Times, They are a changing…

Forbes.com

- For decades, the standard for evaluating investment opportunities and communicating with stakeholders has been annual reporting. But expectations are changing. More and more, stakeholders expect radical transparency from companies beyond financials.
- As a result, environmental, social and governance (ESG) reporting is rising to the forefront. ESG reporting is quickly becoming the new annual report — an essential management tool that helps companies identify and mitigate risk, address operational inefficiencies, attract and retain talent, and strengthen their brands. It's also a tool for customers and investors to reference when making purchasing decisions and assessing risk.

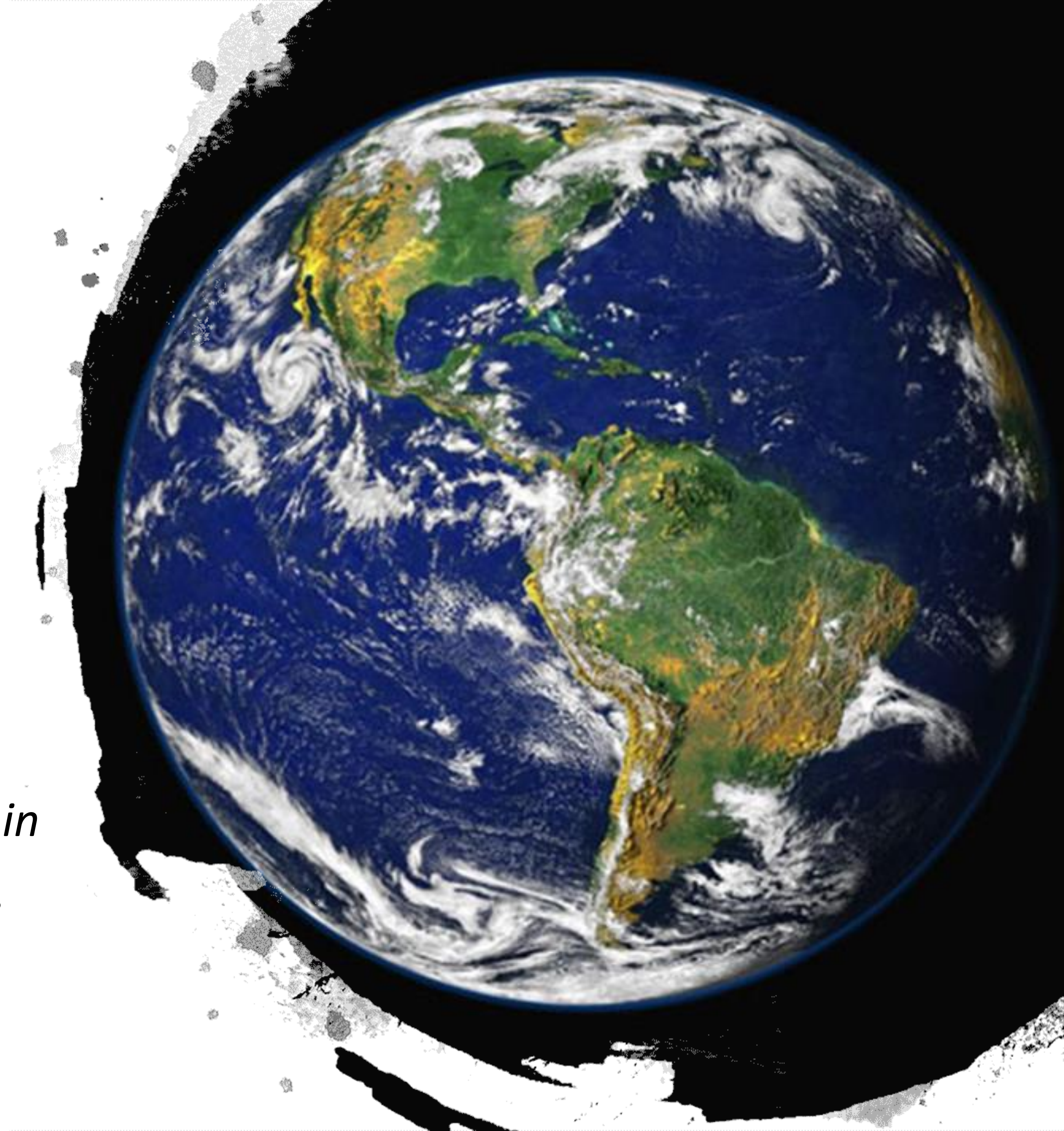
The Big Picture…

A coherent, comprehensive system of corporate disclosure is needed to ensure markets can understand risks and opportunities related to social and environmental issues.

A globally-accepted system for corporate disclosure could provide important new insights into the vital interconnections between business and the world in which it operates.

Around the world, investors collectively allocate tens of trillions of dollars, aiming for that money's highest and best use. However, in the absence of consistent, , and reliable sustainability information, these investors are effectively aiming with one eye closed.

