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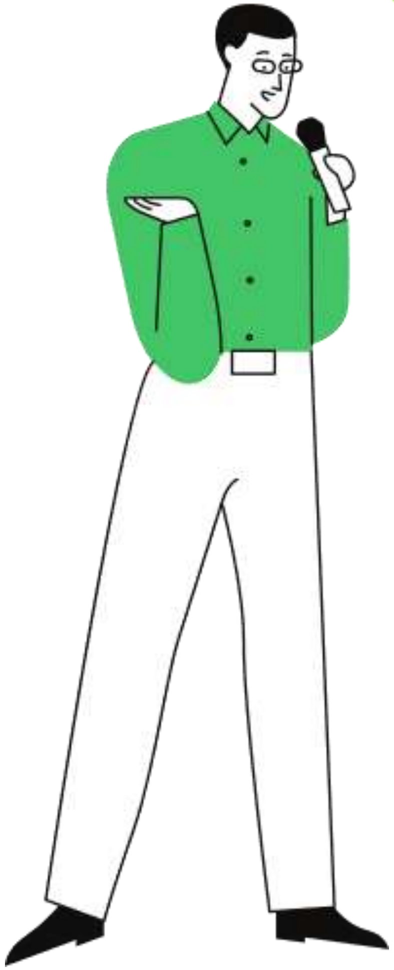
Environmental, Social, and Governance (ESG)

Integrating ESG Considerations into Corporate Strategy & Practical Implications

March 2024

MAKING AN IMPACT THAT MATTERS



Today's Agenda

1	Setting the Scene
2	ESG Implementation Roadmap
3	Q&A

Setting the Scene

Why ESG Matters

Macro ESG Trends

Major shifts across economic, social, political, legal and environmental landscapes are demanding reconsideration of how organisations design their business model and deliver value to their stakeholders.

Changing physical landscapes and climates

Degradation of natural environments | Biodiversity loss | Increasing frequency of extreme weather events | Changes to weather patterns

Transitions to new economic models

Digitalisation | Emergence of cryptocurrencies | Changing views on corporate purpose | Responsible capitalism | Green economy

Redirection and restructuring of capital flows

Investor focus on sustainability credentials | New models for capital allocation | Emerging financial instruments (e.g. green bonds, SSLs)

Expanding global connectivity and scale of impact

Internationalisation of economies and societies | Expansion of global value chains | Interconnectedness among communities

Evolving workforce and demographic pressures

Demographic shifts |Urbanisation and de-urbanisation | Employee expectations around purposeful work | Unionisation

Rising tides on social justice and economic equality

Activism on gender equality and discrimination (e.g. #MeToo) | Action to combat racial justice (#BlackLives Matter) | Spotlight on diversity and inclusion

Growing public scrutiny of corporate conduct

Heightened customer awareness of social and environmental factors |Public and media attention on corporate performance

Emerging national priorities and government interventions

Policy responses to health and economic impacts of COVID-19 | National plans to support transition to net zero

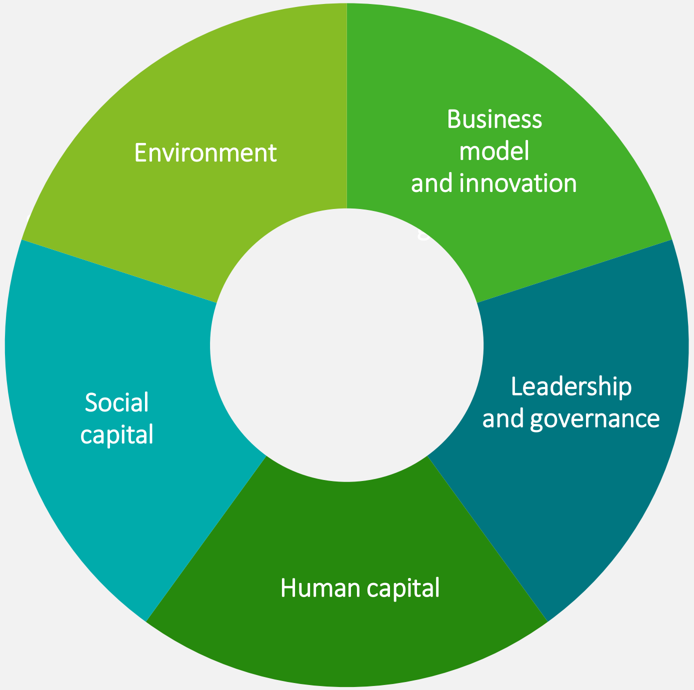
Increasingly complex regulatory requirements

Proliferation of legal and regulatory requirements | Expansion and harmonisation of standards and frameworks

Overview

What is ESG?

Environmental, Social, and Governance (ESG) encompasses topics related to performance management and the impacts and dependencies of the business on society and the environment, as depicted below. Climate change represents multiple dimensions under the broader ESG umbrella.



Environment

- Greenhouse gas (GHG) emissions.
- Air quality.
- Energy management.
- Water and waste management.
- Waste and hazardous materials management.
- Ecological impacts.

Social capital

- Human rights and community relations.
- Customer privacy.
- Data security.
- Access and affordability.
- Product quality and safety.
- Customer welfare.
- Selling practices and product labelling.

Human capital

- Labor practices.
- Employee health and safety.
- Employee engagement, diversity, and inclusion.

Business model and innovation

- Product design and lifecycle management.
- Business model resilience.
- Materials sourcing and efficiency.
- Supply chain management.
- Physical impacts of climate change.

Leadership and governance

- Business ethics.
- Competitive behavior.
- Management of the legal and regulatory environment.
- Critical incident risk management.
- Systemic risk management.

Adapted from: SASB Materiality Map

Rapid acceleration towards comprehensive corporate reporting

Standard-setters have begun to act on the increased and widespread demand for comprehensive corporate reporting on ESG by working together to create a cohesive set of **standards related to Sustainability-related Financial Information and the expectation of future thematic standards being climate the first one**.

Regulators are increasing their focus on ESG and climate disclosures in response to investor and market expectations.

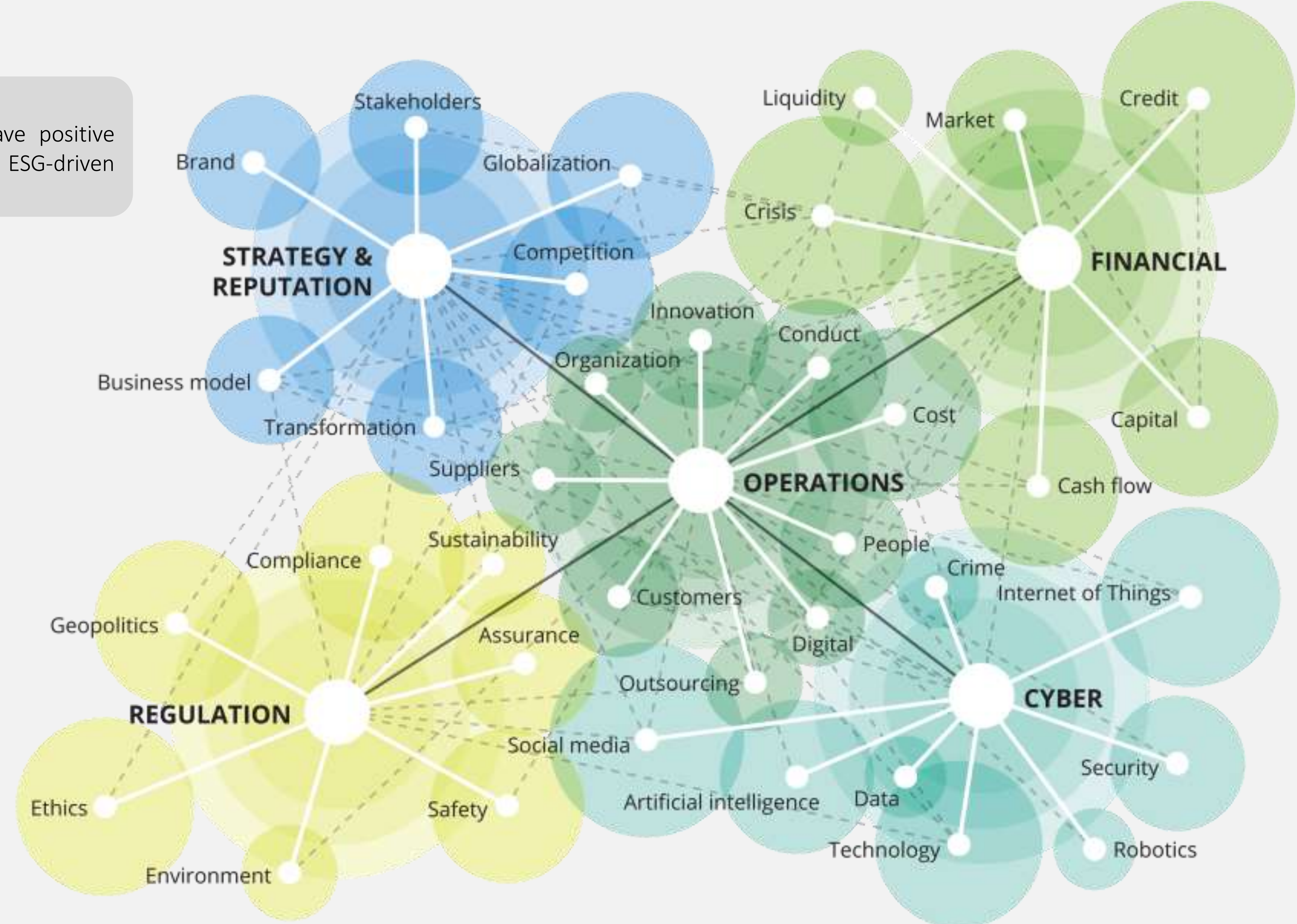
Investors are becoming increasingly aware of the potential significant financial impacts from ESG and climate-related risks and have stressed **concerns about the lack of transparency of these financial impacts**, particularly in financial reporting.

Entities are making **commitments** (e.g., to achieve net zero carbon emissions by a targeted date) and are becoming more intentional about their ESG and climate disclosures.

Risk as a value driver

The landscape of uncertainty
A wide range of business activities may have positive and/or negative interactions with a specific ESG-driven risk.

The risk ecosystem is generally getting more significant and interconnected. ESG risks are included in the landscape



Why should we be thinking about ESG and Sustainability?

