Building and demonstrating resilience through enterprise risk management & transparent disclosure

15 July 2020
Today’s speakers

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Enterprise Risk Management, Redefining Value, WBCSD

Eleanor Leach
Governance & Assurance, Redefining Value, WBCSD

Luke Blower
Disclosure & Performance, Redefining Value, WBCSD
Topics

• The business case for aligning ESG and ERM
• The guidance on Applying *Enterprise Risk Management to Environmental, Social and Governance-related Risks*
  • Governance
  • Risk assessment & prioritization
  • Reporting & disclosure
Our mission is to accelerate the transition to a sustainable world by making more sustainable business more successful.

Our vision is to create a world where more than nine billion people are all living well and within the boundaries of our planet, by 2050.

WBCSD is a global, CEO-led organization of 200 forward thinking businesses working together to accelerate the transition to a sustainable world.

GLOBAL
Our 200 members span across the globe and all economic sectors.

We have 60+ Global Network partners who engage with sustainable business at a national level.

CEO-LED
WBCSD is oriented towards collective action and led by our member company CEOs.

UNIQUE BUSINESS PLATFORM
Our members enjoy access to a diverse business community across sectors and a safe space to exchange ideas, know-how and information with peers. Together, we develop business solutions to global challenges that no single company can tackle alone.

MARKET-DRIVEN
We consider sustainable development as a strategic business opportunity. We strive to make more member companies more competitive.
As global business faces new and complex challenges and opportunities, our science-based approach and targeted business solutions aim to scale up business impact.
WBCSD’s Redefining Value Program

**Business decision-making**
We aim to improve internal processes to incorporate hidden costs and benefits as they relate to environmental, social and governance (ESG) issues.

Projects:
- Enterprise Risk Management
- Governance & Internal Oversight
- Assess & Manage Performance

**External disclosure**
We help companies communicate decision-useful information on growth prospects, risks and how both are managed for a more accurate valuation by market participants.

Projects:
- Reporting matters
- The Reporting Exchange
- Purpose-driven Disclosure
- Assurance & Internal Controls
- TCFD Preparer Forums

**Investor decision-making**
We help companies demonstrate the investment case for inclusive, sustainable business practices to their internal teams and external stakeholders, help them take advantage of emerging financing mechanisms, and mobilize their own investments.

Project:
- Aligning Retirement Assets
The business case for better ESG risk management
What is driving focus on ESG risk management?

**Megatrends and disruption**
- Disrupting the global risk landscape and future growth pathways

**Investors**
- Wanting more data on a company’s ESG performance

**Employees**
- Wanting to work for employers that incorporate ESG into their purpose

**Customers**
- Demanding more sustainable products and services

**Regulators**
- Increasing regulation around ESG issues

**NGOs and Communities**
- Increasing pressure for radical transparency
The global risk landscape has changed

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<td>Water crisis</td>
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Source: WEF 2020
Who predicted Covid-19?

- Little or no identification of pandemics or infectious diseases as material risks or sustainability issues in annual, integrated or combined reports.
- 8 instances across 350 reports examined.
- Search terms: Pandemic; Infectious disease; Health; Flu; Influenza; Virus; Outbreak; SARS.
- Limited continuity planning to respond pandemics/infectious diseases.

Covid-19 pandemic observations

- Focus on assessing business resilience, adaptability and effective continuity planning
- Review and assessment of supply chain and distribution vulnerabilities – increased focus on understanding supply chain components, practices and performance
- Consideration of what effective ERM will comprise in the “new normal” state - every business will need to rebuild its risk map to reflect this new environment
- Increased awareness of the role of social media (positive and negative) and the speed of onset of reputational risks
- Concerns of managing return to work protocols, synchronization across geographies and operations, litigation and employment risks.
- Calls for post-Covid funding and support to be aimed toward environmental/climate positive businesses and projects
ESG outperformance amid COVID-19 crisis

31 North American member stocks weathered downturn better than the market

67 stocks of European members are more resilient in the view of investors

ESG outperformance amid COVID-19 crisis

Asian members changed in line with their respective markets
Is risk management working?
Data for decisions

**Question:**
Thinking about the data that you personally use to make decisions about the long-term success and durability of your business, how important are the following?
- Showing only 'critical/important'

**Gap between:**
- Data considered critical/important for decision making
- Comprehensiveness of that data as currently received

**2019 Critical/important**
- Data about your customers’ and clients’ preferences and needs: 95%
- Data about your brand and reputation: 92%
- Data about the risks to which the business is exposed: 92%
- Data about your employees’ views and needs: 93%
- 2019 Comprehensive
- Financial forecasts and projections: 90%
- Data about your brand and reputation: 89%
- Data about the risks to which the business is exposed: 87%
- Data about your employees’ views and needs: 88%
- Benchmarking data on the performance of your industry peers: 85%
- Data about the effectiveness of your R&D processes: 72%
- Data about your supply chain: 73%

**2009 Critical/important**
- Data about your customers’ and clients’ preferences and needs: 94%
- Data about your brand and reputation: 90%
- Data about the risks to which the business is exposed: 87%
- Data about your employees’ views and needs: 86%
- Benchmarking data on the performance of your industry peers: 84%
- Data about the effectiveness of your R&D processes: 70%
- Data about your supply chain: 66%

**2009 Comprehensive**
- Financial forecasts and projections: 35%
- Data about your brand and reputation: 24%
- Data about the risks to which the business is exposed: 22%
- Data about your employees’ views and needs: 30%
- Benchmarking data on the performance of your industry peers: 20%
- Data about the effectiveness of your R&D processes: 23%
- Data about your supply chain: 21%

**Source:** PwC; 22nd Annual Global CEO Survey
**Base:** All respondents (2019=1,378; 2009=1,124)
Decision-making challenges

- 80% Admit that their organisation used flawed information to make a strategic decision at least once in the last three years.
- 32% feel that information (financial and non-financial) delivered to decision makers is relevant and timely.
- 34% Find it challenging to select the right combination of metrics to measure business performance over different time frames.
- 40% sufficient understanding of how the organisation’s business model needs to adapt in response to market trends.

