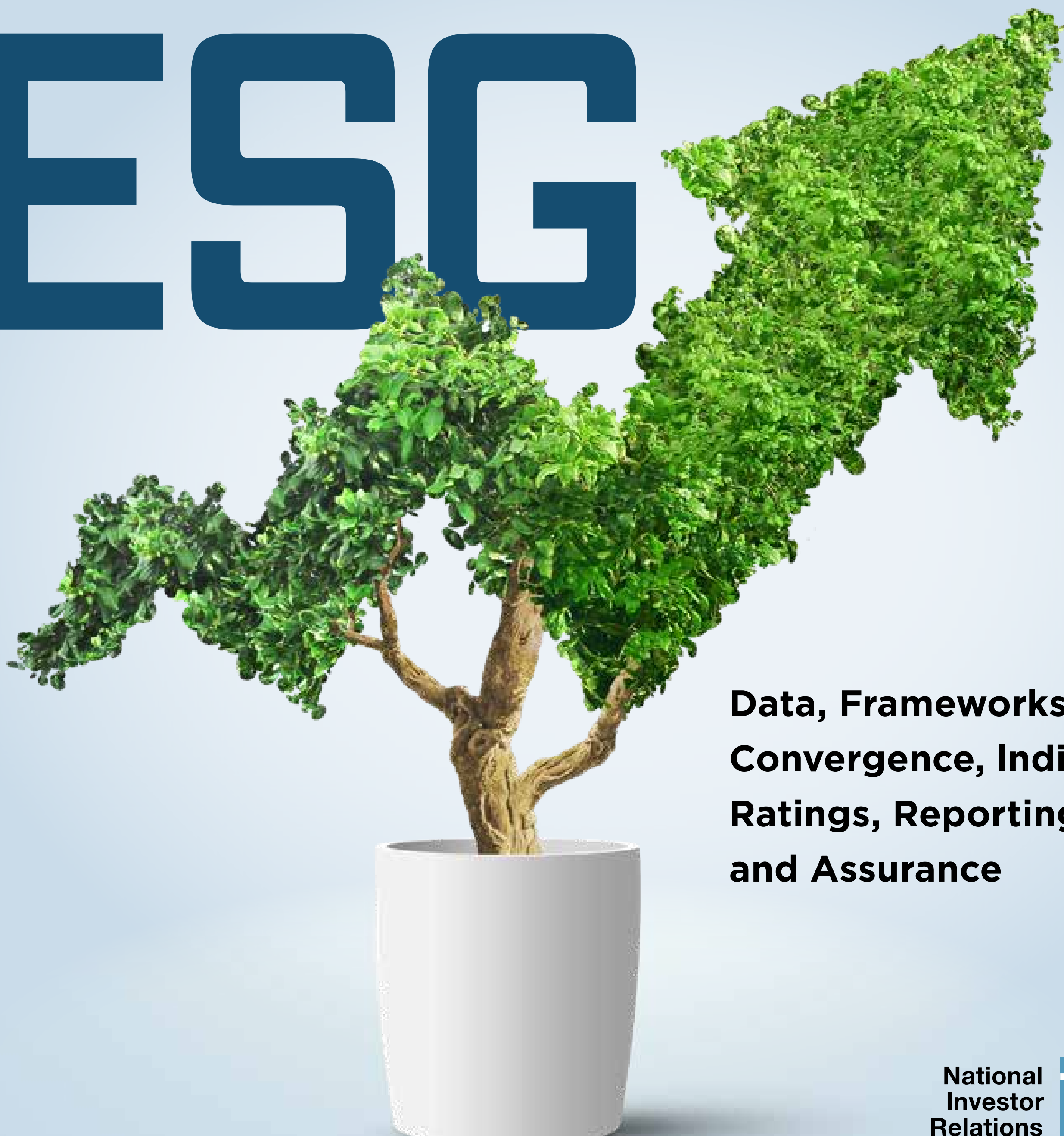
EMERGING ESG CONVERGENCE TRENDS 12
VOLUME AND VELOCITY OF ESG INVESTING 18
RESPONDING TO BUY-SIDE ESG PRIORITIES 28
EXPLORING THE WORLD OF ESG ASSURANCE 38

IR UPDATE

THE VOICE OF THE INVESTOR RELATIONS PROFESSION **WINTER 2021**

ESG



Data, Frameworks, Convergence, Indicies, Ratings, Reporting, and Assurance

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WINTER 2021 | **CONTENTS**

12 ESG
The Complexity of ESG Reporting and Emerging Convergence Trends
A review of the alphabet soup of ESG standard-setters, data aggregators, analysis providers, ESG raters, and indices and reports on convergence trends that will affect ESG disclosure for IROs.
BY LOUIS COPPOLA

18 ESG
The Surging Volume and Velocity of ESG Investing
How quickly has ESG investing accelerated and how big has it become? What are the priorities of ESG-based investors? Learn the answers from a new industry survey.
BY HANK BOERNER

22 IRO SKILLS
A Practical Approach to ESG from a Corporate Vantage Point
Launching and maintaining a successful ESG reporting program requires internal and external strategies and resources.
BY PAMELA STYLES

28 INVESTOR PERCEPTIONS
How to Respond to Buy-Side ESG Priorities in 2021
There is more to ESG disclosure than checking a box. Learn what buy-side investors are saying about how companies need to demonstrate their commitment to ESG.
BY ELIZABETH SAUNDERS

32 ARTIFICIAL INTELLIGENCE
Merging AI and ESG = Alpha
A financial journalist, a buy-side ESG portfolio manager, and an ESG ratings agency executive provide insight on how AI is influencing ESG reporting and investor decision-making.
BY ALEXANDRA WALSH

38 FINANCIAL REPORTING
Exploring the World of ESG Assurance
Assuring the validity of corporate ESG data is an increasing focus of investors and ESG ratings firms. Understanding the process and potential providers is important.
BY GEOFFREY BUSCHER

42 DIVERSITY AND INCLUSION
Diversity and Inclusion and IR: Views From the Buy Side
Three buy-side analysts explained what they look for in diversity and inclusion disclosures at a session at the NIRI Virtual Annual Conference.
BY ALEXANDRA WALSH

DEPARTMENTS

4 AT THE BELL
- Tapping the Positive Side of Disruption
BY RUTH E. VENNING, IRC

6 NIRI NOW
- Victoria Sivrais Named NIRI Chair-Elect
- NIRI Elects Four New Board Members
- NIRI Announces 2021 Senior Roundtable Steering Committee
- *IR Update* Goes Digital-Only
- NIRI Congratulates the Newest Group of IRC Holders
- On the Move

10 SENIOR ROUNDTABLE PROFILES
Idalia Rodriguez and J.T. Farley

46 SPOTLIGHT ON CHAPTERS
ESG and Corporate Reporting
A NIRI Philadelphia chapter virtual meeting addressed new SEC "human capital" disclosure requirements and stricter proxy advisor policies on board diversity that will shape corporate reporting during the coming year.
BY LAUREN LUPTAK AND SHELLI WILLIS

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About NIRI
Founded in 1969, the National Investor Relations Institute (www.niri.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 2,800 members representing more than 1,350 publicly held companies. NIRI is dedicated to advancing the practice of investor relations and the professional competency and stature of its members.

About *IR Update*
IR Update is published by the National Investor Relations Institute as a service to its members.
ISSN 1098-5220

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Tapping the Positive Side of Disruption

Ruth E. Venning, IRC
NIRI Chair
Executive Director,
Investor Relations
Horizon Therapeutics plc

What an exciting time this is for NIRI and investor relations! A full year since the start of the "COVID-19 era," and the pandemic continues – likely to be around for a good part more of 2021. A new presidential administration with the prospect of new rules and regulations likely to affect our companies. And a growing emphasis on ESG, diversity, and stakeholder capitalism.

危機

kiki, the Japanese word for "crisis"

NIRI is no stranger to change. I remember well the advent of Regulation FD, which significantly changed how we communicate in investor relations – and also resulted in a more equitable flow of information for investors. Regulation G, Sarbanes Oxley, activist campaigns, and the growing influence of passive investors – change is the name of the game in IR.

NIRI has influenced the outcome of many of these shifts – a testament to the influential role we play in the investment and regulatory communities. It's also a testament to the diversity of our backgrounds (finance, communications, marketing, sell side, etc.), our companies spanning industries and market caps, our roles (corporate practitioner, counselors, service providers) and experience. Plus our willingness to share and learn from one another. Together these make NIRI the vibrant organization it is – one that not only manages but spearheads change.

The Japanese word for crisis, *kiki*, has two elements, one that means danger and the other opportunity. I believe a key reason for our success lies in our ability to tap into the opportunities that change and disruption present to us. This past year has been one of tremendous disruption, social and civic unrest, and regulatory threats.

We are addressing these challenges head on, in many ways making NIRI stronger as we do – embracing new ways to "meet" virtually, working to champion greater racial and ethnic diversity and inclusion, and galvanizing our membership to fight proposed regulations that are not in the best interest of transparency or equity. All these speak to our ability to transform disruption into opportunity.

The year ahead promises to be an exciting one. I am honored to be chairing NIRI through it, with the counsel and support of a great Board of Directors; Gary LaBranche, NIRI President and CEO; and Melissa Plaisance, past NIRI Chair. I know I speak for the entire Board in thanking Melissa for all she has done for NIRI as Chair – her leadership helped us successfully navigate through one of the most challenging years NIRI has faced, and she did it with tremendous grace and aplomb.

I also thank our outgoing Board members – Jason Landkamer, Carol Murray-Negron, and Greg Secord – for all they have done for NIRI and the Board during the past four years – you will be sorely missed! Finally, I thank all of you for your continued support and involvement in NIRI – and I look forward to connecting with you throughout the year – virtually and in person.

Onward!

VIRTUAL FINANCIAL WORKSHOP SERIES IN 2021

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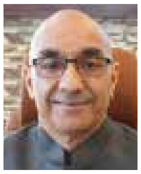
IRC credential holders can claim 2 professional development units (PDUs) for completing a single course.

NIRI Elects Four New Board Members

NIRI members elected four individuals to serve four-year terms on the NIRI Board of Directors. They include Raj Mehan, IRC; John Moten, IRC; Lisa Rose, IRC; and Cherryl Valenzuela, CFA. Each began their terms in January 2021.

"I am happy to welcome this diverse group of highly regarded IR practitioners to the NIRI Board of Directors," NIRI President and CEO Gary A. LaBranche says. "They will play a valuable role in helping the Board ensure the future of NIRI during these unprecedented times. I also thank the three Board members who completed their terms as directors: Jason Landkamer, Carol Murray Negron, and Greg Secord. We are grateful for their contributions to the IR profession. I also want to thank outgoing Board Chair Melissa Plaisance for her steady leadership during this difficult year."

Plaisance will remain on the NIRI Board for an additional year as Immediate Past Board Chair.



Raj Mehan, IRC, is Vice President, Finance and Treasurer, for Steelcase Inc. He leads the company's Capital Management Group. Mehan was a member of the NIRI Virtual Chapter from 2009 to 2017, where he served in a variety of roles including Co-President, Secretary, and President. He earned the Certified Treasury Professional designation in 2012 and received the NIRI Investor Relations Charter (IRC®) credential in 2016. He also is a member of the NIRI Senior Roundtable.

John Moten, IRC, is Vice President of Investor Relations for Foundation Building Materials. He has more than 30 years of finance and capital markets experience, including experience as an institutional portfolio manager and a securities analyst. Before joining FBM in 2017, Moten was Vice President of Investor Relations for Mallinckrodt Pharmaceuticals, where he established the IR department in 2013 before its spin-off as a publicly traded company. John has earned the NIRI IRC credential.

Lisa Rose, IRC, is President of Dix & Eaton, where she partners with CEO Chas Withers in the areas of client service, practice development, talent development, and professional partnership and alliances. She previously led the firm's investor relations practice, with responsibility for a broad portfolio of services that included shareholder communications, corporate governance, investor targeting, proxy contests, and shareholder activism. Lisa is a Certified Public Accountant and a member of the American Institute of CPAs and holds the IRC certification from NIRI.

Cherryl Valenzuela, CFA, is Director of Investor Relations for Twitter. Prior to joining Twitter, Cherryl spent more than six years as an investor relations officer at Informatica and JDSU. She has over 10 years of experience in the equity and fixed income capital markets and management consulting, working at Goldman Sachs, Gartner, McKinsey, and Merrill Lynch. She is a Chartered Financial Analyst (CFA) and a Certified FP&A Professional. IR

Victoria Sivrais Named NIRI Chair-Elect

NIRI Board members approved the election of Victoria Sivrais, Founding Partner of Clermont Partners, LLC, as Chair-Elect for 2021.

Sivrais provides guidance to clients around critical communication issues, including best-practice financial communications and investor relations programs, ESG (Environmental, Social and Governance) communications, mergers and acquisitions (M&A), crisis preparedness and issues management, and transformational corporate communication strategies.

Before establishing Clermont Partners, she was a Managing Director and Deputy Lead of the Capital Markets practice of the FTI Consulting's Strategic Communications segment and held several leadership positions at Ashton Partners, before the firm was sold to FTI.

Sivrais also serves on the NIRI Chicago chapter Board of Directors and was recently Chair of the chapter. She is a member of the NIRI Senior Roundtable and chaired the NIRI 2018 Annual Conference. She has been published and quoted on the topics of shareholder activism, investor engagement, crisis communications, passive investing, ESG investing and various strategy articles communicating transformations and transactions in the industrial sector. She was also named to the PRWeek "40 Under 40" list in 2018.

