Top 20 Things ESG Newbies Are Asking

By Ginny Fogg & Broc Romanek

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1. **Where do I start?**

   Start by getting some background on ESG generally. What topics are covered is key, and take a look at what other companies are including in their ESG reports.

   That gives you a broad framework, which really is the best way to start – before you even look at your own company. Then when you go back to take a closer look at your company's ESG story, you'll approach it with a broader lens and see the opportunities a bit differently.

   By the way, the definitions of what "ESG" vary depending on who you ask, but here is a description from a Forbes article:

   > Responsible investing is widely understood as the integration of environmental, social and governance (ESG) factors into investment processes and decision-making. ESG factors cover a wide spectrum of issues that traditionally are not part of financial analysis, yet may have financial relevance.
   >
   > This might include how corporations respond to climate change, how good they are with water management, how effective their health and safety policies are in the protection against accidents, how they manage their supply chains, how they treat their workers and whether they have a corporate culture that builds trust and fosters innovation.

2. **Why should companies pay attention to ESG? Are there any tangible benefits to the company?**

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First of all, your shareholders want you to pay attention to it. Your shareholders care about it. And many companies started to publish sustainability reports because of a shareholder proposal that asked them to do it.

But it's also very important to your company's employees. They want to know that the company is doing the right thing for the environment and its employees. They take pride in what the company is doing in this area. They want to feel like they are a part of it.

An audience of growing importance is your customers. Is your sustainability footprint a competitive advantage for them? You are part of their supply chain. If you are creating a competitive advantage for them, then sell that to them.

Explain why buying from you is going to give them a more sustainable footprint than buying from the other guy. We really all need to be thinking about sustainability from a marketing perspective and identify the value for your customers.

And don't forget about your own supply chain. You are their customer, and their activities impact your sustainability. Your contribution to sustainability, at the end of the day, is not just about your company. It's about the collective impact of all companies.

So you should think of your own ESG program as part of this interconnected web of all businesses and its collective impact on the environmental and social issues we face.

3. **<u>Why do investors care so much?</u>**

Because their investors care. Their investors care about what they're doing with their own money. They want to feel good about their investment, know that it's making a difference in the future of their world.

Investors want better aggregate reporting from mutual funds, from pension funds and from the other people that are managing their money.

And the managers of those investment funds are your shareholders. They will be asking you for better disclosure about your footprint so they can

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better analyze what their investors' money is doing for the individual investor.

4. **Do all the various terms mean the same thing? ESG? Sustainability? Is "impact investing" under the ESG umbrella too? Because that seems like an entirely different thing to me.**

   For the most part, the terms "ESG" and "sustainability" are used interchangeably, particularly relating to social and environmental issues. Don't get hung up on the terminology too much.

   The sustainability report might also be called a 'corporate responsibility report' or "ESG report" at some companies. Whatever you call it, it's a report about how your company is tackling the challenges faced by the planet and humanity.

   Impact investing is really driving the ship, so it's under the umbrella to a certain extent. Impact investors are among your core audience, so your report should help them analyze whether investing in your company will have the impact they are looking for. It's definitely a topic that you need to pay attention to - and follow its trends.

5. **Where I can take a course to teach me the basics?**

   There are some great resources on ESGProfessionalsNetwork.com (also see the resources listed in #20 below). Consultants, law firms and other advisors are publishing helpful white papers, podcasts, conferences and webcasts, and accounting firms have a lot of good information on their websites.

   But really, I don't think you need a course to teach you the basics. Once you start looking at the materials that are out there, you can be up and running. Your ESG report is about your company's story, and you are going to be in the best position to tell that story.

6. **What do you put in your report when your company doesn't have a clear/legit policy? Or if you are only doing the report to satisfy investors?**

   Mature reporting companies talk about their strategy first, emerging trends or goals next, and then report on what they did to meet those goals. If you

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don't have a clear policy or strategy, just work backwards from that list. [But note that the C-suite and boards should be getting up-to-speed and putting together their ESG policies and strategies in short order. This topic is not going away.]