1. **Maha Eltobgy**Head of Shaping the Future of Investing; Member of the Executive Committee, World Economic Forum
2. **Janine Guillot**Chief Executive Officer, Sustainability Accounting Standards Board (SASB)



THIS IS IMPORTANT…

Wachtell Lipton Rosen & Katz

"Be aware that sustainability has become a major, mainstream governance topic that encompasses a wide range of issues, including a company's long-term durability as a successful enterprise, climate change and other environmental risks and impacts, systemic financial stability, management of human capital, labor standards, resource management, and consumer and product safety, and consider how your company presents itself with respect to these matters."

—Wachtell Lipton, July 2018

ESG OUTPERFORMANCE…

WHAT IS ESG

Sustainability Reporting

Reporting that gives information about economic, environmental, social, and governance performance of an organization’s everyday activities.

Corporate Social Responsibility (CSR)

Describes a company’s socially responsible commitment, efforts and practices to provide a form of self-regulation ensuring a company's actions have a positive impact on the environment, consumers, employees, communities, and the public sphere.

Environmental, Social, and Governance (ESG)

A framework used by asset managers and investors to evaluate corporate behavior and its effect on future financial performance of companies. Includes sustainable, ethical and corporate governance issues such as managing the company’s carbon footprint and making sure there are systems in place to ensure accountability for results.

ESG FACTORS

ESG-related risks are the Environmental, Social, and Governance risks. These may also be referred to as sustainability or non-financial risks.

Environmental Factors

The company’s environmental policies and its ability to mitigate the environmental risks may directly influence its financial performance. The company’s irresponsible environmental policy may damage certain operational areas and subsequently constrain the company’s operational capacity.

Social Factors

The social factor investigates the company’s relationships with other businesses and communities. It also considers the attitudes towards diversity, human rights, and consumer protection.

Governance Factors

Governance is concerned with the internal company’s affairs and the relationships with the company’s stakeholders, including its employees and shareholders.

ESG ISSUES AND THEMES

Pillars	Themes	ESG Key Issues	
Environment	Natural resources	• Water stress • Biodiversity and land use	• Raw material sourcing
	Pollution and waste	• Toxic emissions and waste • Packaging materiality and waste	• Electronic waste
	Climate change	• Carbon emissions • Product carbon footprint	• Financing environmental impact • Climate change vulnerability
	Environmental opportunities	• Opportunities in clean tech • Opportunities in green building	• Opportunities in renewable energy
Social	Human capital	• Labor management • Health and safety	• Human capital development • Supply chain labor standards
	Stakeholder opposition	• Controversial sourcing	
	Product liability	• Product safety and quality • Chemical safety • Financial product safety	• Privacy and data security • Responsible investment • Health and demographic risk
	Social opportunities	• Access to communications • Access to finance	• Access to health care • Opportunities in nutrition and health
Governance	Corporate governance	• Board • Pay	• Ownership • Accounting
	Corporate behavior	• Business ethics • Anti-competitive practices • Tax transparency	• Corruption and instability • Financial system instability

ESG MARKET DEVELOPMENTS

Here are some market developments that support our need to move ahead in this area:

External pressures from individual and large institutional investors for **ESG disclosure and performance** have and will continue to increase.

Companies with ESG programs have **higher performance** and tend to have a **better control environment** and **better retention** of their employees.

Sustainability organizations such as GRI, TCFD, and SASB are collaborating to align standards, and will only become **more influential** in this collaboration.

Customers are becoming more interested in buying from companies that are **focused on sustainability**, while the younger labor force is interested in working for organizations that are more **transparent in their ESG reporting**.

Potential for **increased revenue** and **decreased costs** through better resource usage. Better stewardship of natural resources can decrease spend.

Sustainability **disclosure requirements** are **evolving** around the world. Sustainability related disclosures are becoming more common in both separate reports and in SEC filings.

ESG MATTERS…

As Consumers

63%	59%
Seek to buy products from companies aligned with their personal values	**Actively avoid buying** products from companies that conflict with their personal values

As Investors

60%	56%
Actively seek out investments aligned to their values	**Actively seek to avoid investing** in companies that conflict with their values

GOOD SUSTAINABILITY PRACTICES MATTER FOR PERFORMANCE

90%

Cost of capital

Sound sustainability standards lower the cost of capital of companies

88%

Operational performance

Solid ESG practices result in improved operational performance

80%

Share price performance

Good sustainability practices have a positive influence on the performance of shares

*Percentage of studies showing; Oxford report based on more than 200 academic studies;
Source: BNPP AM, University of Oxford, "*From The Stockholder To The Stakeholder*", March 2015.

2021 PROXY SEASON… ESG PROPOSALS WINNING

98%

of **General Electric** shareholders voted for a proposal seeking details of how the company will achieve net-zero emissions across its operations and products.

99%

of **Bunge Ltd** shareholders voted to ask the company for a stronger no deforestation policy.

81%

of **DuPont** shareholders voted to seek a stronger plastics pollution policy and disclosure on how much plastic the company releases into the environment.

58%

of **ConocoPhillips** shareholders approved a measure asking the oil major to go beyond reducing part of its emissions to cutting them to net zero all the way through to how its products are used.

A majority

of **Phillips66** shareholders voted to ask the company to set emissions reductions targets as well as for a proposal seeking a report on how Phillips66' lobbying aligns with the goals of the Paris Agreement.

