WHITE PAPER

The Future of ESG and Sustainability Reporting: What Issuers Need to Know Right Now

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What Investors Want from ESG Disclosures

In the past two proxy seasons, in North America, ESG corresponded to three letters that many investor relations officers (IROs) and corporate secretaries found elusive, to a subject that is being discussed on earnings calls, in annual reports, during roadshows and in face-to-face meetings with institutions.

ESG, which stands for Environmental, Social and Governance, refers to a cluster of non-financial factors about a company that can sometimes prove material for investors and other stakeholders. Environmental factors might include a company's record on pollution and waste or the climate change risks it faces; for example, the number of sites located in places that would be adversely affected by rising sea levels. Social issues run the gamut from labor relations to product liability and governance issues encompass business ethics, shareholder rights and efforts to increase gender and ethnic diversity in the workforce.

Corporate, legal, investor relations (IR), human resources and sustainability teams are all beginning to converge around the need to provide qualitative and quantitative ESG data to help companies manage sustainable growth, as well as provide the market with the metrics necessary to fully understand the risks that investors face when these issues are not adequately addressed. There remains, however, a gulf between companies' intentions and their actions vis-à-vis ESG disclosures. This paper will highlight how companies can improve their disclosures, while also building the case for why such disclosures are increasingly important.

In a 2018 report titled, "**Sustainable Investing: A 'Why Not' Moment**," institutional investing giant BlackRock said that the universe of ESG-dedicated investment funds stands at around $750 billion in a combination of European and U.S. mutual funds and exchange traded funds. Estimates for the value of ESG investment funds can be deceiving because there are many ways to classify what is or is not an ESG fund. Using the broadest definition of sustainable investing, one that includes funds that employ exclusionary screens, experts calculate that assets being managed by ESG criteria reach around $23 trillion, according to the **Global Sustainable Investment Alliance**.

With interest in ESG issues steadily increasing, public companies are not necessarily responding the way many investors had hoped.

A 2016 survey of Canadian institutional investors by Donnelley Financial Solutions (DFIN) and SimpleLogic revealed a disconnect between the ESG information public companies are disclosing and what Canadian investors truly want to know. "The survey respondents were clear, investors want to see material environmental, social and governance issues linked to corporate strategy, risk and risk management, detail and transparency in sustainability reports" Says John Truzzolino, director business development, DFIN. "Linking ESG factors to your overall strategy will aid in creating and sustaining long-term value for your investors."

Key Takeaways

- There is an evolution of ESG from niche to mainstream strategy as investors use ESG data as a lens for understanding a company's long-term value and strategy and its corporate purpose and management quality across the supply chain.
- New laser focus on company-provided, decision-usefulness of ESG data, as only 30 percent of investors find ESG information provided by companies sufficient for helping them assess materiality to a company's business.
- Growing impact of ESG ratings and rankings; as investors fail to find the qualitative and quantitative decision-useful data they want, they increasingly turn to third parties.
- Emerging ESG frameworks, including TCFD, SASB, GRI and CDP, promise more data consistency, while providing a better roadmap for companies.
- Crafting a decision-useful ESG strategy starts at the top with a knowledgeable IRO and/or sustainability chief and an engaged board of directors. These key individuals can identify short- and long-term risk and opportunities and report them to investors in qualitative and quantitative terms. See "Checklist for Creating Decision-Useful ESG Disclosures" on page 14 for more helpful takeaways.

The study conducted by DFIN and SimpleLogic found that 65 percent of Canadian institutional investors often or always consider environmental and social issues in their investment decisions and 95 percent often or always consider governance issues – for all investments.

This study also identified that investors are consistent in what they want from ESG information. Generally speaking, investors are looking for detailed information about how ESG issues are strategically important to the company and they want a clear link between ESG issues and corporate strategy, risk management and operational context.

When asked where investors get their ESG data, 75 percent said they rely on third parties and only 37 percent said they go to company-provided corporate responsibility and sustainability reports. One possible explanation for this finding is that an astonishingly low number of investors (30 percent) find the ESG information companies provide sufficient to help them assess materiality to a company's business.

"In the years since the report was first published, the situation has improved slightly, but there are still significant strides that remain to be made," says Truzzolino. "The original findings show investors want ESG data that is detailed and transparent and they want a clear link to operational context. That is still very true today."

Another study published in 2017 by IR Magazine titled "**Global IR Practice: ESG Communications**" found that when presented with a long list of ESG-focused activities, more than a third of companies said that they have not taken any ESG actions at all.

What's more, even those that do report about ESG are not yet doing so in a particularly unified fashion. When it came to specific kinds of ESG reporting, 33 percent of public companies on a global basis said that they publish an integrated annual report. Globally, 42 percent published a separate ESG/sustainability report, while 40 percent did so in North America.

Perhaps most telling of all, the study revealed that 40 percent of IR respondents in North America said they do not publish any ESG reporting, compared to 21 percent who said the same globally.

A poll of participants in a July 25, 2018, ESG webcast by DFIN showed similar results. Although the sample was relatively small, 55 percent of attendees said that their companies did not produce a corporate responsibility (CR), corporate social responsibility (CSR) or sustainability report.

"It is eye opening to see how many companies do not report ESG data," says Truzzolino. "The webcast poll shows that there is a good number of companies that are just beginning the roadmap to planning for sustainability reporting."