Sustainability is becoming increasingly integral to core business

New growth opportunities

- Access to **new markets, investors and customers**
- Attracts **quality talent**
- Strengthens **social license**
- Encourages **innovation** and **collaboration**

Cost savings

- Lowers **cost of capital**
- Improves **staff productivity & retention**
- Increases **operational and resource efficiency**
- Reduces **supply chain complexity and waste**

Risk management

- Reduces **reputational**, **regulatory** & **operational risk**
- Future proofs against **stricter regulatory & legal** requirements
- Enhances **governance**
- Forecasts & mitigates **emerging threats to the business model**

Contribution to Society

A strong sustainability agenda helps organisations meet their stakeholders' needs and expectations, including **fostering social value** and **regenerating our environment.**

ESG Implementation Roadmap

Strategy to Reporting

Ambition Level

Organizational sustainability maturity
It depends on how far an organization wants to go and sets its own level of ambition regarding Sustainability – from only reacting to proactively steering ESG

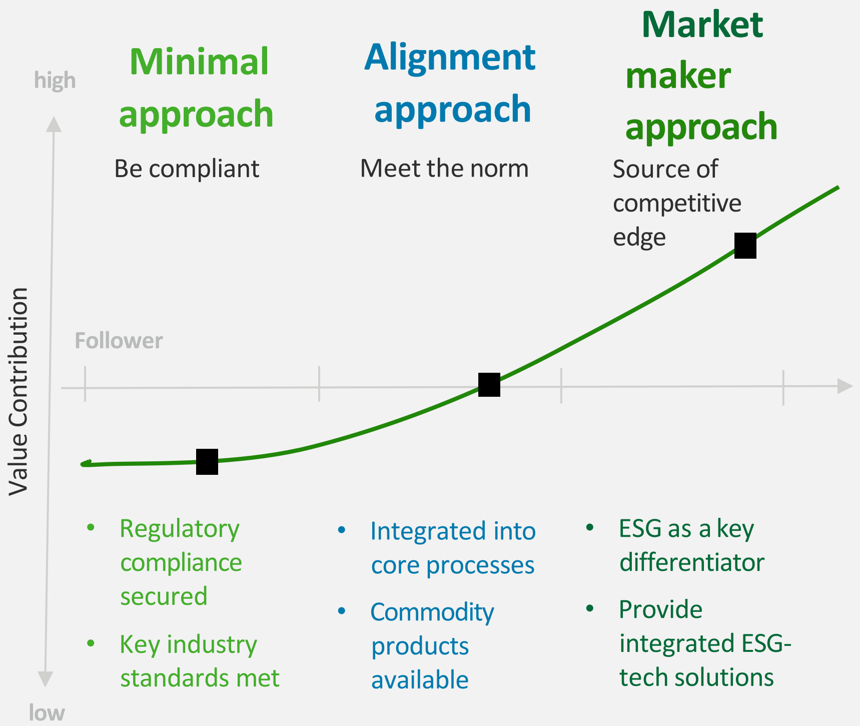
What are your priorities for ESG?

- Risk Management
- Cost Savings
- Market Opportunities
- Brand Reputation and
- Access to Capital and Investment
- Regulatory Compliance and Legal Requirements
- Employee Engagement and Talent Attraction
- Long-Term Value Creation

Do you see yourself as a market maker?

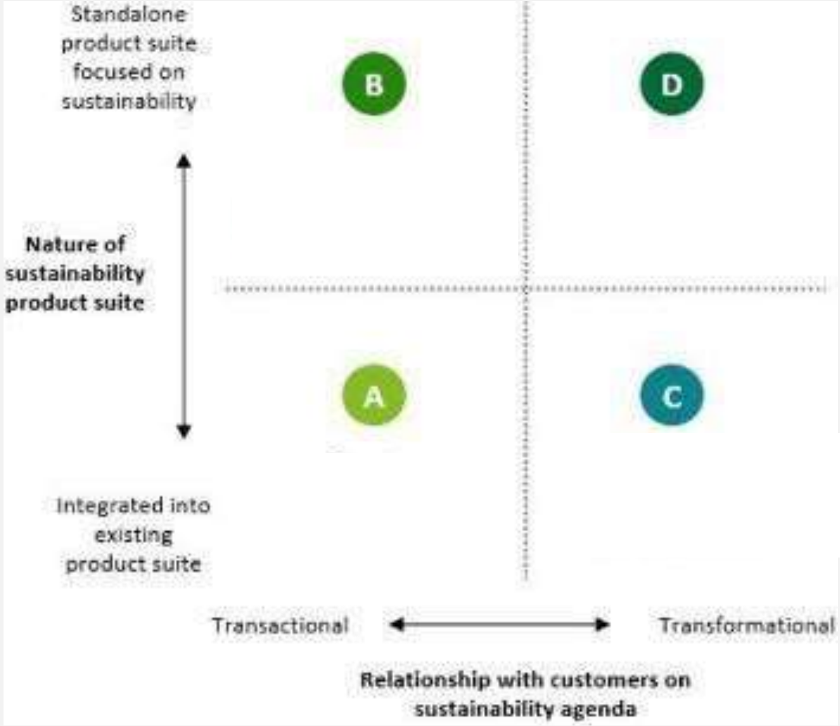
Consider...

- Cost of compliance versus business opportunities
- HQ versus subsidiaries,
- 'Disrupt or be disrupted'



Where do you see your product strategy?

- A Market leading provider of ESG-integrated products
- B One-stop shop for sustainable finance
- C Provider of choice for corporate crusaders
- D System leader for purpose-led business



ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

End-to-end Journey

Understand

- **Gap Assessment** – Understand your **business model** and current **sustainability maturity**
- **Resilience Assessment** – Model and **quantify** ESG impacts under divergent, plausible futures
- **Materiality Assessment** – **Map stakeholders** and determine the **sustainability issues that matter**

Design

- **Strategy Framework** – **Navigate trade-offs** and **design a strategy framework** around **core pillars**
- **Metrics & Targets** – Develop a **sustainability scorecard**
- **Roadmap & Planning** – Integrate ESG into **operational and financial policies, procedures and processes**
- **Capability** – Build awareness and **enhance capabilities** at the Board, Management and across staff

Activate

- **Governance & Risk Management** – **Accountability is defined at all levels** and should be aligned to **reporting frameworks**
- **Measurement, Reporting & Assurance** – Disclose progress on **scorecards, KPIs and targets** and **strategic analysis**

Awareness building, socialisation & communication →

How you benefits from each step:

Understand your business model and **how you are performing on sustainability** › You will know what your **stakeholders care about** › You decide **what your business needs to focus on** › And **how to measure** progress › You have a **plan** to get there › You **enable strategy to be implemented** › You know who is **accountable for sustainability** › **Tell your ESG story**

Phase I

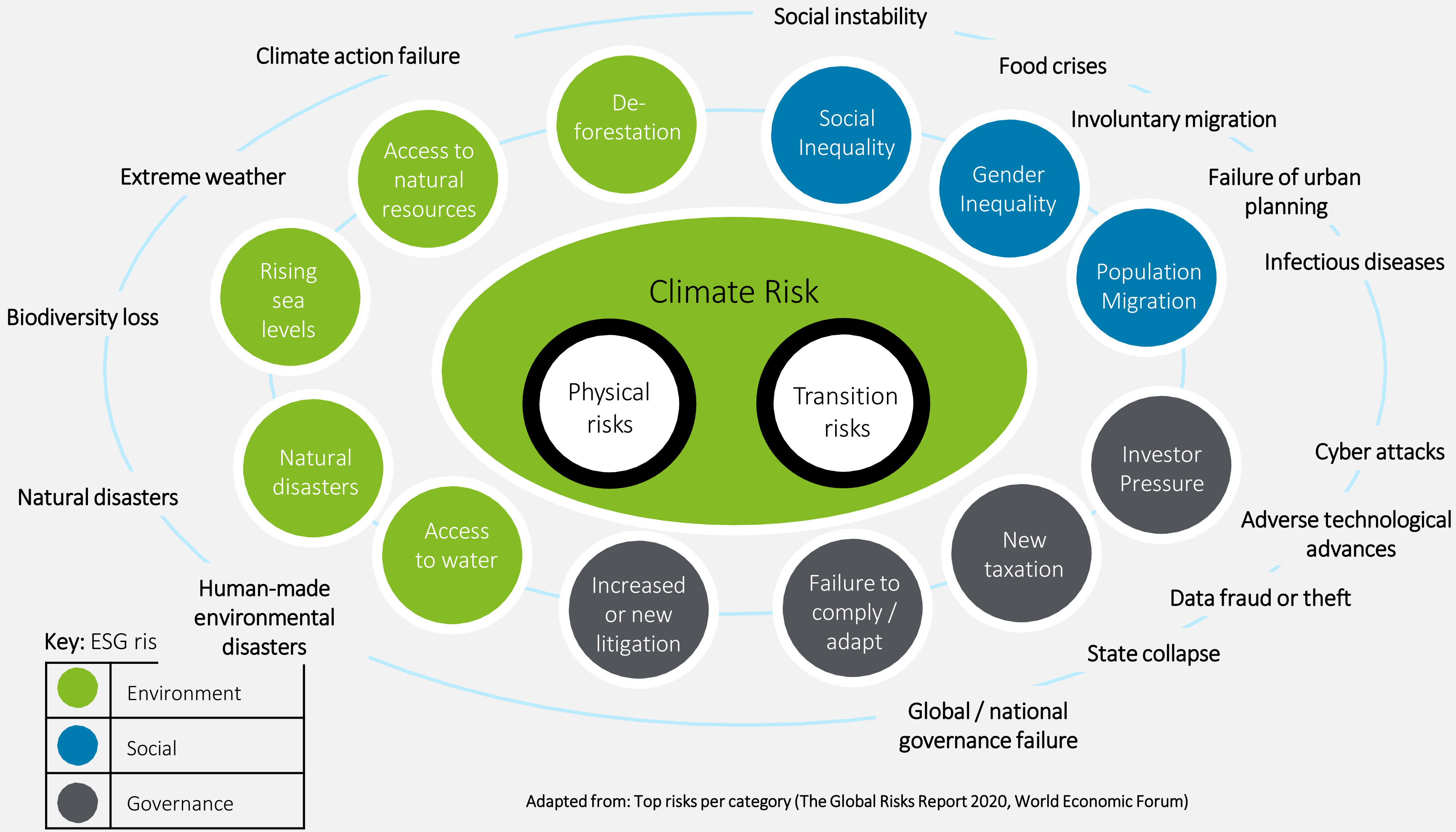
Understand

Understand the business model, how corporate strategy drives ESG values, impacts, where conflicts and trade-offs are made, and how this understanding informs the ESG vision.