Start with what you're doing now. Identify what your company is doing on ESG topics, what contributes to your environmental footprint, what defines your social impact.

From that starting point, you can take a step back and figure out what your goals are. Where do you want to go in the future? What are your emerging trends and risks? Then you can formulate a strategy and a real legit policy.

7. **Are there any statutes/rules/regulations governing this area? What about any guidance or best practices?**

If you have any environmental or social issues that are material, then, of course, the securities laws would cover that.

And you would know if you have material E&S issues because you would be disclosing them in your Form 10-Ks and 10-Qs (if you work at a public company). Many governance standards are required under various securities laws and listing standards, and there are required disclosures under the proxy statement rules for these 'G' topics.

Other than those specific disclosure requirements, ESG reports are voluntary. There are reporting frameworks that can guide you, such as TCFD or the Value Reporting Foundation (which includes what was known as the SASB) - but no particular format is required, at least at this time.

In November 2021, the IFRS Foundation made a big splash with a huge consolidation announcement – the formation of a new "International Sustainability Standards Board" (ISSB), which includes the combination of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (which itself is the product of a recent merger of the SASB and the Integrated Reporting Framework) into the new ISSB.[i]

The ISSB recently issued two draft disclosure standards for comment. And another recent development is that the GRI (Global Reporting Initiative)

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announced that it would align with the ISSB. So the major standard setters out there are working together.

In March, the SEC also proposed a major climate disclosure rule, which would dramatically change what public companies disclose if the rule is adopted as proposed. The proposal is now going through the comment process – where the public gets a chance to comment – so a final rule isn't likely to be adopted until the end of 2022 at the earliest.

8. <u>What is the professional background of people who are doing ESG? Or - how do you get into the ESG profession?</u>

There is a very broad group of professionals that are doing ESG, and a lot of times it takes a team of folks with different backgrounds.

There are securities lawyers, governance professionals, environmental lawyers, environmental engineers, to name a few. There are experts with degrees in sustainability that are focused on measuring and reporting ESG metrics, and they can be a tremendous help on that front.

An emerging trend that is really gaining momentum is looking to your operational people. The people out in the field or in the factory that are running the company, manufacturing the products, and engineering new processes are the people that can best identify how you can retool your operations and do business differently.

How can you change your operations, have a more sustainable footprint? The knowledge that these folks have can be tremendously helpful once they gain a little background in ESG reporting.

Another part of the job is talking to people in the company, getting buy-in to make meaningful changes, and building excitement around the changes you want to make.

That's the groundwork for changes in your ESG policy and changing how your company thinks about its long-term impact on the environment and on its employees. Operations employees interact with lots of people throughout the company, and they have a leg up on these key tasks.

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So, we think this is a trend that's going to stick. Tapping operational people for the ESG role brings in people that know the company the best. Give them some background in sustainability, then let them run with it.

9. **<u>What about all the surveys and rating reports that I keep getting? Do I have to respond to them?</u>**

There's no requirement to respond, but it may save you lots of time down the road. And you can gain some valuable insight by paying attention to what they're asking for.

Start with some research about who is sending you the survey and how they access your information. CDP and Dow Jones Sustainability Indexes are organizations that rate companies only if the company completes their questionnaire. If their rating is important for your company, you will need to complete the survey. Others, such as MSCI, ISS ESG and Sustainalytics, create assessments of your company based on publicly available information. They likely won't reach out to you in preparing the report, but they may share a copy of the report with you.

Next, research who uses the rating. How wide is their audience? And how do your peers' ratings compare to your rating? Responding to the raters' requests for information and reviewing your report is a great way to be sure your information is accurate and complete. If it's not correct, then talk to the agency to have corrections made. That can save you a lot of conversations with your shareholders about ratings that are not as favorable as you think they should be.

You also may receive requests for information from investor coalitions. It's always in your best interest to talk to them, and it may even head off a shareholder proposal down the road.

