ESG ROADMAP:
OBSERVATIONS AND PRACTICAL ADVICE FOR BOARDS, CORPORATE SECRETARIES AND GOVERNANCE PROFESSIONALS

Society for Corporate Governance

and

BrownFlynn

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SOCIETY for Corporate Governance
Empowering governance professionals

BrownFlynn
an ERM Group company

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About the Society for Corporate Governance

Founded in 1946, the Society is a professional membership association of more than 3,600 corporate secretaries, in-house counsel and other governance professionals who serve approximately 1,200 entities, including about 1,000 public companies of almost every size and industry across the U.S. Society members are responsible for supporting the work of corporate boards of directors, their committees, and the executive managements of their companies regarding corporate governance and disclosure. For more information, please visit www.societycorpgov.org.

About BrownFlynn

Founded in January 1996 and acquired by ERM in March 2018, BrownFlynn is a leading corporate sustainability and governance consulting firm. BrownFlynn partners with its clients so they can achieve positive and tangible social, environmental, and economic impact—leading to sustained value. The Firm advises Fortune 500 and privately held companies on Environmental, Social, and Governance (ESG) issues, strategies, and disclosure. BrownFlynn understands and anticipates emerging sustainability trends, stakeholder expectations, reporting frameworks, engagement tools, and best practices to keep its clients ahead of the curve. BrownFlynn is the first U.S.-certified trainer for the Global Reporting Initiative (GRI). The Firm has been training clients and guiding them through reporting using the GRI framework since 2005 and also serves as an Advisory Partner to the Sustainability Accounting Standards Board (SASB). In addition, BrownFlynn supports its clients by helping respond to the leading international standards bodies, such as CDP (Climate, Forests, and Water), RobecoSAM (DJSI), EcoVadis, and a range of the most influential ratings and rankings organizations. The Firm's deep experience provides clients with insights into performance/score improvement and identifies streamlining opportunities between the various frameworks.

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Executive Summary

Company governance practices and failures have long been an important factor in investor analysis of a firm's short-term and long-term value. Over the last several decades—with an acceleration in the last five years—the relevance to investors of a company's environmental and social impacts stemming from its practices, policies and products has increased substantially. Effective oversight and management by boards, corporate secretaries and sustainability teams of so-called "ESG" (environmental, social and governance) issues are increasingly important to preserving and creating shareholder value. Driven by client demand, reputational risk management and a supportive body of financial research, many investors are demanding that companies think more broadly about their ESG impacts, take corrective action (if required) and disclose their ESG-related efforts. In this brief, we will examine the drivers of the growth in ESG-related investing and engagement, explore ESG's impact on financial products and strategies and suggest practical advice to assist boards, corporate secretaries and sustainability teams.

What is ESG investing?: There are two components to the ESG phenomenon: (1) "ESG integration," which is the consideration of environmental, social and corporate governance criteria in investment analysis and portfolio construction across a range of asset classes; and (2) "ESG investor engagement," which seeks to have shareholders communicate concerns about ESG policies/practices, seek greater ESG disclosure and improve practices.

What are ESG issues?: Leading ESG issues with respect to both investment analysis and shareholder engagement include climate change, diversity, gender pay equity, human rights, human capital management, political spending and general sustainability/environmental issues. ESG issues often: (1) derive from a risk or impact inherent in the core operations/products of a particular company; (2) have the potential to meaningfully damage a company's intangible value/reputation/ability to operate; and (3) are accompanied by persistent media interest, organized stakeholders and associated public policy debates that can magnify the impact of a company's existing position or practice and increase the reputational risk (or opportunity) created by a change in company policy or practice.

Drivers of increased interest in ESG: Retail and institutional client demand for ESG-related financial products is substantial and growing. One representative study in 2017 noted: 78% of investors surveyed believe that sustainable investing is more important to them now than it was

five years ago; 32% said it was significantly more important and 46% said it was somewhat more important; and 64% have "increased their investment in sustainable funds over the last five years." There is substantial evidence of demand for ESG products, and asset managers are responding.

The United Nations Principles for Responsible Investment (UN PRI), which imposes obligations on asset manager signatories regarding the acquisition and use of ESG information, has become a de facto requirement for asset managers seeking institutional investor mandates. UN PRI (now called "PRI") will continue to drive investor demands for greater disclosure and engagement on ESG issues because the Principles require asset managers to "incorporate" ESG issues into investment decision-making, proxy voting and company engagement processes. PRI signatories can be "de-listed" if they do not demonstrate their compliance, which includes making efforts to "advocate for meaningful, forward looking and globally comparable company disclosures and investor reporting, promote the inclusion of material ESG information alongside other financial data, and convene investor engagement with companies on climate risks and opportunities."

Risk Management as a Value Preserver/Creator: Investors are aware of significant evidence that effective ESG risk management can preserve or create shareholder value. A Deutsche Bank study in 2015 found that of more than 2,200 studies since 1970, 63% found a positive link between ESG performance and financial performance. Evidence that effective ESG management builds value is significant enough to make many asset managers comfortable that they can offer ESG products consistent with their fiduciary obligations. The increased value of intangible assets such as brands, reputation and workforce that can be damaged by ESG risks is a strong economic justification for investors to demand robust ESG oversight by boards and effective management by senior executives. In addition, the rise of passive investors that provide "permanent" capital creates a temporal mismatch between those investors and management. ESG proponents argue that encouraging strong ESG risk management is in the economic interests of these long-term shareholders because typical capital and operational decisions by company management are often made with a time horizon that is shorter than the relevant horizon for a range of E&S risks. Therefore, it is the permanent shareholders who are exposed to those longer term E&S risks.

Financial Impact of ESG: ESG factors are now integrated into several types of financial products including equity, debt and real estate investment considerations. According to

investment research firm Morningstar, ESG mutual funds and ETFs grew from 240 at the end of 2017 to 267 at the end of Q1 2018. There are a variety of investment strategies that include ESG factors. Three strategies, ESG integration, Positive/best-in-class, and Negative/exclusionary screening, are the most relevant to issuers because they comprise the vast majority of the ESG assets under management. Each of these three approaches requires investment managers to acquire, analyze and integrate information on companies' ESG-related risks and performance. The precise process of ESG integration and investor engagement varies among investors, but it behooves corporate secretaries and others to understand the relevant ESG issues, their weighting or importance to a particular investor and the bureaucratic process that leads to either an investment or engagement decision. ESG issues have clearly become more prominent among shareholder proposals, proxy voting and company engagement with issuers. The prominence of ESG has provided further impetus (if any was needed) for informed and systematic shareholder engagement. ESG Research Firms play a key role in providing investors ESG ratings and analysis on issuers.

ESG Research Firms: Just as proxy advisors arose to fulfill asset managers' need for aggregated data and analysis on traditional proxy and governance topics, a coterie of ESG Research Firms (ERFs) provide products to fulfill investors' need for aggregated ESG data. MSCI, Sustainalytics and ISS-Ethix are likely the most relevant for U.S. issuers. ERF ratings and analysis are increasingly widely available and influential. Most investors use ERF as just one input in their decision-making, but they are important and in some funds can determine inclusion/exclusion of a company's securities. This impact on capital allocation is worth watching.