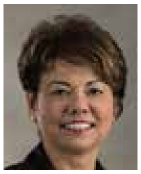
Sivrais graduated from the Indiana University Kelley School of Business with a B.S. degree in computer science.

She succeeds Ruth Venning, IRC, Executive Director, Investor Relations at Horizon Therapeutics plc, who has assumed the role of NIRI Board Chair. IR

NIRI Announces 2021 Senior Roundtable Steering Committee

NIRI announced that Katie Royce, CFA, will serve as the Chair of the 2021 NIRI Senior Roundtable (SRT) Steering Committee, and Deborah Pawlowski, IRC, will serve as Vice Chair.

Royce is Global Head of Investor Relations for Cognizant Technology Solutions. She has served on the SRT Steering Committee since 2019, as well as in other NIRI volunteer leadership roles including the NIRI Board of Directors, as an officer and director for the NIRI New York chapter, and as a member of the NIRI Annual Conference Committee.



Pawlowski is Founder and Chairman of Kei Advisors LLC. She has served on the SRT Steering Committee since 2020 and has held a variety of other NIRI volunteer and leadership roles on the NIRI Board of Directors, governance committees of the Investor Relations Charter (IRC®) credential program, the NIRI Think Tank on the Future of Investor Relations, and as an officer and director for the NIRI Virtual chapter.

Joining the SRT Steering Committee in 2021 are: Elizabeth Allen, CFA, Director, Investor Relations, FedEx Corporation; J.T. Farley, Managing Director, Investor Relations, Cowen Inc.; Sam Ramraj, Vice President, Investor Relations, Edison International; and Patty Yahn-Urlaub, Senior Vice President, Investor Relations, Constellation Brands, Inc. The full 2021 SRT Steering Committee is listed below.

The NIRI Senior Roundtable Steering Committee defines and develops compelling and engaging experiences for SRT events, facilitates SRT networking, and works to broaden SRT awareness.

The SRT Steering Committee's work culminates each year with the SRT Annual Meeting, which is scheduled to take place at the Fairmont Austin Texas, December 1-3, 2021.

NIRI also thanks the SRT Steering Committee members who completed their volunteer service in 2020, including outgoing SRT Steering Committee Chair and NIRI Fellow Tabitha Zane, Vice President, Investor Relations, TopBuild; and Chris Stent, Executive Managing Director, Corporate Finance and Investor Relations, JLL.

IR Update Goes Digital-Only

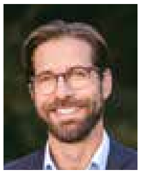
IR Update magazine, published by NIRI, has transitioned its format to digital-only, beginning with the Winter 2021 issue. It will continue its quarterly publishing schedule.

"*IR Update* has a long tradition of providing the investor relations community with news and insightful analysis of the profession," says NIRI Vice President, Communications and Member Engagement Ted Allen, JD. "The format and frequency evolved over the years. This move to a digital-only format recognizes that readers are increasing looking to receive their content online in a timely fashion."

NIRI also publishes IR Update Daily and *IR Update Weekly* digital newsletters to provide even more timely reporting of important news.

Additional insight is provided through *IR Update Podcasts*, where NIRI President and CEO Gary A. LaBranche conducts wide-ranging conversations with members of the IR community.

ON THE MOVE



Evan Pondel launched Triunfo Partners, a strategic communications, investor relations, and digital branding firm that advises senior management teams, boards of directors, governments, organizations and high-profile individuals. He was previously President of PondelWilkinson Inc., where he worked for 14 years. Pondel began his career as a business journalist working for publications, including *The Wall Street Journal* and *Los Angeles Daily News,* in addition to correspondent work for *The Christian Science Monitor* and Reuters. He is Chair of the IR Update Editorial Advisory Committee.

Julie Dewey, IRC, was appointed Vice President of Investor Relations and Corporate Communications at Nevro. She was previously Senior Vice President and Chief Communications Officer at Wright Medical Group, which was recently acquired by Stryker. She has received numerous investor relations awards from *IR Magazine*, and was selected as one of *IR Magazine's* 30 stars over 30 years. Dewey served on the NIRI Board of Directors from 2016-2019 and was among the first class that earned the NIRI Investor Relations Charter four years ago. She has 15 years of experience in IR and communications roles at medical device companies, serving as Chief Communications Officer at Epocrate, ev3, and Kyphon earlier in her career.

Theresa Womble is the new Senior Director of Investor Relations at Advance Auto Parts. She was previously Director of Investor Relations at Compass Minerals from 2014-2020. Womble also previously held the role Manager of Investor Relations at Compass Minerals from 2010-2014. Before joining Compass Minerals, she was Vice President and Senior Equity Analyst covering healthcare companies at Morgan Keegan, which has since been acquired by Raymond James.

Amanda Cimaglia was named Vice President, Environmental, Social and Governance (ESG), at The AZEK Company. She is responsible for ESG strategy and initiative and aligning AZEK reporting activities with industry standards. She will also assist the IR team in implementing an ESG/IR strategy and strengthen stakeholder engagement. Cimaglia was previously Managing Director in Solebury Trout's ESG 360 practice. Before that she served as the Head of Investor Relations & ESG at Hannon Armstrong, where she built an award-winning investor relations program, garnering the Best Overall Investor Relations (Small Cap) Award from *IR Magazine*.

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NIRI Congratulates the Newest Group of IRC Holders

Another nine investor relations professionals received the Investor Relations Charter (IRC®) credential awarded by the NIRI Certification Council.

This class of successful candidates completed the IRC examinations offered in November 2020, bringing the total number of IR counselors and corporate IR professionals worldwide who have earned the IRC credential up to 212.

The nine new IRC holders include:

- Nahla Azmy, IRC
- John Beisler, IRC
- Jack Chang, IRC
- Angela Elrod, IRC
- Michaella Gallina, IRC
- Ellen Leithold, IRC
- Rodney McMahan, IRC
- Aaron Uhde, IRC
- Mark Warren, IRC

The IRC program is dedicated to advancing the practice of investor relations and the professional competency and stature of IR professionals.

NIRI is now accepting exam applications for the June 1-30, 2021 testing window. The initial application deadline is April 15, and the final application deadline is May 15. Information and applications are available on the NIRI website.

NIRI is also accepting renewal applications for IRC certifications.

Idalia Rodriguez and J.T. Farley Speak About Value of Senior Roundtable

The NIRI Senior Roundtable (SRT) was formed in November 1994 to respond to the needs and interest of NIRI's growing number of senior-level members. SRT maintains an informal, small group atmosphere requested by this group of leading IR professionals who each have at least 10 years of experience in the profession.

If you have at least 10 years of experience in the IR profession as an IRO and/or IR counselor, visit www.niri.org/srt to learn more about the benefits and application process to join SRT.

To provide more insight into SRT, *IR Update* interviewed two Senior Roundtable members to learn more about the value they derive from participation and some of their professional experiences.

News about the 2021 SRT Steering Committee is reported in NIRI Now on **page 8** of this issue of *IR Update*.

Idalia Rodriguez
Partner and Senior Advisor
Arbor Advisory Group
Years in Investor Relations: 22
Joined NIRI in 1997
Joined Senior Roundtable in 2014

Why did you join Senior Roundtable?

I joined SRT because of the quality of the membership. I wanted to have the opportunity to connect with fellow IROs who have lived through every imaginable experience in investor relations. The amazing openness to share and help each other is remarkable.

What have you found most valuable about being a member of the Senior Roundtable?

Working with a very dedicated team while Chair of the SRT in 2019.

What is the toughest IR challenge you've faced in your career?

On my second job as head of IR, my company was investigated by the SEC for revenue recognition.

What is the funniest thing that happened to you as an IRO?

While on a non-deal roadshow with a CEO in a city famous for its barbecue, I asked the driver to stop at a restaurant on the way to the airport to pick up an order of ribs. That was the first and last time I was in that city. I am still very happy with my decision, although the CEO thought it was a bit strange.

If you could have had another career than IR, what would it have been?

Food anthropologist.

What is the best/worst thing to happen in your IR career?

The best thing was switching from corporate IRO to advisor. I truly enjoy working with multiple management teams. Every day is different. The opportunity to meet and work with amazing management teams is truly rewarding.

Is there anyone who had a major influence on your career? Why?

Nancy Kyle, who introduced me and taught me investor relations. She mentored me for a long time and told me I was ready to take a lead IR role, although I did not feel ready to take the leap. She is truly an amazing human.

Where did you grow up?

Puerto Rico and Philadelphia.

J.T. Farley
Managing Director, Investor Relations
Cowen
Years in Investor Relations: 12
Joined NIRI in 2010
Joined Senior Roundtable in 2015

Why did you join Senior Roundtable?

To learn from accomplished and experienced peers. I haven't been disappointed.

What have you found most valuable about being a member of the Senior Roundtable?

The programming and informal discussions at the annual SRT meeting are well worth the time.

What is the toughest IR challenge you've faced in your career?

Back-to-back activist fights and a CEO transition, all in the middle of a major regulatory issue (this occurred at a prior firm, not my current one, thankfully).

If you could have had another career than IR, what would it have been?

Being in the writers' room at The Daily Show or Saturday Night Live. But I'm not nearly funny enough, so investor relations it is.

Where did you go to college and what did you study?

A BS in Foreign Service at Georgetown, an MA in Asian Politics at the University of Hong Kong, and an MBA at New York University, focusing on quantitative finance.

How did you get into investor relations?

In 2009 I used my capital markets experience to get a junior IR position. I was in that role for less than a year when my boss quit, leaving me as the head of IR, and I had to learn on the job very quickly. Prior to IR I worked as a financial journalist in Asia and in equity research sales in New York – IR combines aspects of these two roles quite well, although I didn't realize it when I started out.

As you look back on your IR career, what was the most painful lesson you learned?

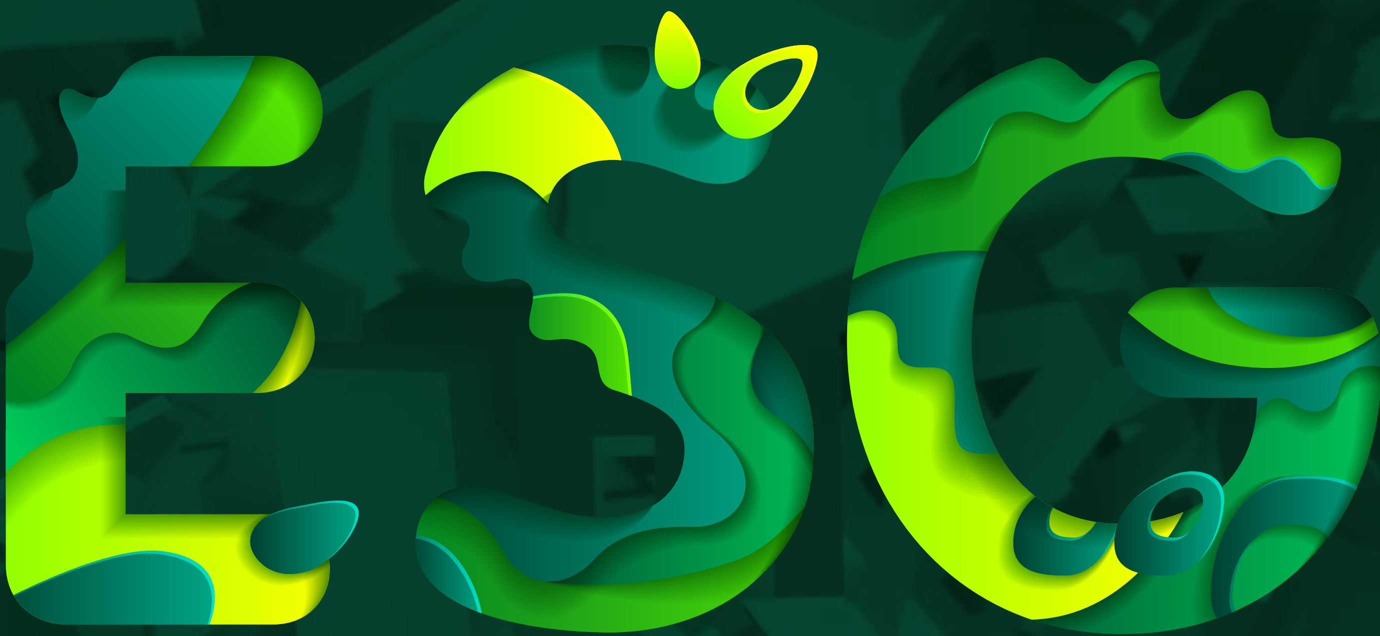
Disappointing people is an intrinsic part of the job – when you are crafting investor communications someone or some group is always going to feel left out (or, conversely, unfairly singled out). Some of this can be avoided by educating people about the function – and limitations – of investor relations.

What advice would you give a person starting out in IR?

Be flexible about your role and learn about the various aspects of the job – a good IRO is a utility player and the career can take you in many different directions.

What is the one quality you feel best describes you?

Curiosity. IR



The Complexity of ESG Reporting and Emerging Convergence Trends

BY LOUIS COPPOLA

A review of the alphabet soup of ESG standard-setters, data aggregators, analysis providers, ESG raters, and indices and reports on convergence trends that will affect ESG disclosure for IROs.

The number of ESG corporate disclosure and reporting standards and frameworks has dramatically proliferated in recent years. These reporting standards have not only become more numerous, but they have also become more sophisticated and mature.

With this continuously evolving complexity, it can be challenging to identify the most popular frameworks and standards for disclosure are and how to best use them to communicate your company's ESG profile to institutional and, increasingly, retail investors.