Finally, think about what you have learned by responding to all those surveys and reviewing all those requests. It can be a valuable reflection of what is presented in your sustainability report and on your website and how accessible it is. Keep track of the additional information that you provided and data that you corrected.

Then use that knowledge to be sure the information that your audience needs is included in your sustainability report and is accessible to your

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shareholders. Test out the search function on your website with a couple key ESG topics and see what pops up. If your data is not getting noticed, it's not telling your story.

10. **<u>Do companies include governance in their ESG report? It looks like just "E&S" to me, so where is the "G" reported?</u>**

You are correct, it's "E&S." The "G" is reported in the proxy statement and various other places, and the governance framework is outlined in the governance guidelines. The "G" relates to how the company is governed - and the "E&S" relate to how the company operates.

But there is a growing trend to talk about how your sustainability program itself is governed. Let's call it the little "g." It's a small part of the big "G," but it's important to the sustainability program. And something that investors increasingly want to know – and something that would be required for public companies if the SEC's climate disclosure rule is adopted as proposed.

Who is in control of the reporting, who reviews the report? Is there a board committee involved? And if so, are they reviewing the report and setting the policy? Is there any external assurance on your performance against your goals, perhaps an external auditor that reviews the numbers in your report?

These aspects of your sustainability program are important to investors, so it's helpful to include sustainability governance in your report.

11. **<u>Are there topics I have to cover in the report?</u>**

Yes, think of it as four "P"s. First is "Planet." You want to cover the environmental impact of your company (and that might include how your company impacts the planet both vertically and horizontally in terms of GHG emissions, learn about the difference between Scope 1, 2 and 3 emissions).

Next is "People," how your company values its employees and what human capital management looks like there.

Third is "Prosperity." It's not always included, but many companies want to show how their profits are benefitting the communities they serve. How

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much has your company invested in the community? How many jobs has it created? How has the company given back to the community?

"Performance" is the last topic, arguably the most important. What E&S goals have you set? And how have you done in achieving those goals? You should be fairly consistent from year-to-year on what metrics you report, and strive for incremental improvement.

And if your company has adopted science-based targets, then your report should include a clear roadmap of how you will achieve net zero emissions by your targeted date. Having a long-term net zero goal is a great starting point, but you should adopt and disclose short-term targets along the way that will hopefully get you to your near-term – and long-term - goals.

12. **<u>Do I have to do a report every year? Not that much has changed since last year's report.</u>**

Yes, you need to take a fresh look at your program every year, and focus on incremental progress toward your goals. If a goal is unrealistic - or is not the right metric for your company - then change it. I know, we just said "be consistent." But if you need to change a goal, do it and explain why.

There will be some parts of your report that don't change a lot from year to year, and that's okay. In fact, the basic structure of your program might not change much from year to year in most cases.

But it's important to go through the review process, gather the information and tell your story every year. Your realistic story.

13. **<u>Do I need to hire a printer or design firm?</u>**

You can look at the reports of others and try to do it yourself. But hiring a professional is always that – bringing expertise to the table.

The important thing is to get the information out there. And a picture says a thousand words. If you can find a couple of great photos of the new wind turbine, or whatever it is that highlights your program for the year, then include it.

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If you are ready to take your report to the next level, there are financial printers and disclosure design firms that can really help get your message across. We have seen some design firms that can create a "build your own" report online so that investors can tailor the report to what they want to see. They can navigate to the topics they're interested in and create a report that only includes those sections. There are lots of bells and whistles that disclosure designers can add to your report to really enhance the user experience.

A few words of warning. Don't overdo it on the graphics for graphic's sake. Many in the audience will still want to read straight text to best understand your story. There has to be a balance here.

And don't let the design take over the story. It's critical that what is conveyed is realistic about what the company is doing. And planning on doing. Overpromising can lead to liability. You don't want to stretch what you're conveying by any measure.

14. Do I have to print the report?

No, it's really your preference based on your audience. Most investors will access the report online, so think about your other users.