Evolution of ESG from Niche to Mainstream

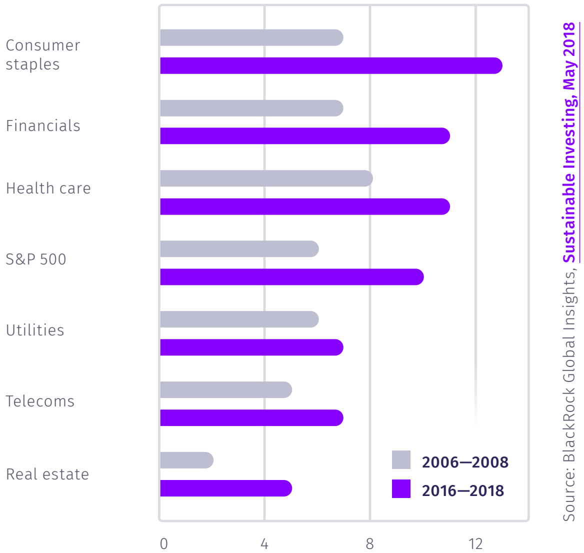
Although ESG disclosures and sustainable investing have been popular in Europe for the past two decades, the concept is only now truly taking hold in the U.S. There's no question that American companies lag behind their European counterparts in disclosing ESG information. A report by the Global Sustainable Investment Alliance, for instance, found that while socially responsible investing (SRI) assets amount to over 25 percent globally, that figure equals more than 50 percent in Europe.

One reason why ESG issues are more prominent outside North America is because regulators in other countries have protectively required these disclosures. In **Directive 2014/95/EU**, the European Union Council mandated ESG disclosures from public companies and regulators in Brazil, South Africa and other countries have taken similar steps. In fact, the Securities Regulatory Commission in China will begin mandating ESG disclosures in 2020.

Hank Boerner, chairman and chief strategist of the Governance & Accountability Institute, has said that U.S. companies could catch up quickly in terms of their corporate ESG disclosures if they continue to make strides at the same pace as they are doing right now. One sign that ESG issues are gaining acceptance is how often these topics are mentioned in corporate earnings calls. BlackRock did a text analysis of earnings call transcripts and compared "ESG chatter" in U.S. corporate earnings calls from 2006-2008 with calls from 2016-2018. At S&P 500 firms, ESG-related terms are mentioned approximately ten times in each conference call today, versus six times per call a decade ago.

ESG: An increasingly important talking point

Number of references



Experts are also beginning to point out in no uncertain terms how ESG issues could have a direct, material impact on businesses. In its "2018 ESG Trends to Watch," for instance, MSCI, a producer of research-based indexes and analysis, notes that climate change poses serious risks to companies. Specifically, says MSCI, at least 40 percent of each major asset class is exposed to countries that are at "high risk to irreparable physical damage under a high warming scenario."

It's also clear that increased corporate focus on risk and transparency is driving greater interest in ESG issues. The CFA Institute ESG survey found over 73 percent of investors consider ESG indicators in their decisionmaking processes and the main reason they are doing so is to manage risks.

Here are five examples of recent developments that strongly reflect the seismic changes surrounding ESG investments:

1. INSTITUTIONAL INVESTORS WITH CLOUT ARE TAKING THE LEAD.

On August 7, 2018, BlackRock, the world's largest asset manager with $6.3 trillion in assets under management, announced plans to require that all of its fund managers consider ESG factors when they invest. BlackRock described this as a move to embed socially responsible investing across its entire product range and emphasized that this change was designed to include ESG assessments in the investment decision-making for all funds sold, not just those with specific, sustainable investment objectives. In its May 2018 white paper, "Sustainable Investing: A 'Why Not' Moment" BlackRock says: "Strong ESG performers tend to exhibit operational excellence and are more resilient to perils ranging from ethical lapses to climate risks.... we have moved from a 'why?' to a 'why not?' moment in sustainable investing." The full report is available here:

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

2. SHAREHOLDER RESOLUTIONS FOCUS ON CLIMATE CHANGE AND OTHER ESG ISSUES.

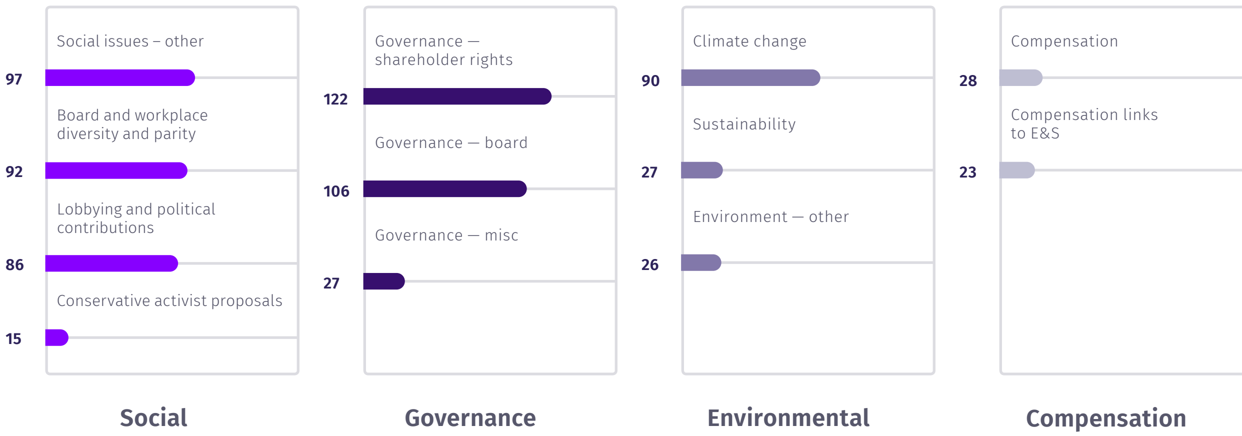
In September 2017, Vanguard – which has more than $4.4 trillion in assets under management – published its voting record. Vanguard had supported shareholder resolutions requesting more climate disclosures, but it had also gone a step further. The investment management giant explicitly stated that in the future it intended to take more public positions on governance issues relating to climate risk and gender diversity.