Resilience Assessment

Recognizing Emerging Risks

ESG-related matters may create risks or opportunities for an entity that could lead to potential impacts on an entity's financial statements.



Adapted from: Top risks per category (The Global Risks Report 2020, World Economic Forum)

Climate-related matters that may create risks or opportunities for an entity are considered a part of ESG. ESG-related matters could lead to potential impacts on an entity's financial statements from physical or transition risks or opportunities.

Examples of areas of the financial statements that may be impacted if ESG affects the entity*:

Inventory	Goodwill, Intangibles
Property, Plant, Equipment	Loss and Gain Contingencies
Climate change commitments	Income Taxes
Going Concern	Financial Instruments
Risk and Uncertainty Disclosures	

For additional information, see the IASB educational material [Effects of climate-related matters on financial statements] *and Deloitte's Closer Look* [Investor demand for corporate reporting in line with the Paris Agreement on Climate Change.]

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Recognizing Emerging Risks

"Businesses should consider their duty to understand business dependencies, both direct and indirect, on environmental and social considerations. Value chain continuity, predictability and resilience are crucial to the success of ongoing operations."

DIRECT RISKS

Commodity risks: Risk relating to business production processes arise when there is an uninterrupted link between natural resources, social inputs and revenue

Supply chain performance risks: Includes risks related to business dependency on an industry that has a direct dependency anywhere in the supply chain creates an indirect dependency

DIRECT AND INDIRECT RISKS

Damage and business continuity risk: Nature can provide physical security against damage from acute and chronic events including heatwaves, flooding and tropical cyclones

WORKFORCE RISKS

These risks can include the increased **spread of disease, lack of access to fresh air, clean water and food**, as well as implications for physical health and mental well-being.

BUSINESS IMPACT

- Reduced revenue or increased costs from less or lower quality natural resources/raw inputs
- Increased capital expenditure for adaptation
- Increased cost of insurance and risk of asset stranding
- Increased natural hazard costs such as through impaired assets
- Reduced revenue or increased costs from damaged infrastructure
- Real estate asset repricing and increased cost or reduced access to capital

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Recognizing Emerging Risks

Physical risks

They refer to the **financial impact of a changing climate**. It can be:

- **Acute:** Increased natural disasters such as cyclones, floods, coastal inundation and fires.
- **Chronic:** progressive shifts such as sea level rises or chronic heat waves.

Lender offering buy-to-let mortgages by the coast over a long horizon ~ 30 years.

Physical risks manifests in rising sea level. Property in threat of being inundated.

Demand for the property falls. Rental income drops. Loan-to-value declines. Obligor considers defaulting.

For the bank, increase in the probability of default (PD) and losses given default (LGD).

Potentially adverse capital implications

Transition risks

They refer to **an institution's financial loss** that can result, **directly or indirectly**, from the **process of adjustment** towards a lower-carbon and more environmentally sustainable economy.

Policy | Legal | Technology | Market | Reputation

Commercial bank has made substantial loans to an airline to lease aircrafts over a long horizon ~ 10+ years.

Transition risks manifest in higher carbon taxes. More costly to operate large jumbo jets.

Transition risks manifests in rapid growth of battery storage capability. New planes developed to fly short-haul on battery power.

Higher costs and new technology reduce profit margins. If airline defaults, planes will have a much lower value. Bank faces higher PD and LGD.

Business model viability questions

Environmental risks are **interlinked in nature** and should be viewed as a **system** rather than two distinct concepts.

TRANSITION RISK

- Shifts in climate policy, technology, and/or consumer preferences
- Stranded assets / capital

PHYSICAL RISK

Physical climate change impacts → Impacts on infrastructure, human health, agricultural productivity → Impacts on current and expected economic activity → Impacts on asset valuations and times → Impacts on financial institutions, market functioning, and system stability

Feedback loop, as financial systems stress further exacerbates disruptions in economic activity

Materiality Assessment Approach

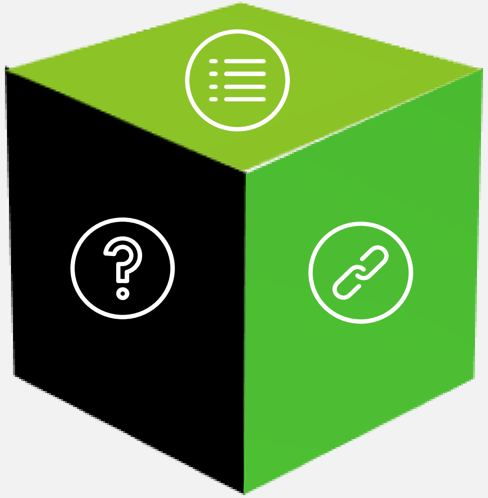
Application of materiality in business

Business materiality – some key concepts

- Matters that can substantively affect the **ability of the organisation to create** value in the short, medium and long term
- Materiality determination process shall cover topics that reflect the organisations **significant economic, environmental and social impacts** or substantively influence the **assessments and decisions of stakeholders**
- Value creation grounded by **purpose** of the organisation and **value drivers** relative to its key stakeholders is a good departure point
- What is important and relevant to **key stakeholders** is often critical in achieving organisational purpose and value creation

Value creation can be viewed from multiple angles e.g.

- Purpose and relevance
- Sustainability
- Customer centricity
- Socio economic impact



Such matters/topics could be e.g.

- Financial
- Technological
- Operational
- Social
- Governance and regulatory

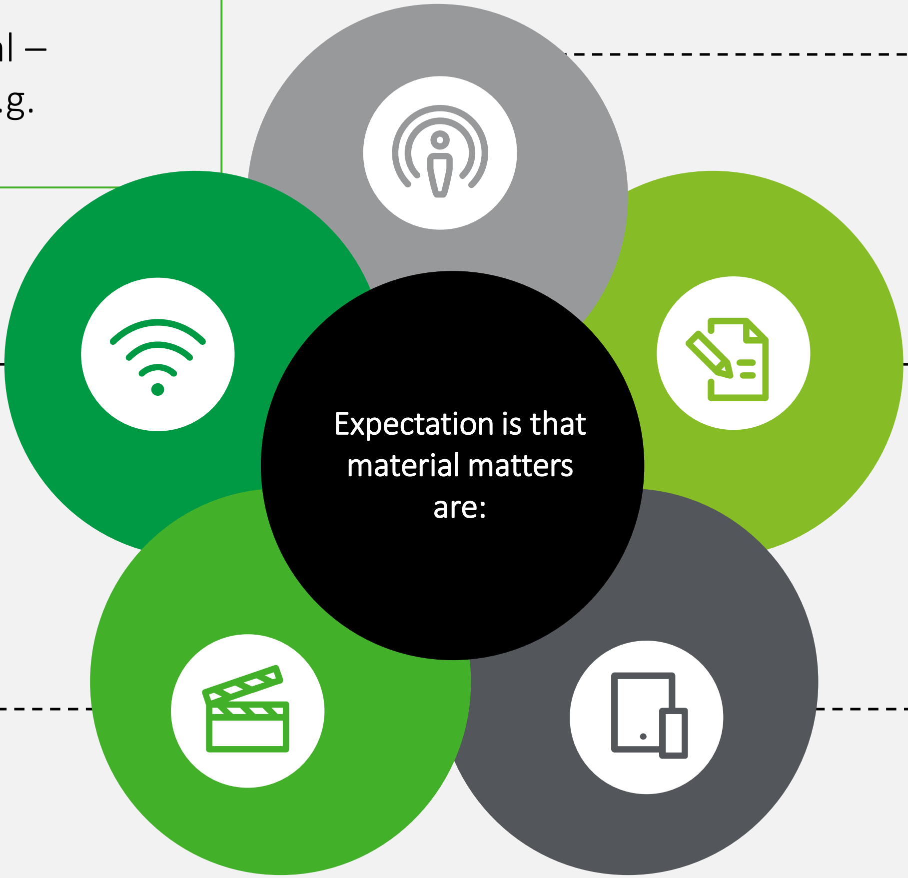
Materiality Assessment Approach

Application of materiality in business

Business materiality – some key concepts

Materiality is determined from the perspective of

- **Relevance** – value creation/purpose/impact
- **Impact** – quantitative (financial impact – profit/market capitalisation, operational – production volumes) and qualitative (e.g. reputational/operating licence)