If your employees or your customers would benefit from a printed copy, then print a small batch for them. But remember, online is the greener choice.

15. Do I have to file the report with the SEC?

Typically, no. If there are material elements of your E&S, then they should already be disclosed in your Form 10-K or proxy statement (which are both documents that are filed with the SEC). But it's always worth doing a final readthrough of your ESG report with materiality in mind to be sure that you aren't including anything that is either material to an investor or that hasn't already been disclosed in a SEC filing.

Note that some companies are going beyond what might be considered "material" to disclose other information that shareholders want to see. Or they might be using the SEC's recent climate disclosure rule proposal as a

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guide to start disclosing items triggered by that even though that rule isn't in final form yet.

16. Is there liability associated with the report? What type of lawyer should I call for help?

Yes, there can be liability associated with the report. It's a lower standard of liability than what applies to your SEC filings, but nevertheless, there is liability associated with it. It's helpful to have a securities lawyer review the report or help you with sections that you think are the most important.

It's imperative that the numbers in your report are right. Have you measured your performance in a way that's verifiable? And your initiatives should be realistic and achievable. Don't put your big dreams in there. It's critical that it's realistic and not a stretch by any measure.

You need to look at the numbers and the initiatives, and think of the big picture it creates. Does the report present the right picture? Does it represent what you are doing?

17. What does "material" mean in the ESG context?

Good question. Securities lawyers are familiar with the famous *Northway* Supreme Court case – the standard of materiality for financial disclosure.

But the same term – "materiality" - is used often in the ESG context, and it has a very different meaning. Good securities lawyers coach others to use the term "important" in their sustainability reports rather than use the term "material" if something indeed isn't "material."

If it's truly material, then it should be disclosed in your 10-K or proxy statement in some capacity, perhaps as a risk factor, maybe as a trend in your MD&A or some companies have stand-alone sections devoted to climate and/or social issues in their annual SEC filings. So, focus on what's "important" to your sustainability story.

18. Who should review the report before you go live? Do you need approval from a management committee, disclosure committee or board committee?

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You need to have someone review the report and verify its accuracy before you go live. Determining who should review the report depends on how your company is structured.

If you have a management committee that is involved in setting your policies relating to ESG issues, they should take a look at the report. Disclosure committee review – the people that review your periodic SEC filings - can be helpful too.

The report impacts all areas of your company, and the disclosure committee consists of people from every major business unit of the company. It's the perfect group to take a hard look at the report and make sure they agree with what's in there. It also brings the report under your disclosure controls & procedures. That's an important step.

If you have a board committee that's involved in your ESG program, it's a great idea to ask them to review it before you publish it. Some companies have established a stand-alone ESG board committee. If you have that, of course, send it to them.

If not, your governance committee, or perhaps a risk or policy committee, would be a good choice. If you can't decide which committee should review it, then just break it up and send the employee section to the compensation committee and the environmental section to the risk or policy committee.

You want to be able to tell shareholders that the board has seen the report.

19. What time of year should you go live with the report?

We think it's important to go live with the report before shareholder engagement that is part of a public company's normal "proxy season" cycle ahead of its annual shareholders meeting. You want to communicate what's in the report to your shareholders, so make getting the report out before engagement a priority.

Many companies tell shareholders the highlights, include a slide in their engagement deck and tell them the report is coming out soon.

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But that's a missed opportunity to show off the report to your shareholders. If the report is out, you can include a link to it in your request for engagement. Your efforts will be appreciated.

20. Is there anything else I need to know? And if so, where can I find answers?

Oh yes, questions will come up as you go through the process of creating your report every year. Plus, this area is rapidly developing, so there will be lots of changes to keep up with.

We're trying to keep up with all the latest by posting new content daily – as it relates to those responsible for reporting and developing ESG strategy - on ESGProfessionalsNetwork.com. That site's resources tend to be more practical and informal compared to the resources listed below.

Other good resources for ESG issues include:

- Bloomberg Green
- GreenBiz
- ESG Today

[i] https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

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