(Source: CIMA-AIPCA Joining the Dots – Decision Making for a new Era, >300 responses)
Investor interest

97% of institutional investors surveyed say they conduct an evaluation of target companies’ non-financial disclosures

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<thead>
<tr>
<th>Category</th>
<th>2018</th>
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<tbody>
<tr>
<td>Risk or history of poor governance practices</td>
<td>63%</td>
<td>38%</td>
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<tr>
<td>Risks in supply chain tied to ESG factors</td>
<td>52%</td>
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<td>Risk or history of poor human rights practices</td>
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<td>Risk from climate change</td>
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<td>Risk from resource scarcity (e.g., water)</td>
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<td>Risk or history of poor environmental performance</td>
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<tr>
<td>Limited verification of ESG-related data and claims</td>
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<tr>
<td>Absence of a direct link between ESG initiatives and business...</td>
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Source: EY, Does your nonfinancial reporting tell your value creation story?
### TCFD progress & learnings

Need to improve **quantity and quality** of disclosure, identify decision-useful **metrics**, support **risk management integration** and the assessment of **strategic resilience**.

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<td>a. Risks and Opportunities</td>
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<td>b. Impact on Organisation</td>
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<td>c. Resilience of Strategy</td>
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<td>c. Integration into overall Risk Management</td>
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<td>a. Climate-Related Metrics</td>
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<td>b. Scope 1,2,3 GHG Emissions</td>
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<td>c. Climate-Related Targets</td>
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## EU NFRD review highlights

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<th>Vague risks identification</th>
<th>Description of specific risk</th>
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<td>A.1 Climate change</td>
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<td>A.2 Use of natural resources</td>
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<td>A.3 Polluting discharges</td>
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<td>A.4 Waste</td>
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<td>B. Employee and social matters</td>
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<td>C. Human Rights</td>
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<td>C.1 Supply Chains Management</td>
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<td>C.3 High risk areas for Civil &amp; Political rights</td>
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<td>D. Anti-corruption &amp; Whistleblowing</td>
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<td>D.1 Anti-corruption</td>
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Amendments to the Main Market Listing Requirements ("Main LR") and ACE Market Listing Requirements ("ACE LR") (collectively referred to as the "LR") relating to sustainability statements in annual reports ("Sustainability Amendments")

Listed issuers are required to disclose a narrative statement of the management of material economic, environmental and social ("EES") risks and opportunities ("Sustainability Statement") in their annual reports. This replaces the existing statement on the corporate social responsibility ("CSR") activities or practices required to be disclosed by listed issuers. For the Main Market listed issuers, they are also required to include in their Sustainability Statement, the prescribed information as set out in Practice Note 9 of the Main LR such as the governance structure, the scope of the Sustainability Statement and the management of material EES risks and opportunities ("material sustainability matters").
The guidance: “Applying ERM to ESG-related risks”
How can risk management help you?

Enterprise risk management is the culture, capabilities and practices, integrated with strategy-setting and its performance, that organizations rely on to manage risk in creating, preserving and realizing value.

Source: COSO ERM Framework – Integrating Strategy and Performance, 2017
There are established ERM frameworks that are applied globally.
COSO and WBCSD
Applying enterprise risk management to environmental, social and governance-related risks
How does it help?

- **Understand the connection points** between you and risk management – that is, how you can engage with ERM and *speak the same language*
- Communicate your insights on the broader impacts and dependences of the company and how these might translate into risks
- Frame risks in terms of the impact on the company’s strategy and business objective and understand how your company compares and prioritizes risks
- Understand the tools, knowledge and resources that risk management can provide to support ESG risk management
- Develop responses that are **appropriate and innovative**
- **Improve your risk disclosures**
Diagnostic tool for assessing the level of integration of ESG-related risks

- A tool for companies to assess their level of integration of ESG and ERM
- Aligns to the guidance checklist of actions and provides criteria for companies to rate themselves for each chapter of the guidance:
  1. Basic: None or few of the recommendations in place
  2. Developing: Rating between 1 and 3
  3. Established: Some of the recommendations in place, for a selection of ESG-related risks
  4. Leading: Rating between 4 and 5
  5. Advanced: Most or all of the recommendations in place
- Helps to identify gaps and areas of focus or future initiatives

See [https://www.wbcsd.org/vzcjb](https://www.wbcsd.org/vzcjb)
Chapter 1: Governance & Culture for ESG-related Risks
Why look at modernizing governance?