1 Managed at a **strategic level** through strategic policy, process, initiatives and focus areas

2 Most often will require **strategic thinking** and innovation

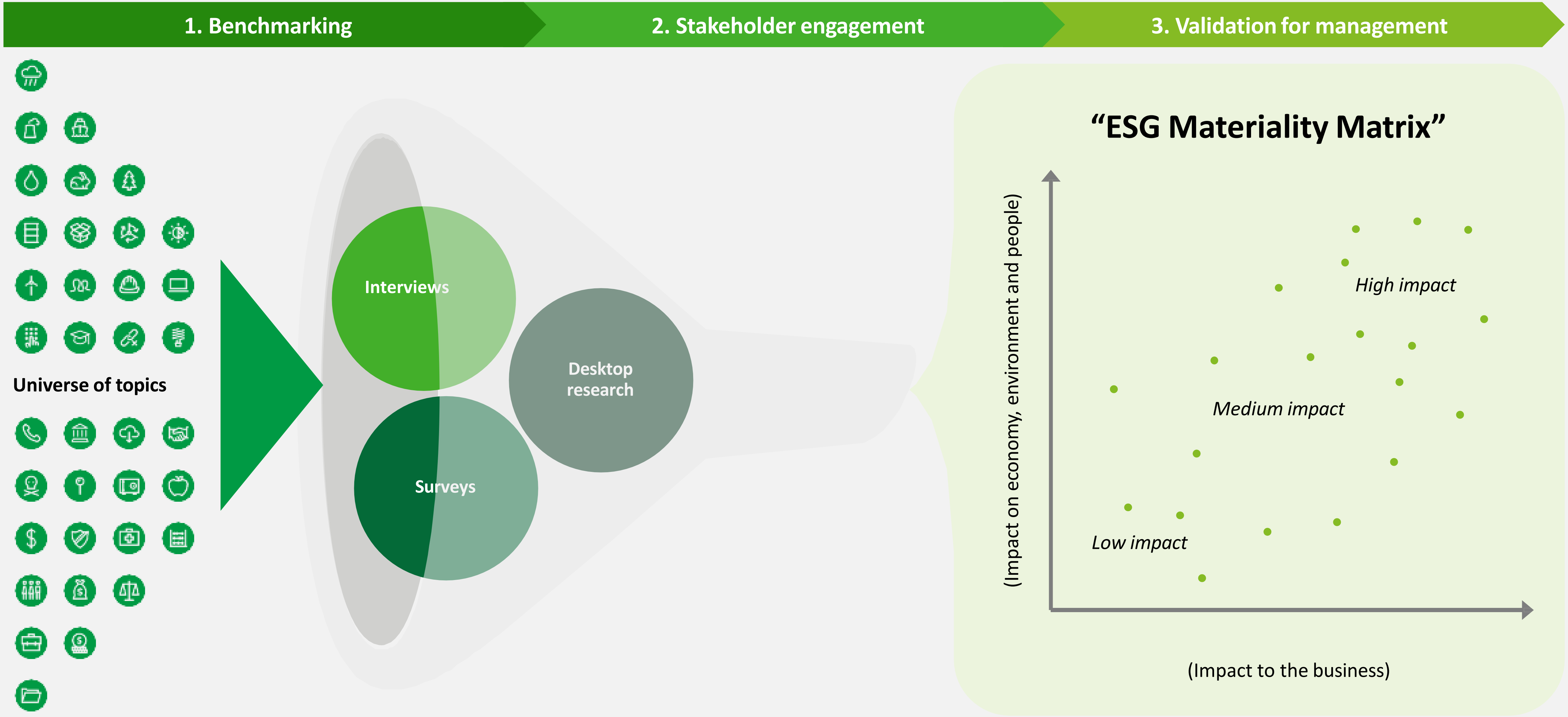
3 **Performance** managed against strategy and targets

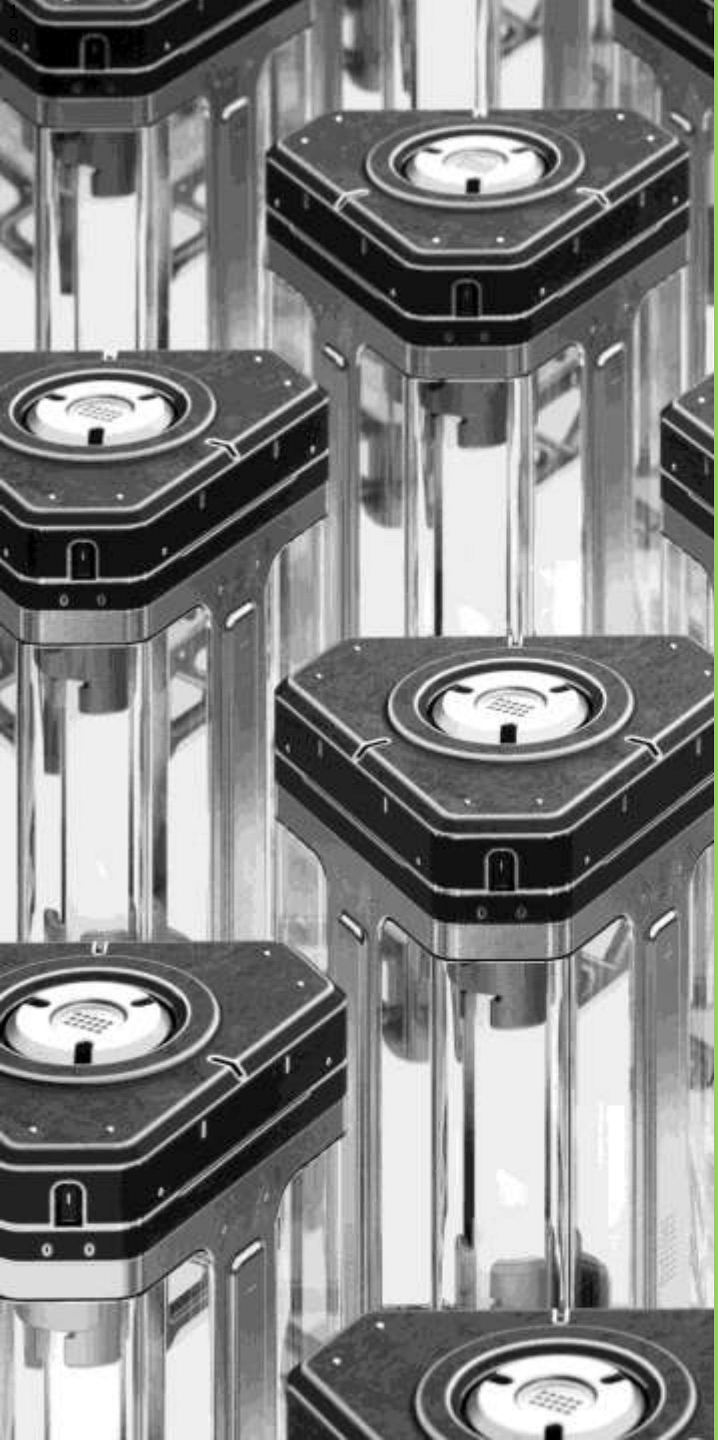
4 **Accountability** and incentives of key management

5 May be **regulated** and key to **reputation** /operating licence due to importance

Materiality Assessment Approach

The process illustrated below displays the driving forces of ESG prioritization and our focus areas throughout.





Phase II

Design

Integrate materiality, resilience and strategy outputs into policies and procedures for: financial planning, valuations and reporting.

ESG Strategy

Expectations for a sustainability strategy

- develop a clear **strategy** on addressing climate and environmental risks, establish an internal organisation and **allocate adequate resources** to address these risks;

- contribute to **raising awareness** about climate and environmental risks, regardless of the category of **clients** (individuals or legal entities);

- encourage **sustainable practices among customers**, help them understand and respond to the risk implications of climate change, and **support customers** operating in high-carbon sectors in implementing sound transition plans.

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Strategy & Implementation Roadmap

Approach

Embedding ESG into corporate strategy through purpose integrates your most material issues and amplifies shared value creation, reputation, and organizational resilience.

What are our aspirations and goals?	Where will we play?	How will we succeed in chosen areas?	What capabilities & configuration will we need?	What management systems will we need?
What is the impact we're hoping to create? Where do we want to lead?	Which issues will we focus on, internally and externally? Which stakeholder groups will we prioritize?	What key activities, portfolio of programs, and partners are needed to succeed where we decide to play?	What skills, abilities, systems, and resources will we need, individually and collectively, to be successful?	What data and tools will we need to measure and consistently improve?

Identify the most critical choices and points of contention

Craft tailored approaches to make decisions

Ensure alignment of strategy and implementation

Define implications and requirements for success

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Strategy & Implementation Roadmap

To build on your leadership position, you should envision a future for ESG at an organization where…

The entire organization is grounded in a **clear, north star vision**…	The operating model mobilizes leaders and colleagues around a **shared purpose**…	Functional areas are **active stewards** of the change…	High **quality data is seamlessly managed** across the organization…	An **integrated plan** charts the actions to be taken across the organization…
…with a compelling call to action that differentiates the Organization	*…with the governance, capabilities, key roles and talent to fulfill that purpose*	*…working together across traditional silos aligned to new ways of working*	*…enabling data-driven decision making, reporting and planning*	*…guiding funding and resourcing for both short and long-term outcomes*

NOW → FUTURE

Phase III

Activate

Reconcile the Board and Management scorecards, KPIs and targets to materiality, resilience and strategy outputs; Disclose strategic analysis with changes to financial valuations.

Governance

Role of the Board of Directors

Establish a board structure that provides oversight of the company’s strategy and carries out governance responsibilities to support management in achieving its strategy and business objectives, also related to ESG

Examples of ESG responsibilities

a. **The Board** is responsible for overseeing ESG-related risk ownership as well as ensuring there is a program in place to identify, assess, manage and monitor ESG-related risks (and opportunities) effectively.

b. **The Risk Committee** establishes the direct oversight of enterprise risk management. The focus of the risk committee is entity-wide in non-financial areas that go beyond the authority of the audit committee.

c. **The Audit Committee** assists the Board in fulfilling its corporate governance and over-seeing responsibilities in relation to an entity's financial reporting, internal control and risk management, including ESG reporting.

d. Some companies have **additional Board Committees**, such as a sustainability committee, separate from the risk committee and the audit committee, cross-functional representatives to identify, monitor and review ESG-related risks (including also ESG metrics and targets in executive remuneration).

e. Connections to **strategic planning and operations personnel** are also critical to support timely assessment of new and emerging ESG-related risks so that the organisation is better prepared to identify risks and related opportunities.

f. The **ERM function** is responsible for coordinating and consolidating ERM activities and lead the process for managing enterprise-wide risks in an integrated, systematic manner.

g. The **sustainability director** provides support in coordinating ESG-related activities. This includes monitoring megatrends as well as identifying, assessing and monitoring risks.