ERFs rely significantly on company ESG disclosures, but media, regulatory filings/information and NGO research are critical inputs into ERF methodologies as well. There is significant anecdotal information regarding ERF accuracy and interpretive practices. ERFs are aware of these issues and are responding, but concerns remain. Reviewing ERF reports and ratings is important to optimizing issuer ESG disclosures.

Disclosure Challenges and Strategies: There are a variety of challenges and barriers to optimizing the disclosure relied on by investors and ERFs. Investors lack comparable ESG data to facilitate comparison of risk management and commercial value of ESG issues or products between companies and sectors. Most ESG disclosure beyond information required by regulation or law (*e.g.*, health, safety and GHGs) is unaudited, which further discourages

reliance by analysts. In addition, the misalignment of the timing between financial and sustainability reporting makes incorporation of current ESG disclosures more difficult and time consuming for analysts and teams who may cover dozens of public companies. As a result, embracing best practices for disclosure becomes all the more important.

ERFs use human analysts and/or software agents or “bots” to scour company and other websites for relevant and updated information. As a result, corporate secretaries and sustainability teams need to speak the same language as the ERFs to ensure their disclosures are efficiently recognized and incorporated into ERF analysis. A related concern is whether an issuer receives “credit” for policies or actions that are disclosed to an ERF but not to the general public. Practice varies among the ERFs with respect to giving “credit” only to publicly disclosed policies or practices. An ERF requirement for public disclosure is critical information for a corporate secretary trying to make the optimal disclosure decision.

ERFs have a company engagement process that tends to unfold year-round, although anecdotal information suggests challenges in responsiveness remain. Building ERF engagement into your company’s standing engagement strategy is increasingly appropriate for many companies.

Selected ESG Reporting Platforms: There are literally hundreds of ESG surveys and reporting platforms, but several deserve consideration from issuers because of their sponsorship, profile and/or history of use. Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosure (TCFD) and GRI (formerly the Global Reporting Initiative) each have a specific focus or approach that may be suitable for an individual company. Broad adoption of SASB and/or the TCFD can provide investors the comparable data they have been lacking. Relevant factors when considering an ESG reporting platform include: a company’s specific E&S impacts and/or related products/services; the intended audience of a particular disclosure; investor interests or demands; applicable regulatory requirements; and company resources for ESG disclosure.

I. Introduction[1]

Boards, corporate secretaries and governance professionals operate in a dynamic landscape of evolving environmental, social and governance (ESG) issues and risks, a growing importance of ESG research and analysis, and high levels of ESG-related shareholder proposals and engagement. Once limited to a small set of investors, ESG investing has expanded to the mainstream of mutual funds, exchange-traded funds (ETFs), and even private equity. ESG investing is not a new phenomenon, but its importance, as perceived by the most influential asset managers and asset owners, has increased dramatically over the past five years.

This brief examines the drivers of the growth in ESG-related investing and engagement, explores ESG's impact on financial products and investors, and proposes questions to guide boards, corporate secretaries and sustainability teams.

A. Defining ESG

A leading authority on ESG-related investing, the U.S. Sustainable Investment Forum (US SIF), defines ESG (and its many synonyms)[2] as "an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact."[3]

According to US SIF, there are two components to "ESG investing":

- "ESG incorporation" or "ESG integration" is the consideration of environmental, social and corporate governance criteria in investment analysis and portfolio construction across a range of asset classes; and
- "ESG investor engagement," which seeks to have shareholders communicate concerns about ESG policies/practices, seek greater ESG disclosure and improve practices.[4]

A good starting point for a list of current ESG issues are the leading topics addressed in the

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1 In 2017, the Society for Corporate Governance established an Environmental and Social Working Group (ESWG) intended to inform companies, foster dialogue among the different stakeholders and share best practices regarding ESG. A survey of ESWG members indicated a knowledge gap regarding the drivers, impact and participants in the ESG space. This primer is intended to help companies fill that gap.

2 "ESG investing" is often used interchangeably with "SRI" (socially responsible investing), "responsible investment," "values-based investing," "mission-aligned investing," and others.

3 *Available at* https://www.ussif.org/esg. *See* "Incorporating Sustainable, Responsible and Impact Investing Into Your Practice: A Roadmap for Financial Advisors," 2018 at 5. US SIF is financially supported by a range of mainstream and ESG-type investors. *See* https://www.ussif.org/institutions.

4 *Id.* at 5-6.

recent proxy season:[5] political spending, climate change, diversity, gender pay equity, human capital management and general sustainability/environmental issues. A complete list is too lengthy to include here, but investor-relevant ESG issues often:

- derive from a risk or impact inherent in the core operations/products of a particular company;
- have the potential to meaningfully damage a company's intangible value/reputation/ability to operate; and
- are accompanied by persistent media interest, organized stakeholders and associated public policy debates that can magnify the impact of a company's existing position or practice and increase the reputational risk (or opportunity) created by a change in company policy or practice.

ESG issues don't come out of nowhere, but their perceived relevance can be sudden.

II. Understanding Investors' ESG Motivations: Investor Demand, PRI and Risk Management

A. Investor Demand for ESG Financial Products and Engagement

Asset managers are offering more ESG products and strategies in significant part because of retail and institutional client demand. Much of the impetus for ESG-related products comes from EU-based institutional asset owners that tend to reflect the political sensibilities of their home markets. One illustrative example: the investment manager Schroders found in 2017 that "78% of respondents stat[ed] that [sustainable investing] is more important to them now than it was five years ago; 32% said it was significantly more important and 46% said it was somewhat more important."[6] Schroders also found that capital allocation to ESG strategies is increasing, with 64% of investors saying that they "increased their investment in sustainable funds over the last five years."[7] There are many other examples of investor preference for ESG strategies.[8]

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[5] In this brief, we focus on environmental and social issues because the rise in prominence of E&S issues is driving much of the change confronting issuers and their investors.

[6] *Available at* http://schroders.com/en/media-relations/newsroom/all_news_releases/schroders-global-investor-study-2017-sustainable-investing-on-the-rise/.

[7] *Id*.

[8] Further examples of investor preference for ESG strategies are discussed in articles available at: http://www.investmentnews.com/article/20171202/FREE/171139982/which-investors-are-most-attracted-to-esg-investments-and-why; https://www.fa-mag.com/news/interest-in-esg-investing-rises-around-the-world-34999.html; and https://www.institutionalinvestor.com/article/b15130nkydbgxl/global-demand-grows-for-sustainable-investment-strategies-americas.

While the empirical case for ESG out/underperformance is still contested, there is little doubt that a significant number of retail and institutional clients of asset managers want ESG financial products and strategies.

B. United Nations Principles for Responsible Investment (UN PRI)

The PRI, which imposes obligations on asset owner and asset manager signatories regarding the acquisition and use of ESG information, is both a driver and reflection of ESG demand. PRI signatories "commit"[9] to six principles:

- Principle 1: incorporate ESG issues into investment analysis and decision-making processes
- Principle 2: be active owners and incorporate ESG issues into ownership policies and practices (Note: including company engagement)
- Principle 3: seek appropriate disclosure on ESG issues by the entities in which signatories invest
- Principle 4: promote acceptance and implementation of the Principles within the investment industry
- Principle 5: work together to enhance effectiveness in implementing the Principles
- Principle 6: report on activities and progress towards implementing the Principles

PRI's announcement at the NYSE in 2006 was animated by concern over environmental and social impacts globally. As then-Secretary General Kofi Annan said, the PRI "grew out of the understanding that while finance fuels the global economy, investment decision-making does not sufficiently reflect environmental, social and corporate governance considerations—or put another way, the tenets of sustainable development."[10] In hindsight, the creation of the PRI was an inflection point in the growth of ESG.