Your Future Work Force Values ESG Activity

"Students want to see employers demonstrate a commitment to socially responsible business practices across all industries"

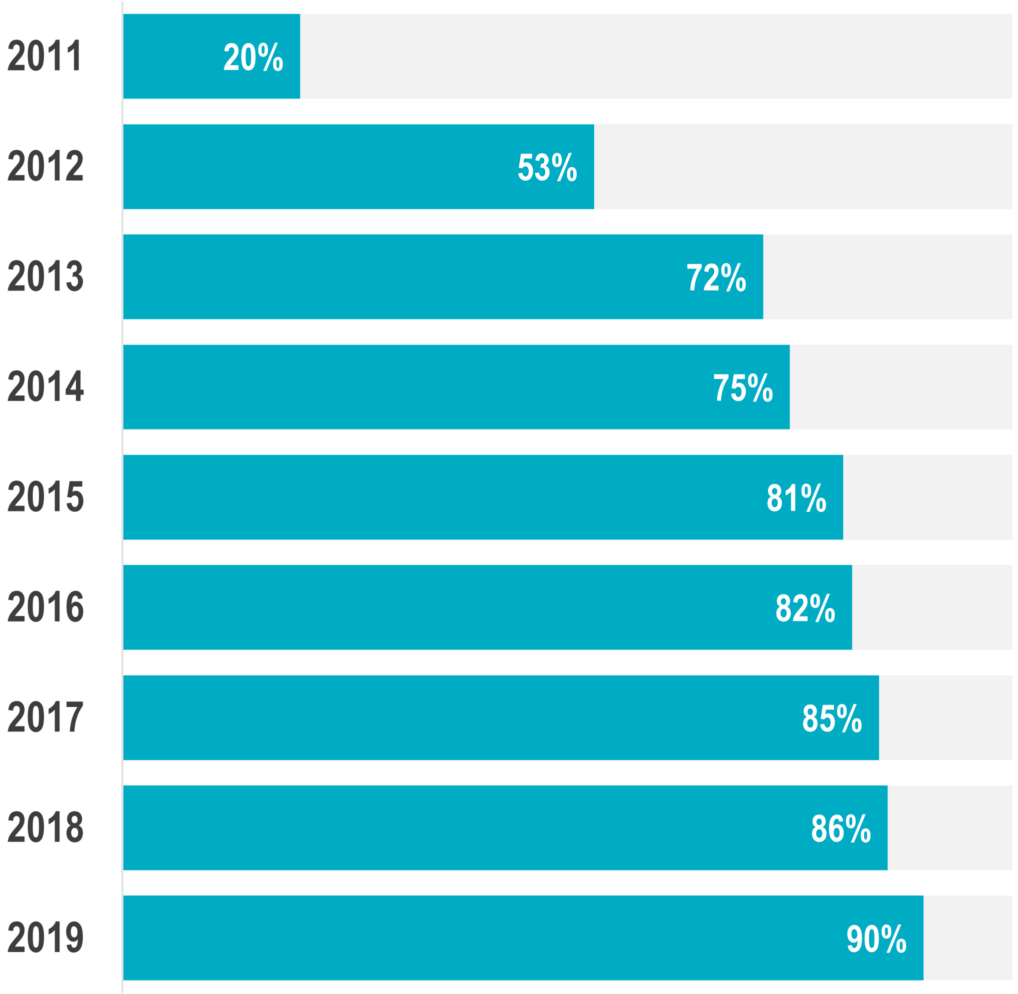
Wall Street Journal, May 2019

JANUARY 2020…

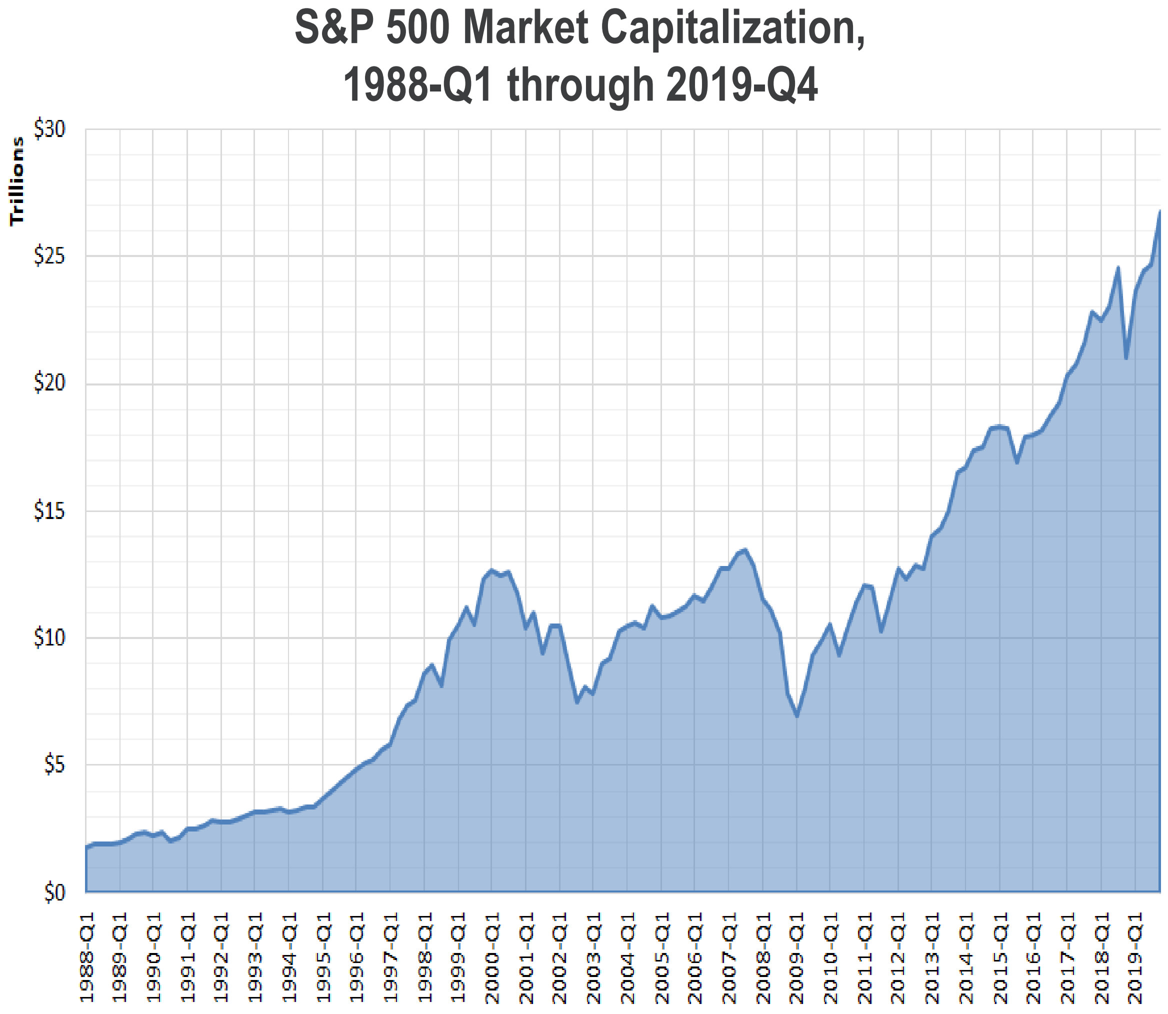
We will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.

This year, we are asking the companies that we invest in on behalf of our clients to: (1) publish a disclosure in line with industry-specific SASB guidelines by year-end, if you have not already done so, or disclose a similar set of data in a way that is relevant to your particular business; and (2) disclose climate-related risks in line with the TCFD's recommendations, if you have not already done so.

90% OF S&P 500 PUBLISH ESG/SUSTAINABILITY REPORTS



Source: G&A Institute



Source: Standard & Poor

© Political Calculations 2020

ESG FRAMEWORK STATISTICS AND ASSURANCE

65%
Responded to CDP's questionnaire

50%
report using GRI

36%
aligned with the UN SDG's

25%
reference or align with SASB (14% aligning, 11% mentioning)

16%
reference or report on TCFD (only 5% reporting)

29%
reported some form of external assurance, with engineering firms having the largest market share of third-party assurers.

TCFD FRAMEWORK

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: TCFD

Industries Grouped by Resource Intensity & Sustainability Impacts

Sustainable Industry Classification System (SICS®): 77 industries within 11 sectors

Consumer Goods
- Apparel, Accessories & Footwear
- Appliance Manufacturing
- Building Products & Furnishings
- E-Commerce
- Household & Personal Products
- Multiline and Specialty Retailers & Distributors
- Toys & Sporting Goods

Extractives & Minerals Processing
- Coal Operations
- Construction Materials
- Iron & Steel Producers
- Metals & Mining
- Oil & Gas - Exploration & Production
- Oil & Gas - Midstream
