WHITE PAPER | ESG DATA THAT GETS MEASURED, GETS MANAGED

ESG Data That Gets Measured, Gets Managed

As Environmental, Social and Governance (ESG) issues move into mainstream investing, the board of directors, c-suite executives such as your chief financial officer, chief accounting officer, chief risk officer, chief executive officer, as well as the controller, investor relations officer and others as appropriate, should seriously consider embracing ESG performance as an important operating set of material factors used to better manage your risk, corporate strategy and long-term opportunities. Investors and diverse stakeholders (e.g. employees, customers, communities, business partners) now consider a company's ESG performance as a measurement of management quality and resilience to risk.

In the US, August of 2019, the **Business Roundtable**, (BRT) announcement focused on a new **Statement of Purpose of a Corporation**, signed by 181 CEOs who committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. Going back to 1978, the BRT has periodically issued Principals of Corporate Governance and each version of this document since 1997 endorsed principals of shareholder primacy – that corporations exist principally to serve shareholders. This paradigm is now shifting.

The BRT Statement of Purpose of a Corporation acknowledges "while each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all our stakeholders". "Each of our stakeholders is essential. We commit to deliver value to all of them for the future of our companies, our communities and our country". Highlights of the Statement of Purpose of a Corporation includes:

- Delivering value to our customers
- Investing in our employees
- Dealing fairly and ethically with our suppliers
- Supporting the communities in which we work
- Generating long-term value for shareholders

In Europe, January 2020, at the request of the International Business Council (IBC), the World Economic Forum is preparing a proposal for common ESG metrics and disclosures in collaboration with the world's largest accounting firms. Under the direction of Brian Moynihan, Chairmen of the Board and CEO of Bank of America, 140 of the words largest companies came together to support the development of a core set of common metrics and disclosures on non-financial factors to their investors and other stakeholders.

"By aligning companies with asset owners and asset managers through common limited and meaningful metrics, we will ensure sufficient capital is available to meet the Sustainable Development Goals", said Mr. Moynihan. "Companies can deliver great returns for shareholders, invest in their employees, share their success with communities in which they operate and drive progress on societal priorities".

"**Toward Common Metrics and Consistent Reporting of Sustainable Value Creation**". This report proposes a common, core set of metrics and recommended disclosures that IBC members could use to align their mainstream reporting and, in so doing, reduce fragmentation and encourage faster progress towards a systemic solution, perhaps to include a generally accepted international accounting standard.

Rather than reinventing and creating a new standard, the metrics and disclosures proposed are drawn from international sustainability and ESG reporting frameworks including; the Sustainable Development Goals, (SDG); Global Reporting Initiative, (GRI); Sustainability Accounting Standards Board, (SASB); and the Taskforce on Climate-related Financial Disclosure, (TCFD). Utilizing existing standards and frameworks creates a foundation for reporting material aspects of corporations risks and opportunities on a consistent basis.

In practice, corporations may use international sustainability and ESG reporting frameworks to enhance communications with stakeholders including, customers, employees, suppliers, communities and shareholders.

For CFOs, and other c-suite executives a fundamental first step to understanding which ESG company data is aligned with a core set of metrics and disclosures, is defining a checklist for identifying and creating decision-useful ESG disclosures. The following questions should be addressed:

- Do we know what ratings our company is receiving from ESG raters and rankers including Moody's and S&P?
- Are we providing the information that rating firms are looking for when they assign "grades" to public companies for their ESG disclosure?
- Have we checked to make sure that the information ESG ratings agencies are using is accurate and complete?
- Have we moved beyond "check-the-box" ESG disclosures, to something that is meaningful for company management, investors and stakeholders?
- Are we including clear metrics, using company identified material facts in our ESG internal and external communications?
- Have we identified which ESG disclosure frameworks can best help give our company investors and other stakeholders the decision-useful information they want and need?

When ESG material facts are measured and managed, sustainability, corporate responsibility or ESG disclosure can easily become a platform for your management team to talk about other facets of a company's story that may have been historically overlooked. Boards and c-suites are now informed with clearly defined ESG material KPIs, which may be honed for corporate strategy, management goals, addressing short-term risk and long-term opportunities.

Ready to take the next step? Our ESG specialists can help you:

- Show you how existing reporting frameworks can help to focus and streamline your communications.
- Review the growing influence of ESG rating firms and the role you need to take to review their findings.
- Monitor and improve your ESG scores.
- Enhance your ESG disclosure to improve the quality and usefulness of the data for your stakeholder.

DFIN provides a holistic approach, helping corporations identify and deliver decision-useful ESG data and information to all stakeholders at the right time and in the right formats. This is increasingly important as investors and diverse stakeholders – the company's employees, customers, regulators and business partners – now consider a company's ESG performance as a measurement of management quality and overall resilience to long-term risk as well as the ability to seize opportunities.