As the chart below shows, an increasing number of asset managers and asset owners in the U.S., EU and Asian markets have adopted the PRI since they were introduced in 2006.

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[9] *Available at* https://www.unpri.org/signatories/become-a-signatory.

[10] *Available at* https://www.un.org/press/en/2006/sg2111.doc.htm. The UN Sustainable Development Goals and corporate alignment with them will continue to inform some investor and ESG Research Firm engagement with companies. *See* https://sustainabledevelopment.un.org/sdgs.

Maintaining PRI signatory status has become an important point of brand management for financial firms, particularly those seeking institutional clients. As a practical matter, many RFPs for asset owners (*i.e.*, EU and U.S. pension funds) effectively require PRI signatory status by asset managers. Without it, asset managers may find it difficult or impossible to demonstrate their ESG bona fides and receive new mandates from a substantial number of large institutional investors.

Looking Ahead: While signatories have always been required to report annually on implementation practices, PRI's 2017 "Blueprint for Responsible Investment"[11] articulated more demanding expectations and is threatening to delist asset managers who fail to meet those increased expectations. Of particular interest to boards and corporate secretaries, PRI's enhanced expectations include:

- Establish that asset owners' duties to their beneficiaries extend beyond the risk/return profile of their investments to include making decisions that benefit the world beneficiaries live in.
- Promote alignment of proxy voting practices with responsible investment beliefs.
- Define a minimum standard of activity that signatories must achieve.
- Monitor and engage with those that are not meeting this standard and delist any that fail to do so over a two-year period.

[11] *Available at* https://www.unpri.org/download?ac=1916.

- Achieve penetration rates in North America never previously seen outside Europe.
- Advocate for meaningful, forward-looking and globally comparable company disclosures and investor reporting.
- Promote the inclusion of material ESG information alongside other financial data.
- Convene investor engagement with companies on climate risks and opportunities.

PRI is a significant reason that asset manager and asset owner focus on ESG-related disclosure and engagement is likely to continue to intensify. In addition, PRI has committed to aligning its expectations for signatories with the UN Sustainable Development Goals (SDG),[12] which are likely to result in company engagement by some investors that focuses on SDG concerns,[13] including environmental sustainability, gender equality, income inequality, climate change and others.

Questions Presented: Do your investors offer ESG products? Do any ESG funds own your shares (perhaps as part of a larger shareholding by an asset manager)? How many of your company's investors are PRI signatories? Have you reviewed your investors' annual reporting to PRI to better understand their ESG integration processes?

C. ESG Risk Management as a Value Preserver/Creator

While some critics assert that ESG analysis and engagement are driven mostly by the imposition of politics on investing, there is growing belief that effective management of ESG-related risk can protect a company's brand and ability to operate, and increase a company's value over the long-term. Representative of that trend, a 2016 Harvard Business School Working Paper noted that:

> [F]irms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues, suggesting that investments in sustainability issues are shareholder-value enhancing. Further, firms with good performance on sustainability issues not classified as material do not underperform firms with poor performance on these same issues, suggesting investments in sustainability issues are at a minimum not value-destroying.

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[12] *Id*. at 16.

[13] *Available at* https://sustainabledevelopment.un.org/sdgs.

> Finally, firms with good performance on material issues and concurrently poor performance on immaterial issues perform the best.[14]

Similarly, a 2015 Deutsche Bank Asset Management study done in cooperation with PRI asserts that of more than 2,200 studies since 1970, 63% found a positive link between a company's ESG performance and its financial performance.[15]

Resource: The U.S. Sustainable Investment Forum[16] and PAX World, a socially responsible investor,[17] have compiled useful bibliographies of ESG research.

Accordingly, the largest passive investors have embraced ESG in both their marketing and risk management practices. BlackRock notes:

> We find ESG can be implemented across most asset classes without giving up risk-adjusted returns. ESG and existing quality metrics such as strong balance sheets have a lot in common. This implies ESG-friendly portfolios could underperform in "risk-on" periods — but be more resilient in downturns. They could even outperform in the long run as flows into sustainable investment products increase and climate risks compound.[18]

The world's largest pension fund, the $1.4 trillion Government Pension Investment Fund of Japan (GPIF), argues similarly: "If ESG ratings are reflected in stock prices, the stock price will go up if the ESG ratings of the company improve . . . Because of our size, we can only buy and hold, and end up with the market average. We can only improve performance by improving the market return; we are expecting ESG will contribute to this."[19]

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14 *Available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912.

15 *See* https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf. Citing the above research is not intended to take a position on ESG integration but rather to provide a representative sample of the literature supporting the investor belief in the benefits of ESG performance.

16 *Available at* https://www.ussif.org/performance.

17 *Available at* https://paxworld.com/category/research/esg/.

18 *Available at* https://www.blackrock.com/corporate/literature/whitepaper/bii-sustainable-investing-may-2018-us.pdf.

19 *Available at* https://www.top1000funds.com/profile/2018/03/14/gpif-seeks-better-beta-through-esg/#.WqjmB9CX3ag.linkedin.

i. Protecting Intangible Asset Value and Reputational Risk Management

In an age when intangible assets make up more than 80% of company value according to some estimates,[20] investors, boards and senior management are right to focus their value preservation efforts on intangible assets, which can be quite vulnerable to ESG risks.

"Intangible asset" is an elastic concept that can include:

- Brand names
- Reputation
- Franchises, copyrights and trademarks
- Patents
- Top-notch management
- Loyal, well-trained and engaged workforce
- Technological know-how

For many companies, ESG-related risks— augmented by a social media-driven world— are embedded in everyday operations and products. Consider an oil company that loses control of a deep water well and spills a large amount of oil, an auto company that manufactures cars that surreptitiously violate air quality laws, a bank that employs sales practices that violate customer trust and damage the brand, or a social media company that sells advertising and is enveloped in a user privacy imbroglio. These high-impact, low probability (HILP) or Black Swan events may sound familiar. Each of these ESG problems stems from a ***risk inherent in the core operations*** of the company and causes significant damage to the firm's reputation or other intangible assets.

The financial crisis raised awareness of the potential effect of high impact, low probability events.[21] Large banks employ teams working to "de-risk" investment banking clients with significant environmental/social exposure. Investors in sectors such as mining actively consider the risk of "a low-probability high-impact event affecting any particular one of their assets having a larger monetary and reputational impact on the entire corporation."[22]

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[20] *See* http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/.

[21] *See* https://hbr.org/2009/10/the-six-mistakes-executives-make-in-risk-management.

[22] *Available at* http://water.columbia.edu/files/2015/11/Long-Term-Risk-Assessment-Siegel.pdf.