- The role and expectations of the corporations are changing
- The board has a critical role to play in the embedding of environmental and social considerations
- The risks challenging companies are changing and boards need to build resilience to withstand these shocks if they materialize
- Governance arrangements remain opaque in many countries and there is a lack of transparency about the board and its decision-making
- Managing stakeholder tensions is becoming increasingly important for board directors
Challenges for **board directors**

- WBCSD conducted a series of interviews across 12 countries.
- These interviews highlighted some challenges that are being faced by board directors in integrating sustainability into existing processes, governance and decision-making.
- We have grouped these challenges into five themes.

**Structure**
- Purpose
- Mandate
- Responsibility

**People**
- Board composition
- Training
- Skills
- Experience

**Process**
- Materiality
- Risk management
- Board agenda
- Impact & evaluation

**Stakeholders**
- Shareholders
- Customers
- Suppliers
- Employees
- Engagement

**Reporting**
- Frameworks
- Consistency
- Measuring progress

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Modernizing governance: WBCSD research

Recommendations

• Embed sustainability in corporate purpose
• Include ESG-concerns, risks, opportunities in the existing strategic discussion
• Improve awareness and understanding at director level
  • Management insight on sustainability activities and priorities
  • Recruit directors with diverse experience and skills
  • Board training to improve knowledge
• Effective and active engagement with stakeholders
• The board should address the alignment with real company activities and robust metrics and narrative
Board Self-Assessment on ESG Oversight

Context
Understanding environmental, social and governance (ESG) information is becoming an increasingly important topic for the board. ESG oversight and performance is often viewed as a key pillar of effective organizational governance to promote long term success. From climate change to customer’s health, ESG matters should be embedded into the company's purpose, management and culture; and the board has a pivotal role in overseeing these matters within the organization.

This board-level tool is designed to help boards assess how effectively they understand and are incorporating in their respective role ESG-related practices. This multiple-choice questionnaire seeks to evaluate the level and effectiveness of the board's oversight of ESG considerations across five core pillars: 1) purpose and business model, 2) risk management, 3) engagement with management, 4) engagement with stakeholders, and 5) non-financial disclosures. A board profile is generated at the end of the assessment which will serve as a guide to highlight current practices based upon survey responses – as well as additional practices to consider.

Scope
This self-assessment aims to provide boards with a practical tool to help them assess how effective they are at integrating ESG into their oversight role. It is not an evaluation of the board’s overall effectiveness, professionalism or impacts.

Board of director resources: Tools & solutions

Board Self-Assessment on ESG Oversight

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Understanding environmental, social and governance (ESG) information is becoming an increasingly important topic for the board. ESG oversight and performance is often viewed as a key pillar of effective organizational governance to promote long term success. From climate change to customer’s health, ESG matters should be embedded into the company’s purpose, management and culture; and the board has a pivotal role in overseeing these matters within the organization.

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**Target Audience**
This self-assessment is meant for boards of directors, corporate secretaries, risk committees and governance or ESG executives interested in assessing the board’s effectiveness of ESG oversight; it should be completed on behalf of the full board.

**Availability**
This self-assessment is available online through the WBCSD platform or can be completed offline in this excel format; it is expected that the survey will take approximately 30 minutes to complete. Upon completion of the self-assessment, a board profile will be generated. This self-assessment is intended for company boards. If completing online, the questions answers and all other data shared will only be visible to the end user, i.e. the survey taker. The board profile created after completing the questionnaire will only be made available to the end user the survey is complete. There is an option to download the board profile in PDF form. However, company data cannot be sent or shared through this self-assessment. Data will only be used by the survey tool for the analysis of answers resulting in the production of the board profile at the end of the survey. This self-assessment is the result of a research project developed to improve the understanding of the governance landscape and board practices around ESG oversight. The research covered 12 jurisdictions and included more than 30 interviews with board members and a review of governance codes, legislative requirements, voluntary codes, good practice and relevant literature. The project’s main findings and recommendations are detailed in the report Modernizing Governance: Key Recommendations for Boards to Ensure Business Resilience (available at the link below).

The project, including the self-assessment, was developed by the WBCSD Redefining Value team, with the assistance and expertise of Deloitte and Baker McKenzie, as well as with the guidance of an international group of governance professionals and a high-level advisory group.

**Data Privacy**
This self-assessment is intended for company boards. If completing online, the questions and all data shared will only be visible to the end user, i.e. the survey taker. The survey will attempt to collect demographic information on the survey taker to improve the self-assessment tool for future use. The survey taker will have the option to download the board profile in PDF format. However, company data cannot be sent or shared through this self-assessment. Data will only be used by the survey tool for the analysis of answers resulting in the production of the board profile at the end of the survey. This self-assessment is the result of a research project developed to improve the understanding of the governance landscape and board practices around ESG oversight. The research covered 12 jurisdictions and included more than 30 interviews with board members and a review of governance codes, legislative requirements, voluntary codes, good practice and relevant literature. The project’s main findings and recommendations are detailed in the report Modernizing Governance: Key Recommendations for Boards to Ensure Business Resilience (available at the link below). The project, including the self-assessment, was developed by the WBCSD Redefining Value team, with the assistance and expertise of Deloitte and Baker McKenzie, as well as with the guidance of an international group of governance professionals and a high-level advisory group.
Board of director resources: **Tools & solutions**

### Purpose & business model

Without an appropriately skilled and wholly integrated corporate purpose, business decision making can be difficult. Systems ensuring sustainability, issues like climate change, health pandemics, biodiversity loss and supply chain management may not be considered as business decision making. For the purpose and business model to make any profit or financial revenue, having a purpose which supports environmental, social and governance matters supports an organization in achieving objectives that aren’t stakeholders. The purpose and business model that serves the stakeholders is the purpose and business model that serves the stakeholders. The purpose and business model that serves the stakeholders is the purpose and business model that serves the stakeholders.