Ron Schneider, director of corporate governance services at DFIN, closely follows emerging shareholder proposals and engagement trends and sees a tipping point in the 2017 proxy season. According to Schneider, "Prior to 2017, climaterelated shareholder resolutions typically focused on disclosure of your company's impact on the environment and climate change. These were not necessarily supported by major long-term investors, including BlackRock, Vanguard and State Street, since they did not see a direct enough relationship between these resolutions and their primary mission of protecting and growing the value of their client investments. In the 2017 proxies of major energy companies, the tables were turned and the proposals focused not just on company impact on the environment, but also the potential impact of environmental change on the company and shareholder value (i.e., climate change risk). This direct connection between the resolution and shareholder value garnered the support of major long-term investors, which led to these resolutions passing. These issues then landed squarely in boardrooms in terms of what directors' responses to the vote would be by the next annual meeting."

This trend is consistent with what's been seen in shareholder activism over the past three years. In one of the recent white papers that DFIN produced on the Task Force on Climate-related Financial Disclosures (TCFD), DFIN found that shareholder proposals regarding climate change are on the rise.

In the 2017 proxy season, shareholders submitted 69 proposals related to climate change, up from 63 in 2016 and 28 proposals were voted on, with average support of 32.6 percent of votes cast, compared with 24.2 percent in 2016. One of the most telling trends in the 2018 proxy season was the continued efforts within ESG shareholder proposals to request climate-risk disclosure, using two-degree Paris Climate Accord models. What sets this year dramatically apart is that many companies did not wait for ballot counts to begin making changes. So far, roughly 20 climate-related resolutions have been withdrawn before a vote could take place because agreements had been reached, according to a database compiled by Ceres, a non-profit that tracks shareholder engagement and works with investors on sustainability issues. Strikingly, nearly a dozen oil and gas and energy companies have agreed to produce reports on climate-related financial risks.

58 percent of shareholder proposals filed YTD relate to environmental and social issues number of 2018 filed proposals by category and subcategory



3. U.S. POLITICIANS ARE BEGINNING TO TAKE NOTICE OF ESG FACTORS

In a July 19, 2018, letter to the Government Accountability Office (GAO), Senator Mark R. Warner (D-VA) cited growing investor interest in ESG and noted that the SEC has not promulgated a comprehensive rule regarding how public companies should disclose ESG issues. He asks that the GAO commission a report on the costs and benefits of having the SEC require that material ESG matters be disclosed under a strengthened and revised version of Regulation S-K.

Also on July 19, Senator Warner wrote SEC Chairman Jay Clayton asking that more qualitative and quantitative human capital management disclosures be required of public companies, also under Regulation S-K. Warner argues that a need for human capital metrics is evidenced by growing interest in ESG more generally and he notes that 1,500 investors representing $62 trillion in assets under management have signed the U.N.-based Principles for Responsible Investment. These principles agree to incorporate broad ESG issues into investment decisions and request from companies more by way of ESG disclosures.

4. INSTITUTIONS ARE JOINING FORCES

On June 6, 2018, Caisse de dépôt et placement du Québec (CDPQ) and Ontario Teachers' Pension Plan announced a collaboration with the Canadian government to partner with institutions with a total of more than $6 trillion of assets under management to advance governance and environmental goals. Among the climate-related goals of this collaboration is the adoption of the Financial Stability Board's TCFD recommendations for portfolio companies.

5. INVESTOR INTEREST IS GROWING – RAPIDLY

Morgan Stanley conducted two separate studies two years apart to gauge interest in impact investing. In the first study, conducted in 2015, 28 percent of Millennials said that they were "very interested" in sustainable investing, compared to just 19 percent of the general-age population. In the same study conducted two years later (in 2017), Morgan Stanley found that 86 percent of Millennials were interested in sustainable investing, including 38 percent who said they were "very interested."

WHAT "ESG" MEANS TO BLACKROCK
Pillars and key inputs to ESG rating systems:

Environmental	Climate change risks Raw Materials and water scarcity Pollution and waste Innovation, clean tech, renewable energy
Social	Labor policies and relations Product liability, including cybersecurity Controversial sourcing Social impact reporting
Governance	Shareholder rights Diversity Business ethics Transparency

Sources: BlackRock Investment Institute, April 2018. Notes: The table shows the three key pillars and inputs that underpin the ESG rating process across major providers.

A New Laser Focus on Decision-Usefulness

Experts debate why ESG has been so slow to gain widespread acceptance.

One possible reason is the confusion over terminology. ESG is an acronym that is sometimes used interchangeably with SRI, which stands for "socially responsible investing." These terms can be synonymous with "impact investing" or even "ethical investing," but some groups draw distinctions. The competing names for the concept have led to a perception that ESG factors are overly esoteric and difficult to understand.

Another challenge has been the superabundance of factors that can be considered under the heading ESG. While some of these factors are important to investors, others are not.

In its 2018 Investment Stewardship Annual Report, issued on August 16, Vanguard revealed that it was primarily looking to see if boards were educating themselves on sustainability and integrating sustainability risks and related business opportunities into their strategic decision-making. To this end, it supported 11 out of 76 environmental disclosure shareholder proposals in 2018, compared to two out of 92 in 2017.

Finally, ESG has been a subject taken most seriously by large public companies or those with the resources to tackle this, at times, bewildering disclosure enterprise. **KPMG's 2017 Survey of Corporate Responsibility Reporting**, for instance, says that 93 percent of the world's largest 250 corporations report on their sustainability performance.

Clearly, this is a far cry from the 40 percent of North American public companies that IR Magazine found did not report on any aspects of ESG at all.

As ESG considerations become a must for public companies, approaches are becoming more standardized through the rise of ESG rating services and disclosure frameworks.