- Oil & Gas - Refining & Marketing
- Oil & Gas – Services

Financials
- Asset Management & Custody Activities
- Commercial Banks
- Consumer Finance
- Insurance
- Investment Banking & Brokerage
- Mortgage Finance
- Security & Commodity Exchanges

Food & Beverage
- Agricultural Products
- Alcoholic Beverages
- Food Retailers & Distributors
- Meat, Poultry & Dairy
- Non-Alcoholic Beverages
- Processed Foods
- Restaurants
- Tobacco

Health Care
- Biotechnology & Pharmaceuticals
- Drug Retailers
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Medical Equipment & Supplies

Infrastructure
- Electric Utilities & Power Generators
- Engineering & Construction Services
- Gas Utilities & Distributors
- Home Builders
- Real Estate
- Real Estate Services
- Waste Management
- Water Utilities & Services

Renewable Resources & Alternative Energy
- Biofuels
- Forestry Management
- Fuel Cells & Industrial Batteries
- Pulp & Paper Products
- Solar Technology & Project Developers
- Wind Technology & Project Developers

Resource Transformation
- Aerospace & Defense
- Chemicals
- Containers & Packaging
- Electrical & Electronic Equipment
- Industrial Machinery & Goods

Services
- Advertising & Marketing
- Casinos & Gaming
- Education
- Hotels & Lodging
- Leisure Facilities
- Media & Entertainment
- Professional & Commercial Services

Technology & Communications
- Electronic Manufacturing Services & Original Design Manufacturing
- Hardware
- Internet Media & Services
- Semiconductors
- Software & IT Services
- Telecommunication Services

Transportation
- Air Freight & Logistics
- Airlines
- Auto Parts
- Automobiles
- Car Rental & Leasing
- Cruise Lines
- Marine Transportation
- Rail Transportation
- Road Transportation

GRI- A BROAD, “ALL STAKEHOLDER” FRAMEWORK AND STANDARDS

- GRI is a United Nations recognized framework to ensure transparent, structured and balanced reporting of annual sustainability performance and trends over time.

