CORPORATE BOARDS USA

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Boardroom Fundamentals 301
Module 6: Environmental, Social and Governance(ESG)

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Environmental, social and governance (ESG) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments.

- **Environmental** criteria consider how a company performs as a steward of nature.
- **Social** examines how a company manages relationships with employees, suppliers, customers and the communities where it operates.
- **Governance** deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights.

Source: Investorpedia.com

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ENVIRONMENTAL	SOCIAL	GOVERNANCE
▪ Climate change ▪ Loss of biodiversity ▪ Pollution ▪ Waste and waste management ▪ Deforestation & land use ▪ Renewable energy ▪ Greenhouse gas emissions ▪ Resource availability ▪ Sustainable products/packaging	▪ Health, well-being and safety ▪ Diversity, equity and inclusion ▪ Human capital development ▪ Supply chain accountability ▪ Community and social vitality ▪ Employment and wealth generation ▪ Ownership structure ▪ Human rights and fair labor standards	▪ Board diversity, quality, effectiveness and accountability ▪ Stakeholder engagement ▪ Board and leadership accountability ▪ Risk and opportunity oversight ▪ Lobbying and political contributions ▪ Anti-bribery and corruption ▪ Corporate resiliency ▪ Executive compensation ▪ Ethical behavior ▪ Tax transparency

Source: BDO

IT'S ABOUT CREATING SUSTAINABLE ENTERPRISE VALUE OVER THE LONG TERM THAT SERVES ALL STAKEHOLDERS

EMPLOYEES	CUSTOMERS	INVESTORS

FRAMEWORKS

SASB — Sustainability Accounting Standards Board

INTEGRATED REPORTING <IR>

TCFD

SUSTAINABLE DEVELOPMENT GOALS

UN Global Compact — United Nations Global Compact

STANDARDS

IFRS Foundation

CDSB — Climate Disclosure Standards Board

GRI — Empowering Sustainable Decisions

RATINGS

CDP

GRESB

ISS ESG

MSCI

SUSTAINALYTICS

ESG

Board Involvement with ESG Oversight

- Oversee an assessment to identify ESG topics to be prioritized, considering materiality to the organization, investors and other stakeholders
- Ensure ESG topics are incorporated into the enterprise-wide risk assessment
- Integrate ESG into company strategy
- Ensure effective controls are in place to accurately collect, report and monitor ESG data
- Determine appropriate documentation and reporting for oversight purposes

Source: S&P Global

ESG

Current Disclosure Landscape:

SEC view of ESG disclosure is based on materiality, except for specific requirements around measures and objectives for human capital management. Depending on materiality, consideration should be given to climate or other environmental risk disclosure.

Source: S&P Global

WHAT'S NEXT?

- Increasing stakeholder interest will drive more scrutiny and accountability for credible ESG disclosure backed by data and goals supported by signposts.
- Newly formed International Sustainability Standards Board (part of IFRS) will help address a key accountability hurdle – lack of disclosure standards across industries and geographies.
- SEC likely to provide additional guidance on ESG reporting.
- Mounting pressure on corporate boards to enhance ESG oversight, knowledge and skills.
- ESG goals are becoming part of executive compensation programs.
- Greater debate over divestment as asset managers and banks look to exclude or divest companies with weak ESG practices or high exposure to ESG risk.
- Continued focus on climate and biodiversity as well as social issues – diversity, equity and inclusion, worker well-being.
- Growing shareholder activism around ESG issues.

Source: S&P Global

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Questions?

Contact Linda via email → **lindaiannone35@gmail.com**

End of Module 6

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