The interplay between intangible asset value and ESG risks can be dynamic, leading to sudden impacts and the exposing of a board or senior management as out of touch. Predicting HILPs can be difficult, but planning and seeking to make a company more resilient to them is sound risk management.[23] As a result, investors and other interested parties want to better understand company's risk identification, mitigation and remediation processes.

ii. Long-Term Shareholders and Management Time Horizons

As the Government Public Investment Fund of Japan noted above, the fund must "buy and hold," making it more difficult to sell an individual company's stock. This virtually permanent share ownership creates a temporal mismatch between standard management time horizons of less than 10 years and the time horizon of very long-term shareholders. Because typical capital and operational decisions by company management are often made with a time horizon that is shorter[24] than the relevant horizon for a range of E&S risks, it is the long-term shareholders who are exposed to those longer term E&S risks. ESG proponents would argue, therefore, that encouraging strong ESG risk management is in the economic interests of these effectively permanent shareholders.

Climate change is a leading example of a temporal mismatch. Climate change risks to companies include physical impact, business disruption, technology disruption and government policy, although the scale of the risk is determined by geographic location, sector and business specifics. Each of those risks, or a combination, could meaningfully affect a company, yet the uncertainty of specific impacts in particular regions necessary to mitigate a firm's climate exposure and the reversal of climate mitigation policies that might have imposed material costs on certain industries could militate against climate risk management efforts. Management may eschew climate planning and instead focus on other risks and opportunities. Long-term shareholders, seeking to manage longer term risks such as climate, could reasonably disagree and urge greater climate change risk management efforts.

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[23] *See* https://link.springer.com/chapter/10.1007%2F978-3-319-07239-5_5.

[24] For example, the average maturity of U.S. investment grade corporate debt was 7.5 years in 2017, which has actually increased since the financial crisis due to low interest rates. *See* https://tallusadvisory.com/investment-grade-corporate-bonds-ongoing-strength-bond-market-perspectives-august-1-2017/. Focusing Capital on the Long Term, a collaboration of asset owners, asset managers, and issuers, notes, "Too many investors continue to seek returns on their strategies as quickly as possible. Companies are missing out on profitable investments for fear of missing quarterly earnings guidance. Corporate management significantly undervalues and underinvests in longer-term prospects." *Available at* https://www.fcltglobal.org/docs/default-source/default-document-library/a-roadmap-for-fclt.pdf?sfvrsn=7b2e258c_0.

Questions presented: Do you know which ESG issues are most relevant to your investors and other stakeholders? Of these ESG issues, which are short-term or long-term? Are your disclosures responsive to their views? Do your company disclosures provide investors with sufficient insight into your board's and senior management's approach to long-term risk management? Even if little risk management is required, do disclosures explain the board's and senior management's deliberative process?

Investor focus on long-term time horizon and ESG can be seen here,[25] here[26] and here.[27]

III. ESG Financial Products, ESG Integration Strategies and Greater Shareholder Engagement and Resolutions

A. Growth in ESG Financial Products

As discussed, ESG investing is increasing across several asset classes. ESG factors are now integrated into several types of financial products including equity, debt and real estate investment considerations. As noted above, the PRI requires the integration of ESG factors into investment decision-making, which the graph shows has corresponded with a significant increase in assets under management (AUM) with some degree of ESG integration. Overall, 26% of the $88 trillion in AUM covered in a recent McKinsey survey incorporates ESG factors to some degree.[28]

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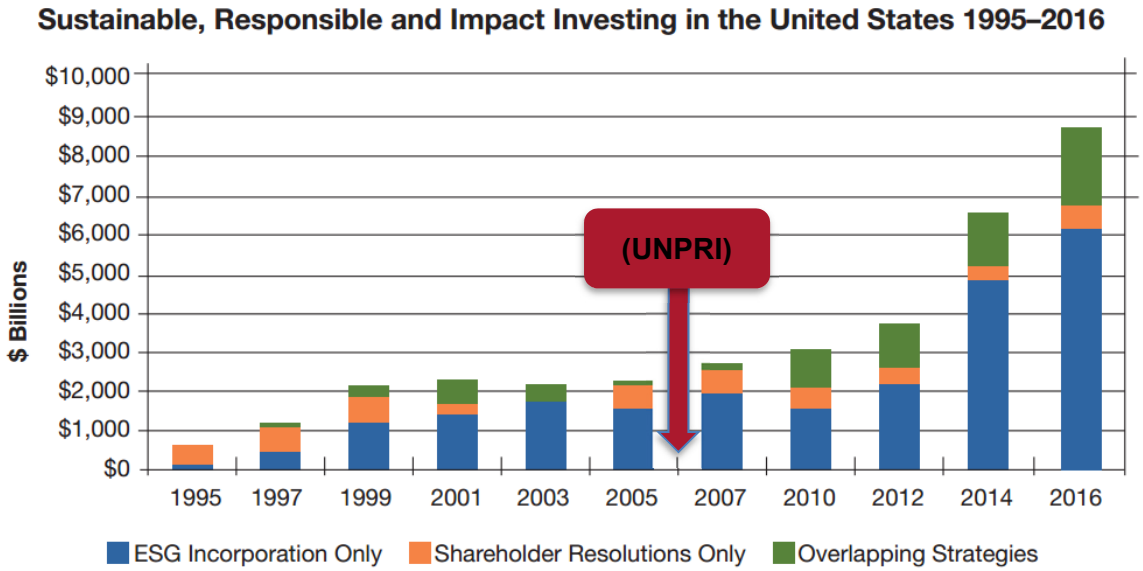
[25] *Available at* http://online.wsj.com/public/resources/documents/TopSustainableMutualFunds.pdf.

[26] *Available at* https://www.temasek.com.sg/en/who-we-are/our-purpose.html.

[27] *Available at* http://www.schroders.com/en/insights/economics/managing-corporate-controversies-the-role-of-esg-ratings/.

[28] *See* https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal.



SOURCE: US SIF Foundation.

According to investment research firm Morningstar,[29] funds that state they incorporate ESG criteria into their investment process, pursue a sustainability-related theme, or seek measurable sustainable impact alongside financial return continued to grow in the first quarter of 2018. At the end of 2017, Morningstar counted 240 open-end funds and exchange-traded sustainable investment portfolios available to U.S. investors. At the end of Q1 2018, such mutual funds and ETFs numbered 267.[30]

B. ESG Integration Strategies

While ESG integration is increasing broadly, actual practices vary significantly. Similarly, the influence of ESG analysis or ratings has differing influences in the decision-making of a particular asset manager or asset owner. US SIF states that there is a spectrum of ESG-related strategies including, but not limited to:[31]

- **ESG integration:** The systematic and explicit inclusion by investment managers of ESG factors into financial analysis. (Note: the degree of influence of the ESG factors on the ultimate investment decision may vary significantly among asset managers.)

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[29] In 2017, Morningstar purchased a 40% stake in a leading ESG research firm, Sustainalytics. *See* https://www.sustainalytics.com/press-release/morningstar-acquire-stake-sustainalytics/.

[30] *See* http://www.morningstar.com/articles/858952/firstquarter-volatility-doesnt-slow-sustainable-fu.html.

[31] *See* https://www.ussif.org/esg.

- **Positive/best-in-class**: Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
- **Negative/exclusionary screening**: The exclusion from a fund or plan of certain sectors or companies based on specific ESG criteria.
- **Impact investing**: Targeted investments, often in private markets, aimed at solving social or environmental problems.
- **Sustainability themed investing**: The selection of assets specifically related to sustainability in single or multi-themed funds.

