

C-SUITE

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Addressing the “S” in ESG

The board’s role in evaluating risk
from social and political issues



Highlights from the Equilar Summit
The rising role of General Counsel
What boards should know about cyber risk

Interviews with Jeff Brodsky, Vice
Chairman, Morgan Stanley, and
George Paulin, Senior Managing Director,
Meridian Compensation Partners





Risk Disclosure and ESG

How companies
are showing their
risk oversight in
proxy statements

By Ron Schneider

DFIN

Investors everywhere want to feel confident that the companies they invest in and the boards overseeing them have identified the major potential risks to a company's performance and sustainability, and are working to effectively mitigate or manage any such risks. Pandemic-related impacts on companies, employees and global supply chains have heightened awareness that possibilities previously considered "remote" must be anticipated and prepared for.

Of course, exposure to various risks and their relative impact varies by industry and includes, but is not limited to, competitive threats, emerging technologies, misconduct or fraud, cybersecurity, environmental impact and potential new regulations that could affect the company or its key business lines.

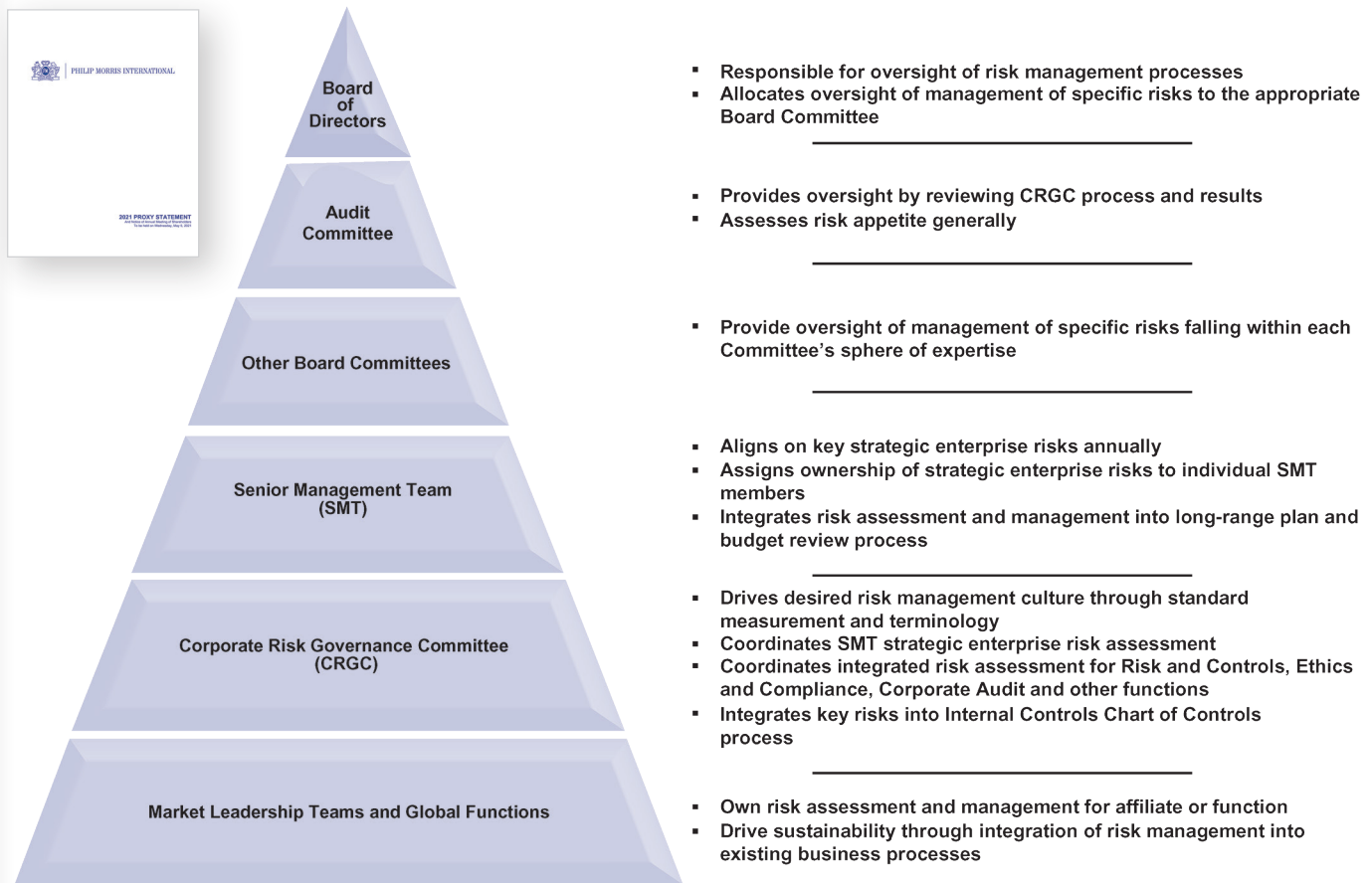
To make this multifaceted discussion more digestible, companies increasingly use visual formats, clearly showing the risk-oversight roles played by the full board, key committees, senior management and even operating divisions or working groups. These visuals should not be so highly designed as to frustrate the AI data collection methods used by many of the ESG raters and rankers.

Figure 1 is a visual portrayal of Philip Morris International's risk assessment, management and oversight process in its 2021 proxy.

Figure 1

Philip Morris International proxy statement filed March 25, 2021, page 13. See full proxy statement at bit.ly/3jPoHiN.

PMI Risk Assessment, Management and Oversight



ESG Oversight

With interest in ESG and the related topic of human capital management (HCM) intensifying, discussions of risk oversight increasingly include a range of ESG and sustainability issues, as well as the risks and opportunities they present. Some companies include ESG oversight in their overall enterprise risk oversight discussion, while others discuss these topics in more focused ESG disclosures.

Board committees, along with their names and charters, are also evolving to include ESG and sustainability. Previously subjects for annual or quarterly reporting to boards, these topics are becoming regular items on board and committee meeting agendas. Director bios and board skills matrices increasingly identify specific qualifications and competencies necessary for board members to provide effective oversight on an expanding array of issues.

When DFIN surveyed companies over the past three years, it found that in just a single year’s time, a dramatically higher number of companies had begun reporting board oversight of ESG—73% in 2020, up from 56% in 2019. During our 2021 surveys, that trend is continuing to gain momentum, with up to 75% of companies responding “yes” to having board oversight of ESG. Here, as with other topics, companies may have progressive practices, but unless they disclose their board ESG oversight and other admirable practices, they won’t “get credit” with investors, proxy advisors and ESG raters and rankers, among other audiences.

Figure 2 is a visual layout of ESG governance in Global Payments’ 2021 proxy.

Figure 2
Global Payments, Inc. proxy statement filed March 19, 2021. See full proxy statement at bit.ly/3naXDN6.



* In collaboration with members of the Company’s senior leadership team including the Chief Financial Officer and the Chief Strategy and Risk Officer.

About DFIN (Donnelley Financial Solutions)

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You can find hundreds of examples of these and related topics in the DFIN annual Guide to Effective Proxies, 9th Edition, available here on a complimentary basis: info.dfinsolutions.com/proxy-guide-9th-edition.



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