate change, SDG-linked impact, human rights, labor standards, corruption**, controversial weapons, and many more.

MSCI **ESG Ratings & Indexes**

Ratings aim to measure a company's **resilience to long-term, financially relevant ESG risks**. The indexes are designed to support common approaches to ESG investing, and help institutional investors more effectively **benchmark to ESG investment performance** as well as manage, measure and report on ESG mandates.

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For Reference

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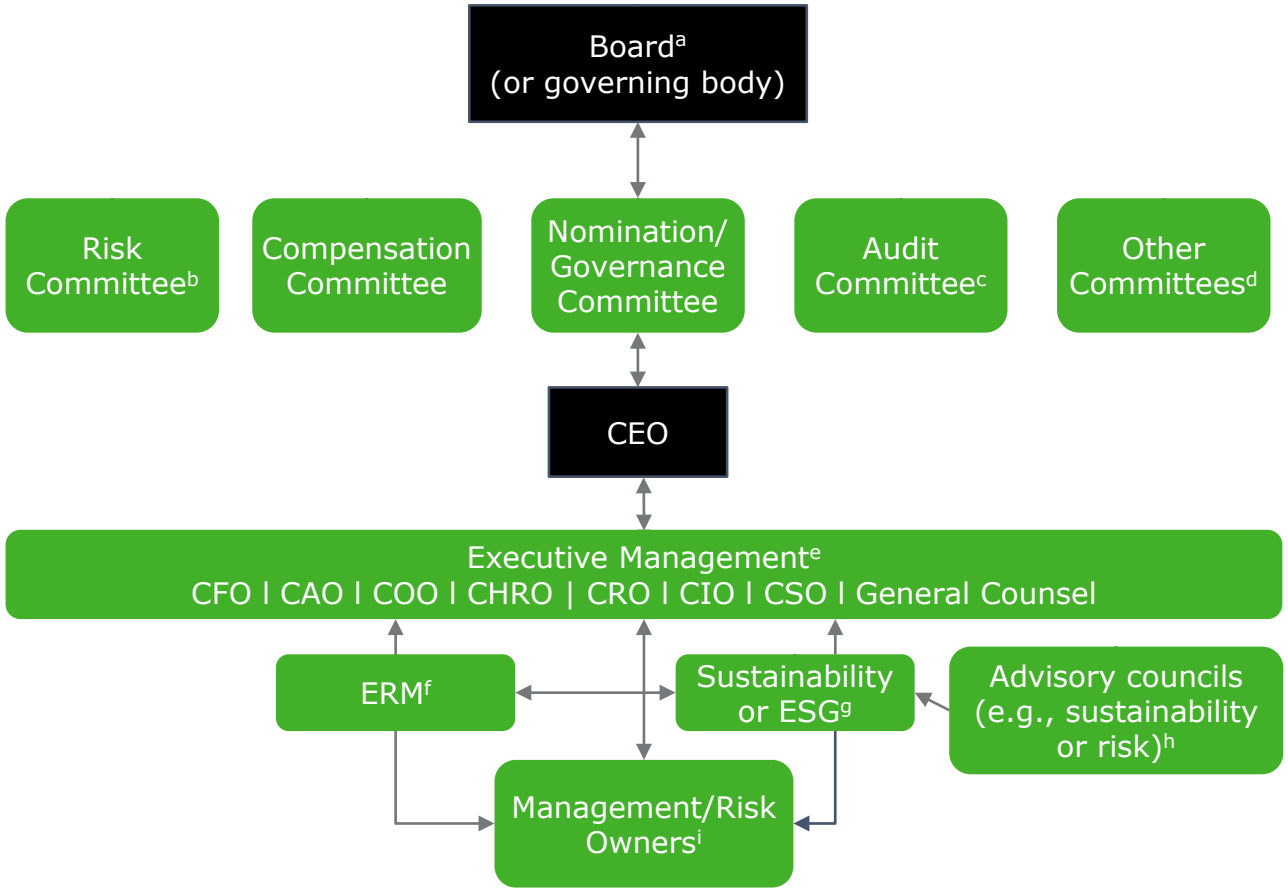
Sustainability and ESG governance

Established board structure "provides oversight of the company's strategy and carries out governance responsibilities to support management in achieving its strategy and business objectives."[1]



Examples of ESG responsibilities[2]

a. **The Board** is responsible for overseeing ESG-related risk ownership as well as ensuring there is a program in place to identify, assess, manage and monitor ESG-related risks effectively.

b. **The Risk Committee** establishes the direct oversight of enterprise risk management. The focus of the risk committee is entity-wide in non-financial areas that go beyond the authority of the audit committee.

c. **The Audit Committee** assists the BOD in fulfilling its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control, risk management.

d. Some companies have **additional Board Committees**, such as a sustainability committee, separate from the risk committee and the audit committee, cross-functional representatives to identify, monitor and review ESG-related risks.

e. Connections to **strategic planning and operations personnel** are also critical to support timely assessment of new and emerging ESG-related risks so that the organization is better prepared to identify risks and related opportunities.

f. The **ERM function** is responsible for coordinating and consolidating ERM activities and lead the process for managing enterprise-wide risks in an integrated, systematic manner.

g. The **sustainability director** provides support in coordinating ESG-related activities. This includes monitoring megatrends as well as identifying, assessing and monitoring risks.

h. **Cross-functional or multi-stakeholder advisory councils** (either internal or external) can provide perspective on particular aspects of ESG issues or other risks.

i. Although management collectively 'owns' the entity risks, a '**risk owner**' can be the point person with accountability for ensuring specific risks are appropriately managed.

1. COSO (2017, June). "Enterprise Risk Management: Integrating with Strategy and Performance." p. 28
2. COSO, WBCSD (2018, October). "Enterprise Risk Management Applying enterprise risk management to environmental, social and governance-related risks: Figure 1.2: Example governance structure." p. 20

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Sustainability and ESG market update

Reg S-K Human Capital Management disclosure requirements

Required inclusion of certain human capital disclosures under Item 101 (Description of Business)….

- Description of the registrant's human capital resources
- Number of persons employed
- Any human capital measures or objectives that the registrant focuses on in managing the business

…to the **extent material** to an understanding of the registrant's business taken as a whole.



Many companies already disclose human capital measures in standalone ESG reporting under the GRI and SASB standards. ***We recommend*** that in determining how to leverage existing ESG human capital management disclosures to comply with the SEC's Regulation S-K requirements, **companies use a financial materiality lens, use a recognized ESG standard, and subject such disclosures to appropriate disclosure controls and procedures.**

SASB Human capital Metrics

- Labor practices
- Employee health and safety
- Employee engagement, diversity, and inclusion

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