The first three strategies (ESG integration, Positive/best-in-class and Negative/exclusionary screening) are the most relevant to issuers because they comprise the vast majority of the ESG assets under management. Each of these three approaches requires investment managers to acquire, analyze and integrate information on companies' ESG-related risks and performance. The precise process of ESG integration and investor engagement varies among investors, but it behooves corporate secretaries and others to understand the relevant ESG issues, their weighting or importance to a particular investor and the bureaucratic process that leads to either an investment or engagement decision.

Whatever the exact process employed by an investor, asset managers seek to do ESG analysis and integration in the most efficient way possible (not dissimilar to the approach taken on proxy voting where investors rely significantly on proxy advisors), which makes the role of third-party ESG ratings and analysis providers increasingly important. (See Section IV: ESG Research Firms.)

C. Examples of ESG Equity and Debt Products

Below, we provide examples[32] of equity and debt products employing ESG integration, Positive/best-in-class and exclusionary approaches to select assets based on ESG performance.[33]

[32] The equity and debt funds below are included for illustrative purposes only and were selected because of the clarity of the prospectus language related to selection of securities. No endorsement, express or implied, is intended.

[33] A Society ESWG 2017 survey of a small sample of companies indicated that 10% of issuers' equity or debt had been "excluded from an ESG-related ETF/mutual fund/other investment vehicle."

Activists Enter the ESG Fray

Leading activist investors and private equity firms have adopted ESG-related policies and strategies, including Trian Partners, KKR, Blackstone, Carlyle Group, Blue Harbour Group, Warburg Pincus and JANA Partners.

Case study: In January, JANA Partners and CalSTRS, which together controlled roughly $2 billion in Apple equity, jointly urged the iPhone maker to develop new settings to help parents control children's time on mobile devices: "This should be an easy fix for Apple…There's no question that it needs to be more responsive to children's needs and children's activities," according to JANA's CEO.[34]

Adopting ESG related practices may have at least two benefits for activists and PE firms: (1) likely helps attract institutional limited partners that have ESG priorities; and (2) likely helps build support from institutional investors for other activist or PE priorities.

- The SPDR SSGA Gender Diversity Index provides exposure to "US companies that demonstrate greater gender diversity within senior leadership [compared to] other firms in their sector." The SPDR SSGA Gender Diversity Index ranks each company by using ratios that compare the gender diversity within the board of directors and executive positions and "*based on an analysis by an independent third party of information included in regulatory filings, press releases and the corporate website of a company ("company communications")"* (emphasis added).[35]
- iShares MSCI USA ESG Select ETF takes the Parent Index (MSCI USA Index) and removes companies that are "involved in tobacco, companies involved with controversial weapons, producers and retailers of civilian firearms, as well as major producers of alcohol, gambling, conventional weapons, military weapons and nuclear power." The fund then selects company equity for the fund by referring to MSCI evaluations of "each eligible company's ESG performance using standardized criteria and assigns an 'overall rating' to each company."[36]

[34] *Available at* https://www.cnbc.com/2018/01/09/jana-partners-on-apple-iphone-addiction-problem-easy-fix-for-apple.html.

[35] *Available at* https://www.ssga.com/investment-topics/general-investing/2016/SSGA-Gender-Diversity-Index-Methodology.pdf. The "independent third party" may well be an ERF such as MSCI or Sustainalytics.

[36] *Available at* https://www.ishares.com/us/library/stream-document?stream=reg&product=IUS-SUSA&shareClass=NA&documentId=925822~926099~926263~1474672&iframeUrlOverride=%2Fus%2Fliterature%2Fsai%2Fsai-ishares-trust-4-30.pdf.

ESG in the Debt Market

ESG investment practices are not limited to the public equity markets. Debt markets have also begun considering ESG factors as a component of regular operations. For example, credit rating agencies are including ESG factors in their analyses, with Moody's, S&P and Fitch all publicly discussing their approaches to ESG. Below are two examples of ESG debt mutual funds or ETFs:

- TIAA-CREF's Social Choice Bond Institutional Fund (TSBIX)[37] attempts to achieve the return of the foreign equity markets by investing in:

  > [C]ompanies whose activities are consistent with the Fund's ESG criteria…The ratings vendor currently providing the ESG performance evaluation is MSCI, Inc. ("MSCI"). All companies must meet or exceed minimum ESG performance standards to be eligible for inclusion in the Fund. The evaluation process favors companies with leadership in ESG performance relative to their peers. Typically, environmental assessment categories include climate change, natural resource use, waste management and environmental opportunities. Social evaluation categories include human capital, product safety and social opportunities. Governance assessment categories include corporate governance, business ethics and government and public policy. How well companies adhere to international norms and principles and involvement in major ESG controversies (examples of which may relate to the environment, customers, human rights and community, labor rights and supply chain, and governance) are other considerations.

  TIAA-CREF's articulation of reliance on third-party data from MSCI with subjective analysis of company involvement or connection to ESG controversies neatly encapsulates the ESG challenge companies confront. Indeed, the prospectus goes on to note that "[i]nvesting on the basis of ESG criteria is qualitative and subjective by nature."

- The Neuberger Berman Socially Responsive C mutual fund "consists of active equity managers who integrate ESG criteria into the SRI investment process. The ESG ratings

[37] *See* https://www.sec.gov/Archives/edgar/data/1084380/000093041315002523/c81176_485apos.htm#15.

are based on both avoidance and leadership parameters and are performed in-house by the same portfolio management team. The team searches for companies demonstrating leadership in the environment, workplace practices, community relations, supply chain sustainability and product integrity. The SRI team believes that companies whose managements are thoughtful about the impact of their actions on all stakeholders fundamentally represent robust business models with more manageable long-term contingent liabilities . . . The Portfolio Managers *judge firms on their corporate citizenship overall, considering their accomplishments as well as their goals."* (emphasis added). Neuberger Berman makes an important point: disclosing goals for ESG performance improvement can be relevant to both investors and reputation risk management.

- Other funds use both screening and ESG best practices, relying on the combination of positive ESG performance and restricted or exclusionary strategies.[38]

Resources:

- Extensive lists of ESG-related mutual funds and ETFs are available from the Wall Street Journal[39] and Morningstar.[40]
- The World Economic Forum makes available a useful list of pension funds with ESG strategies.[41]

[38] *See* https://charts.ussif.org/mfpc/fund_profile_display.php?FundID=106.