**“The purpose of business is to provide solutions to the problems of people and planet, and to profit from producing problems for people or planet. The notion of profit is now more revealing than ever in the age of crisis.” Exhilaration is the principle that guides companies in how they react to the crisis, how they come out of it, and how they should their businesses in the future.**

Prof. Guta Mayer
University of Oxford

### ENGAGEMENT WITH STAKEHOLDERS

As part of WBCSD’s governance and global oversight project, we have initiated a series of questionnaires for board directors and for management on whether the business decision making process is integrated and social and environmental and social and environmental and social and environmental questions are intended to be used to help organizations further integrate environmental and social issues into existing governance frameworks and decision-making. The questionnaires are two parts. The first part of questions is intended for the board to be self-evaluated as participants in boardroom discussions. The second part of questions includes key questions for management to ensure ESG considerations are properly embodied in operations and decision making.

### Questions for governance

- Does the board have direct and effective dialogue with stakeholders?
- Are stakeholders valued and considered in boardroom decision-making?
- How does the board get independent information from significant stakeholders and sustainability experts?
- How do you prioritize stakeholders’ issues?
- Does the board have an established proactive stakeholder panel, advisory group or critical friends committee?
- How does our business model consider value creation for shareholders and wider stakeholders?
- How does the board consider the long-term and short-term business objectives and how do these stakeholders align different stakeholders?
- Has the board considered how it might appropriately communicate with stakeholders?
- Has the board approved a shareholder-specific agenda for stakeholders?

### Questions for management

- What steps are management taking to understand and monitor their key stakeholders’ views?
- How do they engaged stakeholders to account for management’s decision-making process?
- How do they engage stakeholders and their ESG priorities of key stakeholders, including but not limited to investors, employees, customers, suppliers, policy-makers and communities, the public, and regulators?
- Has management developed mutual goals with stakeholders and does it monitor progress on those goals?
- Has management developed an effective strategy to engage with stakeholders and does it monitor their progress on those goals?
- How does management monitor the effectiveness of the company’s stakeholder relationships?
- Does organization gather and monitor stakeholder views through periodic surveys of specific groups or how does management monitor the survey feedback on the board?
- How do management and stakeholders agree on the survey feedback and what impact and benefits do stakeholders have?

### FIDUCIARY DUTY

- Purpose & business model
- Engagement with stakeholders
- Risk management
- Non-financial reporting

For more information, click on the topic that you would like to learn more about.

*The role of the board in overseeing risk management - Silvia Santos*
WBCSD partnered with The Embedding Project to support the development of two databases that are useful resources to support the purpose & business model pillar of our board resources microsite.
The role of the board vs. role of management

- Responsibility to promote the long-term success of the corporation
- Establish and oversee appropriate and effective internal controls and risk management
- Understand obligations to shareholders and other stakeholders
- Set the direction and strategy for the organization
- Challenge management on the day-to-day running of the business

- Management of the business and operational decisions
- Integration of environmental, social and governance risks and opportunities
- Responsibility to implement policies and controls to meet and deliver the strategic objectives and
- Ensure the successful operation of the business model
- Engagement with and understanding of stakeholder views
Governance, or internal oversight, establishes the manner in which decisions are made and how these decisions are executed.

Applying ERM to ESG-related risks includes raising the board and executive management’s awareness of ESG-related risks – supporting a culture of collaboration among those responsible for risk management of ESG issues.
The board and risk management

- Board (or governing body)
- Risk committee
- Compensation committee
- Nomination/governance committee
- Audit committee
- Other committees
- CEO
- Executive management
  - CFO
  - CAO
  - COO
  - CHRO
  - CRO
  - CIO
  - CSO
  - General Counsel
- ERM
- Sustainability or ESG
- Management/Risk owners
- Advisory councils (e.g., sustainability or risk)
Practical application: Sharing skill, capabilities and knowledge

<table>
<thead>
<tr>
<th>Risk Management Practitioner</th>
<th>Sustainability practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Knowledge of the <strong>end-to-end ERM process and timing</strong></td>
<td>• Understanding of <strong>ESG-related megatrends</strong> and potential impacts</td>
</tr>
<tr>
<td>• <strong>Escalation path</strong> to senior management and the board for critical risks</td>
<td>• Knowledge of the widely accepted <strong>frameworks that can support an understanding of ESG issues</strong></td>
</tr>
<tr>
<td>• <strong>Proficient in ERM frameworks</strong> and in understanding the impacts of risks</td>
<td>• <strong>Technical understanding of ESG-related risks</strong></td>
</tr>
<tr>
<td>• <strong>Capability to deploy tools or approaches used to assess financial risks</strong> (e.g., scenario planning, Monte Carlo simulation)</td>
<td>• <strong>Knowledge of broader stakeholder landscape</strong> and their priorities on ESG issues</td>
</tr>
<tr>
<td>• <strong>Skills in assessing the impact in terms of profit, loss and capital allocations</strong></td>
<td>• Understanding of <strong>current ESG initiatives in place</strong> to mitigate risk or capture value and opportunity</td>
</tr>
</tbody>
</table>
Chapter 2: Strategy & objective setting for ESG-related risks
All entities have impacts and dependencies on nature and society. Therefore, a strong understanding of the business context, strategy and objectives serves as the anchor to all ERM activities and the effective management of risks.