In addition, governance advocates are pushing for the concept of decision-usefulness as an overarching principle for how various ESG factors should be communicated to investors, explains Truzzolino.

While many companies are not yet producing sustainability reports, cutting-edge companies have moved beyond simply producing sustainability reports to making sure that the reports they produce are deemed relevant. In "Disclosure of Environmental, Social and Governance Risk Factors: Transparency or Greenwashing?," a 2017 Financial Executives Research Foundation (FERF) report sponsored by DFIN, one notable finding was that simply producing a corporate social responsibility report no longer equates with having a truly sustainable business strategy.

"Increasingly, ESG advocates are insisting that the ESG information presented be decision-useful or presented in such a way that investors find it illuminating rather than simply greenwashing," explains Truzzolino. "Vague commitments to reducing one's carbon footprint are out. What matters today is providing metrics on concrete ESG goals that can differentiate Company X from Company Y and can allow Company X to demonstrate progress on meeting its ESG goals year-over-year."

The Growing Impact of ESG Ratings

When investors are not finding the type of decision-useful ESG information that they need and want (usually by sourcing publicly available data and information), they inevitably turn to third parties for help.

While one takeaway is that it's important for issuers to step-up and provide better, more quantitative and comparable information, that doesn't mean third-party ratings are destined to disappear. These ratings firms will almost certainly continue to serve an important function, no matter how good corporate disclosures become. That's because third parties will always have added credibility and critical distance that issuers themselves may lack.

The ratings process at most ESG ratings agencies is generally modelled on how credit-ratings agencies like Moody's or Standard & Poor's operate. While the various credit-ratings agencies tend to produce very similar results because they generally rely on the same financial metrics to arrive at their decisions, ESG firms can diverge in their conclusions about the same company. That's because ESG ratings firms tend to rely less on quantitative data, which may not exist and so each of them can reach very different conclusions, even for the same company.

As ESG has gained in prominence, the number of third-party ratings firms has grown, too. Here is a brief overview of six well-known ESG firms:

MSCI ESG RESEARCH

A creator of indexes, MSCI is positioning itself to be one of the leaders in ESG equity research and analysis on a global basis. Today, MSCI provides ESG ratings for 6,500 companies, 13,000 equity and fixed-income issuers, including subsidiaries and more than 590,000 equity and fixed-income securities globally. The MSCI ESG rating scale ranges from AAA to AA for "leaders," to BBB, BB and A for average companies and CCC and B for "laggards."

MSCI notes that while it takes into consideration corporate sustainability disclosures in its ESG ratings, it considers alternative data sources, as well. In fact, 65 percent of a company's MSCI rating, on average, is driven by data sources beyond voluntary disclosure. ("**2018 ESG Trends to Watch**.")

BLOOMBERG

Bloomberg's Professional Services platform collects very large amounts of ESG data from published and publicly filed company content and integrates both narratives and data into the firm's Equities, Bloomberg Intelligence and Fixed-Income platforms. Bloomberg distributes ESG data on the more than 11,000 public companies it covers. Its ratings take into consideration over 700 ESG indicators from public filings by public companies, as well as its own and third-party information. Global subscriptions to the Bloomberg terminal ("professional services") amounted to 323,981 as of December 2017.

THOMSON REUTERS

Known for publishing news and financial data, Thomson Reuters offers a desktop financial analysis solution called Eikon. The company assigns its ESG scores for over 7,000-plus global companies, using more than 400 metrics. The data that Thomson Reuters uses all comes from public sources. Thomson Reuters provides ratings in the form of a grade, ranging from A+ to D-, across ten themes. Its environmental analysis looks at resource use, emissions and innovations. "Governance" encompasses management, shareholders and CSR strategy. Finally, "social" looks at the workforce, human rights, community and product responsibility. Thomson Reuters also assigns an ESG Controversies Category score that influences a company's overall ESG combined score.

SUSTAINALYTICS

This global responsible investment research firm specializes in ESG research and analysis. Sustainalytics' approach is to assist investor clients in integrating ESG analysis into their existing valuation models. This is done by more than 170 in-house analysts who perform independent research. Its coverage encompasses 11,000 companies from all of the major global indexes. The companies that Sustainalytics covers are given a numerical rating and are positioned relative to various peer groups.

ISS

ISS offers multiple research and analytical products to assist institutional investor clients in assessing their portfolio risk exposure. For instance, ISS now has a custom ESG ratings service that allows an investor to focus on whichever metrics matter most to that particular investor. In February 2018, ISS launched its Environmental ("E") and Social Quality Scores ("S"). For these scores, the selection of ESG factors and their allocations to various industry groups is informed by developments in disclosure standards and frameworks, such as the Global Reporting Initiative (GRI) and the Financial Stability Board's Task Force (TCFD) recommendations.

VIGEO EIRIS

With its European origins and global bent, Vigeo Eiris provides ESG research on 4,000 issuers with thematic research covering up to 10,000 issuers. The firm offers both a corporate sustainability ratings database and a generic model that can be customized to suit the ESG criteria of any investor.

Not all of the ratings firms supply data in the same way – at least, in part, because not all investors use ESG data in the same way.

The Global Sustainable Investment Alliance has identified seven categories of ESG strategies from negative/exclusionary screening (avoiding any companies that do not meet specific ESG criteria) to sustainability-themed investing (e.g., investing in clean tech) and corporate engagement investing (using ownership rights to meet with management and try to encourage change).

Louis Coppola, executive vice president at the Governance & Accountability Institute, points out that the ESG ratings agencies follow three broad approaches:

RAW ESG DATA PROVIDERS

Bloomberg and Thomson Reuters provide volumes of raw ESG data collected from corporate public disclosures and reporting that analysts can later interpret and utilize in their own customized ESG weighting and scoring models. Investors are able to apply their own "secret sauce" to the data, taking into account what they think is most material to each company and how to utilize the raw data in their unique decision-making process.