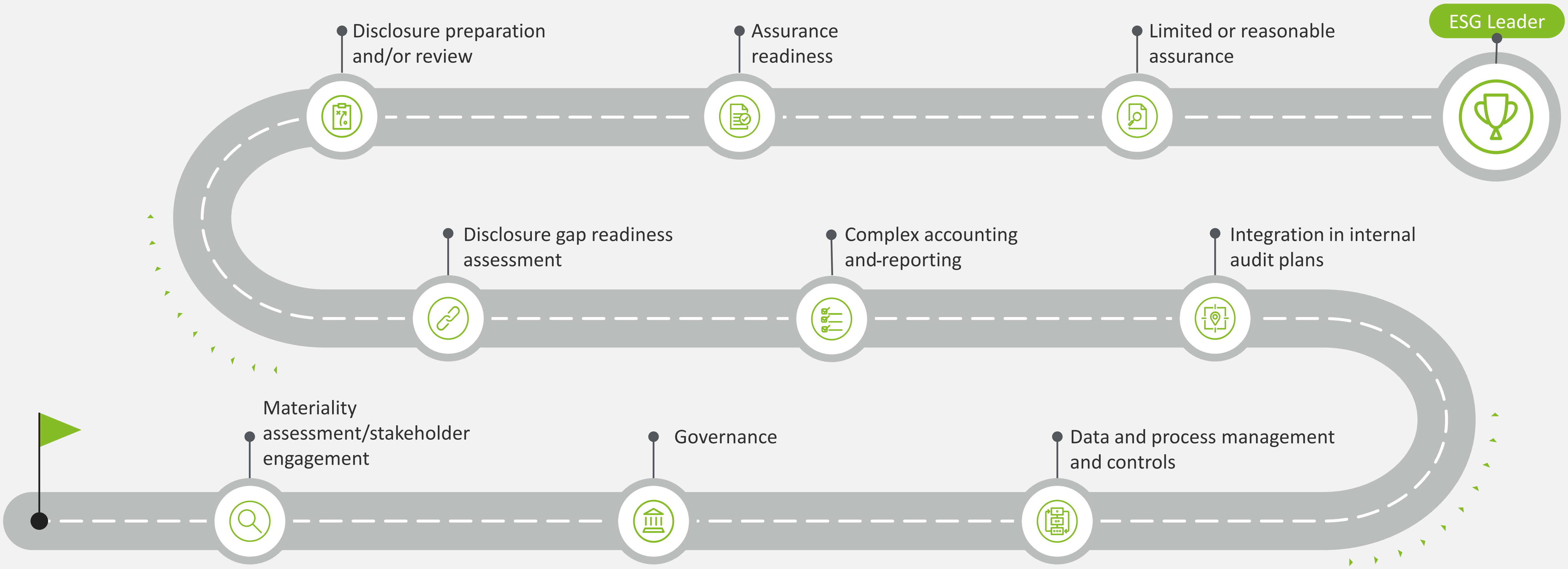
h. **Cross-functional or multi-stakeholder advisory councils** (either internal or external) can provide perspective on particular aspects of ESG issues or other risks.

i. Although management collectively ‘owns’ the entity risks, a **‘risk owner**’ can be the point person with accountability for ensuring specific risks are appropriately managed.

Reporting

ESG Reporting Journey

Measuring and reporting ESG indicators in an integrated manner allows an organization to determine its current position and map future goals. This supports the integration of ESG into the strategy and daily operations, which is increasingly valued by customers, employees, and other stakeholders. The organization’s journey to integrating ESG into the business shown below includes embedding considerations of planet, people, and prosperity into an organization’s governance, strategy, risk management, and metrics and targets.

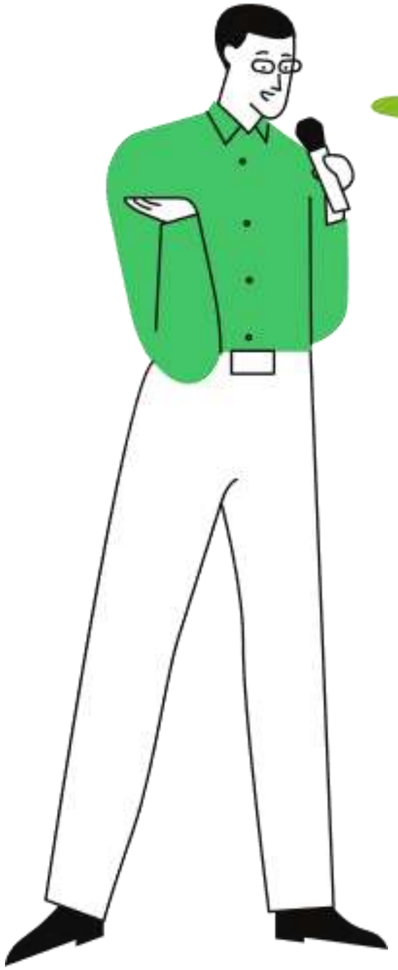


Reporting

Critical Success Factors for ESG Reporting

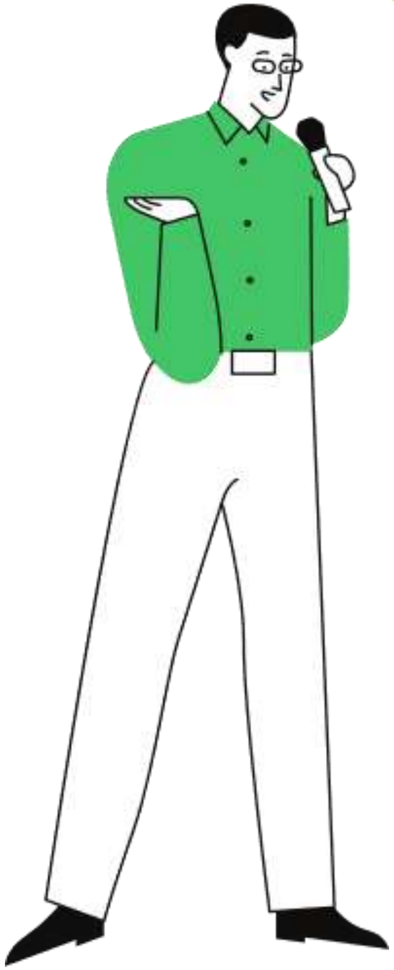
The success of a well-controlled ESG reporting process lies in integration of ESG with risk management and financial reporting processes while adopting a risk-based control rationalization approach that supports coordinated assurance.

- Identification of material elements
- Identifying key controls and secondary controls for those processes
- Defining your organization's level of required assurance covering internal controls over ESG
- Mapping material elements to underlying processes
- Identifying applications and IT general controls (ITGCs) that support the processes and controls, including over third-party data
- Training for control owners, reviewers, and internal auditors that includes discussion about the cultural mindset across the organization
- Capturing a risk assessment of the ESG environment
- Documenting the processes and controls with walkthrough narratives, flowcharts, and risk/control matrices (RCMs)
- Providing reporting to senior management



Q & A

Today's Agenda



1. Setting the Scene
2. Navigating the Practical Complexities of ESG
3. Q&A

Setting the Scene

Navigating the Practical Complexities of ESG

End-to-end Journey

Maintain a clear focus on integration and ensure the necessary resources to track and demonstrate progress on the ESG ambitions

Strategic ambition
How does your Sustainability Strategy connect to your overall purpose, what are your ambitions, and what role and position will you take?

Achieving the right result
What do your internal and external stakeholders and your regulators require and expect of you today and in the future?

Data and technology
Is your infrastructure able to provide a complete and accurate picture of your actions today and in the future?

Extending the bank's response to growing ESG reporting requirements will provide transparency to your stakeholders on your current and future capability and position in delivering on the sustainability commitments that have been made to the market

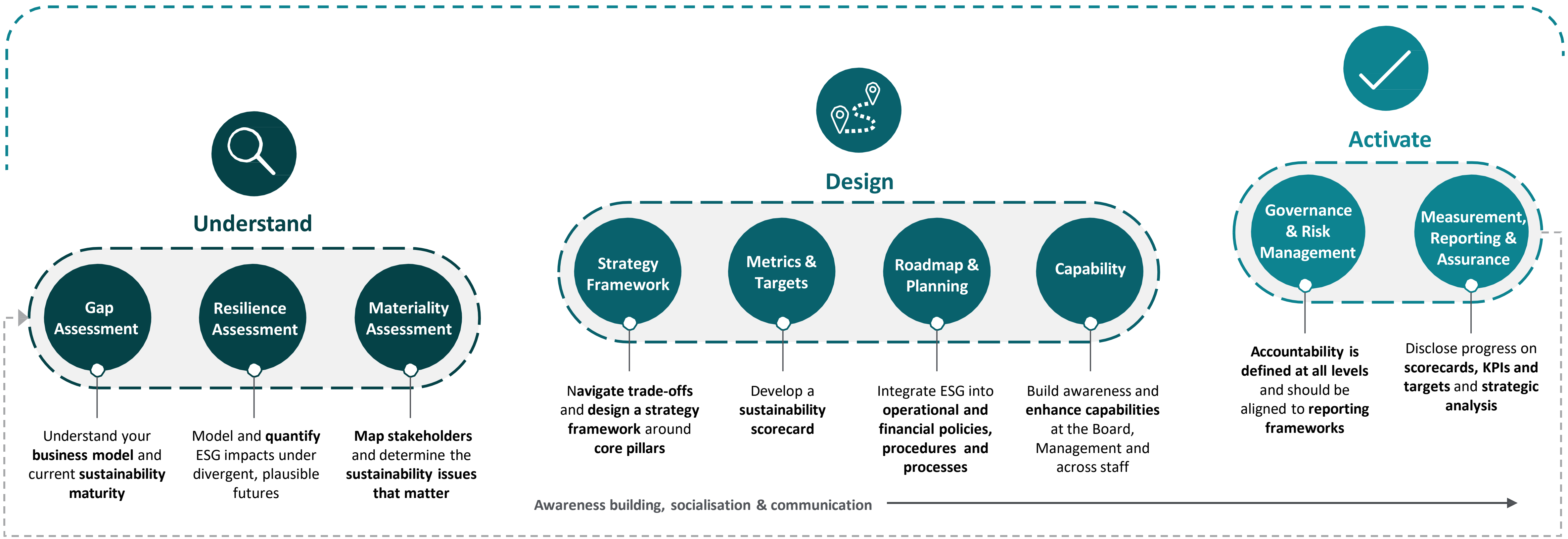
Organizations are regularly asking themselves these questions to help manage complexity and ensure robust reporting:

- **Is our ESG disclosure aligned with our strategic commitments?**
  Ensure that ESG reporting activities are continually connected to broader strategic programmes within the organization
- **Does our ESG disclosure meet internal and external information needs?**
  Ensure the reporting processes and methodologies are in line with growing regulatory requirements, shifting stakeholder expectations and market standards, and ensure the organisation is able to deliver information in a robust and efficient manner
- **Do we sufficiently measure, track and generate insight from our data?**
  Continually work to ensure that the necessary data is available and of sufficient quality to provide confidence in the reporting output and that analytics is applied to generate valuable insight for internal and external stakeholders
- **Is our overall reporting solution fit-for-purpose?**
  Ensure that the reporting solution is fit-for-purpose to deliver an effective, efficient and adaptable reporting process for the long-term

ESG Implementation Roadmap

Navigating the Practical Complexities of ESG

End-to-end Journey



How you benefits from each step:

- Understand your business model and **how you are performing on sustainability**
- You will know what your **stakeholders care about**
- You decide **what your business needs to focus on**
- And **how to measure** progress
- You have a **plan** to get there
- You **enable strategy to be implemented**
- You know who is **accountable for sustainability**
- **Tell your ESG story**

Phase I

Understand

Understand the business model, how corporate strategy drives ESG values, impacts, where conflicts and trade-offs are made, and how this understanding informs the ESG vision.