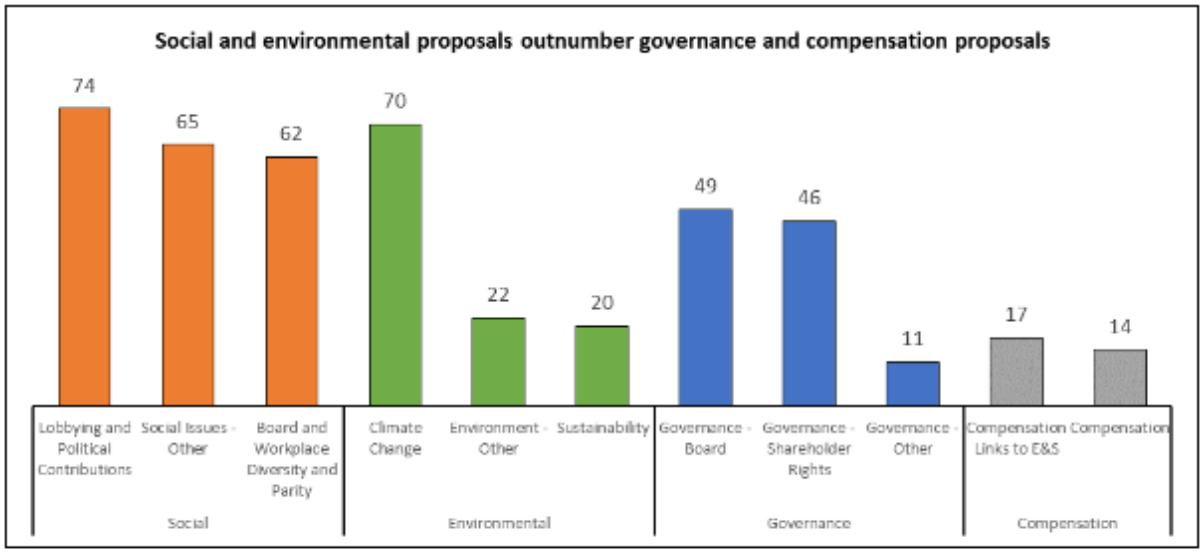
[39] *See* http://online.wsj.com/public/resources/documents/TopSustainableMutualFunds.pdf.

[40] *See* https://charts.ussif.org/mfpc/.

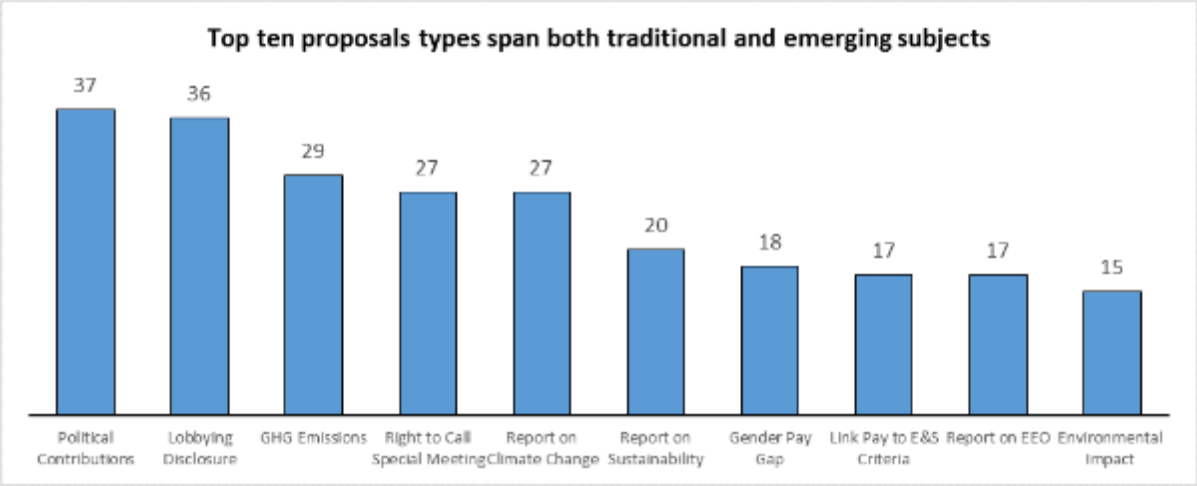
[41] *See* http://www3.weforum.org/docs/WEF_GAC%20Future%20of%20Investing%20Case%20Studies.pdf.

D. ESG Shareholder Resolutions & Proxy Voting

In addition to significantly increasing the number of ESG-related financial products, changing attitudes by asset managers and asset owners have caused a concomitant increase in the number of E&S shareholder proposals and support for them. For example, see the data below for 2018 E&S shareholder proposals.



Source: ISS Analytics



Source: ISS Analytics

Growing support for E&S shareholder proposals aligns with the increase in public acknowledgment (even championing) of various issues by asset managers.[42] Larry Fink's 2018 letter is a prominent example of asset manager focus on ESG, but it is hardly the only one. The BlackRock CEO underscored the connection between ESG and long-term performance by stating "stakeholders are demanding that companies exercise leadership on a broader range of issues. And they are right to: a company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth." Proxy voting guidelines increasingly reflect a more forward-leaning perspective on some ESG issues.[43]

The prominence of ESG has provided further impetus (if any was needed) for informed and systematic shareholder engagement. Developing productive and deep relationships with your investors can be affected positively—and negatively—by the company position on E&S issues.

Look Ahead: Expect further ESG advocacy and shareholder support from a growing list of asset managers. Diversity, gender pay equity, political spending, climate change, human capital management and an issue specific to your company will likely be the most popular.

IV. ESG Research Firms[44]

Just as proxy advisors arose to fulfill asset managers' need for aggregated data and analysis on traditional proxy and governance topics, a coterie of ESG Research Firms (ERFs) have arisen to fulfill the need for aggregated ESG data.

The ESG Research Firm leaders[45] are:

- MSCI

[42] A less appreciated possibility for the change in attitudes among large publicly-held asset managers may be the scrutiny they have received on ESG issues. For example, in 2017 BlackRock received a shareholder proposal linking workplace equality issues to its proxy voting efforts. *See* http://www.trilliuminvest.com/shareholder-proposal/blackrock-proxy-voting-2017/. Similarly, Vanguard received a proposal regarding disclosure of their votes on climate change proposals in 2017. *See* https://pressroom.vanguard.com/news/Press-Release-Proxy-Filing-2017.html.

[43] *See* http://fundvotes.com/VotingGuidelines.php.

[44] In this section, we focus on practical advice to better engage and communicate with the ERFs. For a well done and still timely overview of the major ERFs (and ESG-related rankings) and their methodologies done by Davis Polk, see https://corpgov.law.harvard.edu/2017/07/27/esg-reports-and-ratings-what-they-are-why-they-matter/.

[45] Society ESWG 2017 survey data indicate that MSCI, Sustainalytics and ISS-Ethix are for U.S. issuers the most important of the ERFs. The remainder of this section will focus on them.

- Sustainalytics
- ISS-Ethix
- Vigeo-Eiris
- RobecoSAM
- Bloomberg
- Thomson Reuters

While ERFs differ in how they articulate their mission and services, it is fair to say that they share a consensus that environmental and social impacts are more important—and more frequently "material"—than many companies believe them to be.[46] Moreover, many European asset owners, who have played a significant role in creating demand for ESG-related analysis and investment, share a similar outlook.