While the competition between standards has generated significant innovation, it has also led to frustration and confusion for those who have not kept up with everything happening.

To address the resulting complexity, there have been significant recent announcements and efforts from influential players to converge the leading standards into a global, comprehensive corporate ESG reporting system. As these efforts move forward, there will be more challenges for investor relations professionals to predict the probable outcomes to guide their company disclosures.

Before we dive into how the convergence of ESG reporting standards may play out, I want to clarify what I see as a common point of confusion in this market space. This is, ESG standard-setters for sustainability reporting are often confused and grouped into the same category as ESG data aggregators, analysis providers, ESG raters, and indices.

For example, IROs may say they are overwhelmed and confused about which standard to use in their reporting and proceed to ask, "Should we use GRI, SASB, MSCI, Sustainalytics, Bloomberg, Refinitiv, ISS, DJSI, TCFD, IIRC, CDP, FTSE4GOOD, CDSB, or the CSA? Which one is most important?"

It's important to remember that while all these organizations and acronyms represent important players in the ESG ecosystem, they are not all reporting standards and should not be grouped into the same category.

It is really important to understand the differences between these players to then be able to discuss how to best use them and what the future may look like as convergence and possible regulations unfold.

Below is a guide to the alphabet soup of organizations and acronyms:

Reporting Standards/Frameworks

- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- International Integrated Reporting Council (IIRC)
- Task Force for Climate Related Financial Disclosure (TCFD)
- Climate Disclosure Standards Board (CDSB)

These organizations provide guidance for how a company should disclose ESG information in a public report/disclosure document. They do not grade, rank, analyze or score the disclosures from these companies, but simply provide the structure for how companies should communicate about these topics to investors and other important stakeholders.

In the traditional financial world, compare these to financial reporting guidance such as Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS), Financial Accounting Standards Board (FASB), International Accounting Standards Board (IASB), etc.

Analysis Providers/Raters/Rankers

- MSCI
- Sustainalytics
- Institutional Shareholder Services (ISS)

These organizations have armies of analysts who read through your sustainability reports, websites, policies, codes, and other public disclosure documents to analyze your company's ESG profile; plug it into their models and rating methodologies; and provide scores, opinions, and analysis reports to their investor clients.

In the traditional financial world, these compare to sell-side analysts who also apply a score (buy, sell, hold, etc.) They also compare to credit rating agencies as many of them also evaluate risk, issuing ratings such as AAA, BB, etc.

ESG Data Providers

- Bloomberg
- Refinitiv

These organizations also have analysts who read through your public disclosures, but instead of applying analysis, scores, and opinions, they supply raw data points on each company through their platforms (think of The Bloomberg, Eikon, etc). A sophisticated ESG investor would use this raw ESG data to create their own customized methodology (selecting the topics that they feel are most material, and/or customizing/weighting to the values of their clients) for analyzing companies for investment decisions.

In the traditional financial world, these are easy to compare, as most are familiar with what Bloomberg and Eikon terminals offer. ESG data is an expansion of the raw data offered in these platforms.

Indices

- Dow Jones Sustainability Indices (DJSI)
- Financial Times Stock Exchange Group FTSE4GOOD
- S&P 500 ESG Index

The Dow Jones Sustainability Indices are a set of indices where constituents are determined by their performance in the Corporate Sustainability Assessment (CSA), which is an ESG questionnaire that companies respond to each year (now owned by S&P Global after a recent acquisition). The FTSE4GOOD is another popular index of ESG leaders that operates in the United Kingdom. S&P Global is rolling out new ESG benchmarks.

In the traditional financial world, these are compared to indices such as the S&P 500 index, which now has a sister index called the S&P 500 ESG index.

Sustainability Questionnaires

- CDP
- S&P Corporate Sustainability Assessment (CSA)

These organizations each have an online questionnaire that companies respond to each year. Based on these responses they are assessed and a score is assigned (and in the case of CSA, index inclusion decisions are made for DJSI indices and a series of S&P ESG indices).

An Overlapping Issue

Despite the discrete categories noted above, a small disclaimer is needed: There is some overlap among these categories.

For example, some ESG data provider organizations also provide ESG ratings (mostly based on disclosure/transparency) for various categories but not the additional layer of analysis and opinion on performance.

Another example is that the S&P CSA (the annual Corporate Sustainability Assessment that companies respond to) provides ESG ratings from the results of their assessment and these are then available on the Bloomberg and Capital IQ terminals as secondary sources. Yet another example is the CDP response which is also scored by CDP (A+, B- etc.) and made available publicly and on the Bloomberg terminal. Some companies also publish copies of their CDP response on their website (a good practice) so that the information contained in it serves as a public disclosure document.

The ESG Ecosystem

Despite this somewhat confusing structure, in reality only a handful of the standards and organizations should be considered when deciding on which reporting standard to use.

The acronyms to consider for ESG disclosure are GRI, SASB, IIRC, TCFD, and CDP. The rest of these organizations are important to know about, consider, and engage as needed, but they are not reporting standards or frameworks. However, they do inform disclosures in various ways.

It is important to understand that using one or more leading ESG reporting standards for sustainability reporting will lead to better information efficiency, availability, accuracy, comparability, and quality for both the information providers (companies) and the information users (investors, raters, index creators, analytics/data providers, and other stakeholders).

ESG Disclosure Standards/ Frameworks

ESG disclosure standards and frameworks can be categorized to enhance understanding and identify key players. Keep in mind that these categories have some overlap and players within each category are different.

In practice, many companies use a hybridized disclosure approach, implementing guidance and disclosures from both GRI and SASB standards in their reports.

Category 1: Broad Disclosure Standards (broadly encompassing E, S, and G topics)

Standards such as GRI, SASB and IIRC fall into this category.

These reporting standards provide guidance for companies to publicly report on a wide array of E, S, and G issues. There are many differences among them, however.

For example, when it comes to the materiality of topics, GRI follows a stakeholder-inclusive model of materiality (think what information is important to employees, customers, and investors), whereas SASB and IIRC follow a more strict definition of financial materiality focusing on one important stakeholder: the investor. This by design tends to align with the current SEC definition of material information for investors.

Due to the difference in the way materiality is defined by each standard, GRI reports often cover a much broader set of topics of interest to an array of important stakeholders, while SASB reports are typically focused on a shorter list of highly material industry-specific topics of interest to investors.

Of course, there is some overlap here, as ESG initiatives that build stronger relationships with customers or employees often lead to benefits for the investor such as higher productivity, higher revenue, lower costs, more value, and superior company performance.

When a company is deciding what to include in a report, SASB provides guidance for 77 industry categories on which topics and disclosures are likely to be financially material for companies in each industry. By contrast, GRI does not prescribe categories, but instead provides a process with key principles that each company can use to engage with their stakeholders and determine what is uniquely material to their company, investors, and other important stakeholders.

In practice, many companies use a hybridized disclosure approach, implementing guidance and disclosures from both GRI and SASB standards in their reports. Many will include content index tables for each disclosure standard in the back of their reports, allowing readers to navigate the report using multiple standards. Many companies also use the SASB guidance for their industry to inform a wider GRI-style stakeholder inclusive materiality assessment (in effect using SASB inputs on material topics as a proxy for investor stakeholder interest).

Category 2: Topic-Specific Standards (generally focusing on one topic more granularly, such as climate or human rights)

Frameworks such as CDP, the Task Force on Climate-Related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB), and the United Nations Guiding Principles on Human Rights (UNGP) focus on a specific topic and really dive in and get more granular and specific on that topic than the broad disclosures standards would.

These information resources provide a way for companies to enhance and elaborate on their disclosures in these key areas that can complement the broader reporting standards such as GRI, SASB and IIRC.

For example, CDP, TCFD and CDSB all focus on climate change as a topic and these three frameworks are highly complementary and aligned by design. They go into granular detail on climate change such as governance of climate risk, target setting, energy usage, emissions, integration into ERM processes, executive compensation ties, scenario analysis planning, opportunities, and risk, among other topics.

Another example is UNGP, which provides disclosure guidance to companies for the topic of human rights. UNGP disclosure guidance includes many sub-topics under human rights such as child labor, forced labor, gender diversity, ethnic diversity, and the right to organize, among other topics.

CDP also falls into the survey/questionnaires category (Category 3 below) as companies need to directly respond to it, whereas TCFD is guidance for preparing public disclosures and reports on the topic. If a topic is highly material to a company, a topic-specific standard can be helpful for the company to really dive into the details of the topic for investors and other stakeholders.

Climate change and human rights are current topics that many investors consider to be material in almost every sector and industry in different ways, and this is why CDP, TCFD, CDSB, and UNGP have generated so much traction and broad acceptance recently.

Category 3: Survey/Questionnaires (companies need to respond to a survey – can be broad or topic-specific)

There are various survey questionnaires that companies fill out which should be categorized differently than the public disclosure frameworks. For example, the S&P Corporate Sustainability Assessment (CSA) and the CDP questionnaires fall into this category. These two questionnaires in particular are extremely important to consider and respond to.

A company must login to an online portal and complete a series of comprehensive questions which are then assessed and scored by the organization. CSA covers a wide variety of topics across ESG (but applies a sector-specific weighting and selection of topics and questions), while CDP focuses the questions on the topic in focus for the survey (CDP now has at least four separate questionnaires covering climate, water, forestry, and supply chain, but its climate response is the most well known).

The CSA results are used to rebalance the Dow Jones Sustainability Indices (DJSI), the S&P 500 ESG index (and others in this family), and the CSA scores are available on the Bloomberg Terminal, the Capital IQ terminal, and will be used going forward throughout the S&P Global organization. The CDP response is used to create your company's CDP scores, which are also available on the Bloomberg Terminal. They are often posted by companies on their websites as a disclosure document and used in many different institutional investor decision making processes. In addition, a comprehensive CDP response can significantly help a company get started on a good TCFD report as there is already significant alignment.

Organizations in this category are not really providing public disclosure guidance (as you would not develop your own public report using their frameworks) but are nonetheless very important to consider as you develop your entire ESG investment profile. The effort and information gathered during the response is extremely valuable and can be utilized in aspects of your public disclosure and/or ESG report.

ESG Convergence Trends

Several exciting initiatives are underway to align the leading sustainability reporting organizations and provide comprehensive guidance to companies on how to gather and report on data efficiently through the right channels to various stakeholders.

This collaborative work will help lead to more valuable information for investors and other stakeholders, and less confusion among companies and other players.

Two of the most promising initiatives include:

- Statement of Intent to Work Towards Comprehensive Corporate Reporting – This is an effort led by the leading sustainability and integrated reporting organizations (CDP, CDSB, GRI, IIRC and SASB), facilitated by the Impact Management Project, World Economic Forum, and Deloitte, to collaborate and develop comprehensive ESG reporting guidance that will allow companies to gather data on each topic once and then disclose in various channels using the best of each standard in a hybrid approach.
- IFRS Foundation Consultation Paper on Sustainability Reporting – IFRS has published a consultation paper which explores whether there is a need for global sustainability standards, whether the IFRS Foundation should play a role, and what the scope of that role could be. IFRS has received 462 publicly available pieces of feedback.

These initiatives build upon previous initiatives such as (a small sampling, there are many more):

- Corporate Reporting Dialogue (CRD)
- GRI and SASB Collaboration Promoting Clarity and Compatibility in the Sustainability Landscape
- Converging on Climate Risk: CSDB, the SASB, and the TCFD

These convergence efforts are also critical in creating the foundation by which disclosure regulations can be enhanced, created, and implemented.

The Outlook for 2021

In practice, there are many companies spearheading hybridized standard approaches to their ESG reporting.

We look forward to the continued progress that these initiatives are pushing forward to formalize alignment, convergence, and guidance that will come out of them. They will help to mature and accelerate the progress being made by leading companies already experimenting on how to best report on ESG.

Neil Stewart, Director of Corporate Outreach at SASB, believes, "the IFRS Foundation potentially creating a global sustainability standards board is the biggest thing to happen to accounting since the creation of the IFRS."

Stewart also made it clear that "this type of comprehensive guidance on standardized disclosure should make ESG reporting less burdensome to companies, lead to less confusion, and increase the quality of data to investors."

SASB and IIRC recently announced that they will merge by mid-2021 under the umbrella of the Value Reporting Foundation.

One goal of this merger is to help move closer to the ideals of the "Statement of Intent to Work Towards Comprehensive Corporate Reporting" of the "big five" sustainability reporting standards organizations (now in effect only four). Stewart noted, "SASB Standards and the IR framework will remain separate but complementary tools."

These convergence efforts are also critical in creating the foundation by which disclosure regulations can be enhanced, created, and implemented. As we've seen in various regulations around the world (such as the EU Directive for Non-Financial Reporting), the regulators are not looking to create another standard, but to reference and build upon the industry best practices already being implemented.

Stewart adds, "There is no better time than now to make this happen – pent-up demand from the investment world at large should help to remove the barriers which have kept this from happening in the past."

These types of efforts among the leading players in the space, combined with investor and societal demand, and a new SEC chair could push the needle forward on mandated disclosures.

A Historical Comparison

What we are seeing today has some parallels to the maturing of financial disclosure. Less than 100 years ago, before the stock market crash of 1929, publicly traded companies were not even required to publish financial disclosures. There were various attempts by forward-thinking companies to voluntarily do so in response to investor demands – and even without definitive standards (such as GAAP and FASB).

After the 1929 crash, the SEC was granted authority by the U.S. Congress to set standards and accounting practices and corporate financial reporting. Congress then by law delegated this responsibility to industry groups that now make up FASB and GAAP.