Embedding Emerging Risks into FS

IAS 1: Presentation of FS

<u>Sources of estimation uncertainty and significant judgements</u>

IAS 1 requires disclosure of information about assumptions (+ the nature and carrying amount of those assets and liabilities) a company makes about the future have a ***significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.***

<u>Going Concern</u>

If ESG-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, IAS 1 requires disclosure of those uncertainties.

IAS 2: Inventories

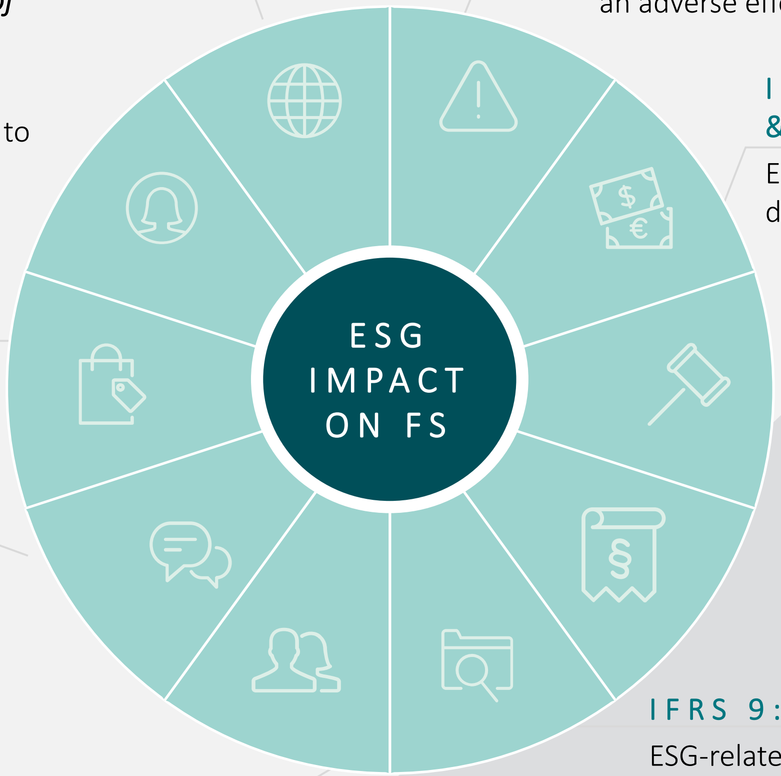
ESG-related matters may ***cause a company's inventories to become obsolete, their selling prices to decline or their costs of completion to increase***.

IAS 12: Income Taxes

Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised.

IFRS 17: Insurance Contracts

ESG-related matters may increase the frequency or magnitude of insured events or may accelerate the timing of their occurrence. Examples of insured events that could be affected by climate-related matters include business interruption, property damage, illness and death



IAS 36: Impairment of Assets

ESG-related matters may give rise to indications that an asset (or a group of assets) is impaired. Moreover, IAS 36 notes that external information such as significant changes in the environment (including for example transition risks - changes in regulation, changes in demand) in which a company operates with an adverse effect on the company is an indication of impairment.

IAS 37: Provisions, Contingent Liabilities & Assets

ESG-related matters may affect the recognition measurement and disclosure of liabilities in the fs e.g related to:

- levies imposed by governments for failure to meet ESG-related targets or to discourage or encourage specified activities;
- regulatory requirements to remediate environmental damage and social inequality;
- contracts that may become onerous (for example, due to potential loss of revenue or increased costs as a result of climate-related changes in legislation); or
- restructurings to redesign products or services to achieve ESG-related targets

IFRS 9: Financial Instruments

ESG-related matters may affect how a loan is classified (e.g SLLs), lender's exposure to credit losses (e.g resulting from physical or transition risks), or the value of collateral for lenders (due inaccessibility or uninsurability of assets)

Materiality Assessment Approach

Knowing your stakeholders

Internal

Leadership:
C-Suite
Board
Industries/brands

External

Employees

Customers

Suppliers

Investors/owners

Non-governmental organizations (NGOs)

Industry associations

Governments and regulators

Local communities

Potential methods of engagement:

Interview

Survey

Focus group

Desktop research

PHASE 1: Define purpose and scope
Define what materiality means for your organization and be clear about your objectives and audience

PHASE 2: Identify potential topics
Create a long-list of potential material topics

PHASE 3: Categorize
Refine the long-list of potential material topics by clustering them into categories

PHASE 4: Gather information about the impact and importance of topics
Explore each material topic in detail to understand its relevance to the business and stakeholders

PHASE 7: Seek stakeholder feedback
Follow up with stakeholders to get feedback on the material topics reported

PHASE 6: Engage management
Test the results of your materiality assessment with key internal audiences to validate the outcome

PHASE 5: Prioritize
Prioritize material topics based on the strategic importance to the business, importance to stakeholders and the social, economic and environmental impact of each topic in the value chain

Source: KPMG (2014). Sustainable Insight: the essentials of materiality assessment.

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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Balancing stakeholder expectations

Approach
Getting this right will take the commitment of the entire organization and your broader ecosystem of stakeholders…

Defining your ESG change strategy is the easy part.

Driving the change through the Bank will be your greatest challenge; it requires aligning the interests of overlapping groups of key stakeholders in ways consistent with your culture.

Delivering against each stakeholder mandate will require a whole-of-business approach that begins from the top.

Setting the tone from the top by owning ESG as a top corporate objective in order to define your place as a leader and future-proof the organization

Demonstrating leadership and influence to achieve your ESG strategy and objectives

Supporting your ESG strategy and execution

Executing your response to ESG imperatives and proactively identifying ESG opportunities for the business

Pressuring you to set more aggressive ESG priorities and tie achievement back to executive compensation

Enabling capabilities and control functions across people, finance, risk and compliance, shared services and technology

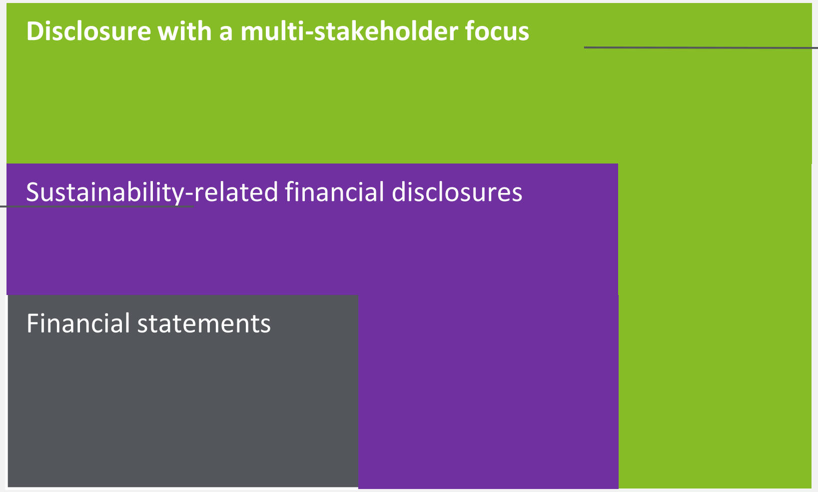
Demanding choice among ESG products and expecting more information to make informed decisions

Uniting around your ESG strategy to work together towards a more inclusive & sustainable tomorrow, as well as attracting & retaining top talent

Materiality Assessment Approach

Double Materiality

With the double materiality approach, organizations are expected to not only include impact materiality (inside-out view), but also how topics impact company's performance (outside-in view) perspectives.



Financial materiality

Financial materiality would require disclosure of sustainability matters that (may) trigger material **financial effects on a company's development**, e.g. cash flows, financial position or financial performance in the **short- medium- or long-term**.

This assessment would not be limited to matters within the company's control.

Materiality would be assessed based on **likelihood and (potential) size of the financial effect**.

Impact materiality

Impact materiality would require disclosure of sustainability matters that relate to a company's material actual or potential, positive or negative, **impacts on people, or the environment** over the **short-, medium-, or long-term**.

This assessment includes impacts in a company's **upstream and downstream value chain**.

Materiality would be assessed based on **severity and likelihood of the impact**.

Materiality Assessment Approach

Double Materiality

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INWARDS MATERIALITY

- Transitional risks:

Policy, Legal, Market,

- Physical risks:

Acute (events), Chronic (long time)

- Impact on the environment
- Impact on the society

Impact materiality

Impact materiality would require disclosure of sustainability matters that relate to a company's material actual or potential, positive or negative, **impacts on people, or the environment** over the **short-, medium-, or long-term**.