Applying ERM to ESG-related risks includes examining the value creation process to understand these impacts and dependencies in the short, medium and long term.
Key components of **Strategy & objective setting**

- Consider the changing shape of value
- Understanding the value creation process and impact and dependencies
- Enhancing your understanding of the business context (megatrend analysis, materiality assessment)
- Aligning risks to strategy, objectives and risk appetite
Consider the changing shape of value

According to a study by Ocean Tomo, between 1975 and 2015, the value of intangible assets as a proportion of total enterprise value among S&P 500 companies increased from 17% to 84%.

Source: The 2018 EPIC Report, Embankment Project for Inclusive Capitalism
Understand the company’s value creation process

An entity’s value is created, preserved, eroded or realized based on the relationship between the benefits derived from resources deployed and the cost of those resources (COSO, ERM Framework)

Source: The International <IR> Framework
# Approaches to understand the business context

Risk management and sustainability practitioners use a selection of tools and resources to understand the impacts of dependencies on the entity.

<table>
<thead>
<tr>
<th>Commonly used approaches to understand the business context</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Megatrend analysis</strong></td>
</tr>
<tr>
<td><strong>SWOT analysis</strong></td>
</tr>
<tr>
<td><strong>Impact and dependency mapping</strong></td>
</tr>
<tr>
<td><strong>Stakeholder engagement</strong></td>
</tr>
<tr>
<td><strong>Materiality and ESG assessments</strong></td>
</tr>
</tbody>
</table>
Generally-accepted frameworks for business to identify, measure and value its impacts and dependencies on natural, social and human capital.
Leveraging the ESG materiality assessment

1. Culture of compliance and conduct
   - Importance: High to very high
   - Definition and scope of terms: Compliance with laws and regulations / prevention of money laundering and terrorist financing / anti-corruption / combating financial market crime (e.g. fraud, anti-competitive practices) / sanctions compliance / tax compliance / corporate culture
   - See pages: 10-17, 19-23, 43-45

2. Company performance and strategy
   - Importance: High to very high
   - Definition and scope of terms: Business strategy / financial results / shares price / dividends / capital adequacy and funding position / stability of the company / operational risk (including business continuity management, technology risks) / cost efficiency / cost reductions
   - See pages: 10-17, 31-36, 40

3. Environmental and social risk management
   - Importance: High to very high
   - Definition and scope of terms: Environmental management system / assessment of sustainability risks in transactions / policies for sensitive industries / impacts on ecosystems and landscapes (incl. biodiversity, agriculture and forestry) / responsible supply chain management
   - See pages: 18-23, 32-36

4. Financial and political system stability
   - Importance: High to very high
   - Definition and scope of terms: Systemic risk / capital adequacy / total loss-absorbing capacity (TLAC) / legal entity structure / vulnerability / political and economic stability / sovereign credit ratings
   - See pages: 19-23, 31-38

5. Corporate governance
   - Importance: High to very high
   - Definition and scope of terms: Operational structure / governance framework / management team / rating rights
   - See pages: 15-17

6. Digitalization / fintech
   - Importance: High to very high
   - Definition and scope of terms: Blockchain / fintech / digital transformation / big data / automation
   - See pages: 14, 27

7. Consumer and investor protection
   - Importance: High to very high
   - Definition and scope of terms: Suitability and appropriateness / data security / privacy / transparency of fees
   - See pages: 12-17

8. Climate change
   - Importance: High to very high
   - Definition and scope of terms: Reducing the carbon footprint of own operations / greenhouse gas neutrality / managing climate risks / facilitating transition to a low-carbon and climate-resilient economy through product offering / climate-related disclosures
   - See pages: 18-23, 51-55

9. Incentives and compensation policy
   - Importance: High to very high
   - Definition and scope of terms: Responsible approach to remuneration / executive compensation / criteria for nominees / deferred, claw-backs
   - See pages: 45

10. Quality and range of services and advice
    - Importance: High to very high
    - Definition and scope of terms: Advisory process / relationship managers / range and quality of products and services / expertise (e.g. research / advisory) / performance and pricing of products and services / technology
    - See pages: 15-17, 24-29, 38-42

11. Human resources and talent management
    - Importance: High to very high
    - Definition and scope of terms: Diversity and inclusion / non-discrimination / training and skills management / attracting and retaining talent / health and safety / work-life balance / employees over 50 years of age
    - See pages: 40-49

12. Responsible investments
    - Importance: High to very high
    - Definition and scope of terms: Sustainable products and services / impact investing (incl. microfinance, conservation finance) / integration of environmental, social and governance (ESG) criteria in products and services / Principles for Responsible Investment (PRI)
    - See pages: 24-29, 51-53, 55

13. Human rights
    - Importance: High to very high
    - Definition and scope of terms: Fair working conditions / no child labor / no forced labor / human rights aspects in supply chain and business practices / full personal peoples’ rights / positive contribution to the realization of human rights
    - See pages: 18-23

14. Contribution to the economy
    - Importance: High to very high
    - Definition and scope of terms: Purchasing: sourcing / tax contribution / lending to small and medium-sized enterprises (SMEs) and start-ups
    - See pages: 31-36

15. Social commitments
    - Importance: High to very high
    - Definition and scope of terms: Philanthropy / supporting social and humanitarian projects / employee engagement, including skills-based volunteering / “helab” system of politics in our Swiss home market
    - See pages: 27-33, 40

Source: Credit Suisse Corporate Sustainability Report 2018

• Issues that are important to stakeholders and also included the analysis of information from monitoring tools, a dedicated media review, as well as the views of internal experts who participate in an ongoing dialogue with relevant stakeholder groups.

