Summary for *Unpacking ESG: 6 Questions You Were Too Afraid to Ask*

Table of Contents

0. Introduction

1. How is ESG Different from Sustainability?

2. What is Driving the Intense Interest in ESG?

3. Are there Different Approaches to ESG Across the World?

4. Why are there so Many Reporting Formats?

5. Are there Ways I Can Be More Efficient When it Comes to ESG Reporting?

6. What Are Some Current ESG Reporting Trends I Should Be Aware Of?

Speakers/Interviewees

0. Introduction

ESG Stands for Environmental, Social, and Governance

1. How is ESG different from sustainability?

”While sustainability is a broad term, it typically addresses an organization’s environmental protection, social advancement, and economic development efforts.” (Jessica)

”ESG performance is used as an important capital market measure. One that is used to identify superior risk-adjusted returns and indicates a more precise measurement of an organization’s ESG performance.” (Jessica)

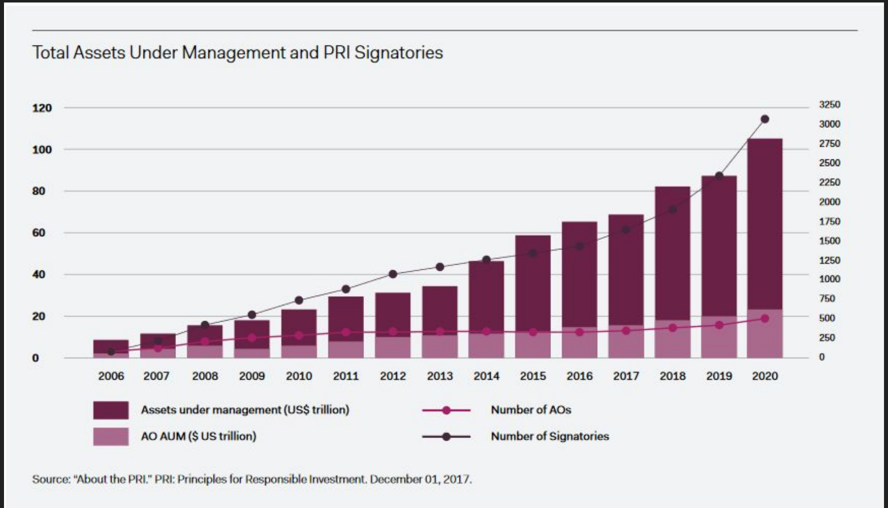
”ESG is a specific set of financial criteria that has roots in a 2005 report called Who Cares Wins by the UN Global Compact that included recommendations by the financial industry to better integrate environmental, social, and governance issues in analysis, asset management, and securities brokerage.” (Christine)

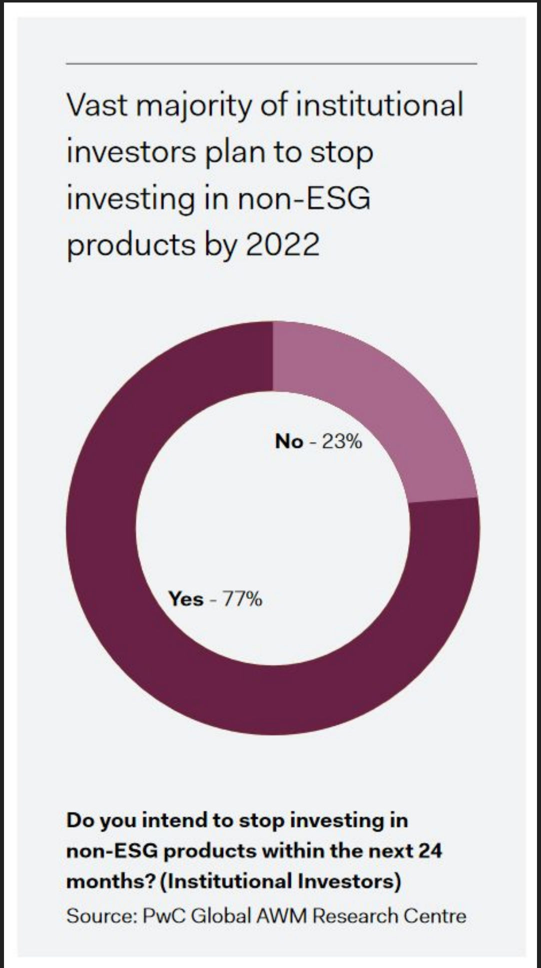
2. What is driving the intense interest in ESG?