ESG ANALYST REPORTS/RATERS

MSCI and Sustainalytics collect information from corporate websites, sustainability reports and other data sources similar to the way that the raw ESG data providers do; however, they then take matters a step further and interpret that data to provide ratings scores and analyst commentaries utilizing their own models and methodologies.

ESG QUESTIONNAIRES

Organizations such as RobecoSAM and CDP send companies an annual, detailed assessment questionnaire, which they request that companies fill out and return. The information that a company supplies in response is then used by the ratings organization to rank and assess that company, again utilizing the rating agency's own unique models and methodologies.

"Each of these approaches is valuable," says Coppola. "The raw ESG data providers allow for investment organizations to tweak their models and test different approaches utilizing the raw ESG data out there. That approach takes know-how, time and resources, but could also have a high ROI because of the ability to customize the approach to particular clients' needs or to discover a better methodology to identify the right investments. The ESG analyst reports/raters take it a step further and interpret the data using their own methodology, which has often been developed by leaders in this space (and constantly tweaked to incorporate the latest and greatest in ESG). This approach saves time for investors and can be an easy way to start incorporating ESG into decision-making processes. The organizations employing ESG questionnaires are incorporating a mix of their own models and unique data that have been sourced from their own proprietary questionnaires and this information is often not available in publicly disclosed information."

Because there are various types of ESG data providers, each with their own methodologies and approaches, many investors will choose to utilize more than one data provider. In the end, this means that investors may interpret the ESG data about your company in a variety of different ways.

“Regardless of approach, though, company data is not always accurate or interpreted properly and this can skew a company’s ratings,” explains Coppola. “The ratings agencies are combing through massive amounts of corporate data and so they can often miss things or errors may creep into the analysis.”

Coppola estimates that for a given company, as much as 25-30 percent of some data provided by some ratings agencies that he has analyzed may be either inaccurate or incomplete.

Many of the largest ESG rating agencies are analyzing a very large universe of companies. Some rely on a process known as data scraping, an artificial intelligence (AI) model in which software programs extract data from company filings. While the agencies all purport to parse the data to make sure the data is correct, this is another reason why data sometimes could be taken out of context.

Often, the information the rating agencies want most does exist, but is buried within the footnotes of an investor presentation, a code of conduct, a policy or a website page not easily found. In addition, sometimes the company has internal practices for an ESG issue, but does not communicate or disclose these practices externally. “In most instances, part of the benefit of having our team review the ESG datasets with our corporate clients is to make sure a company is furnishing the information that investors want,” says Coppola.

Issuers need to understand that they are being judged on data from ratings agencies that may not necessarily reflect how their companies actually operate. For this reason, you need to take a long look at your ratings, challenging any information that you believe to be misleading or false.

The good news for issuers is that many of the ratings agencies have expressed a willingness to hear from issuers, especially when there are mistakes in the data being used. Remember that there should be someone at your company whose job it is to closely monitor the ratings agencies, making sure you are getting full credit for all your positive ESG activities and are not being penalized for past problems that have since been rectified.

Recreate the weightings with areas addressed:

Vigeo Eiris provides a glimpse into what criteria is uppermost in its model for rating companies in each of the areas of “E,” “S” and “G.”

ENVIRONMENT **50%**

- Environmental impact & risk management
- Environmental performance
- Environmental solution companies
- Climate change impact & risk management
- Water scarcity & risk management
- Sector-specific issues, e.g. chemicals, timber, tar sands
- Allegations of environmental pollution or damage to biodiversity

SOCIAL **30%**

- Human rights
- Supply chain labour standards
- Relations with customers & suppliers
- Relations with employees
- Stakeholder engagement
- Community involvement
- Sector-specific issues, e.g. access to medicines
- Allegations of breaches of human rights norms & labour standards

GOVERNANCE **20%**

- Board practice & structure
- Anti-bribery practices
- Codes of ethics
- ESG risk management
- Board level responsibility for stakeholders
- Board level gender diversity
- Allegations of bribery & corruption

Emerging ESG Frameworks Promise More Data Consistency

ESG is changing fast and no one right way to evaluate a company has emerged. For companies, this lack of standardization can pose a challenge. What should I be aiming to do to become a corporate ESG leader?

The lack of standardization is worrisome both for investors who use ESG data and for companies attempting to make appropriate disclosures. And in fact, there is evidence that this problem has kept ESG disclosures from catching on as quickly as they otherwise might have. In its 2017 survey, the CFA Institute said that the most restricting factor for investors when it came to effectively evaluating nonfinancial information is a lack of appropriate and comparable quantitative data.

Meanwhile, the Sustainability Accounting Standards Board (SASB) – developers of one of the frameworks designed to impose order on unruly ESG disclosures – has noted that U.S. company disclosures on ESG issues range from non-existent to boilerplate to a handful of disclosures with quantifiable metrics. SASB, in a July 1, 2016 comment letter, estimates that only 15 percent of public company disclosures fall into the last category and actually used metrics.

Fortunately, as new frameworks for ESG disclosures are emerging, companies are getting a better idea of what steps they should take to be leaders in terms of ESG practices – and of the disclosure of these practices.

Organizations have also begun to puzzle out what matters most in ESG and have then translated those priorities into disclosure frameworks. The following ESG disclosure frameworks provide an excellent starting point:

GLOBAL REPORTING INITIATIVE (GRI)

Founded in Boston in 1997, with the first reports published by companies in 1999-2000, the GRI Sustainability Reporting Standards were the first global framework for sustainability reporting and the framework is often acknowledged as the most widely adopted. "The practice of disclosing sustainability information inspires accountability, helps identify and manage risks and enables organizations to seize new opportunities," according to the GRI website. Critical sustainability issues that GRI tackles include climate change, human rights, governance and social well-being.