In 2021, I believe that this is where we are heading with ESG disclosures. It's been a long time coming, and the time is now! IR

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The Surging Volume and Velocity of ESG Investing

BY HANK BOERNER

How quickly has ESG investing accelerated and how big has it become? What are the priorities of ESG-based investors? Learn the answers from a new industry survey.

The continuing implementation of environmental, social, and governance (ESG) investing strategies, policies and methodologies by investors, lenders, insurance companies, and other financial players continues to reshape the corporate competition for capital.

In 2021, ESG is no longer a niche activity for U.S. professional money managers. Institutions with ESG approaches include BlackRock (the world's largest asset manager), State Street/SSgA, Vanguard, T. Rowe Price, TIAA-CREF, CalPERS, CalSTRS, New York State Common Fund, New York City's pension funds, and the world's largest sovereign wealth fund (Norway, managed by Norges, with $1 trillion-plus AUM and investments in thousands of equity issues). The Norway Sovereign Wealth Fund has inspired other sovereign wealth managers to embrace ESG investing approaches – this is an estimated $7 trillion market for assets under management (AUM).

ESG Investing Reaches New Heights

How can we understand better the details of the increasing volume and velocity of sustainable investing and the impact on U.S. publicly traded enterprises?

Every other year, the trade association of asset managers focused on sustainable investing – the U.S. Forum for Sustainable & Responsible Investment (US SIF) – through its foundation publishes a trend report charting the professionally managed ESG-related AUM by financial institutions and their money managers.

The figures are based on data and information collected from hundreds of interviews with financial professionals who manage money. The latest results were presented in November 2020 in the "Report on U.S. Sustainable and Impact Investing Trends 2020." Key findings include:

- At the start of 2020, professionally managed assets in the United States following ESG methodologies and practices totaled $16.6 trillion.
- ESG-based investing represents one of every three dollars of professionally managed assets held by institutions, money managers, or investment companies in the United States (accounting for $16.6 trillion of the $51.4 trillion total AUM of all managed U.S. assets).
- ESG-based investing increased 43 percent over the results shared in the 2018 Trends report, which charted $11.6 trillion in ESG-managed funds at start of that year.
- Demonstrating the steady growth and expansion of this investment trend over time, the 2020 results were 25 times the amount reported in the first Trends report in 1996 when "sustainable and responsible investing" was beginning to accelerate. (In that first Trends report, the total AUM was identified as just over $600 billion.)
- From 1996 to 2020 this represents compounded growth of 14%. The most rapid growth has been since 2012.
- Asset and money managers said they were considering ESG issues in their management of funds across a range of assets, and many managers also filed shareholder-sponsored resolutions on ESG issues.

The US SIF Foundation survey was conducted throughout the year 2020 and was released in November. Despite the many challenges presented to corporate management teams and capital markets professionals in the COVID-19 pandemic and accompanying economic dislocations and civil protests, these challenges did not slow down or deter ESG investment – the opposite happened. The crisis caused investors to look more closely at "human capital management" policies and practices of public companies.

The expected shifts in federal policy after January 2021 is another factor; President Joe Biden identified dealing with climate change as one of his administration's four top priorities. The civil unrest in 2020 and intensifying focus on diversity and inclusion are other ESG issues drawing the attention of investors.

While the SEC has proceeded cautiously on requiring ESG-related disclosures in recent years, institutions have steadily pressured the agency for action, such as requiring certain corporate ESG disclosures. The SEC response included some recent adjustments in the formalized updating of Reg S-K in 2020.

For example, Amendments of Items 101, 103 and 105 include "Human Capital" (management) disclosure requirements, or at least "green lights" to expand discussion (principles-based). This could include measures of objectives management focused on managing the business – assuring greater diversity, expanded employee training, workplace safety, and wellness. What happened in 2020 in the corporate sector in human capital management will be of keen interest to investors examining corporate reporting in 2021.

Investor Priorities

Asset owners and managers surveyed by the US SIF Foundation cited their intensifying focus on economic, social, and environmental factors in their investment decision-making.

Asset owners, for example, described how they were working to improve diversity and inclusion policies and practices in their own firms while also assessing how various ESG investments, investable products, and expanded shareholder engagement can make an impact on these issues.

Some survey respondents described the adoption of ESG strategies as a way to help their asset managers identify the more responsible, well-managed companies that will be resilient over the long term, for investment.

Asset owners and managers surveyed by the US SIF Foundation cited their intensifying focus on economic, social, and environmental factors in their investment decision-making.

Money managers described various ways to support companies and creation of investable products that can help advance environmental and social issues – including investment beyond the large money center banks into institutions such as community banks and credit unions.

ESG investing was described as being on an accelerating growth path in 2020, a period in which sustainable equity funds and sustainable taxable bond funds were very often outperforming their peers, according to the US SIF Foundation analysis.

Top Concerns of Sustainable Investors

What were the top ESG concerns of these investment professionals in 2020?

Respondents cited climate change and carbon emissions of companies (this was the number-one issue for many asset managers). Other issues cited included anti-corruption measures of companies, boardroom issues (especially the diversity of boards), executive compensation, conflict risk (including the risk of terrorism and firms doing business in nations with repressive regimes, and resulting social issues that arise), and sustainable natural resources and agriculture-related issues.

Some of the managers interviewed are also with firms that are active in filing shareholder proxy resolutions on ESG issues.

Climate Change: The 2021 Top Issue

In terms of asset-weighted issues, climate change ranked number one among money managers. These investor concerns are certain to increase as the Biden Administration refocuses on climate change issues in 2021.

Keep in mind that the federal government is the largest buyer of goods and services in the nation. The shift to a new administration sharpens the focus on ESG issues in government operations and for many firms presents challenges and opportunities to become preferred suppliers to the federal government. Investors will respond to that in examining risk and opportunity in portfolio companies.

The "Fourth National Climate Assessment Vol I + II," published in November 2018 by ClimateChange.gov, will be the primary knowledge source for federal government action (assessment of risks and facts for decision-making). This is worth scanning for the potential impact on risk and opportunities for public companies to prepare for conversations with investors.

Investors will be carefully watching the new administration's moves on climate change and related issues as the United States rejoins The Paris Agreement.

The climate change moves early in the Biden Presidency could further accelerate the growth of sustainable investments in various asset classes in 2021 and 2022. Think about the "greening" of infrastructure projects and continuing shifts in federal, state, and local policies on renewable energy and energy conservations.

The Low-Carbon Economy

The buzz in the capital markets of North America and Europe has steadily increased about a "lower-carbon economy" and what that means for public companies and the capital markets.

For example, this could mean more emphasis on production of electric vehicles and a move away from manufacturer reliance on traditional fossil fuel-powered engines, the possibility of more solar and wind installations to power utilities as part of a federal or state infrastructure stimulus, and perhaps greater emphasis on energy conservation in facility and transport operations.

Federal financial investment could accelerate the growth of "green finance."

Each of these moves would affect investors as they weigh risk and opportunity in their portfolio.

The US SIF Report as Guidance

For capital markets professionals in various asset classes, the numbers revealed in the US SIF Trends report and the issues identified by survey respondents traditionally become widely used foundational references and have tended to accelerate the moves by investing in adopting ESG investing approaches.

The impact on the policies related to corporate disclosure in turn reflect the response of corporate boards and management teams to investor "needs and wants" of ESG information.

Beyond the disclosure of the financials in the traditional corporate disclosures (such as in the Form 10-K and proxy statement), the positioning of one's company as sustainable, resilient, responsible – and suitable for ESG investing – is an important consideration for IR professionals, boards, and the C-suite to keep in mind in 2021. IR

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US SIF Survey Respondents

The investment professionals surveyed by the US SIF Foundation in 2020 included managers at independent asset management firms, index and benchmark managers, public employee pension systems, insurance companies, educational institutions (such as endowments), foundations, broad-based healthcare institutions, faith-based institutions (many are members of the Interfaith Center on Corporate Responsibility), family offices, and community-based not-for-profit organizations.

The survey generated responses from nearly 400 money managers, more than 500 institutional managers, and more than 1,000 community investing organizations.

The respondents were investment professionals managing funds for retail customers ($4.6 trillion) and institutional owners ($12 trillion). Managers of mutual funds, exchange-traded funds, and annuities accounted for $3.1 trillion. Private equity, venture capital, and alternative investment vehicles comprised $700 billion in AUM. Almost $1 billion was held in money market assets.


SUSTAINABILITY
ENVIRONMENT
FUTURE
NATURE
ECONOMIC
SOCIAL
RESPONSIBILITY
EQUALITY
ETHICS

A PRACTICAL APPROACH TO ESG FROM A CORPORATE VANTAGE POINT

Launching and maintaining a successful ESG reporting program requires internal and external strategies and resources.

BY PAMELA STYLES

Environmental, social, and governance (ESG) issues and associated reporting on ESG practices to external stakeholders are increasingly important to investor relations professionals and their companies. While still voluntary in the United States, ESG reporting is increasingly demanded by investors and other stakeholders.

This article explores a practical understanding and approach to ESG for IROs. It explores these areas:

- Internal opportunities and pitfalls such as internal operational realities, individual expert professional capabilities, staff capacity, and team cooperation.
- External perspectives including the optimal use of voluntary ESG reporting standards and frameworks; ESG ratings and ranking organizations and third-party influencers; and ESG data suppliers.
- Resource allocation and budgeting and the need for focus and prioritization.

Ultimately, the goal is to establish a public ESG profile of your company that is right-sized, defensible, and constructive for your company in competition with its peers.

Internal Opportunities and Pitfalls

To gain internal buy-in and commitment to ESG, consider emphasizing these points to executive leaders, subject matter experts (SMEs), and your team members:

- Benefits of ESG in recruiting and retaining talent to reduce turnover.
- Another way to monitor supply chain sustainability.
- Opportunities to attract and retain investor interest.

- Rise in ESG focus from fixed-income investors that is rapidly catching up with equity investment.
- Potential to lower your company's overall cost of capital. (The CFA Institute recently surveyed investors and found, "Among practitioner survey respondents, 73% expect the influence of ESG ratings on firms' cost of capital to be greater in the next five years.")
- New strategic opportunities to differentiate your company and gain competitive advantage.
- Access to favorable financing and investing opportunities not previously attempted on the asset or liability side of the green bond world.

Build Your Team

Gaining support from your company's board of directors and C-suite is critical. Remember to also get needed support from departments such as corporate communications, human resources, environmental and health services, community affairs, finance, and legal, all which may play an important role in gathering, reviewing, and approving ESG disclosures.

Crawl, Walk, and Then Run

If your ESG reporting program is new, keep it tight. Increasing investor expectations for ESG disclosure can create pressure and sustainability reports can take on a life of their own.

It is better to start small and build on sustainability disclosure each year as opposed to immediately publishing a long sustainability report that is loaded with greenwashing and information that investors do not need.

If your company's core ESG disclosure is well organized, it can be communicated in many manageable ways and combinations including websites, stand-alone topic collaterals, corporate policies and position papers, KPI content indexes and/or sustainability reports, and proxy statements, which are growing in popularity for expanded sustainability-related content).

There is nothing cast in stone that says your company must produce a sustainability report immediately out of the starting gate. Instead, you can take a building-block approach, as your SMEs are able to support you in appropriate disclosure and performance progress on dedicated topics. A modular approach can provide flexibility initially and for ongoing updates, to align with limited resource availability and budget considerations.

Producing a full sustainability report initially can be daunting, so look for other means online that may be instructive. For example, British Petroleum (BP) provides a simple ESG data sheet on its website to point stakeholders to ESG performance data and ESG-related publications.

If your company has already produced a few years of sustainability reports, the BP example could also be helpful in considering how modular updates can spread out sustainability-related disclosure updates throughout the year, smoothing out internal resource assignments and controlling needs for increased budget allocations.

Consistent with the modular approach concept, the Global Reporting Initiative (GRI) shifted its ESG Standards to a modular format a few years ago to allow companies greater flexibility.

There is no need to reference more than one reporting framework for your inaugural effort, but you may find that several subcategory KPIs in the primary framework chosen have parallel KPIs in other frameworks (i.e., CO2 emissions) that enable selective reference to other frameworks and respective KPI numbering systems.

GRI provides information about linking GRI reporting to other frameworks and reporting guidelines. A current example of this approach can be found on page 9 and an appendix in the recently published FIS Sustainability Report. Also realize that it is not necessary to respond to every KPI included in any of the voluntary framework standards guidelines. In fact, Nasdaq suggests smaller companies attempt to just focus on 30 KPIs initially and build from there.