ERFs reach in the financial markets is substantial. MSCI, perhaps the largest of the ERFs, notes that "99 of the top 100 global investment managers are MSCI clients."[47] Similarly, Sustainalytics serves "over 500 institutional investors in 22 countries."[48] As the largest proxy advisor, ISS' ESG product is available throughout the investor community. In addition, ERF ratings and analysis are being used to assess mutual funds,[49] ETFs and individual securities.[50]

A comprehensive round-up of ERFs and ESG Indices can be found on the website for the Global Initiative for Sustainability Ratings.[51]

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46 Sustainalytics, for example, states that, "We believe that it is imperative for the global economy to become more just and sustainable." *Available at* https://www.sustainalytics.com/about-us/. MSCI notes, "We provide investors with critical performance measurement and risk management data and analytics. Through our environmental, social and governance (ESG) research and applications we deliver insights, analysis and tools to support investment processes that incorporate sustainability considerations." *Available at* https://www.msci.com/our-story. Vigeo-Eiris states, "The economic, ecological and societal challenges of the 21st century suggest fundamental changes to our development models in the medium-term, leading to major transformations of economic models and investment strategies. To acknowledge these challenges is to welcome innovation and opportunity, while ignoring them poses a certain amount of risk." *Available at* http://www.vigeo-eiris.com/vigeo-eiris/vision/. RobecoSAM notes, "Our mission is to drive sustainability thinking . . . We are convinced that companies with sustainable business practices are more successful. Our vision is to set the standard in Sustainability Investing." *Available at* http://www.robecosam.com/en/about-us/mission-vision.jsp.

47 *Available at* https://www.msci.com/our-story.

48 Sustainalytics' ESG ratings are also available to investor clients of proxy advisor Glass Lewis, which adds to the impact Sustainalytics' ratings and analysis can have for a company.

49 *See* http://www.morningstar.com/articles/862431/finding-morningstars-new-carbon-score-for-funds.html.

50 *See* https://www.msci.com/fixed-income.

51 *See* http://ratesustainability.org/hub/index.php/search/.

A. Investor Use of ESG Research Firms Analysis and Ratings

It's important to reiterate that investors do not simply "rubber stamp" ERF analysis and ratings. Rather, investors will use ERF products as an important input among the mosaic of factors in making investment decisions. Investors will also use ERF analysis to identify issues that may become part of any company engagement; particularly the analysis related to "controversies." As the chart below shows, ERFs are an important source of information.[52]

MSCI's description of the investor use of its products[53] provides a useful overview and contains two items of particular interest to corporate secretaries:

- Integrate ESG factors into investment approaches;
- Screen portfolios and trades for emerging and overlooked ESG risks;
- Generate investment ideas using positive and negative outliers on specific ESG issues;
- Generate investment ideas based on ESG developments impacting key industry drivers;
- Conduct due diligence for transactions;
- *Determine opportunities for engagement with company management; and*
- *Support implementation of the UN Principles for Responsible Investment (PRI) (emphasis added).*

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[52] *See* http://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_ISI_Sustainable_Signals.pdf. Morgan Stanley's Institute for Sustainable Investing and Bloomberg L.P. surveyed 402 asset management professionals at U.S. asset management firms.

[53] *See* https://www.msci.com/documents/10199/123a2b2b-1395-4aa2-a121-ea14de6d708a, at 13.

Which of the following sources do you use?	
Third-Party Data Providers (e.g., Bloomberg, Thomson Reuters)	49%
In-House Research	48%
Third-Party Ratings, Rankings and/or Indexes	42%
Government or Agency Data	38%
Direct Company Engagement (e.g., Phone Calls, Questionnaires)	35%
Other Third-Party Research (e.g., Specialty ESG Research Firms)	35%
Sell-Side Research	26%

B. Company Disclosures and ERF Methodologies

While the substantive range and number of factors considered by the ERFs varies, all of the ERFs rely on similar sources of information. Company disclosures are the single most important source of information for ERFs, although such disclosure constitutes only 35% of MSCI's inputs in its company ESG Ratings.[54] Sustainalytics bases its company ratings on "three dimensions: preparedness, disclosure, and performance. Preparedness measures a company's commitment to managing ESG risks through stated policies, programs, or systems. Disclosure measures transparency about ESG-related activities and the extent to which a company's ESG reporting reflects best practices. Performance is measured through various quantitative and qualitative indicators."[55]

ISS-Ethix recently began providing the "Environmental and Social QualityScore," which "provides a measure of corporate disclosure practices and degree of transparency." According to ISS, "investors report that company disclosure is a meaningful signal in its own right – *i.e.*, limited disclosure is often indicative that further investigation is needed to rule out the presence of poor practice – and a prerequisite to an effective comparison of company performance

[54] *See* https://www.msci.com/www/blog-posts/2018-esg-trends-to-watch/0828969046.

[55] *Available at* https://finance.yahoo.com/news/sustainalytics-does-company-esg-Ratings-100000652.html.

against peers."[56] ISS intends to "bring the universes of E&S QualityScore and Governance QualityScore into alignment, although the timing has not yet been determined."[57]

C. Issuer Concerns Regarding ESG Research Firms

Extensive feedback from corporate issuers highlights concerns regarding process, accuracy and interpretation; not dissimilar to some of the criticisms of proxy advisors.[58] A recent Society survey[59] of issuers found that 30% of companies were "aware of factual inaccuracies" in ERF reports. Systematic engagement with issuers has also revealed concern over interpretation practices regarding controversies and specifically litigation. Issuers have highlighted concerns regarding the ERFs' understanding of U.S. judicial process, which has led to the perception that ERFs assign too much significance—in some cases—to media reports of the initial filing of a lawsuit. Moreover, issuers have consistently noted that ERFs sometimes do not follow litigation to its conclusion and/or do not appreciate the financial/legal implications of ordinary litigation practice (*e.g.*, establishing accounting reserves for potential damages).[60] Companies would argue that a keener understanding of the U.S. legal system is required to accurately assess American ESG profiles.

A related concern is peer grouping of companies and comparison of governance practices across jurisdictions. In some cases, U.S. issuers have been compared unfavorably to non-U.S. companies in less regulated markets despite adhering to U.S. securities regulation or stock exchange listing standards, which are mandatory.

MSCI, Sustainalytics and ISS have engaged in dialogue with the issuer community and are making efforts to increase transparency and engagement. The Society will continue to be actively engaged in facilitating dialogue among ERFs, issuers and investors.

V. Disclosure Challenges and Strategies

There are a variety of challenges and barriers to optimizing the disclosure relied on by investors and ERFs. Perhaps the most frequently cited problem by market participants is the lack of

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56 *Available at* https://www.issgovernance.com/file/faq/es-key-issues-discloure-transparency-qualityscore.pdf.

57 *Id*. at 3.

58 It is worth noting that ISS has a fully-fledged ESG business (ISS-Ethix).

59 Society ESWG 2017 survey.

60 ERFs (including MSCI, Sustainalytics and ISS) have made clear in discussions that they are aware of such criticism and take it seriously.

comparable ESG data between companies and sectors. The lack of standardization inhibits comparison of risk management and commercial value of ESG issues or products. In addition, much ESG disclosure beyond regulatory requirements to governmental authorities is voluntary and, therefore, unaudited, which further discourages reliance by analysts.

Another significant challenge is the misalignment of the timing between financial and sustainability reporting, which inhibits a holistic picture of a particular company. Many public companies will publish their sustainability reports months after the release of their annual reports, which makes a unified view more difficult for analysts who may cover dozens of public companies. This underscores the bandwidth problem among investors and ERFs; the universe of companies and required reports is so large that individual analysts or teams may simply not be able to integrate all of the relevant information in a timely manner. As a result, embracing best practices for disclosure becomes all the more important.