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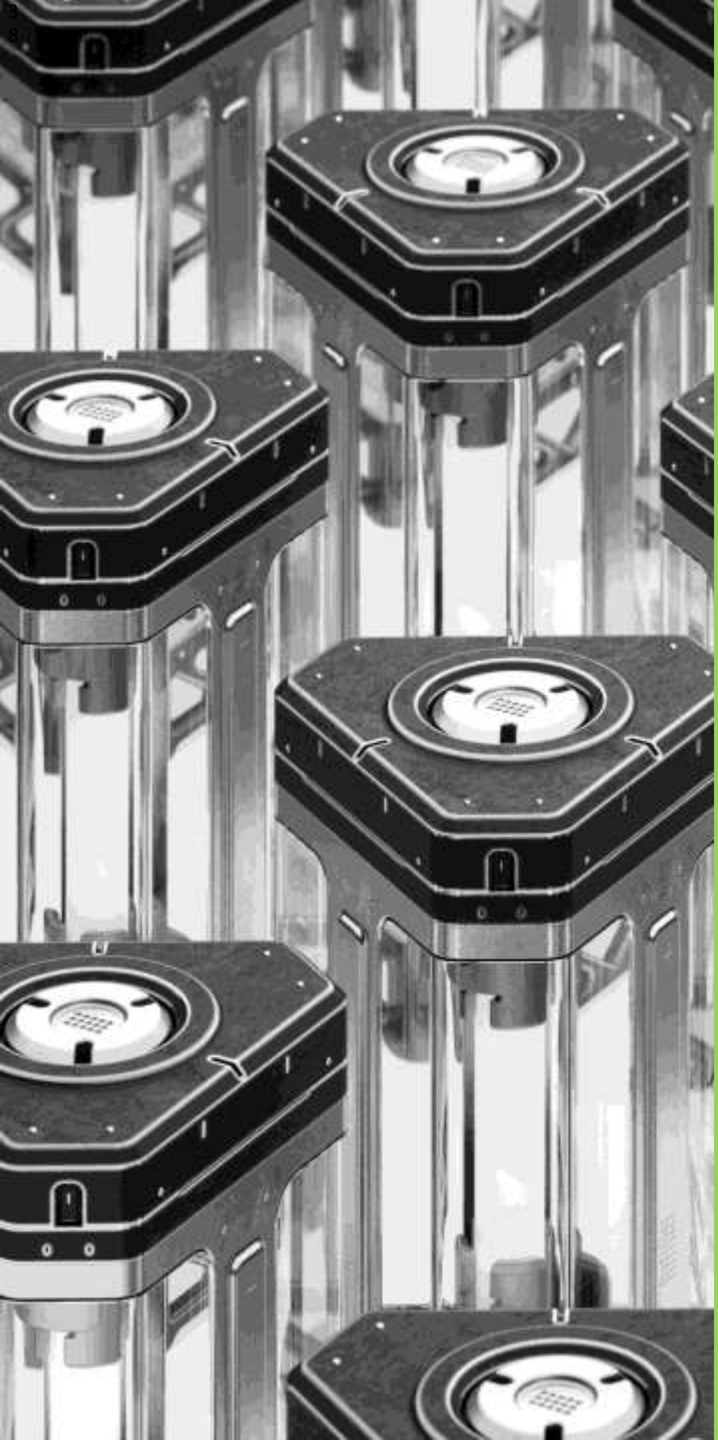

Phase II

Design

Integrate materiality, resilience and strategy outputs into policies and procedures for: financial planning, valuations and reporting.

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Metrics & Targets

Once you identify your material topics it is essential to set Targets and assign Key performance indicators (KPIs) that align with and reflect its priorities and objectives as it aids in measuring what you manage.

Economic standards	Environmental standards (GRI 300)	Social standards
• **201: Economic performance** • 202: Market presence • **203: Indirect economic impacts** • 204: Procurement practices • **205: Anti-corruption** • 206: Anti-competitive behaviour • 207: Tax	• **301: Materials** • **302: Energy** • 303: Water and effluents • 304: Biodiversity • **305: Emissions** • 306: Effluents and waste • 307: Environmental compliance • **308: Supplier environmental assessment**	• **401: Employment** • 402: Labor/management relations • **403: Occupational healthy and safety** • **404: Training and education** • **405: Diversity and equal opportunity** • **406: Non-discrimination** • 407: Freedom of association and collective bargaining • 408: Child labor • 409: Forced or compulsory labor • 410: Security practices • 411: Rights of indigenous peoples • **412: Human rights assessment** • 413: Local communities • **414: Supplier social assessment** • 415: Public policy • 416: Customer health and safety

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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

With the rapidly evolving risk regulations and increasing customer/stakeholder expectations, organizations have to not only declare their ESG strategy but also execute it. This has raised concerns on scalability, future proofing, and meeting the reporting requirements timeline on a quarterly or annual basis. Below illustrates the complexity behind an ESG reporting strategy.

Influences on ESG Strategy and Reporting

Standard setters | **Government & Regulators** | **Capital Market** | **Consumers & Employees** | **Corporate strategy**

Targets and KPI's

People & Operations: Board & Executives | HR | Finance | Accounting | IT | Operations | Legal | Product Design | External (i.e. suppliers, customers)

Data*

- Workforce diversity
- Turnover, employee engagement
- Energy and Water usage
- Supply chain
- Carbon emission
- Cybersecurity

Data sources and capture*

- General Ledger
- Procurement System
- CRM
- Asset Management System
- Supplier Systems
- Spreadsheets
- Emails
- HRIS
- Data Warehouse
- Travel and expense management system

Data Processes and controls*

Conversions

- File type conversion
- Conversion and calculation of KPI's

Aggregation

- Data sourcing, integration
- Aggregate across regions, business lines etc.

Mapping

- Mapping against frameworks

Controls

- Review and monitor controls
- Access controls
- Checks within models, assumptions and conversions
- Workflows and review sequence
- Data reconciliations

Accounting, Reporting & Regulatory Compliance Impacts*

Inventory | PPE | Intangibles & Goodwill | Climate change commitments | Contingency losses & Gains | Financial instruments | Onerous Contracts | Going Concern, risks & uncertainties

**Examples only, not a complete list and will vary by industry and organization*

Phase III

Activate

Reconcile the Board and Management scorecards, KPIs and targets to materiality, resilience and strategy outputs; Disclose strategic analysis with changes to financial valuations.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Cultural and Organizational Change

The ESG agenda engages across all internal functions, requiring integrated thinking, governance, performance measurement and reporting

Risk

- Identifying, quantifying, managing and responding to latent and emerging ESG risks
- Integrating ESG (and particularly climate) capabilities into existing risk frameworks
- Enhancing existing risk modelling and stress testing capabilities for ESG risk

Sustainability / ESG

- Helping to identify, manage and communicate material ESG information
- Designing ESG / sustainable finance programmes which add value, deliver positive impact, and support delivery of strategic objectives

Internal Audit

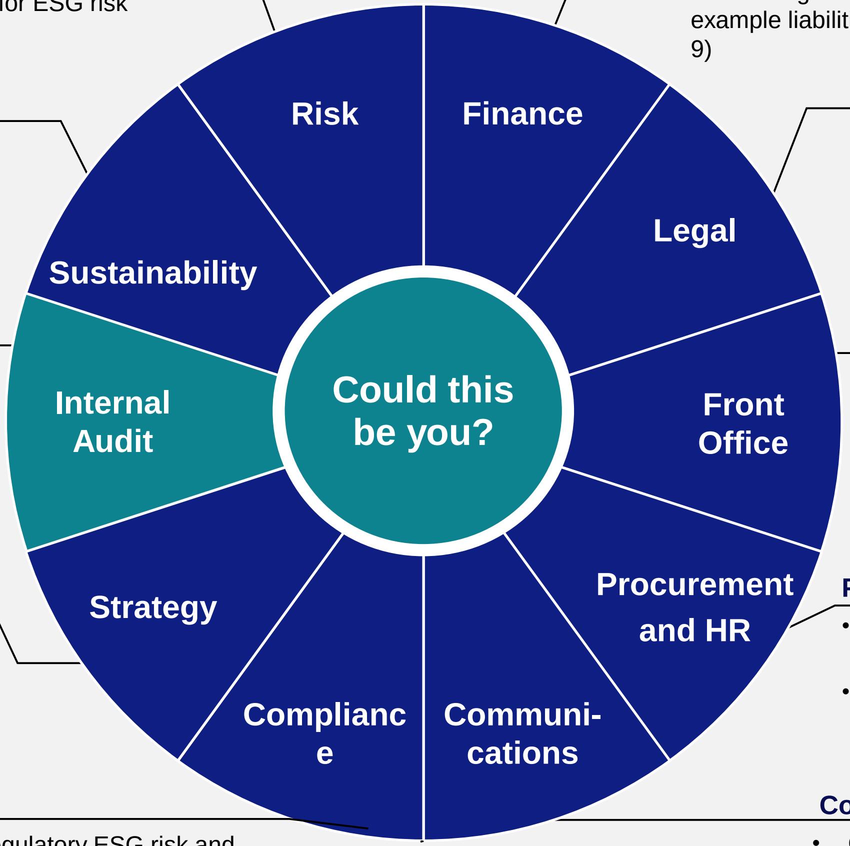
- Setting appropriate audit programmes to focus on material risks to ESG risk identification and management
- Developing expertise to constructively challenge and add value to ESG risk and sustainable finance programmes of work

Strategy

- Shaping innovative and brand-enhancing sustainable finance strategies, which successfully capture (and even create) attractive market demand
- Designing future-proofed strategies which meet the evolving needs of clients, and deliver competitive advantage through ESG - creating sustainable value and driving the low carbon transition

Compliance

- Maintaining currency with the rapidly evolving, and complex, regulatory ESG risk and sustainable finance landscape
- Preserving the integrity of businesses control frameworks to support compliance around ESG risk and sustainable finance requirements



Finance

- Incorporating climate-related financial risks into pricing, forecasting and budgeting, financial reporting, and capital-allocation
- Accounting for climate risks requires updates to the implementation of existing standards, for example liabilities under insurance contracts (IFRS 17) or in the impairment of assets (IFRS 9)

Legal

- Understanding and managing liability risks from e.g. climate change – from inadequate or inaccurate disclosure of material financial risks
- Interpreting the credibility and transparency of sustainable finance products, in the context of the risk of 'green' and 'impact-washing', and resultant mis-selling implications

Front office

- Identifying client, counterparty and transactional ESG risks, and integrating these into investment, underwriting, and lending decision-making
- Understanding customers' ESG preferences and incorporating into these into the sale of products and provision of advice in a rapidly-developing regulatory environment

Procurement and HR

- Managing supply chain ESG risks and ensuring business is done with suppliers with comparable values and standards
- Managing workforce risk from ESG issues to operations (e.g. climate resilience, migration, expertise, engagement) and to employees (e.g. health, well-being, migration)