Avoiding Pitfalls

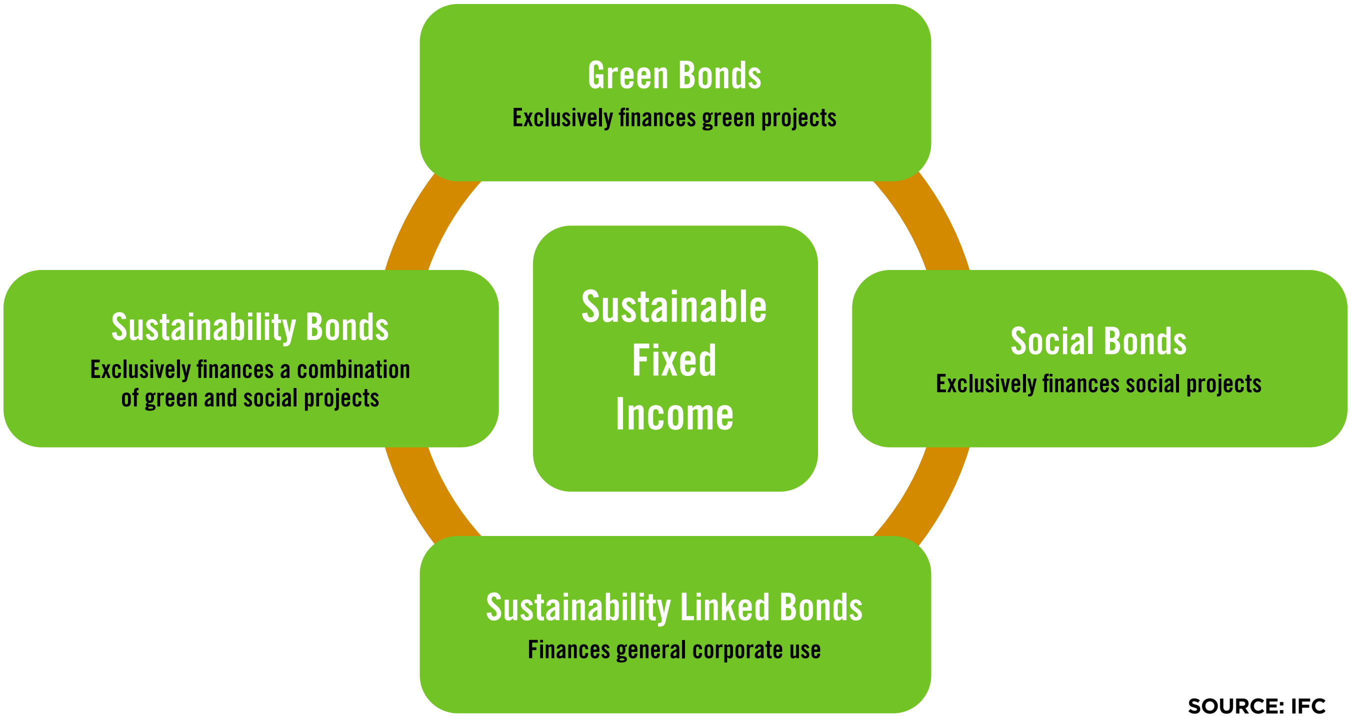
What are some common pitfalls in ESG reporting? The structure of reporting systems and incompatible (or difficult to gather) data are two that are often encountered.

Take a moment to shift from a "glass half empty" to a "glass half full" mindset to address these challenges.

First, review what your company already discloses or will soon disclose in its public SEC filings. Where is this information consolidated internally, how is it done, and who controls it? Think about how to coordinate use of this information in your company's voluntary sustainability report and collaterals.

The SEC will soon require greater disclosure related to human capital and human capital management (also check for other germane ESG-related interpretive SEC guidelines), so that is an opportunity to align your information to meet these new mandates.

A recent article titled, "ESG Disclosure Trends in SEC Filings," published by the law firm White & Case, provides a trove of other examples where you may find existing consolidating systems and disclosures. The article authors indicate, "[While] the trend



SOURCE: IFC

towards increased ESG disclosure in SEC filings is pronounced . . . companies should assess their investors' policies and consider engaging with investors in order to determine which ESG information about their company is important to them . . . [and] carefully consider where to place the ESG disclosure. Investors seeking ESG information do not necessarily expect any or all of that information to be presented in SEC filings, and sustainability disclosure on corporate websites can provide effective vehicles for this disclosure to investors."

Second, take a look at materiality and pare back. Just because your peers are disclosing various aspects of ESG is not necessarily a reason for your company to do so. This is where it is vital to get your CFO on board with the internal ESG team efforts.

Third, have confidence that third-party raters, rankers, and data providers have adapted their proprietary databases and analytical frameworks to take in inputs from whatever voluntary ESG reporting framework(s) a company chooses to use. Their analysts already know how to "map" the different voluntary KPI numbers to their proprietary system(s) purpose.

External Perspective

Prioritizing which reporting framework(s) to reference, which investors to target, which raters and rankers to heed, which data providers (and now artificial intelligence analysis tools to monitor) is a challenge, since the collective third-party influencers with respect to ESG keep shifting as the field continues to mature.

A few recent announcements from 2020 capture just how fluid things are in the ESG area:

- November 25: SASB announced it will merge with IIRC, their combined entity will be called The Value Reporting Foundation.
- November 17: Deutsche Börse announced it will acquire ISS.
- October 20: Data provider FactSet announced it is acquiring TrueValue Labs, a pioneer in AI-driven ESG data.
- October 11: ISS announced it will acquire FICO® Cyber Risk Score Business.
- September 22: The Big Four announced a joint initiative to unveil a coordinated ESG reporting initiative together with the International Business Council (IBC) that entails 21 core metrics and 34 extended metrics, in their drive to create a common accounting framework.
- September 11:CDP, GDSB, GRI, IIRC and SASB announced they would join forces to work together toward comprehensive [ESG] corporate reporting.
- August 19: CFA announced plans to develop its own ESG disclosure standards framework.
- July 13: GRI and SASB announced a collaborative workplan to help stakeholders better understand how the standards may be used.

Standards and Frameworks

There have been over 100 ESG standard-setting initiatives to date. There have also been many ESG partnerships and association initiatives that address various environmental and social issues, themes, and hot topics germane to the sector.

See the article, *"The Complexity of ESG Reporting Frameworks, Emerging Convergence Trends,"* by Louis Coppola, EVP at the Governance and Accountability Institute, on page 12 of this issue for a more detailed perspective on reporting frameworks.

In the process of prioritizing which framework(s) your company chooses, make sure that those third-party raters, rankers, and data providers that your company or board follows closely are aware of newly released company ESG updates and make sure they are easy to find on your company's website. Don't be shy to contact them directly to ask for a re-review of their ratings/rankings on your company, if your team has achieved substantial additions to your company's ESG-related disclosures.

Third Parties and AI

There are hundreds of third-party raters, rankers, and data providers out there too that are consuming whatever ESG information they can find on your company.

Including a framework content index at the end of your sustainability report or publishing a content index on your company's website, even before investing time and expense into producing a full sustainability report, can go a long way to making sure your company's ESG efforts and performance progress can be easily accessed by external stakeholders.

The emerging application of artificial intelligence to ESG makes it especially important for your company's ESG reporting to be well organized and easy to find and "read."

Emerging Investment and Fixed Income Opportunities

There is a burgeoning arena of green and sustainable fixed income opportunities through the bond and loan markets. One example of a forerunner in this approach is the International Finance Corporation (IFC), the private sector arm of the World Bank Group (WBG), that provides loans and equity investments to companies that meet or demonstrate a commitment to robust environmental and social performance standards. On the other side of its balance sheet, IFC has led the creation of AAA-rated sustainable bond opportunities for investors seeking to embed ESG criteria in their portfolios.

Esohe Denise Odaro, Head of Investor Relations at IFC, says, "One of IFC's institutional mandates is capital market development, so sustainable and green capital market products are a natural haven for us given our long-established efforts in the ESG domain. The market recognizes that our clients are held to stringent environmental and social values."

Working with Global Pension Investment Fund (GPIF), the largest pension fund globally, IFC and the WBG published a report that makes practical recommendations to support the broadening of ESG investing across fixed income asset portfolios.

Resource Allocation and Budgeting

Up-front work to assess the scope, scale, scheduling, and expectations regarding your ESG disclosure and positioning efforts, whether inaugural or advanced, can make a huge difference in cost, return on effort (ROE), and return on investment (ROI).

ESG disclosure efforts can be expensive but maximizing internal resources can contain costs as much as possible.

Since ESG disclosure, voluntary reporting, and proprietary framework mapping can get exponentially complicated, it is very important to take the time up front to conduct some level of peer benchmarking and materiality assessment of your company's risk and impact profile.

Be brutal in prioritizing only those aspects that are truly material to your company and be bold to clearly indicate when any individual KPI is not relevant. The latter is important for third-party raters, rankers, and data suppliers to know, so they don't ding your company for non-disclosure or, worse, attempt to interpolate an answer to fill in the blank by looking at what some other sector peers might have indicated.

Third-party raters, rankers, and data providers have adapted their proprietary databases and analytical frameworks to accept input from voluntary ESG reporting framework(s) or other sources of company ESG-related disclosures. So, if it is an established framework, their analysts and system logics should know how to map different KPI numbers and responses into their proprietary system(s).

Be watchful that these third parties do not try to get your company to do their work for them to populate their databases, which then becomes your staff cost instead of theirs.

The ultimate reward to hard work is to realize tangible and intangible return. Having a right-sized and defensible ESG positioning for your company can open unexpected doors and strategic opportunities. IR

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How to Respond to Buy-Side ESG Priorities in 2021

There is more to ESG disclosure than checking a box. Learn what buy-side investors are saying about how companies need to demonstrate their commitment to ESG. BY ELIZABETH SAUNDERS

Traditionally, investors have viewed a company's environmental, social, and governance (ESG) policies as a way to reduce risk. Companies that demonstrate that they are taking these issues seriously – for example, by disclosing plans for addressing the impact of climate change or by proactively reporting on the diversity of their boards and workforces – are, in the view of many investors, a safer bet.

The COVID-19 pandemic has borne this out. During the first quarter of 2020, while other markets were starting to feel the backlash of the pandemic's impact, ESG funds experienced record inflows. Were these companies seen as more capable of handling severe crises because of their overall focus on sustainability? Probably.

But the trend toward socially responsible investing was gaining significant traction long before anyone ever heard of the coronavirus. In the United States in 2020, one of every three dollars of professionally managed assets were invested under an ESG mandate. Some estimates expect that number to increase to about half of all managed assets by 2025.

That's a lot of money. And it's a lot of support for the idea that there's much more to good ESG practices than just risk reduction. Indeed, more and more investors are starting to see ESG through a lens of opportunity.

Impax Management, for example, asks three questions when evaluating an investment:

- Which markets in the future will be better positioned in the transition to a more sustainable economy?
- How are individual companies within those markets managing their risk? Within risk, how are they thinking about E, S, and G issues?
- Does the company understand its particular challenges and focuses, and does it have a plan to manage or take advantage of them?

The firm places a high value on companies that report in alignment with the Task Force for Climate Related Financial Disclosure (TCFD) framework.


2021

"Investors should pay close attention to how regulators are responding to the recommendations of TCFD, which is framing how companies and investors alike are reporting on ESG," says Iann Simm of Impax Asset Management.

Give Investors Every Reason to Invest

So, what does it all mean for your ESG disclosures in 2021? While mitigating risk through responsible ESG practices remains critical, demonstrating the tangible advantages of your policies through additional and more robust disclosure will earn you even more credit going forward.

Here are some ways to capitalize on the full value of your ESG efforts:

Align with a reporting framework. In his January 2021 letter to CEOs, BlackRock Founder, Chairman, and CEO Larry Fink recommended for the second year in a row reporting using the TCFD framework and Sustainability Accounting Standards Board (SASB) standards. This mandate from the largest global investor is clear: investors rely on frameworks. And, while they are technically voluntary, using them can help your company succeed in reporting on material ESG issues while ensuring you are telling investors precisely what they want to hear.

Currently, more than 550 companies have adopted SASB industry-based standards, which are specifically designed to measure the financial impacts of sustainability. And 9,600 issuers are using CDP questionnaires to disclose the environmental impact of their actions specifically around greenhouse gas emissions, water resources, and forests.

Increase engagement around material issues. Buy-side investors tell us that many companies put too much emphasis on their ratings. While these numbers are important, they don't always speak for themselves. By their nature, ratings boil many factors down to a single letter grade. They are backward looking. And they focus only on what can be measured (disclosure) versus what should be measured (action).

That's why engagement is so important to investors. They want to hear directly from management teams about what is actually being done, and why, regarding the most pressing ESG topics. Engagement increased around key topics in 2020, and investors anticipate even more constructive and collaborative communications with company leaders in the upcoming proxy season.

The E: Move beyond environmental goals to share specific actions. In the spirit of increased engagement, investors specifically want to know how companies plan to reach their goals related to greenhouse gas emissions, water, and other natural resources. While investors commend the companies that have published 2030 and 2050 goals and shared their base year data, now look for more specific plans on how companies plan to achieve those objectives. Investors understand that substantial changes are a process and that companies need to factor in the impact on margin, meaning that gains may be gradual in some cases. But they expect to see well-thought-out strategy, a roadmap, and a timeline for reaching the goal.

The S: Set the bar with your human capital disclosure. With the recent revision of Reg S-K disclosure requirements by the U.S. Securities and Exchange Commission, companies need to increase what they share about their human capital. While the requirements are not as straightforward as many companies would like, this is an opportunity for organizations to share meaningful and detailed information with investors.

Again, action will matter here. You should disclose details around specific efforts your company is making to optimize the value of your people, such as diversity and inclusion hiring practices. Paint the picture of your employee engagement programs by sharing information training and development initiatives, including descriptions of employee resource and affinity groups, and disclosing particulars around cultural and benefits programs. Sharing workforce demographics and employee promotion and retention numbers can help demonstrate the impact of these efforts. Even if the metrics aren't strong – yet – your narrative can go a long way in showing your commitment to making them better.

If you feel like you need help in this area, ask your employees. Employee and stakeholder surveys can help you self-identify areas of opportunity for further disclosure while increasing employee alignment in the process and improving management receptiveness to the workforce.

The G: Make sure your board is fully on board. If you've been wondering about the importance of board oversight on ESG topics, BlackRock has clarified the issue in no uncertain terms. In its 2021 Stewardship Expectations, BlackRock explicitly stated that the board will be held directly accountable wherever ESG business practices or disclosures fall short of expectations.