- GRI provides a robust framework to support our clear reporting processes, binding the indicators we measure to material issues identified by stakeholders and ensuring that our outputs address the concerns and interests of diverse audiences.

For more info: https://www.globalreporting.org/Pages/default.aspx

2021 BlackRock Expectations

- **Board and workforce diversity consistent with local market best practice**
- **Plans to align their business with the global goal of net zero GHG emissions by 2050**
- **An understanding of key stakeholders and their interests**

"where corporate disclosures are insufficient to make a thorough assessment, or a company has not provided a credible plan to transition its business model to a low-carbon economy, including short- medium- and long-term targets, we may vote against the directors we consider responsible for climate risk oversight."

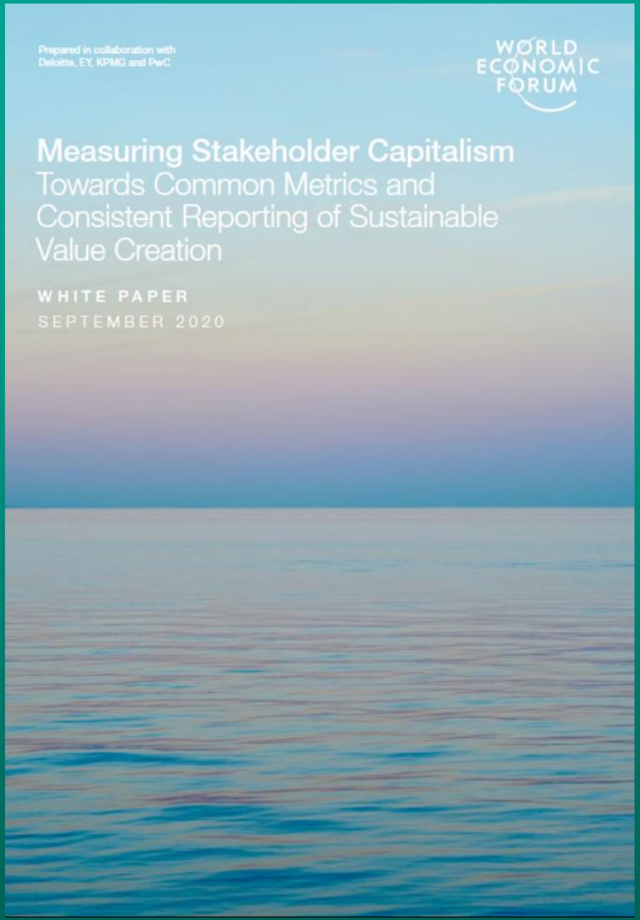
ANNOUNCING A VISION FOR A COMPREHENSIVE CORPORATE REPORTING SYSTEM

The paper is a significant step forward toward developing a common language, common visuals, and common vision for the future of the sustainability disclosure field

(September 2020)

- A shared vision for how these existing standards and frameworks can serve as a basis for a coherent and comprehensive corporate reporting system
- A joint commitment to drive toward this goal through an ongoing program of deeper collaboration between the institutions
- Joint market guidance on how these frameworks and standards can be applied in a complementary and additive way


Consultation Paper on
Sustainability Reporting
Comments to be received by 31 December 2020
IFRS



Consequently, the IBC invited the Forum – in collaboration with Deloitte, EY, KPMG and PwC – to identify a set of universal, material ESG metrics and recommended disclosures that could be reflected in the mainstream annual reports of companies on a consistent basis across industry sectors and countries. The metrics should be capable of verification and assurance, to enhance transparency and alignment among corporations, investors and all stakeholders.

The primary focus of this project is to encourage as many companies as possible to start reporting on the recommended core metrics in mainstream annual reports and disclosures at the earliest opportunity.

It is acknowledged that not all companies will find it easy to report immediately against all the recommended metrics in their mainstream disclosures. However, the ambition is for companies to embark on a journey that leads to reporting both core and expanded metrics – in the spirit of embracing stakeholder capitalism.