• This takes into account the perspective of clients, investors and analysts, policymakers, non-governmental organizations (NGOs), employees and other Stakeholders.
WBCSD research revealed **companies struggle to identify ESG-related risks** in annual risk filings despite identifying them as material in sustainability reports.

8% of companies were found to have **“full alignment”**

57% of companies were found to have **“some alignment”**

35% of companies were found to have **“no alignment”**

Evidence of **limited alignment of ESG and ERM**

[Link here to Sustainability and enterprise risk management: The first step towards integration]
Chapter 3: Performance: Identify, Assess & Prioritize Risks
Companies have limited resources, so they cannot respond equally to all risks identified across the entity.

Applying ERM to ESG-related risks includes assessing risk severity in a language to allow management to prioritize risks.

Leveraging ESG subject-matter expertise is critical to ensure emerging or longer-term ESG-related risks are not ignored or discounted, but instead assessed and prioritized appropriately.
Key components of assessing & prioritizing risks

• Understanding how the company assesses risk
• Metrics for measuring severity – e.g. quantitative/qualitative, monetary/non-monetary
• Selecting the best assessment approach
• Considering business vulnerability and resilience
# Risk severity measures

Example hierarchy of risk severity measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Example risk severity metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative (monetary)</td>
<td>Revenue: Projected or identified impact on revenue or expenditures</td>
</tr>
<tr>
<td></td>
<td>Expenditures: Projected or identified impact on expenditures or costs</td>
</tr>
<tr>
<td></td>
<td>EBITDA: Projected or identified impact on EBITDA</td>
</tr>
<tr>
<td></td>
<td>Assets and liabilities: Write-off, asset impairment and early retirement of existing assets</td>
</tr>
<tr>
<td></td>
<td>Capital and financing: Impact to cost of capital or access to capital, operating losses</td>
</tr>
<tr>
<td></td>
<td>Share price: Impact (%) in share price</td>
</tr>
<tr>
<td></td>
<td>Customer/reputation: Reduction in customer confidence (%) (may also be measured in revenue)</td>
</tr>
<tr>
<td></td>
<td>Safety: Lost time due to injuries</td>
</tr>
<tr>
<td></td>
<td>Social media coverage: Number of viewers of the entity’s video</td>
</tr>
<tr>
<td></td>
<td>Business continuity: Maximum allowable outage</td>
</tr>
<tr>
<td></td>
<td>Greenhouse gas emissions: Total emissions by type of greenhouse gas (GHG); carbon intensity (GHG/USD $ million)</td>
</tr>
<tr>
<td></td>
<td>Energy/fuel: Total energy consumption in megawatt hours</td>
</tr>
<tr>
<td></td>
<td>Water: Total freshwater withdrawn in cubic meters from water-stressed regions</td>
</tr>
<tr>
<td></td>
<td>Land use: Percentage change in land cover type (e.g., grassland, forest, cultivated, pasture, urban)</td>
</tr>
<tr>
<td></td>
<td>Location: Number of locations within a designated flood zone</td>
</tr>
<tr>
<td></td>
<td>Capital and financing: Increase or decrease in ability to raise capital</td>
</tr>
<tr>
<td></td>
<td>Reputation: Type of complaints received from stakeholders</td>
</tr>
<tr>
<td></td>
<td>Staff morale/turnover: Engagement survey results/level of engagement</td>
</tr>
<tr>
<td>Quantitative (non-monetary)</td>
<td></td>
</tr>
<tr>
<td>Qualitative</td>
<td></td>
</tr>
</tbody>
</table>
Moving beyond impact and likelihood

There are recognized limitations in the effectiveness of impact and likelihood approaches to assess ESG-related risks

- They can be more unpredictable and may manifest over a longer and often uncertain time frame.
- It can be difficult to find historical precedence and data to estimate the impact of the risk.
- Risks may be outside an entity’s control and responding to a risk may rely on collaboration or on the actions of other parties.
- ESG-related risks are macro, complex, multifaceted and interconnected and can affect the business across many dimensions (including different forms of capital and value).

Organizations need to consider different dimensions and approaches for reviewing and assessing ESG-related risks in order to identify vulnerabilities and to build resiliency into operations

(Source: WBCSD)
## Moving beyond impact and likelihood

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaptability</td>
<td>The capacity of an entity to adapt and respond to risks</td>
</tr>
<tr>
<td>Complexity</td>
<td>The scope and nature of a risk to the entity’s success</td>
</tr>
<tr>
<td>Velocity or speed of onset</td>
<td>The speed at which risk impacts an entity</td>
</tr>
<tr>
<td>Persistence</td>
<td>How long a risk impacts an entity</td>
</tr>
<tr>
<td>Recovery</td>
<td>The capacity of an entity to return to tolerance</td>
</tr>
</tbody>
</table>
Review risk prioritization by assessing under different criteria
e.g. Replot identified risks by threat vs vulnerability

(Source: KPMG Dynamic Risk Assessment)
Risk clusters: risks most expected to spread to each other and hence to occur in combination;

Stress scenarios: combinations of risks that are weakly linked, yet catastrophic in aggregate severity should they occur;