State Street Global Advisors seconded that sentiment. A recent letter from CEO Cyrus Taraporevala clearly laid out his organization's intention "to hold boards and management accountable for progress on providing enhanced transparency

When it comes to ESG, it's no longer enough to just show investors that your head isn't in the sand. Good ratings will continue to matter. But investors want to see that ESG is more than a well-worded policy on your website. They expect real action and real commitment on material environmental, social, and governance issues.

and reporting on D&I."

In other words, general statements of risk oversight will no longer be enough. Furthermore, both of these institutional investors make it crystal clear that their voting policies will be directly aligned with the intent of their statements.

Show how your policies extend past your front doors. It's one thing to have solid ESG policies in place within the confines of your business where you have complete control. It's another thing entirely to extend your standards to your suppliers, especially if you partner with thousands of other organizations.

Still, investors expect to hear how you are managing your supply chain. Ideally, they want to see that your suppliers' behavior and codes of conduct align with your own. Obviously, the more suppliers you have, the more challenging this will be. Investors will appreciate a clearly written policy and a standard for engagement as good places to start.

Beware of the potential for activism. Investors clearly want more disclosure and more engagement around key sustainability issues – the E, the S, and the G. And some buy-side investors aren't afraid to use the absence of such information as a wedge for activism.

Specifically, BlackRock has supported 50% of environmental and social shareholder proposals since July 2020, expressing that the proposals it supports are aligned with its goals of long-term value creation. The message BlackRock is sending is this: if it perceives that management is not adequately addressing material business risks, or even if a company is just not making enough progress on an issue, it will side with the shareholders to help drive more specific action.

Engine No. 1, a newly launched ESG activist fund, recently announced plans to nominate four people to the Exxon Mobil Board of Directors, calling for Exxon to set carbon emission reduction targets and shift to a new strategic plan focused on an accelerating energy transition. The California State Teachers' Retirement System (CalSTRS) pension fund and the Church of England's investment fund are public supporters of these nominations. D.E. Shaw, a large activist fund, is concurrently asking Exxon, among other things, to improve its environmental reputation.

Make 2021 your most transparent year yet. When it comes to ESG, it's no longer enough to just show investors that your head isn't in the sand. Good ratings will continue to matter. But investors want to see that ESG is more than a well-worded policy on your website. They expect real action and real commitment on material environmental, social, and governance issues. And they will look for hands-on involvement from the board. Robust, detailed disclosures along with collaborative engagement will be the keys to sharing your ESG story in a way that attracts more investors this year while helping to keep activists at bay. IR

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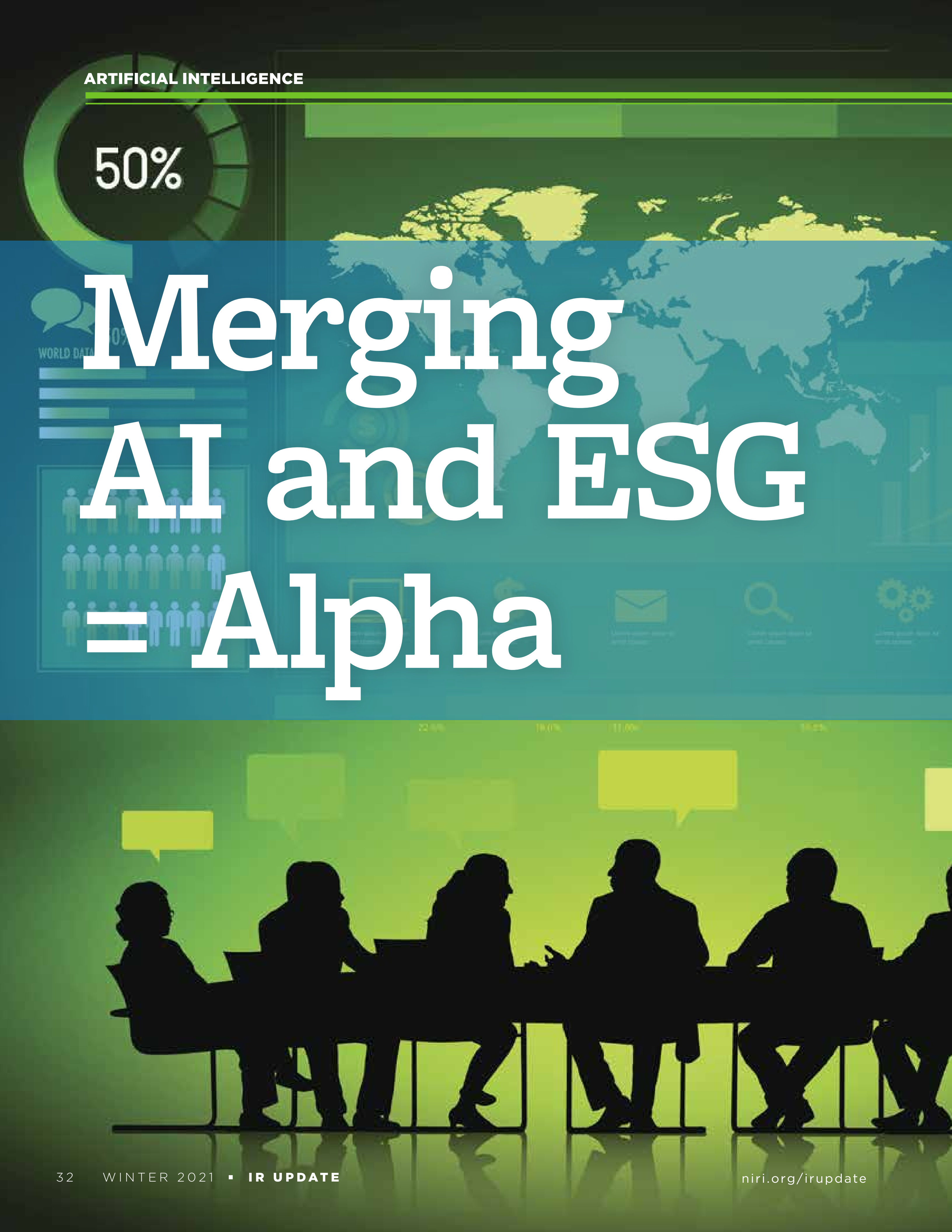
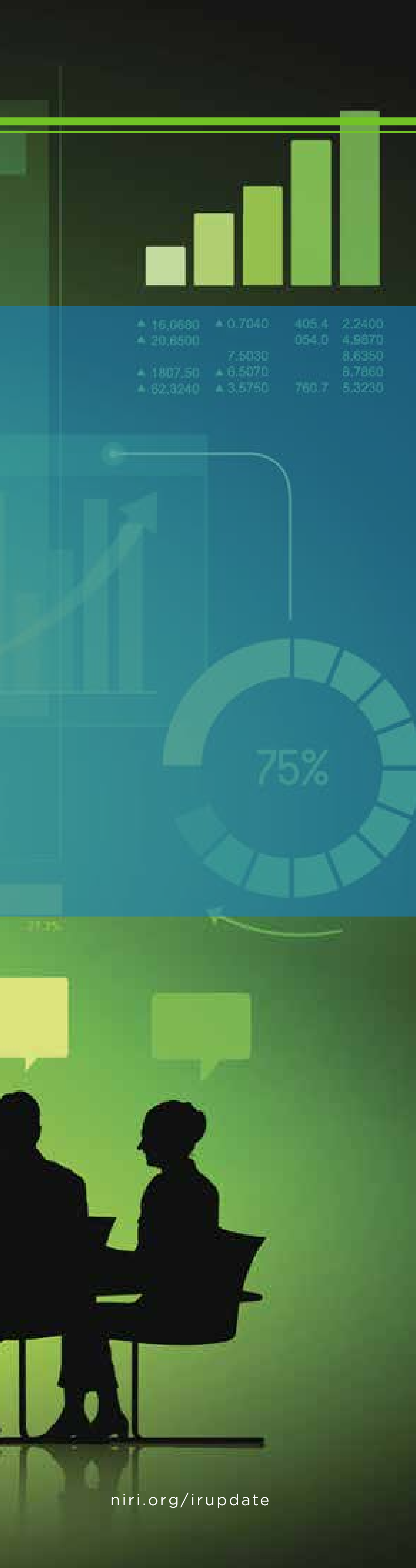
Merging AI and ESG = Alpha





A financial journalist, a buy-side ESG portfolio manager, and an ESG ratings agency executive provide insight on how AI is influencing ESG reporting and investor decision-making. BY ALEXANDRA WALSH

Investors are increasingly using natural language processing to analyze public company environmental, social and governance (ESG) disclosures to evaluate whether companies are backing up their claims with action.

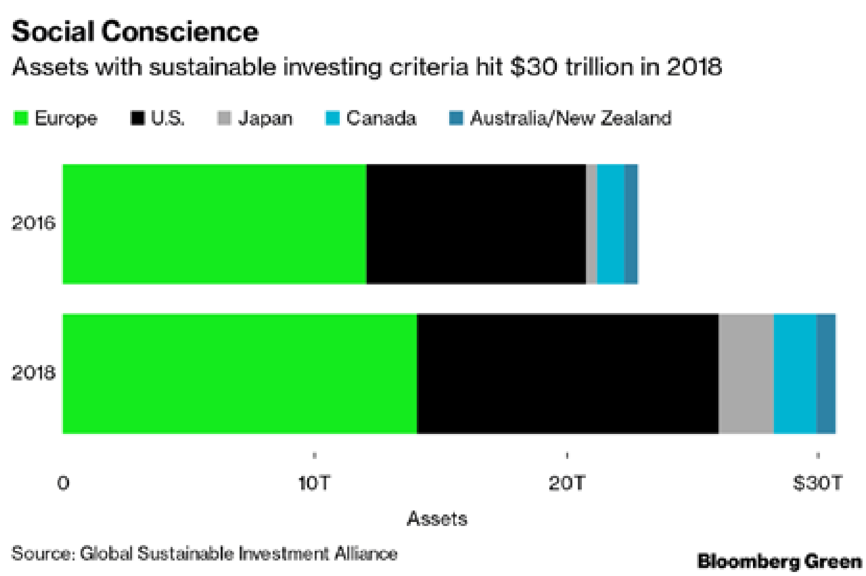
Some investors are leveraging artificial intelligence (AI) and ESG data to improve sustainable investing decisions and achieve alpha, or excess returns earned on an investment above the benchmark return.

During a session at the virtual NIRI Big I Investor & Issuer Invitational Forum event in Fall 2020, a sustainability-focused finance journalist led a discussion on AI and ESG with the ESG portfolio manager at PanAgora Asset Management and the executive responsible for ESG engagement at Moody's Corporation. They examined why AI and ESG are megatrends, the risks and opportunities afforded by merging these trends, and what companies can do to facilitate this evolving investment style.

ESG is Here to Stay

Journalist and session moderator Emily Chasan noted that ESG is a growing source of investment. "We are seeing a huge increase in assets that use some source of sustainable investing criteria, probably $1 out of every $5 in any market, and lots of ways investors are using this determination," she declared.

Chasan acknowledged that ESG information is complex and not the same



as traditional financial data where earnings are a common indicator of company success. "ESG data is more like the 'wild West,' she observed. "It might be 10% accurate and not comparable company to company or quarter to quarter – but it's getting there."

She added that standardization of ESG data is coming into the market to make it more relevant, and she sees that as an opportunity for AI.

AI + ESG = Alpha

Mike Chen, PhD, Director of Sustainable Investment at PanAgora Asset Management, concurs that ESG and AI are big trends in the marketplace and believes, "They actually go very well together."

As an example, Chen pointed to research conducted by his firm that uses an AI technique to look at one aspect of ESG – company culture. "It is vastly important in determining if a company will be successful in the long run, but it is somewhat intangible and difficult to measure if the company has the correct culture for its industry," Chen said.

He explained that the research used natural language processing combined with a study that identified dominant cultures frequently mentioned in executive speeches. The research showed it was possible to evaluate whether a company has the right culture to reasonably expect it can outperform the market in the immediate future. "This is how we apply AI to ESG issues to generate alpha," he said.

> **"Combining AI with relevant ESG frameworks and metrics can enhance data consistency, reliability, and transparency."**
>
> **Martina Macpherson,** MICRS, Senior Vice President ESG Engagement, Moody's Corporation

Systemic Risk

"Combining AI with relevant ESG frameworks and metrics can enhance data consistency, reliability, and transparency," explained Martina Macpherson, MICRS, Senior Vice President ESG Engagement, Moody's Corporation. "This allows investors and corporations to better understand and mitigate risks and establish resilience to identify, evaluate and engage on risks and opportunities."

Macpherson noted that Moody's is assessing developments and relaying economic solutions linked to some of the next generation of AI and ESG data and assessment tools. "The idea is to provide some perspective and establish the means to trust a company's data, good governance and leadership, when using this information," she suggested.

She pointed out that as demand for ESG investment is accelerating along with passive and factor-based investing, there is a clear demand for AI-driven sustainability data management: "Ultimately, there is a need for more quantitative and qualitative information and data metrics that can be linked to rules-based approaches and frameworks. We need to see ESG research as a driver and an enabler for systemic ESG risk and opportunities analyses – that in turn will enable us to identify and measure how companies are managing risks and opportunities associated with sustainability."

More Data is Better

In general, public companies are recognizing that sustainability information disclosure is becoming more important, Chen says. But, he adds, the amount of data a company discloses, including ESG, has an impact on how ESG scores are generated for that company.