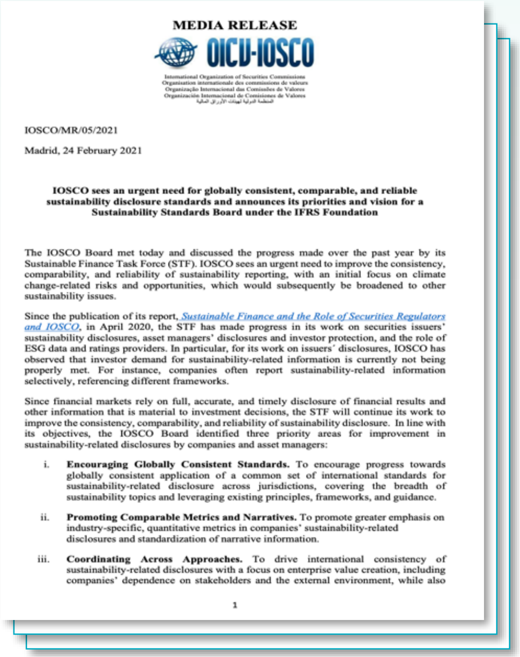
“WEF MODEL”: STAKEHOLDER CAPITALISM GAINS TRACTION AS COMPANIES COMMIT TO NEW ESG METRICS

Principles of governance	Planet	People	Prosperity
The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the center of their business. But the principles of agency, accountability and stewardship continue to be vital for truly "good governance".	An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that It can support the needs of the present and future generations.	An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.	An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

Source: World Economic Forum

IOSCO ANNOUNCES SUPPORT FOR AN SSB UNDER THE IFRS FOUNDATION

Identifies urgent need for globally consistent, comparable, and reliable sustainability disclosure



MEDIA RELEASE

OICU-IOSCO

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO/MR/05/2021

Madrid, 24 February 2021

IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation

The IOSCO Board met today and discussed the progress made over the past year by its Sustainable Finance Task Force (STF). IOSCO sees an urgent need to improve the consistency, comparability, and reliability of sustainability reporting, with an initial focus on climate change-related risks and opportunities, which would subsequently be broadened to other sustainability issues.

Since the publication of its report, *Sustainable Finance and the Role of Securities Regulators and IOSCO*, in April 2020, the STF has made progress in its work on securities issuers' sustainability disclosures, asset managers' disclosures and investor protection, and the role of ESG data and ratings providers. In particular, for its work on issuers' disclosures, IOSCO has observed that investor demand for sustainability-related information is currently not being properly met. For instance, companies often report sustainability-related information selectively, referencing different frameworks.

Since financial markets rely on full, accurate, and timely disclosure of financial results and other information that is material to investment decisions, the STF will continue its work to improve the consistency, comparability, and reliability of sustainability disclosure. In line with its objectives, the IOSCO Board identified three priority areas for improvement in sustainability-related disclosures by companies and asset managers:

i. **Encouraging Globally Consistent Standards.** To encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.

ii. **Promoting Comparable Metrics and Narratives.** To promote greater emphasis on industry-specific, quantitative metrics in companies' sustainability-related disclosures and standardization of narrative information.

iii. **Coordinating Across Approaches.** To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation, including companies' dependence on stakeholders and the external environment, while also

1

https://bit.ly/37UwJAJ

Source: © SASB

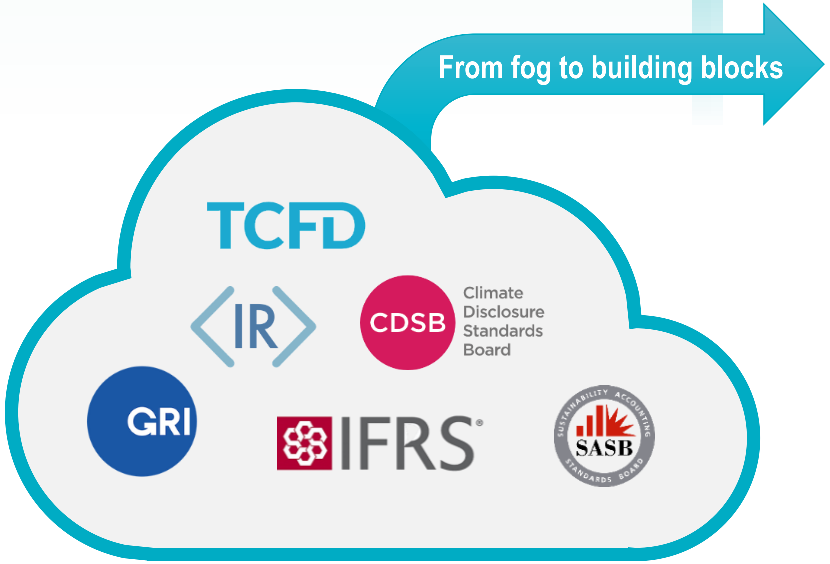
IOSCO Board has identified three priority areas for improvement in sustainability-related disclosures by companies and asset managers:

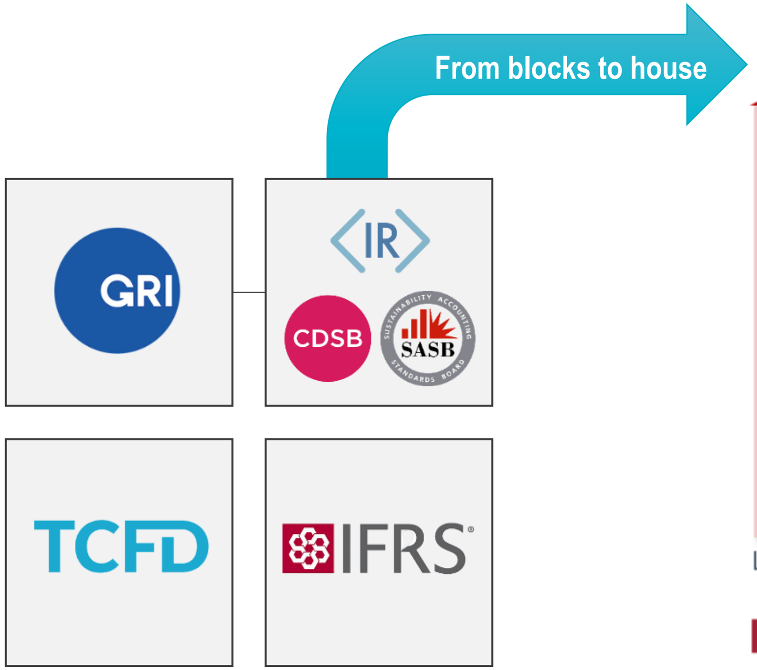
- Encouraging Globally Consistent Standards. To encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.
- Promoting Comparable Metrics and Narratives. To promote greater emphasis on industry-specific, quantitative metrics in companies' sustainability-related disclosures and standardization of narrative information.
- Coordinating Across Approaches. To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation.
- Latest news: Created a Technical Expert Group co-led by the Monetary Authority of Singapore and the US Securities and Exchange Commission

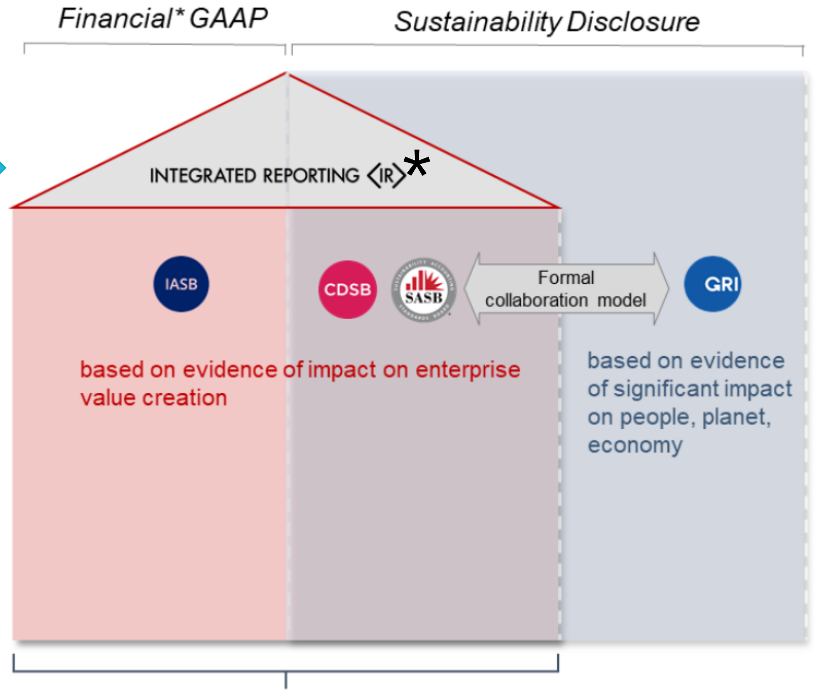
"Encourages a "building blocks" approach to establishing a global sustainability reporting system."

TOWARDS A GLOBAL ESG REPORTING BASELINE

Rapid response to calls for harmonization will achieve consistency, comparability and reliability







IFRS® Reporting to stakeholders whose primary use of the information is to make economic decisions

TCFD* TCFD principles integrated with <IR> Framework and applied to a broad range of sustainability issues.

Source: © SASB

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

European Commission Adopts Proposal for a Corporate Sustainability Reporting Directive

(May 2021)

The European Commission adopted a proposal for a Corporate Sustainability Reporting Directive, which would amend the existing reporting requirements of the current Non-Financial Reporting Directive. The proposal:

- Extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises).
- Requires the audit (assurance) of reported information.
- Introduces more detailed reporting requirements, and a requirement to report according to mandatory European Union sustainability reporting standards.
- Requires companies to digitally ‘tag’ the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan.

The next step is for the European Parliament, and the Member States in the Council, to negotiate a final legislative text on the basis of the European Commission's proposal.
The final timetable will depend on how the European Parliament and Council progress in their negotiations.

Key efforts shaping the sustainability disclosure landscape

International Financial Reporting Standards Foundation (IFRS)

- Evaluating creating International Sustainability Standards Board (ISSB)
- Focused on the investor user and how sustainability issues impact enterprise value
- Initial focus on climate, expanding to broader sustainability issues
- **Strong support from IOSCO**

Convergence among voluntary frameworks and standards-setters

- Aug. 2020 “Group of 5” paper established vision for the field and the roles of the key players
- IIRC and SASB have merged to form the Value Reporting Foundation (SASB Standards still exist!)
- CDSB, VRF (IIRC/SASB), WEF and TCFD are providing technical support to the IFRS, including development of a prototype climate standard as a “running start” for the ISSB
- Momentum to move TCFD disclosure from voluntary to mandatory in many markets

European Commission

- Significant legislation including the Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), Sustainable Finance Taxonomy, Sustainable Corporate Governance Initiative
- Beginning preparatory work on European sustainability reporting standards, covering double materiality and cross-sector and sector specific elements.