THE TCFD OR THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES.

The TCFD was founded by Michael Bloomberg in 2015 at the request of G20 finance ministers and central bank governors who comprise the Financial Stability Board (FSB). In the organization's own words, its mission is to describe "recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear and efficient" and provide "decision-useful information to lenders, insurers and investors." The TCFD consists of 32 members chosen by the FSB, an international body that makes recommendations about the global financial system and recommendations are then considered by the regulatory authorities of the G20 and other nations. The TCFD published its final recommendations on June 29, 2017.

A paper published by DFIN titled "Preparing for Climate-Risk Disclosure: Practical Suggestions for Public Companies" noted that most companies today, especially in the U.S., discuss their actions on climate change in qualitative terms. Quantitative measures will play a greater role in the future, thanks to the TCFD recommendations.

CDP

Formerly known as the Carbon Disclosure Project, CDP is a not-for-profit that runs a global disclosure system measuring environmental impacts for investors, companies, cities, states and regions. CDP's network of investors and purchasers represents over $100 trillion in assets. In 2018, 6,300- plus companies responded to CDP's questionnaire about climate change, water, forests and supply chain. CDP has also noted that over 650 investors with $87 trillion in assets have requested information on climate change, water or forests. In addition, companies, cities, states and regions from over 90 countries disclose through CDP.

SASB

Based in San Francisco, the SASB (Sustainability Accounting Standards Board) was established in 2011 as an independent, private sector, standards-setting organization. Its mission is to foster "high-quality disclosure of material sustainability information that meets investor needs." Today, SASB develops and maintains sustainability accounting standards for 79 industries in 11 sectors. Among its stated goals is making sure that financially material information is available to investors in a "cost-effective and decision-useful format." Governance & Accountability Institute's Coppola points out that "SASB has focused on one particular stakeholder: the investor."

The proliferation of ESG disclosure frameworks may prove confusing for some public companies. In reality, though, one size should not fit all and so the range of choices can help IROs, corporate secretaries, sustainability officers and others find the best way to effectively tell their stories to investors and other interested stakeholders.

When it comes to ESG disclosures, many companies are simply selecting the framework that seems to suit their businesses best. Others are picking and choosing among aspects of the frameworks and thereby “customizing” the disclosures they provide.

DFIN’s Truzzolino has analogized the various frameworks to building blocks. “These frameworks are designed to work together,” he says. “Familiarizing yourself with all of them is probably the smartest strategy for discovering what works best for your particular company.”

Crafting a Decision-Useful ESG Strategy

A truly effective ESG strategy starts at the top. An engaged board will own the company’s ESG strategy, helping identify those issues that are material to the company and developing both short- and long-term strategies for handling these ESG issues going forward.

Savvy directors know that a detailed ESG plan is an excellent way to lower cost to capital by encouraging investment and to avoid the types of risk that can damage a company and will give investors serious pause.

When it comes to ESG issues, materiality may be in the eye of the stakeholder. What you want to do is look at the unique characteristics of your company and determine what ESG factors are central to your strategy and long-term success and should be disclosed.

DFIN's Truzzolino points out that too often in the past, discussions of ESG factors have been check-the-box exercises, with management and IROs hoping to say whatever would mollify the investment community. Gone are the days when such a strategy will work. As ESG has come into its own as a set of investment priorities and criteria for decision-making, investors and other stakeholders are demanding relevant information, not simply a greenwashing of inconvenient truths.

Truzzolino emphasizes that “decision-useful” should truly be your watchword and the key criteria by which all public companies judge the ESG information that they’re disclosing. That said, the only way to determine what information is decision-useful is by thoroughly understanding the criteria investors are keen to know. Speaking to institutions face to face is an excellent way to elicit a sense of ESG priorities. Governance and even environmental roadshows are another avenue by which public companies can raise ESG issues and initiate a dialogue with investors and other stakeholders.

Nothing can replace the benefits of direct shareholder engagement for a public company. That said, doing a deep dive into the criteria used by the various ESG ratings agencies and disclosure frameworks can also help public companies get a more precise idea of the ESG factors that are generally deemed important.

According to DFIN’s Schneider, “Our clients who conduct ‘off-season’ engagement with investors on compensation and governance issues increasingly find E&S issues and climate-change risk high on the priority list of their major investors, along with board gender diversity and pay programs aligned with the company strategy. These investors, who endeavor to cast thoughtful votes on a range of proxy proposals at their hundreds or thousands of portfolio companies, are resource and time constrained and are asking companies to address all these issues in their proxies, making their proxies a ‘one stop shop’ for the information they need to make thoughtful voting decisions. Even companies that publish detailed CSR reports are being asked to address these issues in their proxies. In reviewing hundreds of client proxies, we are seeing this as the leading area of innovation and expanded disclosure over the past two years.”

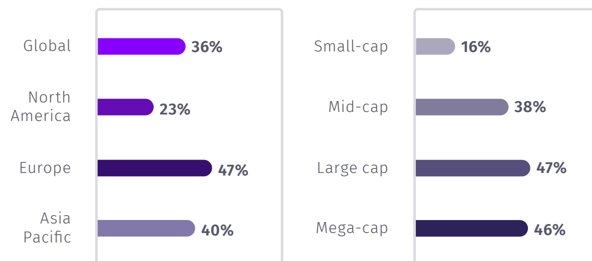
If all this sounds overwhelming, it can be. And yet Truzzolino emphasizes: “Having an ESG strategy means you need to start somewhere, but you do not necessarily need an end game at the very beginning.” What he hopes to see is more public companies taking initial steps along the path to better ESG disclosure by providing more decision-useful information for investors and other stakeholders.

