ESG and Board Governance

Increasing regulatory and investor community attention to Environmental, Social and Governance (ESG) reporting is making ESG reporting a mainstream and widely adopted reporting and disclosure requirement. It is becoming a force that cannot be ignored by boards and management teams.

What is ESG?

The term "ESG" reporting, used broadly, covers qualitative discussions of topics and quantitative metrics used to measure a company's performance against ESG risks, opportunities and related strategies and goals. Measurement and reporting of ESG is not currently subject to a singular authoritative set of standards. However, the company has the option to choose from a spectrum of well-established standards established by several leading organizations.

Board and ESG

The Board of Directors has the primary responsibility for the company's disclosures to investors and the public at large. A company's board that intends to engage in ESG reporting needs to adopt several measures, from commitment of resources to reviewing and approving reporting.

Here are key considerations for Board Members:

1. **Assessing current state:** The company may have already started its journey on its ESG compliance. If you look at the various ESG topics below, your company may already have existing programs on diversity, waste management, ethics, etc. Knowing the current state is critical to assess how much further investments are needed to achieve its ESG goals, which will allow the companies in determining the amount of time needed before a company can start reporting.

2. **Choosing the right set of standards:** There are currently several frameworks and standards used globally by companies to report on ESG; many of which may be complementary and used in combination with external reporting. There are industry specific standards available for measurement and reporting.

3. **Understanding the audience:** ESG reporting may be tuned to meet the needs of its key stakeholders. Internationally, there is an increase in sustainability-based legislation and global industry adoption strategies, such as the European Union Green Deal. Outside of certain industry regulators, such as required reporting by the Environmental Protection Agency on greenhouse gas emissions, implementation by U.S. companies remains voluntary. However, pressure from institutional investors – BlackRock, State Street and Vanguard - are supporting companies providing ESG disclosures. Additionally, sustainability risk issues are increasingly integrated into organizational risk frameworks, such as COSO's Enterprise Risk Management (ERM) framework. ESG rates such as Sustainability Index, Bloomberg, Thomson Reuters, MSCI, ISS, CDP, and many others collect various ESG data via questionnaires, surveys, and publicly available information to rank and rate companies on their ESG performance and risk.

4. **SEC Initiatives and Disclosures:** While there are no specific ESG disclosure related rules issued by the Securities Exchange Commission (SEC) yet, the SEC recently took a step in furthering ESG reporting by enacting new Regulation S-K disclosure requirements regarding human capital disclosures. Companies must also assess whether other ESG information, such as climate risk disclosures, is required under current MD&A disclosure rules. For example, if the risk represents a known trend or uncertainty that the company reasonably expects will have a material impact

on the company's results of operations or capital resources, additional disclosure would be required.

5. **Develop board oversight protocol for ESG matters:** the board must implement to monitor the company's ESG journey and approve material disclosures related to ESG. Appropriate oversight includes committee meetings and reporting on an ongoing basis, approving ESG road map and objectives, and addressing ESG related risk management.

6. **Requiring management to implement and assess effective internal controls over data collection, processing, and reporting:** ESG reporting will require reporting from many departments within the company. ESG reporting systems may be implemented and controls need to be established to ensure reliable reporting including data accuracy, completeness across its data sources.

Management, board members and committees should seek to continually update themselves on the evolving ESG requirements. ESG should be viewed as an opportunity to manage operational risks, meet social responsibility objectives, and attract quality investors. ESG can serve as a distinguishing factor in the marketplace for additional capital and amongst consumers.