The most influential risks in the network: risks affecting more risks directly or indirectly than any of the others in the network;

The most influenced risks: risks with the highest expected propensity to be triggered directly or indirectly by any of the other risks,

Velocity: the expected time to impact of each individual risk and risk cluster - how rapidly the risk’s consequences will impact an organization, sector or industry once triggered.
The traditional view – example from Food & Agriculture

- **Severity**
  - Major
  - Significant
  - Moderate

- **Likelihood**
  - Likely
  - Almost Certain

- **Factors**
  - Food safety
  - Extreme weather events
  - Social media
  - Food, regulation
  - Water
  - Inefficient production practices
  - Changing consumer trends
  - Understanding agricultural practices
  - Geopolitics
  - Aging farmers
  - Lack of accord on industry goals
  - Expanded supply chain governance
  - Macroeconomic
  - Distribution channels
  - Biodiversity and genetic concentration
  - Technology / Biotechnology
  - Land degradation
  - Nitrogen inefficiency
  - Ineffective industry governance
  - Disparate approaches adopted by producers, research and scientists

- **Example from Food & Agriculture**
Network view

Captures connections between risks

Identifies clusters of connected risks

Risk Cluster 1
- Inefficient production practices
- Land degradation
- Nitrogen inefficiency

Risk Cluster 2
- Inefficient production practices
- Land degradation
- Water
Aggregated impacts of clusters

Aggregated impact of the clusters are greater - almost catastrophic! - than the individually most severe risk.
Dynamic Risk Assessment

The full report was launched at the World Economic Forum at Davos in January 2020

Available at  https://www.wbcsd.org/ermdrabp
Chapter 5: Communication & reporting
How do you feel when you think about preparing disclosures? Is it like this...
...or more the like this....?
Challenges faced by reporters

Fragmented reporting landscape

Reporting Exchange contains more than 2000 reporting regulations, codes and guidance from governments, stock exchanges, sector organizations and others

Bewildering array of reporting frameworks and approaches

Pressure to balance short-term financial success with broad-based long-term value creation

Pressure to contribute to societal goals

e.g. SDGs, Paris Agreement

Increasing regulation

10-fold increase in ESG reporting requirements in 20 years

‘Non-financial’ becoming financial:

e.g. TCFD climate-related financial disclosure

Limited resources

(human and financial) to deliver reporting

Many and various stakeholder groups

differing and competing needs for disclosure

Lack of coherence

between ESG in internal decision-making and external reporting
The ESG Disclosure Handbook offers guidance and a process to help companies navigate the many choices associated with ESG reporting.

"As Chair of the CRD, I welcome the ESG Disclosure Handbook. It is a valuable resource for companies aiming to evaluate the way in which they may use different reporting frameworks and standards to achieve effective and purpose-driven disclosure… by providing a structured evaluation process, the ESG Disclosure Handbook makes an important contribution to enhancing ESG disclosure."

Ian Mackintosh, Chair, Corporate Reporting Dialogue
Rationale for the Handbook

Navigating and negotiating:

• **Information needs** of multiple stakeholders
• **Multiple reporting provisions**
• **Internal objectives** for reporting
• **External objectives** for reporting
• Concerns about reporting “**volume and clutter**” and “**boilerplate**”
• Application of **judgement**
Process: Six key questions

The ESG Disclosure judgement process comprises six key questions that offer a simple, clear and practical way of optimizing confidence in externally reported ESG information.

1. Why?
2. For whom?
3. Where?
4. What?
5. How?
6. How much?
Process: Evaluate, Decide, Document

A. Evaluate criteria (neutral, objective, evidence-based)
   • Supports objectives and purpose of reporting
   • Has business value
   • Meets the needs of the intended audience
   • Is supportable and useful
   • Can be clearly communicated

B. Decide (subjective based on evaluation)
   • Assumptions
   • Opinions
   • Experts

C. Document
   • Final conclusion
   • Sensitivities and uncertainties
For whom should ESG information be reported?

Relationships and connections:
- Responsibility
- Influence
- Proximity
- Dependency
- Representation
Investors – closing the preparer/user gap

Important to understand the combination of strategic, financial and operational information that helps investors assess performance, prospects and plans. This could include:

• Value drivers and value creation opportunities

• Strategic development and differentiation, long-term thinking and planning

• Financial planning & performance – investment, return, growth, efficiencies

• Changing capabilities and competencies
Food for thought – questions to reflect on

Disclosure & communication with investors:
• How are you responding to investor interest/needs?
• Do you have:
  • A risk and return focus?
  • Connections to strategic business development and value offering?
  • Mix of numbers and narrative?
  • Sustainability-related financial disclosures?
  • Relationships with investor relations?
  • Channels to engage investors on ESG-related risks & opportunities?
What ESG information should be reported?

What ESG information you decide to report depends on the objective of the report, requirements of reporting provisions and the intended audience.