The exact standards selected, however, should serve your own business priorities as you begin to travel down the ESG disclosure path. If over time you realize that different frameworks or standards make more sense for your company, you can change course. “What matters most is embarking down the path to ESG disclosuressooner rather than later,” Truzzolino says.

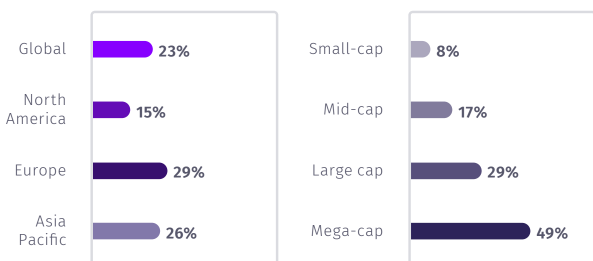
IROs also need to think more seriously about including ESG funds as part of their general targeting practices. IR Magazine's 2017 "Global IR Practice: ESG Communications" found that targeting ESG funds is a "niche pursuit" for most IR departments. Globally, just one in five respondents of the magazine's 2017 survey say that they are currently engaged in this activity. Truzzolino and others hope that this will soon change.

What are the most popular ESG activities?

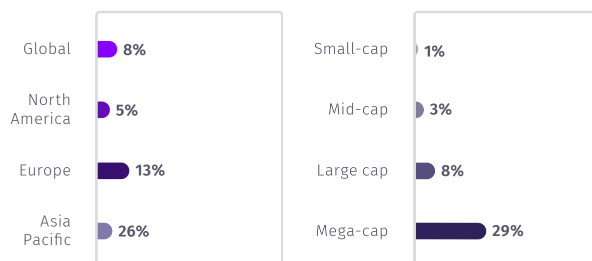
Participated in a survey from an ESG ratings agency