“In 2006, the Principles for Responsible Investment (PRI) were developed by an international group of institutional investors reflecting the increasing relevance of ESG issues to investment practices.” (Jessica)

“There’s plenty of evidence that companies prioritizing ESG issues actually generate superior long-term financial performance across a range of metrics.” (Jessica)

Note by Alec: The evidence that ESG generates superior long-term financial performance is not shown in the eBook

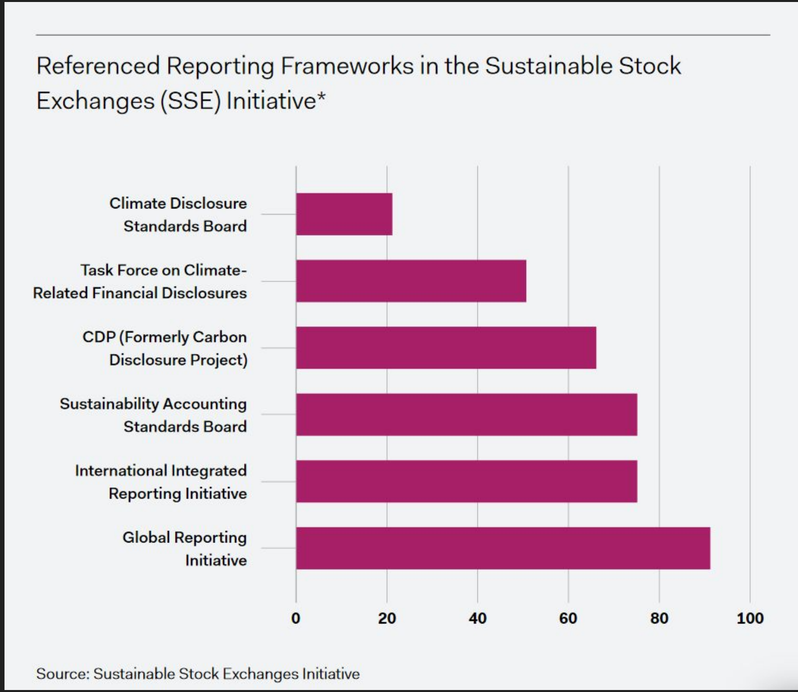




3. Are there different approaches to ESG across the world?

“Carrots & Sticks reviews ESG reporting regulations around the world. The 2020 edition of Carrots & Sticks noted a substantial increase with 614 regulatory reporting requirements – an increase of over 60% from the 383 requirements in the previous report in 2016 – across 80+ countries.” (Jessica)

“While there are many reporting and disclosure frameworks for ESG performance, the investment community has typically prioritized the GRI, IIRC, SASB, CDP, and TCFD frameworks.” (Jessica)



4. Why are there so many reporting formats?

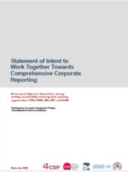
"As sustainability has expanded to address more and more topics, so has the desire to obtain more and more information on these topics. With each stakeholder group seeking a little bit more or a little bit different information, we have seen new sustainability reporting and disclosure frameworks emerging to meet those needs. As a result of this, we now have an alphabet soup of sustainability reporting frameworks and standards today. This has led to some onerous reporting requirements for many companies and confusion for the stakeholders trying to figure out what really matters." (Jessica)

"The good news is that there are currently multiple initiatives underway to develop global ESG reporting frameworks and standards." (Jessica)

The Most Common Reporting Standards Companies Should Expect to See

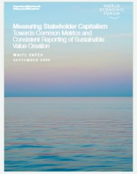
GRI - an internationally recognized broad framework of standards for reporting on sustainability with requirements, recommendations, and guidance on 900 sustainability topics
CDP - the CDP is one of the largest investor-led reporting frameworks used internationally
Sustainable Development Goals (SDGs) - 17 ESG goals with 169 associated targets, set by the UN
UN Global Compact - 10 UN sustainability principles addressing broad sustainability issues with which companies can voluntarily demonstrate alignment
SASB - an investor-led sustainability framework focused on financially material issues
TCFD - recommendations intended to help companies account for climate-related risks in their disclosures
IIRC - an integrated reporting framework focused on how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term
GHG Protocol - a voluntary reporting standard for many companies and mandatory in the United States for large emission sources
EcoVadis - a sustainability framework that provides performance ratings for companies with global supply chains

Examples of Intitiatives Underway to Develop Global ESG Reporting Frameworks and Standards

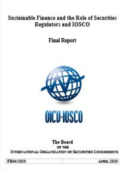


In September 2020, IIRC, GRI, CDP, CDSB, and SASB released a document announcing their joint effort to develop a comprehensive, globally accepted, corporate ESG reporting system.