"Certain score providers give missing data a non-score, which doesn't impact the rating, but other score providers may give missing data a negative score," he explained. "There's a very natural behavioral bias observed in financial data disclosure, and we're seeing it in sustainable data disclosure. The bias is, all else being equal, if there's something I don't know about a company, I'm probably going to assume the company is not measuring well on that aspect."

Chen conceded this can put smaller cap companies – which might not have the same disclosure resources as larger companies – at a disadvantage.

A Move to Standardize

Chasan pointed out that BlackRock CEO Larry Fink used his 2020 annual letter to CEOs to ask companies to publish disclosures aligned with the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD).

Macpherson acknowledged TCFD reporting is up, but questions whether the reported ESG data is financially material, clear, comparable, and consistent with what has been reported over time. "Can we see a trajectory of change that is really measurable?," she asked. "Is all relevant ESG information being disclosed on the corporate side? Is ESG reporting data biased by whether it is issued by the CSR team versus the CFO team? What about investors that take raw ESG data and build their own scores? These are important questions and part of the equation."

In addition, Macpherson noted that studies reveal the average correlation among ESG rating agencies in corporate and issuer assessments is just 61%. Meanwhile, credit rating companies come to a correlation of 99% among these different kinds of issuers or entities.

"With these types of normative standards coming together, we will definitely see more alignment," Macpherson predicted. "Ultimately, the big question is whether the alignment of standards and frameworks can help you."

In Europe, there is also standards alignment on the regulatory front. Macpherson explained the EU has issued guidance in its Sustainable Climate Action Plan that includes the green taxonomy, specifically looking at criteria and frameworks relevant to reporting, and has developed a consultation on non-financial reporting. In addition, she noted an EU Green Bond standard may be developed, creating further alignment in the green finance sphere.

"Ultimately this means large cap companies operating

Alternative Bottom Lines

Numerous terms are used for investments that consider social and environmental effects. Many are used interchangeably. Here's a guide.

TYPE	DEFINED BY	RELATED TERMS	EXAMPLES
Exclusionary Screening	Avoiding entanglements in enterprises that conflict with an investor's values	Divestment, Negative Screening	Excluding from a portfolio companies that produce tobacco or fossil fuels
Environmental, Social, Governance (ESG)	Using these factors alongside financial ones to make investment decisions	Positive Screening, Active Ownership	Choosing stocks based on ESG ratings and engaging with management to improve them
Impact Investing	Targeting a specific environmental or social outcome while seeking a market-rate return	Double-bottom Line Investing, Thematic Strategies	Investing in companies that aim to expand renewable energy, sustainable agriculture or affordable housing
Values-Based Investing	Making investment choices based on political, religious or philosophical views	Faith-Based, Responsible, Ethical or Mission-Related Investing	Sukuk, an instrument similar to a bond that complies with the Islamic prohibition against charging interest

Sources: State Street Global Advisors, BlackRock Inc., US SIF

BloombergQuickTake

globally will have to consistently report in alignment with EU guidelines," Macpherson suggested. "Hopefully, over time, regulatory and normative standards alignments will lead to more clarity, comparability, and consistency of information."

Other AI Applications

Another way AI can be applied to ESG is in quantitative investment strategy. Quantitative investors are interested in AI as more data and new techniques help uncover and validate perceived relationships between data and subsequent asset returns.

"There are two things quants do very well by the nature of our business – first, we're very adept at getting and using publicly available non-standard data," Chen observed. "And second, quants are able to apply relatively sophisticated algorithms in order to extract insight from complicated, unstructured data sets, such as executive speeches. Slicing, dicing, and comparing things is a traditional practice for quant investors and this can all be applied to ESG data, which is often non-standard and missing information."

ESG is increasingly important in credit ratings. Macpherson explained that Moody's provides ESG and climate insights across three main areas: standalone ESG, sustainable finance and climate risk solutions via acquired affiliates, transparent and systematic integration of ESG consideration with the rating agency, and ESG data and insights integrated into Moody's Analytics' risk management solutions.

"We are looking at how to utilize AI for screening as well as establishing connections and relationships between data points," she said. "We can detect hidden relationships and extract concepts and links across these data sources and gain valuable insights that might otherwise go undetected. We are exploring how eventually this will enable us to close some of the information gaps we are seeing, including how controversies are handled."

Macpherson calls reputation risk management the big universal of the intangibles. "In order to identify when and how controversies can make an impact, and to provide a forward-looking perspective, you need AI to triage information to get a more comprehensive picture of the organization," she asserted. "That's where a lot of ESG research and rating agencies are focusing their efforts now – on how to harness AI for screening and ultimately connecting the dots."

The Next Frontier

Chen believes there is a lot of scope for ESG data and thinking around sustainability as well as quality of governance, precisely because they are very intangible.

"How companies are viewed by investors, and what companies can do to change investor perceptions, are intangible and complicated issues because they deal with humans and society, so the order of complexity automatically goes up." Chen reasoned. "This is where the difficulty is and, I believe, where the interesting breakthroughs will be."

Macpherson sees the future for AI and ESG in real-time information and the ability to triage news. Also, the need to know how and when to identify new types of information data sources.

"It's an ever-increasing search, especially for investors who are creating their own scores by taking different data streams, raw data streams, and trying to triage the information themselves to get real-time outputs and outcomes," she acknowledged. "I think the real frontier for ESG and AI is in these types of combinations of different data sources, and then how to derive conclusions."

Real-World Impact

"The real-world impact of ESG data is it allows investors and society at large to measure and quantify whether companies are doing the right thing for stakeholders, including employees, shareholders, and customers," Chen explained. "You cannot improve what you cannot measure."

Macpherson added, "Data and data science equally are making a real difference in the field of ESG where clarity consistency and comparability of information is concerned. But, it's important to keep in mind data privacy and security issues come with this type of information sharing. We need to ensure we're also working on trusted data and governance implications."

From an ethical standpoint, she observed it is essential to ensure that humans remain part of the equation, which is why human governance is playing an increasingly important role in debates about AI.

"Ultimately, decision-making on the research and rating side still requires the analysts to make decisions," she believes. "AI technology can screen a very large universe and access more and more data from different sources. But coming to a coherent and concise conclusion on how to use that information sits very much with analysts' capabilities within the rating organization or investment community."

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Exploring the W
of ESG Assuranc

Assuring the validity of corporate ESG data is an increasing focus of investors and ESG ratings firms. Understanding the process and potential providers is important.

BY GEOFFREY BUSCHER

Just when the call for issuers to report all kinds of sustainability metrics seems like it could not grow louder, there is yet another source of pressure: Environmental, social and governance (ESG) assurance – the call to have ESG data audited.

To be fair, certain constituencies have long called for companies demonstrate the reliability of the ESG data they report. CDP (formerly known as the Carbon Disclosure Project) comes to mind. But it is only recently that many investor groups have started pressuring companies to verify some or all of the sustainability data they report.

The notion of environmental sustainability is not new, even if many of us did not see it intersecting (some might even say flooding) our IR role until the past five to 10 years. The "Big Bang" for the issuer community came in 1997, when the Global Reporting Initiative (GRI) came established the first set of guidelines for how publicly traded companies should tell the world about their ESG activities.

Today, all aspects of ESG are important. As one ESG expert candidly noted a few years ago at an IR gathering, "ESG now includes everything. Absolutely everything." It sure feels that way.

The Conference Board's ESG Center has been tracking sustainability reporting through member surveys for many years and notes that in its most recent, 2019 survey that 62% of S&P Global 1200 companies reference GRI in their sustainability reporting, up from 44% in 2013. All organizations using GRI Standards are advised to comply with GRI Universal Standards and use external assurance to increase the degree of confidence in their reported data. Note that GRI merely advises companies to assure their data; they do not require it. At least not yet.

Assurance Options

The GRI assurance advisement has helped spawn something of a cottage industry in the field of ESG assurance. Assurance firms mostly break down into three categories: CPA firms (including the "Big Four" accounting firms), environmental engineering firms, and specialty or boutique sustainability assurance providers.

The standards and methodologies that these firms employ varies. CPA firms generally ascribe to the Statements on Standards for Attestation Engagement, which were established and are maintained by the American Institute of Certified Professional Accountants (AICPA), which was founded in 1887 and is the world's largest CPA member association with more than 429,000 members globally.

AICPA is a self-governing body and performs many member functions, including administration of the Uniform CPA Examination. Only CPAs are qualified to use the AICPA standards. AICPA says that more than 80% of the S&P 500 Index companies already publish sustainability reports and that nearly 70% of portfolio managers and research analysts advocate for independent assurance of sustainability information.

The most recent survey in 2019 by The Conference Board on ESG assurance found that AICPA standards are the most commonly followed by U.S.-based companies. European companies are more likely to follow the standards set by the International Federation of Accountants (ISAE), which established ISAE 3000 as the standard for assurance over non-financial information.

In the Conference Board survey, 51% of respondents said they rely on an accounting firm to assure their data, mostly from one of the Big Four firms; 27% use a boutique consulting firm; and just 3% rely on an environmental engineering firm. The rest use some other type of firm to perform their assurance.

Assurance itself falls into two classifications: so-called "limited assurance" and "reasonable assurance." Limited assurance is the most common and, as its name suggests, is less involved than reasonable assurance. Reasonable assurance requires CPA-level scrutiny to measure data against GRI standards to assure that it is free of material misstatement.

"Reasonable assurance consists of a rigorous examination indicating whether the information is free of material misstatement; limited assurance consists of more limited procedures that result in a meaningful but lower level of assurance than reasonable assurance," says Thomas Singer, principal researcher in the ESG Center at The Conference Board and one of the authors of the 2019 Conference Board survey. "ESG assurance is pretty much the wild west. There are currently no [mandated] standards for ESG assurance. The Big Four tend to follow AICPA or ISAE, which are financially driven." When asked if that means the Big Four are providing something better, Thomas said, "It's not necessarily the case that the Big Four are providing higher quality assurance."

That leaves a lot of space for non-CPA firms to work in the area of ESG assurance. It also creates space for other standards to emerge, perhaps most notably for U.S. issuers SASB and the Task Force on Climate-Related Financial Disclosures (TCFD). Asked why some issuers would adopt the standards of GRI, which others might adopt SASB, Thomas said, "SASB and GRI kind of appeal to two different audiences, but there is talk of them coming together. Basically, GRI has focused on a broad range of audiences, whereas SASB is really focused on investors. SASB is more limited to a set of issues that are important to investors. GRI is broader than that. And TCFD is even more narrowly focused specifically on climate risks."

Converging Standards

Standards do seem to be converging rather than growing further apart. In September 2020, five global organizations – CDP, the Climate Disclosure Standards Board (CDSB), GRI, International Integrated Reporting Council (IIRC) and SASB – whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting announced a shared vision of what is needed for progress towards comprehensive corporate reporting and the intent to work together to achieve it.

SASB Director of Corporate Outreach Neil Stewart notes that from 2017-2019, roughly 30% of companies obtained assurance for some metrics. Sixty percent of those used non-accounting firms to verify their metrics; 40% used a financial auditor. Stewart says that environmental data is the most commonly assured, and that the proportion of companies following SASB guidelines who are having at least some of their data assured is on the rise.

Data and Cost Considerations

Maybe by now you are thinking that you need to have your ESG data assured, but you are reasonably wondering what data specifically needs to be assured and how much it will cost.

The good news on the first question is that most assurances to date are focused on greenhouse gas emissions – Scope 1, 2, and 3 data – which many companies already collect. The 2019 Conference Board survey notes that environmental indicators are currently the most commonly assured, followed by energy and water data. Roughly one-third of survey respondents also note that their health and safety and diversity data is also assured. Looking further down the road, 70% of those surveyed expect that need for additional assured sustainability data to increase during the next five years.

Regarding the second question about cost, of those responding to the 2019 Conference Board survey, 43% reported paying $60,000 or more annually; 42% pay $20,000 - $60,000; and 14% pay less than $20,000. The fees depend partly on what you are having assured. But perhaps an even bigger factor is whom you hire to assure your data.

In speaking with six colleagues at issuer firms (names that we would all recognize), each contact was asked if they considered hiring one of the Big Four to perform their company's assurance work. All six said that cost kept them from considering one of the large accounting firms (six-figure quotes were noted). It should be noted that each of these people perform a sustainability function at their companies – they are not investor relations professionals and may not have the same focus as an IRO about the perceived value of having one of the Big Four conduct their assurance work.

Indeed, the 2019 Conference Board survey asked, "Which individuals within your organization are involved with your reporting in some manner, from data collection to review and discussion of the metrics and goals?" Only 11% of survey respondents noted that IR was involved in the reporting, and only 15% report including ESG data in their 10-K, with even fewer including that data in any other reports filed with the SEC.

It is hard to imagine that detachment from IR lasting for long, as 80% of the Conference Board respondents also say that their companies engage with investors on sustainability-related topics, and that roughly one quarter ask that for their ESG data to be assured.

For now, when asked why issuers would use one of the Big Four, Singer said, "There is a demand for data of high quality. That's creating a drive to get to where financial data is. And part of what's driving this is the ratings firms."

While many CFOs may bristle at the thought of more accountants spending time on-site performing auditing work (which would possibly need to be disclosed as "other fees" to one's registered public accountant in the annual proxy statement), there may well be a high degree of investor trust in knowing that an issuer's ESG data has been audited by a known auditing expert.

Assurance Process

No matter who performs the assurance, the process is fairly straightforward.

Assuming one starts with just GHG emissions assurance, the assurance provider will select a half-dozen of the issuer's larger sites and conduct on-site (or virtual, in a COVID-environment) visits to each site. The assurer will examine data sets from each site and, just as critically, perform a review of how that data is collected and the quality of that data.