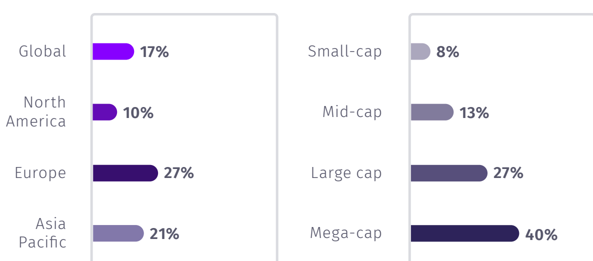
Had group meetings with ESG analysis



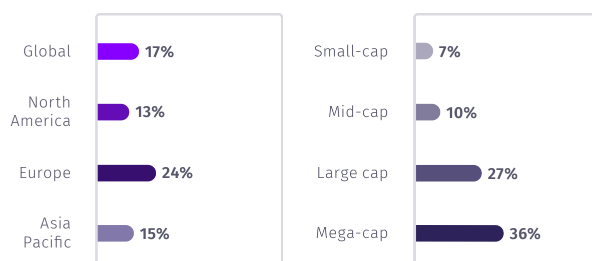
Gone on ESG-focused roadshow



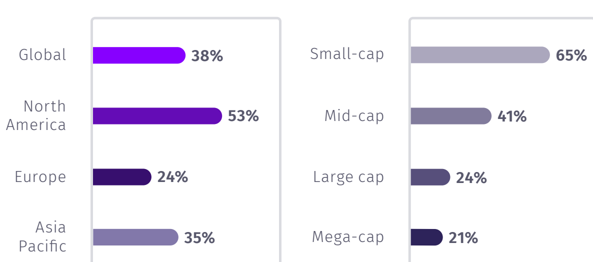
Attended ESG-focused conference



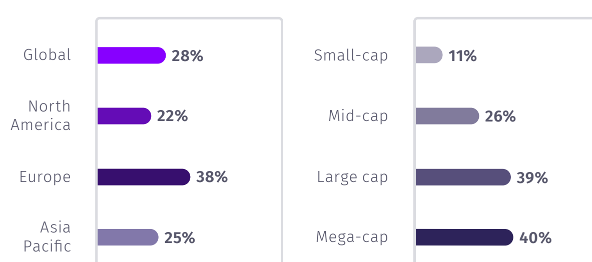
Conducted ESG-focused conference calls



None of these

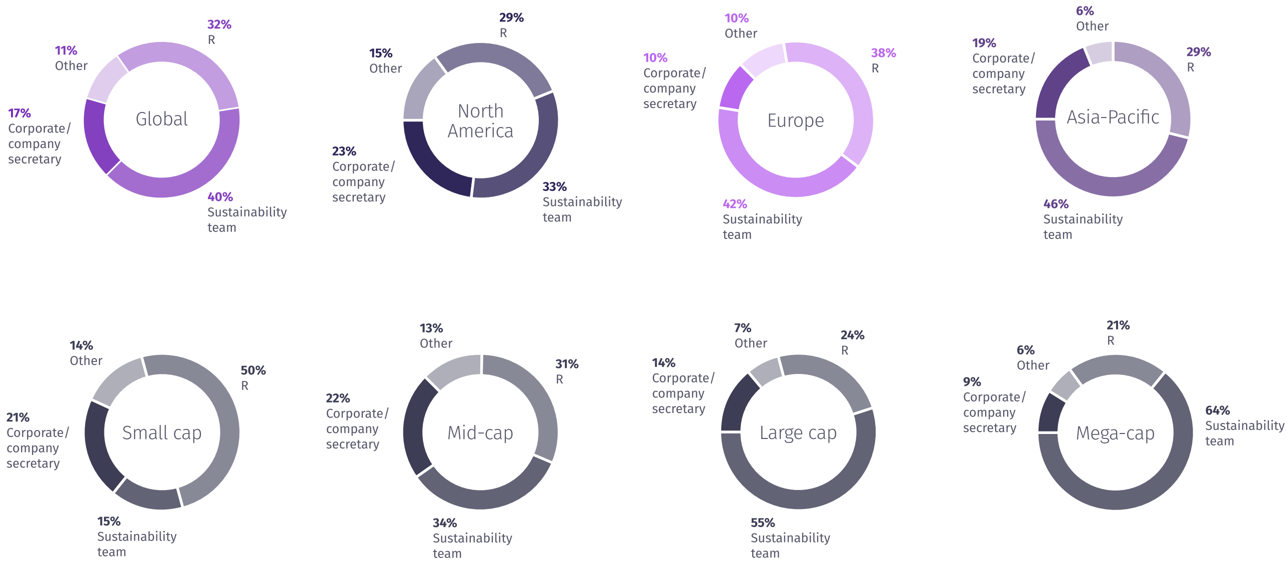


Conducted ESG-focused conference calls



A seat at the table

Who has primary responsibility for your company's ESG communications?



Creating an effective ESG strategy certainly means more work for issuers, but it presents plenty of opportunities, too.

IROs stand to gain significantly from investors' growing interest in ESG issues, especially when they take the lead in shaping disclosures and explaining investor attitudes to the board and upper management.

According to the 2017 IR Magazine ESG report, a third of companies surveyed said that IR leads ESG communications at their companies (compared to 40 percent where the sustainability team leads). IROs outside of the U.S. are assuming an even more prominent role. In Europe, for instance, IR Magazine found that there is a disproportionate number of companies in which IR owns/leads ESG communications.

IROs are finding that ESG is a prominent area in which they can add clear value. Because IROs are privy to investor questions and concerns, they know which ESG issues investors would like to know more about and they can help devise the metrics that would be most useful for supplying this information.

ESG disclosures can easily become a platform for IROs to talk about other facets of a company's story that have historically been overlooked. It's a way for IROs to hone their companies' messages and to disseminate these messages to a wider audience than ever before. As IROs work to claim their seat at the table within public companies, a thorough knowledge of ESG is a natural place to start. According to the IR Magazine survey, governance is the most popular topic within the realm of ESG and more specifically, within governance, the most common investor questions concern compensation.

That doesn't mean that investors aren't asking about the "E" and the "S." They definitely are. Within environmental issues, for instance, the most popular investor topic is carbon footprint/emissions and within social issues, it is labor practices.

It's increasingly clear that forward-thinking IROs are perfectly positioned to speak with investors and other stakeholders about their ESG disclosure needs. By conveying this information to management and the board, IROs can help craft policies in an area that's proving critical for the strategic direction of so many companies.

Above all, Truzzolino emphasizes that helping craft an ESG strategy for your company should be a foremost priority for IROs. As of yet, ESG disclosures are not a regulatory requirement in the U.S. and so for now American companies are in charge of their own ESG messaging. This latitude presents a new and unprecedented opportunity for IROs to place their own stamp and make a difference on a vital issue that is gaining momentum fast.

Stepping up to tell a compelling ESG story, one that provides the types of metrics investors truly value, is a powerful way to differentiate yourself and put your company in a very positive light. The more decision-useful the ESG information that your company can provide, the better reception you can expect in the years ahead.

A Checklist for Creating Decision-Useful ESG Disclosures

In the DFIN webinar, "Environmental, Social and Governance Issues: Here Comes the 'E' and the 'S,'" speakers provided concrete tips for making a company's ESG disclosures far more useful for investors and other stakeholders. Here are some of the questions you should be considering:

- [ ] Do we know what ratings our company is receiving from ESG specialists and ratings firms?
- [ ] Are we providing the information that rating firms are looking for when they assign "grades" to public companies for their ESG disclosures?
- [ ] Have we checked to make sure that the information ESG rating agencies are using is accurate and complete?
- [ ] Have we identified which ESG disclosure frameworks can best help our company give investors and other stakeholders the information they want and need?
- [ ] Have we moved beyond check-the-box ESG disclosures to something that is truly meaningful for our investors and stakeholders?
- [ ] Are we including clear metrics in our ESG communications so investors and other interested parties can gauge our success over time in meeting our ESG goals?
- [ ] Are we providing proper context for the ESG information we provide? Coppola points out that saying a company releases one million tons of carbon as greenhouse gas emissions is meaningless without putting the data in context, such as through an intensity ratio. To make this number meaningful, a company would have to explain the data in the context of how many widgets were manufactured in a given year or the number of factories it operates and how many square feet these factories occupy, the number of individuals employed and similar factors.
- [ ] Are we using company-specific terms in our disclosures rather than vague generalities? "When disclosing risk from ESG factors, too many companies still use boilerplate language," says Coppola. An example of boilerplate would be the statement that "Rising temperatures could negatively affect our business." A far more decision-useful ESG disclosure would specify the percentage of a company's buildings and other assets located in low-lying areas that might be negatively affected by rising water levels should temperatures continue to increase. Companies should be demonstrating that they are not just paying lip service to these issues, but doing a thorough analysis of the risk and opportunities their companies face.

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Governance & Accountability Institute: Governance & Accountability Institute, Inc., is a for-profit strategies advisor, provider of consulting services and well-respected research firm serving leaders in organizations in the corporate (private), public and social/institutional sectors. The Institute provides corporate and investment community clients with a portfolio of integrated services and resources to help leaders identify, quantify, monitor, analyze and manage effective approaches to address critical issues – especially those reaching "the tipping point," when resolution of issues may be harder to achieve.

SimpleLogic Inc.: SimpleLogic Inc. specializes in simplifying complex information. Founded in 1997, SimpleLogic creates award-winning work for leading companies across North America and continually sets new standards for plain language disclosure. SimpleLogic speaks regularly about the value of clear communications and consults with regulators, law firms and industry organizations.