The International Financial Reporting Standards (IFRS) will create a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation to develop global sustainability standards.



In September 2020, the World Economic Forum (WEF) with Bank of America, the Big Four (Deloitte, EY, KPMG, and PWC), and the International Business Council (IBC) released a set of universal ESG metrics and disclosures.



International Organization of Securities Commissions (IOSCO) established a Task Force on Sustainable Finance to improve ESG disclosures and enhance coordination of regulatory and supervisory approaches.

5. Are there ways I can be more efficient when it comes to ESG reporting?

“Many companies are opting to report their ESG performance using multiple, voluntary frameworks and standards, many of which are overlapping. To more effectively and efficiently report your ESG performance, I recommend that you develop a deliberate ESG reporting strategy driven by the answers to the following four questions:

□Why are you reporting ESG performance?

□Where will you be reporting?

□What ESG metrics and indicators will you report?

□How will you track, monitor, and report your performance?” (Jessica)

ESG Reporting Strategy Questions

Why are you reporting ESG performance?

The reasons for reporting your ESG performance will directly influence its quality, quantity and characteristics. Potential reasons for reporting may include, but are not limited to, the following:

- Comply with regulatory requirements
- Align with peers or competitors in your industry
- Satisfy stakeholders including shareholders, investors, customers, employees, or non-governmental organizations
- Explain how the company has assessed and responded to climate change risks
- Communicate ESG strategy, goals, and targets to stakeholders
- Demonstrate how ESG initiatives drive value for the company

Where will you be reporting?

To determine where your company will report ESG performance, it's important to first understand your intended audience:

- Start by mapping out all your potential stakeholders
- Once you have identified each stakeholder group, then you can determine the most appropriate channel(s) to reach those stakeholders
- Reporting channels may include everything from your intranet to your annual integrated report or sustainability report to specific questionnaires or disclosure platforms

What ESG metrics and indicators will you report?

Once you have determined why and where you will report your ESG performance, you will need to identify what ESG frameworks or standards you will follow and what ESG information you will report:

- For each ESG framework or standard, it's important to determine which metrics and indicators are appropriate for your company – keeping in mind your reporting objectives as well as the material topics for your company
- It's easy to become overwhelmed by the volume of information desired by stakeholders, so it's important to anchor on the information that is relevant, material, and reliable for your stakeholders
- You do not have to track, monitor and report every metric in the frameworks or standards you use

How will you track, monitor, and report your performance?

Finally, you will need to determine how you will collect information for the ESG metrics and indicators you have prioritized for your company. **Given that you will typically be gathering information for many departments across your organization, investment in a digital tool or software platform can drive significant benefits for your company.** These benefits typically include:

- Achieving value creation such as reducing costs or enhancing brand
- Improving business performance
- Controlling ESG risk
- Providing evidence of ESG performance

6. What are some current ESG reporting trends I should be aware of?

Statistics that indicate an increase in ESG involvement from companies

Investors and shareholders are driving more and more companies to voluntarily report their ESG performance. In 2019, more than 8,400 companies also voluntarily disclosed to CDP their practices to measure and manage their environmental impacts. From 2018 to 2019, an additional 20% of global companies completed the CDP disclosures for climate change, water and/or forests [1].

Approximately 58% of global companies have carbon reduction targets and approximately 25% have water reduction targets [2].

To support their sustainability programs, companies are seeking information on ESG performance from their partners throughout their supply chain. According to CDP’s Supply Chain Report 2018/19, 35% of the 115 program members reported that they are engaging suppliers on climate change in 2019 – in comparison to just 23% in 2017 [3].