As one issuer sustainability contact noted, "It's not just about the data. Don't overlook the value of the management report, which is a very detailed review of how the company can perform its ESG work better."

The deliverable at the end of this process is a statement of assurance issued by the assurance provider. It is typically one or two pages that are attached to the end of the sustainability report. Most statements of assurance will detail the list of sites that were reviewed and offer a simple but clear list of items included in the assurance review and might include the following:

- Total Scope 1 GHG emissions [metric tons CO2e (carbon dioxide equivalent)]
- Total Scope 2 GHG emissions (location-based) [metric tons CO2e]
- Total Scope 3 GHG emissions [metric tons CO2e] from the following categories:
  - Upstream and downstream transportation and distribution
  - Waste generated in operations (waste to landfill)
  - Business travel: corporate jet and air travel only
  - Employee commuting

One issuer noted, "We were already collecting and reporting this GHG data for our CDP report anyway. And more and more of our customers are asking who is assuring that data."

Whether questions come from an investor, a customer, or one of the ratings firms, it is becoming increasingly clear that ESG pressure is going to place increasing demands on our time and attention. It would behoove IR professionals to learn more about the growing call for ESG assurance – how it is conducted and by whom – so we can take some ownership of it while it is still voluntary.

The various ESG standards, while still varied, seem to be trending closer into alignment; and what and how to assure one's data currently seems less critical than simply starting the process and getting on with it. As noted by the head of governance with one of the world's largest money management firms, who asked not to be named, "None of it is perfect, but it's a start. You don't need to map to all of the criteria. There are going to be blanks for every company and that's fine. But getting started shows us that you're thinking about the data behind disclosure."

As investors are increasingly relying on ESG data to make investment decisions, assurance can help communicate ESG disclosure accuracy, completeness, comparability, and reliability.

Geoffrey Buscher is Director – Investor Relations at Expeditors International; geoffrey.buscher@expeditors.com.

Diversity and Inclusion and IR: Views From the Buy Side

BY ALEXANDRA WALSH

You might think as an IRO that diversity and inclusion does not apply to you in your day-to-day professional life, and that might have been true five years ago,” explains John Moten, IRC, Vice President, Investor Relations, Foundation Building Materials. “But now, whether it’s environmental, social and governance (ESG) and corporate governance, the makeup of your organization, the diversity of your C-suite and corporate board of directors, diversity and inclusion is not just a topic related to a chart – it is germane to IR as well.”

Three buy-side analysts explained what they look for in diversity and inclusion disclosures at a session at the NIRI Virtual Annual Conference.

Moten made this observation on a panel he moderated at the NIRI Virtual Annual Conference in December 2020. The panel explored how investors are paying closer attention to how companies incorporate diversity and inclusion initiatives into their businesses. He was joined by panelists that Moten says brought “three very influential buy-side perspectives.”

Why It Is Important

Karina Funk, CFA, Portfolio Manager, Chair of Sustainable Investing at Brown Advisory, explained, “We do a ton of sustainability research, within that is ES&G, and within the S is clearly diversity and inclusion – D&I.”

She believes the E the S and the G have always been connected.

“You can’t just look at issues like climate change without understanding health equity or climate justice,” Funk cautions. “The COVID-19 pandemic provides a strong example of how everything is connected – we see in front of us the impact of climate change on communities of color and other demographics.”

Funk says companies need to be honest about where they are and whether they have the type of composition that can attract top talent. “Diversity and inclusion are certainly good for business, and there’s a lot of data in economic journals looking at how D&I contributes to innovation and research and development,” she noted.

Funk acknowledges that as an investor, there is a lot of data to consider about a company in determining financial decisions. “We look at gender, racial representation at the board level, turnover, arbitration policies, compensation gaps, and promotion criteria,” she says. “All of investing is a process of continual improvement. As investors, we are just trying to get better at understanding what is important to stakeholders, like ourselves, but also company vendors, colleagues, and customers, among others.”

“Diversity and inclusion are a subset of human capital management and we fundamentally recognize that the majority of the company’s value is now tied up in intangibles – which human capital is a proxy for – rather than tangible assets,” explains Anthony Garcia, Director, Responsible Investing at Nuveen. “The question comes down to your narrative or story – what do we investors want to hear and see?”

Garcia points out there are ESG metrics that allow for ease of comparison across companies or industries. He considers those to be similar to Generally Accepted Accounting Principles (GAAP) measures, at best. “They’re a nice starting point, but when you get into the weeds of valuing a company, I don’t think many people think a GAAP number tells the whole story.”

Instead, Garcia suggests that in the IRO's story, investors want to hear how the D&I data that the company provides fits into its overall company narrative. Investors want to hear what the company is doing to recruit, promote and retain diverse talent. He says they also want to know what the company is doing, overall, in its human capital management programs.

"It's important to recognize there is a valuable investor perspective in terms of understanding what the company is doing," Garcia advised. "Does the company understand the levers it can pull that will move different parts of its human capital program, with a diverse employee base being a nice subset of that? Prove to us you really have your finger on the pulse of what your employees want and you can then extend that narrative too."

He added if the company understands what its employees want, the value proposition the company is providing them is probably going to help the company understand the value proposition to its customers, suppliers and all other stakeholder groups as well

"It really shows us at least you understand how this all fits in to that broader strategy around your intangible, and really most valuable, assets," he said.

Board and Company Diversity

Moten notes at the end of 2020, Nasdaq filed a proposal with the SEC to adopt new listing rules related to board diversity and disclosure. The rules will require most listing companies to have, or explain why they do not have, at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+.

He asked, "From an IRO perspective, how should a company approach meeting diversity mandates at the highest levels of governance, like at the board of directors level, compared to the company overall?"

Benjamin Colton, Global Co-Head of Asset Stewardship at State Street Global Advisors, added, "If you think about why we're pursuing diversity and inclusion in the first place, we found that increasing racial diversity and inclusion efforts really leads to long-term performance for our clients. It's a complex discussion that will be different in different jurisdictions and companies. So we want IROs to communicate in a holistic way."

Colton says he was not seeing a great deal of diversity data across dimensions, other than gender. "At the same time, we are seeing the headline risk manifest over the past year and the material negative impact on companies that are not managing these risks effectively. So we called on companies to start disclosing more information, not just at the board level, but across the workforce."

How companies think about balancing diversifying their board or their workforce should not be about mandates, Colton explained. "We're looking for quality directors and diversity of thought in the board room. At the board level, it is very much about access. We think the talent is out there, the pipeline can improve, as can the nomination process, and we want to see disclosure both at the workforce and the board level."

He observed that it is difficult to analyze companies when he does not have the disclosure and called on companies to disclose broad D&I efforts and provide context.

"We want IROs to really communicate the context, the strategy and the goal, saying, 'Here's where we are, we might not be doing a good job, but here's where we're going.' That's the type of conversation we want to hear," Colton suggested. "Since publishing our guidance, not one company has said it's where it wants to be. I think it's really important to acknowledge there are steps companies can take, not only with the workforce but also at the board level, and I want to understand that context."

Benefit of Exposure

Moten acknowledged that IROs might see D&I data disclosure as a lose-lose proposition. "As an IRO or issuing company, it seems if I don't disclose, I appear to be hiding something, and if I do disclose it might not be a good thing for me to do," he said.

"We really appreciate a company's recognition that there is room for improvement and they are disclosing this information so they can be held accountable for achieving those goals," Colton noted. "I think the incentive for IROs and their companies to disclose is accountability."

Colton added that companies will be held accountable for this information. "We've seen the lion's share of companies committed to disclosing a lot of information around capital management. I think there's going to be a revolution in the quality and quantity of data provided in the next six to 12 months," he said. "If a company is withholding this information, I'll wonder why there is no disclosure and we certainly would hold that company accountable through our voting."

Funk explained, "The notion of a lose-lose proposition in disclosures should be dispelled by now by myself and my colleagues – we are telling you we care about these issues, we're asking about them, and we're seeking disclosures. We may not ask a question about diversity and inclusion in the 20 minutes we have with an IRO, but our teams are looking at this information. Our own clients are asking for these types of disclosures."

“We want IROs to really communicate the context, the strategy and the goal, saying, ‘Here’s where we are, we might not be doing a good job, but here’s where we’re going.’”

Benjamin Colton, Global Co-Head of Asset Stewardship at State Street Global Advisors

When and Where to Disclose

Moten pointed out that disclosures can live in many places. “Do investors like to see D&I disclosures in ESG disclosures, the CSR report, regulatory filings like 10-K or 10-Q, the proxy, or the earnings call?”

Funk said in terms of where these disclosures are useful, “when” is more important than “where,” and urged all companies to disclose D&I information as soon as possible. She noted, however, that consistency is critical.

“The IRO has the real ability to connect the dots among different stakeholders that care about D&I issues,” Funk observed. “There is real value when an IRO can help disclosures be consistent in the annual report, in the way you talk to your customers, and within your pitch on investor day. If this kind of information gets into your investor pitch in the first few minutes – clearly investors have a sense of your priorities. It’s not the most important thing for a lot of companies, but for some it is.”

Garcia suggested as the SEC now requires some human capital disclosures be included in SEC filing, the same frameworks can also apply to how a company looks at its D&I disclosures. “Take that framework and either include it in the SEC filing, or as framework in a CSR report or use it for engagement to tell the narrative you’re really trying to tell,” he said.

He acknowledged CSR reports have a broader stakeholder base and recommended calling out the portions the IRO thinks have investor relevance. “Don’t hide that behind the other fluff that goes into things like corporate philanthropy,” he recommended. “Put D&I information into a nice snapshot.

“Then once you feel comfortable with your measurement framework, you’ve recognized the risk and opportunity side of what you’re doing with your human capital program, it’s a much easier decision that D&I disclosures should be part and parcel with everything else you’re putting into your SEC filings.”

The Direction of Disclosure

Colton acknowledged he has seen shareholder proposals related to social issues such as racial equity, gender pay gap, and workforce composition during the past year.

“I think about the evolution of shareholder proposals over the last 10 years from an environmental perspective, starting with just the disclosure of baseline information, and now we’re starting to see that disclosure is becoming commonplace,” he reported. “And we’re seeing this evolve into the governance of environmental issues – hybrid governance/environmental issues are really where shareholder proposals are targeted now.”

Colton said he expects to see that same evolution happening to social issues. “I think the timeframe will be condensed into the next two years and as you ask for disclosure, you’re going to see shareholder proposals asking for the governance of social issues as well. It’s going to happen very, very quickly.”

Funk observed, “Two things are almost always true for IROs, especially at large companies. The company can be doing some things you can be really proud of when it comes to diversity and inclusion. And there are also things that don’t look so good, or feel so good, some things you might even be ashamed of at your vendor base or other activities.

“We all understand that. Being honest about where you are is what builds trust with exactly the sort of long-term investor that I think companies particularly want. Transparency and consistency are most important when it comes to disclosures.” IR

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ESG and Corporate Reporting

A NIRI Philadelphia chapter virtual meeting addressed new SEC "human capital" disclosure requirements and stricter proxy advisor policies on board diversity that will shape corporate reporting during the coming year.

BY LAUREN LUPTAK AND SHELLI WILLIS

In 2020, many large public companies in the United States used the twin crises of COVID-19 and social injustice to highlight their existing ESG programs, leading to a heightened focus on these areas.

Now, mid-cap and smaller cap public companies face increased pressure to put ESG programs in place from shareholders and external institutions such as Institutional Shareholder Services (ISS) and Glass Lewis, both of which recently adopted more stringent voting guidelines regarding board diversity and disclosure.

Adding to this pressure is the recent Securities and Exchange Commission Regulation S-K amendment requiring disclosure regarding human capital in annual reports on Form 10-K, which highlights the progression toward increased regulatory disclosure obligations regarding ESG.

The NIRI Philadelphia chapter addressed these issues in a recent virtual meeting.

Based on recently announced increased expectations for board diversity, starting in 2022, ISS will recommend an "against" or "withhold" vote for the chair of the nominating committee for boards with no racially or ethnically diverse directors at companies in the Russell 3000 and S&P 1500. Also starting in 2022, Glass Lewis will recommend a vote against the nominating committee chair for companies that have a board of more than six members with fewer than two female directors.

So how does all of this translate into public companies' disclosure obligations and best practices for the 2021 reporting season?

Most companies are first facing these issues in their 10-K with human capital disclosure. While often the decision to incorporate ESG factors in the 10-K is still based on a "materiality" analysis, Regulation S-K now specifies that a company must include in the 10-K Business section "a description of the registrant's human capital resources, including the number of persons employed by the registrant, and any human capital measures or objectives that the registrant focuses on in managing the business." For smaller public companies, a sentence or short paragraph regarding the number of employees and any relevant measures or objectives will likely suffice.

On the other hand, larger public companies may take advantage of this section to include more robust disclosure about education/training programs, employee wellbeing metrics, or COVID-19 employee safety protocols that companies have in place.

We have seen some early filers use their 10-K filings to highlight their ESG programs and reference their corporate sustainability/ESG report. For example:

- Qualcomm's November 2020 10-K highlights its human capital program and directs readers to its online Corporate Responsibility Report for more information.
- Starbucks' November 2020 10-K explores employee benefits provided in the wake of COVID-19.
- HP's December 10-K highlighted its DE&I (Diversity, Equity and Inclusion) initiatives and COVID-19 responses, referencing its 2021 proxy statement for more information.

As public companies develop and advance their internal ESG programs, we will likely see more integration with these types of regulatory filings and disclosure, such as references to corporate sustainability reports and proxy statement disclosure in the Human Capital section of the 10-K. IR

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