Consider:

- **Subject matter** (e.g. training & development, waste, climate change, water etc.)
- **Content categories** (e.g. strategy, risk, governance, targets, etc.)
- **Perspectives** – inside out & outside in
- **Information types** – operational, analytical, forward-looking
- **Indicator types** – evidence, explain, measure, value
- **Purpose** – integration, operation, mitigation, adaptation, transition & transformation
## What? – investment & technology

### KPIS, UNITS, COMMENTS

<table>
<thead>
<tr>
<th>KPIS</th>
<th>UNITS</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable capacity</td>
<td>GW - % &amp; total</td>
<td>Companies usually report on the breakdown of each energy source – wind, solar, hydro (as each has specific characteristics and combined with the geographic breakdown will also give a sense of diversification).</td>
</tr>
<tr>
<td>Renewable generation</td>
<td>GWh – % &amp; total</td>
<td>A number of variables can influence earnings, including economic cycle, weather, pricing, market dynamics and commodity prices. Details on how companies define EBITDA can differ (e.g., inclusion of non-recurrent flows, gains on disposals).</td>
</tr>
<tr>
<td>Renewable CAPEX</td>
<td>% &amp; total (local currency)</td>
<td>Companies will need to clarify the scope and definitions associated with this transition enablers category. It could include EV infrastructure, customer solutions (e.g., smart meters, energy services), smart networks (e.g., demand forecasting, automation and analytics), transmission and distribution infrastructure and storage. Companies may also consider disclosing these metrics in a way that aligns with their business reporting segments.</td>
</tr>
<tr>
<td>Renewable EBITDA</td>
<td>% &amp; total (local currency)</td>
<td>Companies will need to clarify the scope and definitions associated with this category. It could include number of EV charging points (public/private – owned, managed, financed), number of smart meters (% &amp; total), number of customer solutions sales, etc.</td>
</tr>
</tbody>
</table>
What? – sustainable product solutions

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>METHODOLOGY</th>
<th>CLIMATE-RELEVENT CRITERIA CONSIDERED</th>
<th>PRODUCT EXAMPLES</th>
</tr>
</thead>
</table>
| DSM’s Brighter Living Solutions | Evaluates products/innovations that are better for the planet (environmental benefits) and/or people (social benefits), compared to the market and across the entire life cycle. | • Reduces or avoids GHG emissions  
• Energy efficiency  
• Application of renewable energy | DSM’s engineering plastics, such as Stanyl® Diablo, replace metals and other materials to achieve weight savings, reducing fuel consumption and the associated GHG emissions in the automotive industry. Using Stanyl® Diablo for one component, reduces CO₂ emissions by 1g per 10km. When used to reduce friction in the engine, Stanyl reduces CO₂ consumption by 1g per km. |
| BASF’s Accelerator solutions | Sustainable solution steering:  
• Assesses the sustainability contribution of products in its specific application and region across all three dimensions of sustainability in a cradle-to-grave value chain approach  
• Portfolio grouped into four categories, ranging from solutions with a substantial sustainability contribution in the value chain (Accelerators), to solutions with market standard performance, up to solutions with a significant sustainability concern | • Reduces carbon footprint in production  
• Enables GHG savings downstream  
• Reduces energy consumption in production  
• Enables energy savings downstream | Luprosil® and Lupro-Grain® are pro-pionic acid-based preservatives that enable farmers to store feed grains for up to 12 months after harvesting without drying them, which can reduce GHG emissions by an average of 85% per metric ton of feed. |

€22 billion sales with Accelerator products by 2025 through innovation

- Accelerators are characterized by:  
  • Strong growth in their markets  
  • Margins ~7 percentage points above the remaining product portfolio  
  • More than 13,000 Accelerator products and solutions  
  • Accelerator sales 2017: €15 billion  
  • BASF’s R&D pipeline contains mainly Accelerator products

Strategy - Growth & Value
Capturing opportunities in Sustainable Living

- Above-market sales growth, resulting in -15% sales growth  
- Adj. EBITDA margin 19-20%  
- High single-digit % annual adjusted EBITDA growth

Enhanced by programs
- Global customer centricity  
- Commercialization of large innovation programs
How should ESG information be prepared & presented?

How information should be presented is largely dependent on the answers to what, for whom and why questions.

Consider:

- **Information type**
- **Reporting principles**
- **Accessibility**
- **Standardization**
- **Reliability and assurance**

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<th>SASB</th>
<th>IIRC</th>
<th>IFRS</th>
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<td>Understandability</td>
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Guidance on improving the quality of ESG information

People
Is it clear why individuals are responsible for collecting data?

Data (events and transactions)

Process
Controls, consistency, frameworks and ways of improving the quality of data

System
The systems used to collect and consolidate data. Note-collection systems may be different, but one system for consolidation is advised.

Governance

Improve the quality of information to support decision-making
Guidance on improving the quality of ESG information

1. The business case
2. Setting an objective and developing a roadmap
3. Understanding the improvements your company needs
4. Making changes to improve data quality
5. Reporting on internal controls
6. Monitoring and ongoing improvement
7. Assurance

wbcisd
A buyer’s guide to assurance on non-financial information

• Launched in partnership with the Institute of Chartered Accountants in England and Wales

• Part 1: the concept of assurance
  • The basics of assurance, what it is, what benefits it can add, what types there are, the process of assurance

• Part 2: practical guidance
  • Including how to commission an assurance engagement

• Endorsed by national standard setters - AICPA, SAICA, FSR – Danish Auditors and AUASB
Summary - process & steps

Why?

For whom?

How much?

How?

What?

Where?

A. Evaluate

B. Decide

C. Document

For whom?
Strengthen governance structures and enhance collaboration between sustainability & risk

Think beyond impact and likelihood to integrate ESG risks into decision making and to build resilience

Tell key stakeholders (incl. investors) what you’re doing in a strategic way
Questions & comments
Please feel free to contact us with questions and comments
roberto.benetello@bcsp.my