US SEC

- Request for input on climate disclosure
- Has included in OMB’s rulemaking agenda proposals on climate disclosure, board diversity disclosure, and human capital disclosure, all listed as coming in October 2021

REMEMBER BLACKROCK?

Blackrock Investment Stewardship Group Commentary

(October 2020)

BlackRock strongly supports convergence to achieve a globally recognized and adopted approach to comprehensive reporting.

In the meantime, we expect companies to accelerate their efforts to publish sustainability data and contextual information under existing frameworks and standards.

The next step is for the European Parliament, and the Member States in the Council, to negotiate a final legislative text on the basis of the European Commission's proposal. The final timetable will depend on how the European Parliament and Council progress in their negotiations.


CFO
JUNE 2017 | CFO.COM
Team Trump's Tug-of-War
Taming Health-Care Costs
Green Reporting Takes Root
Investors press issuers for meaningful environmental and social disclosures

FROM THE SEC IN 2010

- Climate change has become a topic of intense public discussion in recent years. Scientists, government leaders, legislators, regulators, businesses, including insurance companies, investors, analysts and the public at large have expressed heightened interest in climate change
- International accords, federal regulations, and state and local laws and regulations in the U.S. address concerns about the effects of greenhouse gas emissions on our environment,[1] and international efforts to address the concerns on a global basis continue
- The Environmental Protection Agency is taking action to address climate change concerns
- Congress is considering climate change legislation
- Some business leaders are increasingly recognizing the current and potential effects on their companies' performance and operations, both positive and negative, that are associated with climate change and with efforts to reduce greenhouse gas emissions
- Many companies are providing information to their peers and to the public about their carbon footprints and their efforts to reduce them.

A REMINDER OR A REQUIREMENT?

This interpretive release is intended to remind companies of their **obligations under existing federal securities laws and regulations** to consider climate change and its consequences as they prepare disclosure documents to be filed with us and provided to investors

SEC: EFFECTIVE ESG DISCLOSURE SYSTEM

1. What disclosures are **most useful**?
2. What is the **right balance** between principles and metrics?
3. How much **standardization** can be achieved across industries?
4. How and when should standards **evolve**?
5. What is the best way to verify or provide **assurance** about disclosures?
6. Where and how should disclosures be globally **comparable**?
7. Where and how can disclosures be **aligned** with information companies already use to make decisions?

Source: John Coates SEC, Acting Director, Corp. Fin. Remarks March 2021

FASB Staff Educational Paper

Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards

FINANCIAL ACCOUNTING STANDARDS BOARD

- This educational paper is organized as follows:

(a) Overview of ESG Reporting

(b) The FASB's Role in Setting Financial Accounting Standards

(c) Intersection of ESG Matters with Financial Accounting Standards.

- The remainder of this educational paper provides examples of how an entity may consider the direct or indirect effects of material environmental matters when applying current GAAP

- Going Concern
- Risk and Uncertainties
- Inventory
- Intangibles, Goodwill
- Property, Plant & Equipment
- Asset retirements
- Income Taxes
- Fair Value Measurements

Issue date: March 2021

- https://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176176379917&d=&pagename=FASB%2FDocument_C%2FDocumentPage

Accrue for and Disclose Climate Change Impact- Paris Aligned Accounts

- Ensuring material climate risks associated with the transition onto a 2050 net zero pathway are fully incorporated into the financial statements. Financial statements must be adjusted to take account of material climate risks
- Members of the Audit Committee should furthermore detail the steps taken to ensure material climate risks are properly considered in the accounts and by the external auditor. Risks associated with decarbonization and any material physical impacts of climate change should naturally be considered in drawing up company financial statements.
- Confirmation of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.
- Investors globally now expect Paris-aligned financial statements
- Above all, there is no need for new regulatory requirements.

Source- November 2020 letter to 36 large EUROPEAN Companies from Institutional Investor Group on Climate Change (IIGCC)

"The bottom line is that businesses now actively compete for capital based on ESG performance, and that competition needs to be open, fair and transparent."

—Allison Herren Lee,
Acting Chair of the Securities and Exchange Commissioner

FUTURE EXPECTATIONS

- Cleary, the SEC is going to do “something” – Be prepared for:
  - Much more prescriptive metric reporting, including HCM disclosure expansion
  - More narrative disclosure requirements
  - Possible some initial safe harbor protections
  - Some viewpoint on Assurance
  - Some Syncing with Biden Executive Order
  - Continued political challenging and bickering
  - Liability for inaccurate reporting, greenwashing
- IFRS related activities are likely to go further and deeper with third-party assurance an integral part of their solution
- US Corporate reporting now permanently expanded, regardless of SEC requirements
- Private companies will not escape – credit granting, stakeholder mandates, employee interest, supplier requirements, insurance costs

No Longer Just a Cost…

"Effective management of material ESG factors can reduce risk. It can also lead to more efficient operations, better labor productivity, heightened brand reputation and competitiveness, and new market opportunities."

AARON ZIULKOWSKI, CFA Manager, ESG Integration, Boston Trust Walden