A. Bridging the Disconnects with Investors and ESG Research Firms

Like any industry or community, ERFs have a nomenclature that refers to certain issues using specific words. ERFs use human analysts and/or software agents or "bots" to scour company and other websites for relevant and updated information. As a result, corporate secretaries and sustainability teams need to speak the same language of the ERFs to ensure their disclosures are efficiently recognized and incorporated into ERF analysis.

A related concern is whether an issuer receives "credit" for policies or actions that are disclosed to an ERF but not to the general public. Whether a particular policy or practice is disclosed publicly can be critical to whether an ERF incorporates such information into its analysis and ratings but may also raise questions under Regulation FD. Practice varies among the ERFs with respect to giving "credit" only to publicly disclosed policies or practices.[61] Obviously, an ERF requirement for public disclosure is critical information for a corporate secretary trying to make the optimal disclosure decision.

ERFs have a company engagement process that tends to unfold year-round, although anecdotal information suggests challenges in responsiveness remain. Similarly, while MSCI[62]

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[61] "MSCI ESG Research does not conduct surveys of companies, nor will it use or accept non-public information from companies or other sources. Any company disclosed information that is used in process must be publicly disclosed." *See* https://www.msci.com/for-corporate-issuers.

[62] *Id*.

and Sustainalytics both seek data verification from issuers, company experience suggests the robustness of such engagement can vary considerably.[63] Building ERF engagement into your company's standing engagement strategy is increasingly appropriate for many companies.

Questions Presented:

- Does your company have access to ERF reports and ratings?
- Has the correct contact point for ERFs been designated and communicated to them? If not, contact the Society (gmartin@societycorpgov.org).
- Which ERFs are used by your investors?
- Are your company disclosures optimized for ERF identification and relevance?
- Are your ESG disclosures synchronized with your financial disclosures?
- Is non-disclosure of certain policies or practices hurting your company's ESG rating?
- What disclosures would your company need to make in order to increase your ESG scores?

B. ESG Disclosure Platforms

According to the Global Initiative for Sustainability Ratings there are 652 ESG "ratings, rankings and indices from across the globe."[64] "Survey fatigue" among company sustainability teams has become commonplace. What, where and how companies disclose ultimately depends on each company's facts and circumstances including:

- a company's specific E&S impacts and/or related products/services;
- the intended audience of a particular disclosure;
- investor interests or demands;
- applicable regulatory requirements; and
- company resources for ESG disclosure.

[63] Ensuring your company is connected to the ERFs at the right level is critical. If you would like to ensure that your corporate secretary, IR or sustainability teams are appropriately connected, please email gmartin@societycorpgov.org to have your company's designated contact point communicated to the ERFs.

[64] *Available at* http://ratesustainability.org/hub/index.php/search/report_in_graph.

There are several reporting platforms that merit discussion because their sponsorship provides them with a high profile and data reported under them is or may be used by other ESG reporting platforms, some investors and/or the ESG Research Firms.

i. Sustainability Accounting Standards Board (SASB)[65]

SASB, originally established and funded by Michael Bloomberg in 2011, promotes "high-quality disclosure of material sustainability information that meets investor needs" through the development of "sustainability accounting standards"—for 79 industries in 11 sectors. SASB enjoys significant support from institutional investors through its Investor Advisory Group.[66] Society member feedback indicates continuing concern among issuers about the relevance of some SASB industry standards. In response to issuer feedback, SASB has revised its interpretation of "materiality" to be more in line with the traditional legal definition and has become more flexible about the necessity/desirability of ESG disclosures in SEC filings.

To date, adoption of SASB standards in company disclosures is somewhat limited but is increasing. Having said that, SASB has established consultation processes with companies and investors that are intended to further refine the standards to yield more relevant and decision-useful data for investors. Moreover, SASB has significant room for growth given that a recent Society survey indicated that more than 45% of respondents were either "not very familiar" or "not familiar" at all with SASB.[67] Issuers should consider whether disclosing pursuant to SASB standards is responsive to their needs since broad adoption by the corporate community could reduce the expectation of reporting against myriad surveys/platforms and improve overall efficiency. Broad adoption by issuers could also facilitate the creating of comparable ESG information, which is a long-sought goal of the investor community.

ii. Task Force on Climate-related Financial Disclosure (TCFD)[68]

Established in 2015 at the behest of the Financial Stability Board (the international grouping of G-7 financial supervisors created after the financial crisis), the TCFD created voluntary "climate-related financial risk" standards "for use by companies in providing information to investors,

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65 *See* https://www.sasb.org/.

66 *See* https://using.sasb.org/investor-advisory-group/.

67 *See* Society ESWG 2017 survey.

68 *See* https://www.fsb-tcfd.org/.

lenders, insurers, and other stakeholders."[69] Over 250 organizations have expressed their support for the TCFD.[70]

The TCFD standards are intended to be used by various parts of the financial sector—including banking and asset management—and several non-financial sectors including energy, transportation, materials & buildings, and agriculture/food/forest products.[71] The TCFD disclosure structure is similar to how many companies tend to think about traditional business issues: Governance, Strategy, Risk Management, and Metrics/Targets. In addition, TCFD has articulated extensive guidance to assist companies in formulating the relevant disclosures.

Going forward, TCFD will continue to receive support from national financial regulators and other climate-related disclosure platforms, such as SASB and the Climate Disclosure Standards Board, are seeking to align their own climate standards with the TCFD.[72] (PRI also intends to harmonize its' reporting expectations with the TCFD.)[73] Similar to SASB, broad adoption of TCFD standards can help reduce the stakeholder expectation of reporting against myriad surveys/platforms and facilitate the creation of comparable climate-related information.

iii. GRI (formerly Global Reporting Initiative)

GRI is perhaps the most venerable of the ESG disclosure platforms. Established in 1997, GRI provides disclosure standards for companies to "communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being." According to GRI, 93% of the world's largest 250 corporations report on their sustainability performance thru GRI.[74]

Issuers that are considering whether and what to disclose should consider the GRI framework, since it is well-known among stakeholders and has a substantial track record of implementation, although concerns have been raised about implementation cost. In addition, GRI is working to

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69 *Available at* https://www.fsb-tcfd.org/about/#.

70 *See* https://www.fsb-tcfd.org/tcfd-supporters-may-2018/.

71 *See* https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf at 15.

72 *See* https://www.cdsb.net/sites/default/files/sasb_cdsb-tcfd-convergingonclimaterisk-091317-web.pdf.

73 *See* https://www.unpri.org/climate-change/meeting-the-tcfd-recommendations-in-the-2018-pri-reporting-framework/763.article.

74 *See* http://database.globalreporting.org/SDG-12-6/about-gri.

align its reporting standards with the UN Sustainable Development Goals,[75] which many company stakeholders will be focused on in the years ahead.

VI. Conclusion

ESG investing, shareholder engagement and disclosure have become effectively a permanent feature of the capital markets and the larger context in which companies operate. Many companies have embedded ESG risk and value in their operations and practices that have often been left undisturbed. ESG creates new imperatives and opportunities for boards, corporate secretaries and sustainability teams to identify the ESG risk and value and weave them into the overarching narrative of long-term shareholder value. The vocabulary of ESG may be somewhat new to certain readers, but the fundamental objective of managing real risks to shareholder value is familiar to all of us.

[75] *See* http://database.globalreporting.org/SDG-12-6/un-sustainable-development-goals.