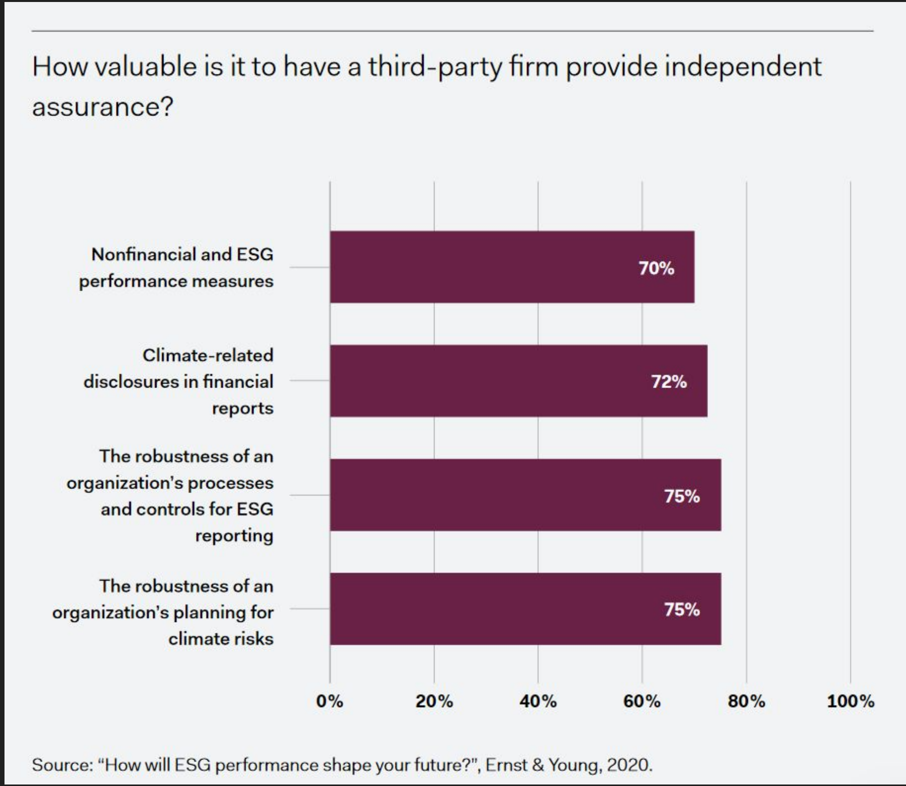
To support efforts to track, monitor, and report ESG performance, companies are investing in ESG digital solutions. The global sustainability and energy management software market size was valued at US$ 987.7 M in 2019, and it is estimated to grow to $2.3 B in 2027 (CAGR of 11.4%) [4].

6. What are some current ESG reporting trends I should be aware of?

“When it comes to ESG reporting, one of the key trends I think EHS&S professionals should keep an eye on is the movement towards requiring data to be assurable. In a recent Ernst & Young survey, 75% of respondents indicated that it would be “valuable” or “very valuable” to have a third-party firm provide independent assurance over the robustness of an organization’s processes and controls for ESG reporting.” (Christine)

“There is a growing movement toward ESG data being held to the same standards as financial data - the information needs to be verifiable. You don’t want to be accused of greenwashing or providing inaccurate information. Many companies are still using spreadsheets to track and monitor a lot of their ESG data, especially their environmental programs, and this could become a growing risk in the future as spreadsheets don’t offer features required for auditing and securing data.” (Christine)

“For many companies, software solutions that help track emissions and waste streams and convert to C02 equivalents across their different environmental programs can help identify ways to improve environmental performance.” (Christine)



If interested, I have provided some examples on the next slide.

I don’t know what the percentages in the graphic above are supposed to represent.

6. What are some current ESG reporting trends I should be aware of?

EXAMPLE 1:

“For example, at Cority, we work with a major retailer and a large oil & gas company to manage their waste. By tracking waste pickup schedules, volumes, and streams, both companies now have the data to know how often they really need waste pickups to be performed and are able to reduce transporter emissions. This data has also helped them identify ways to reuse and recycle some of the waste, resulting in less waste and thus, reduced emissions from waste – contributing to a circular economy model.” (Christine)

Example 2:

“Another one of our oil & gas customers has found that using a SaaS solution to manage air emissions and GHG has enabled them to be proactive and meet their quarterly carbon reduction targets by being responsive in real-time to issues in the field. For example, if there is a meter providing erroneous values in the field, they have ranges set on the values coming into Cority and if data coming in is out of the expected range, it notifies the GHG team, who can then immediately respond to those meter variances occurring in the field. The EHS&S team has the data they need to take action as opposed to waiting until annual GHG reporting comes around and the time to fix issues has long passed. Overall, having that visibility helps them be nimble and improve environmental performance, which is then reflected in their ESG reporting.” (Christine)

Sources

[1]: https://www.cdp.net/en/companies/companies-scores

[2]: These numbers are based on an analysis completed for global companies listed on the S&P Global 1200 Index and US companies listed on the S&P 500 Index (State of Green Business 2020, GreenBiz)

[3]: Cascading Commitments: Driving ambitious action through supply chain engagement. CDP Supply Chain Report 2018/2019.

[4]: Sustainability & Energy Management Software Market Analysis. Coherent Market Insights. Report Code CMI3894. June 2020.