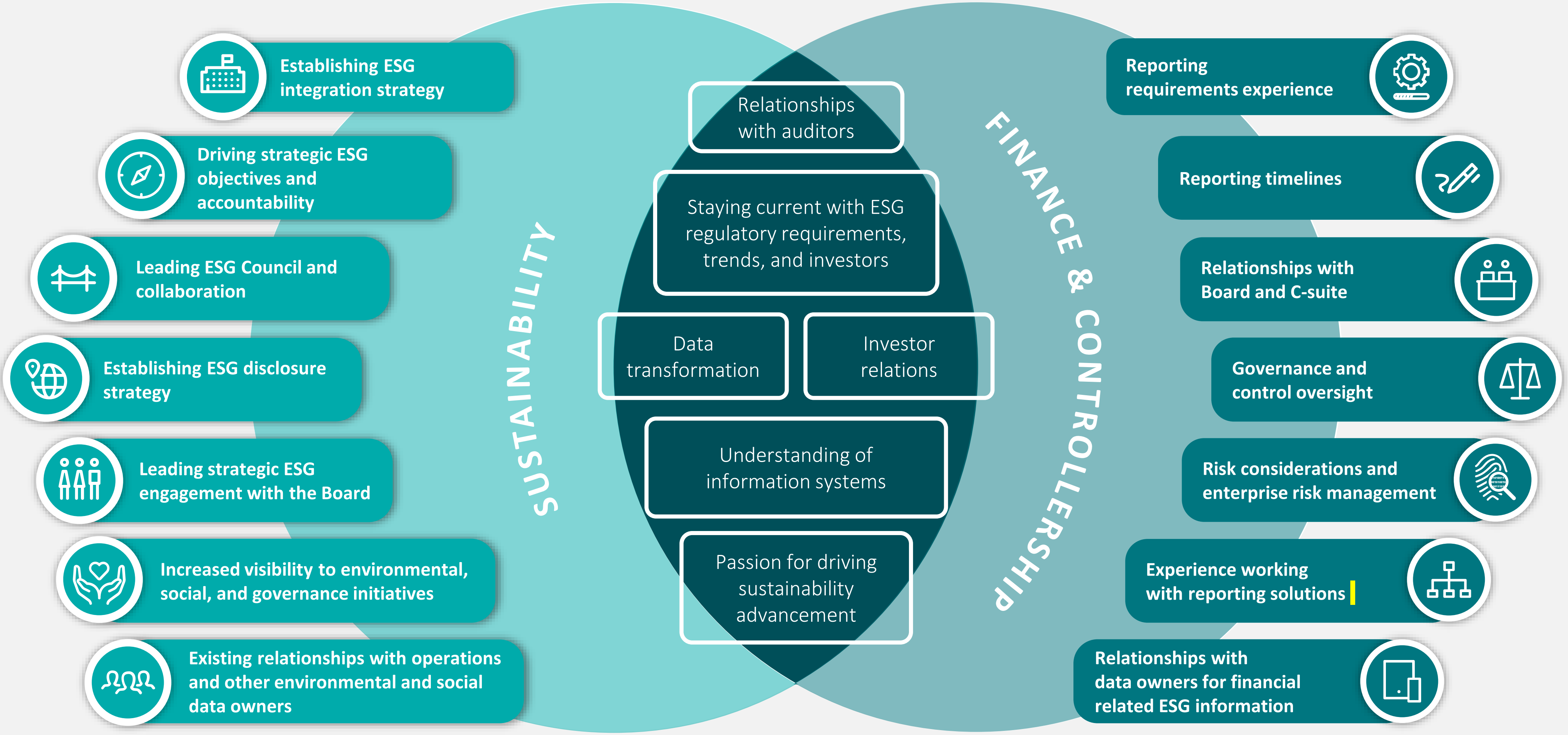
Communications

- Communicating credibly and effectively to the market the sustainability of operations and financing, ESG impacts and the resilience of its strategy to climate change
- Providing transparency over product offering to avoid risks from 'green' and 'impact washing'

Cultural and Organizational Change

Intersection of sustainability and controllership capabilities

Intersection of sustainability and controllership capabilities



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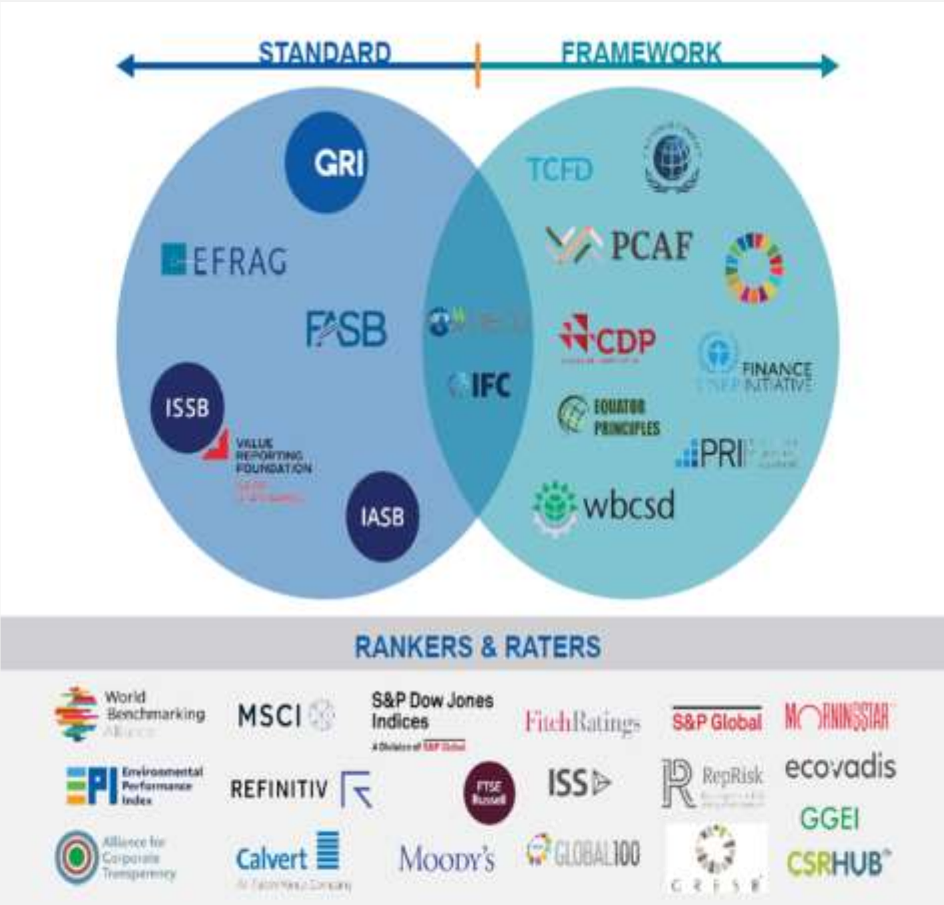
Overview of Sustainability Reporting Frameworks

The ESG reporting landscape is complex, with reporting standards, frameworks and ratings having evolved and proliferated over time. However, recently there has been a trend towards standardization and legal mandating of key standards.

ESG STANDARDS, FRAMEWORKS & REGULATIONS



	GRI	TCFD	ISSB IFRS	SEC	CSRD ESRS
	Standard	Framework	IFRS S1 & IFRS S2	Proposed regulation	Draft standards
Regulations	Voluntary	Voluntary; Mandatory in some jurisdictions (UK)	Voluntary; expected to be mandatory when adopted by jurisdictions	Mandatory (US)	Mandatory (EU) through regulation through the directive (CSRD)
Coverage	Sustainability (Cross-sector, environment, social, governance) Industry-specific	Climate Supplemental industry-specific guidance	Sustainability Initially IFRS S1 and IFRS S2 S1 – General disclosures for sustainability reporting S2 - Climate disclosures Industry-specific	Climate Industry-agnostic	Sustainability (Cross-sector, environment, social, governance) Industry-specific
Materiality	Stakeholder-focused	Consistent with other information included in financial filings	Investor-focused	Investor-focused; Consistent with Supreme Court's definition	Investor and stakeholder-focused; Double materiality
Assurance	No requirement; up to entity discretion	No explicit requirement; disclosures should be subject to internal governance processes	No requirement; up to jurisdictional discretion	Phase-in Reasonable (Scope 1 & 2 Greenhouse Gas Protocol (GHG) Financial statement audit/ICFR (Financial Impact Metrics)	Limited assurance, followed by reasonable assurance – as required by regulation through the directive (CSRD)
Disclosure granularity	Moderate to High	Low	Moderate to High	Low to Moderate	High
Disclosure location	Annual Reports	Annual financial filings	General purpose financial reporting (e.g., management discussion and analysis (MD&A)	Annual Reports (e.g., 10-K and 20-F) Registration statements (e.g., S-1, S-3, S-4, F-1, F-3, F-4)	Management Reports (e.g., MD&A)

Reporting

Conceptual Foundations

For sustainability-related financial information to be useful, it must be **relevant** and faithfully represent what it purports to represent. These are fundamental qualitative characteristics of useful sustainability-related financial information. The usefulness of sustainability-related financial information is enhanced if the information is comparable, verifiable, timely and understandable. These are enhancing qualitative characteristics of useful sustainability-related financial information

Materiality – In the context of sustainability-related financial disclosures, ***information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports***, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity

NB// This is based on the IFRS Accounting Standards definition of 'material

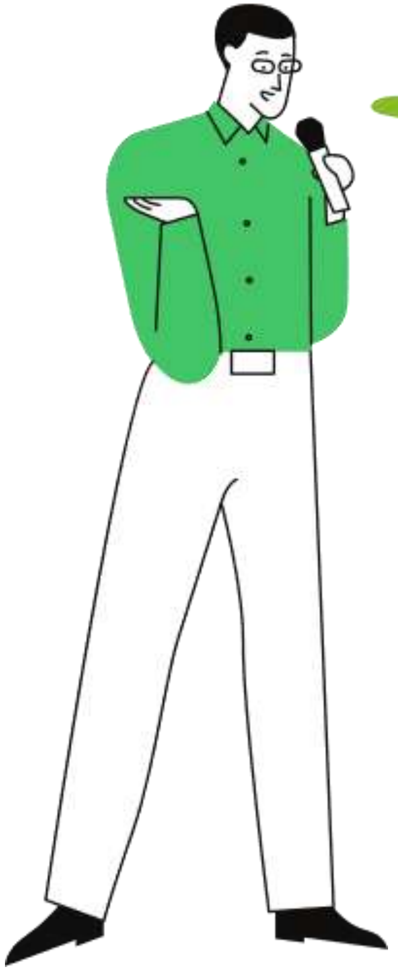
Connected Information – Companies must explain the connections across their sustainability-related risks and opportunities and the information in related corporate reports, including the financial statements. The intent is to promote an integrated approach to reporting on sustainability matters.

Fair Representation – To achieve faithful representation, an entity shall provide a **complete, neutral and accurate depiction** of those sustainability-related risks and opportunities.

Fair presentation also requires an entity:

- to disclose information that is comparable, verifiable, timely and understandable; and
- to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general-purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's prospects.

Reporting timing and location – Sustainability-related disclosures should be made in corporate reporting as part of the same package that includes the financial statements and published for the same reporting period, at the same time. (In the first year of application, later publication is permitted; and a company may also limit its reporting to climate-related disclosures.)



Q & A