What is ESG?

- ESG metrics are used to assess a company’s exposure to a range of environmental, social, and governance risks.
    - Environment
        - What kind of impact does a company have on the environment? This can include a company’s carbon footprint, toxic chemicals involved in its manufacturing processes and sustainability efforts that make up its supply chain.
    - Social
        - How does the company improve its social impact, both within the company and in the broader community? Social factors include everything from LGBTQ+ equality, racial diversity in both the executive suite and staff overall, and inclusion programs and hiring practices. It even looks at how a company advocates for social good in the wider world, beyond its limited sphere of business.
    - Governance
        - How does the company’s board and management drive positive change? Governance includes everything from issues surrounding executive pay to diversity in leadership as well as how well that leadership responds to and interacts with shareholders.
- ESG is a business approach that increases revenue and creates long-term stakeholder value by embracing opportunities and managing risks stemming from economic, environmental, and social developments.

Materiality

- Materiality, in the context of environmental, social, and corporate governance (ESG), refers to the effectiveness and financial significance of a specific measure as part of a company's overall ESG analysis. Material factors are financial elements deemed fundamental to the long-term success of a company's ESG strategy.
    - Materiality encompasses all of those issues that organizations need to take into account when assessing their opportunities and risks. They are the issues they cannot afford to ignore.
    - Material ESG issues are those governance, sustainability or societal factors likely to affect the financial condition or operating performance of businesses within a specific sector.
    - While ESG materiality is focused on the financially relevant, it is not solely about the bottom line. It can also help businesses understand how they are tracking against other

targets – such as decreasing gender pay gap, increasing diversity, aligning with the UN's Sustainable Development Goals, or growing community engagement.

ESG Frameworks

- ESG frameworks are systems that standardize the reporting and disclosure of ESG metrics. These frameworks are put together by NGOs, business groups, and others meaning they vary widely regarding the areas of focus and the metrics recommended.
- These frameworks are put together by nonprofit organizations, NGOs, business groups, and others. As a result, they vary widely in areas of focus and the metrics they recommend. They are often voluntary but may be required by a certain investor or by regulations in some countries.
- To distinguish between guidance and reporting frameworks, it's important to understand materiality – who is the intended audience of the framework, and how they intend to use the information disclosed (to make financial decisions, compare performance between organizations, or to ensure compliance).

Sample ESG Frameworks

	SASB Standards Sustainability Accounting Standards Board	*TCFD Recommendations* Taskforce for Climate-related Financial Disclosure	*The International <IR> Framework* International Integrated Reporting Council	*10 Global Compact Principles* UN Global Compact	*GRI Standards* Global Reporting Initiative	**Sustainable Development Goals*** United Nations
Issuers	Publicly listed companies	Capital market-oriented companies	Typically capital market-oriented companies	Members of all sizes	Organizations of all sizes	Organizations of all sizes
Audience	Investors	Investors	Investors	All stakeholders	All stakeholders	All stakeholders
Topic identification	Materiality approach	Climate risk only	Materiality approach	Pre-determined principles	Materiality approach	(Selection from) Pre-determined Goals
Industry-specific	Yes	No	No	No	Some Sector Standards	No

National Regulations not covered, **Emerging Standards**: WEF Stakeholder Capitalism Metrics, B Corp, ...

Source: Organizations, S&Z North America Inc.

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- **GRI**
  - One of the most commonly used ESG frameworks is the Global Reporting Initiative (GRI) framework, a set of standards for responsible environmental, social, economic, and governance conduct covering a wide range of topics. 73% of the world's 250 largest companies report on sustainability using the GRI framework.
- **TCFD**
  - TCFD is a principles-based framework for climate-related financial disclosures. SASB Standards are focused on the information needs of shareholders and designed to

produce information that is financially material, decision useful, and cost-effective.May 4, 2022

- **SASB**
    - The Sustainability Accounting Standards Board (SASB) is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.
    - In total, SASB standards track ESG issues and performance across 77 industries as set out in the SASB Materiality Map.
    - November 2020 the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced their intention to merge into the Value Reporting Foundation, which was officially formed in June 2021. By integrating two entities that are focused on enterprise value creation, the merger signaled significant progress towards simplification. The Value Reporting Foundation offers a comprehensive suite of resources—including Integrated Thinking Principles, the Integrated Reporting Framework, and SASB Standards— designed to help businesses and investors develop a shared understanding of enterprise value.
- **TCFD**
    - The TCFD, or Task Force on Climate-related Financial Disclosures is a guidance framework that helps companies disclose climate-related financial risks to investors, lenders, and insurers. TCFD recommendations are focused on governance, strategy, risk management, and metrics and targets.
    - TCFD was created by the Financial Stability Board (FSB) in recognition that climate change presents a significant risk to the global financial sector, which they have estimated at USD$5 trillion in potential losses.
    - The TCFD was created to provide recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change.

Scopes 1,2,3 Emissions

- Scope 1,2 and 3 emissions refer to a company's greenhouse gas emissions. They are defined by the Greenhouse Gas Protocol, which is the world's most widely-used greenhouse gas accounting standard.
    - Scope 1 and 2 are those emissions that are owned or controlled by a company, whereas scope 3 emissions are a consequence of the activities of the company but occur from sources not owned or controlled by it.
        - Scope 1 emissions: Scope 1 covers emissions from sources that an organisation owns or controls directly – for example from burning fuel in our fleet of vehicles (if they're not electrically-powered).

- Scope 2 emissions: Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced. For example, for our electric fleet vehicles the emissions from the generation of the electricity they're powered by would fall into this category.
- Scope 3 emissions: Scope 3 encompasses emissions that are not produced by the company itself, and not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for, up and down its value chain. An example of this is when we buy, use and dispose of products from suppliers. Scope 3 emissions include all sources not within the scope 1 and 2 boundaries.

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