



# **Building and demonstrating resilience through enterprise risk management & transparent disclosure**

FIBS Webinar | 7th Feb 2020

IN COOPERATION WITH:





**FIBS is Finland's leading promoter of sustainable business and developer of corporate responsibility expertise.**

# Over 300 organisations are already part of the FIBS network

**Majority of the members  
are companies**

**Other members include key  
corporate stakeholders**

**300+** ~ **3/4** ~ **1/4**

FIBS is one of the largest CSR networks in Europe according to the number of members

The majority of members are large companies, among which are also the 9 largest Finnish companies

NGOs, lobbying and public sector organisations, educational institutes and other social influencers

# **FIBS offers the best tools for developing responsible and sustainable business within your organisation**



**Develop responsibility know-how within the entire organisation**



**Get inspiration from real, practical business cases**



**Raise responsibility management rapidly to the next level**



**Expand your contact and cooperation networks**



**Embed responsibility across units and functions**



**Stay up to speed on all field-related news and trends**



**Get peer support and mentorship**



**Build your reputation as a responsible business actor**

# FIBS is the Global Network Partner of the WBCSD

(World Business Council for Sustainable Business)



wbcscd  
global network



200

Member  
companies



US\$8.5 trillion

in combined  
revenues



19 million

employees



70

Global Network  
partners

# Who will be speaking today

**Helena Kekki,  
FIBS**



**Gordon Darling, Redefining Value,  
WBCSD**



**Johanna Tähtinen, Redefining Value,  
WBCSD**





# Aligning Enterprise Risk Management With ESG-related Risks

7 February 2020

# Today's Agenda

- The business case for sustainable development
- The business case for aligning ESG and ERM
- How to apply the guidance on *Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks*

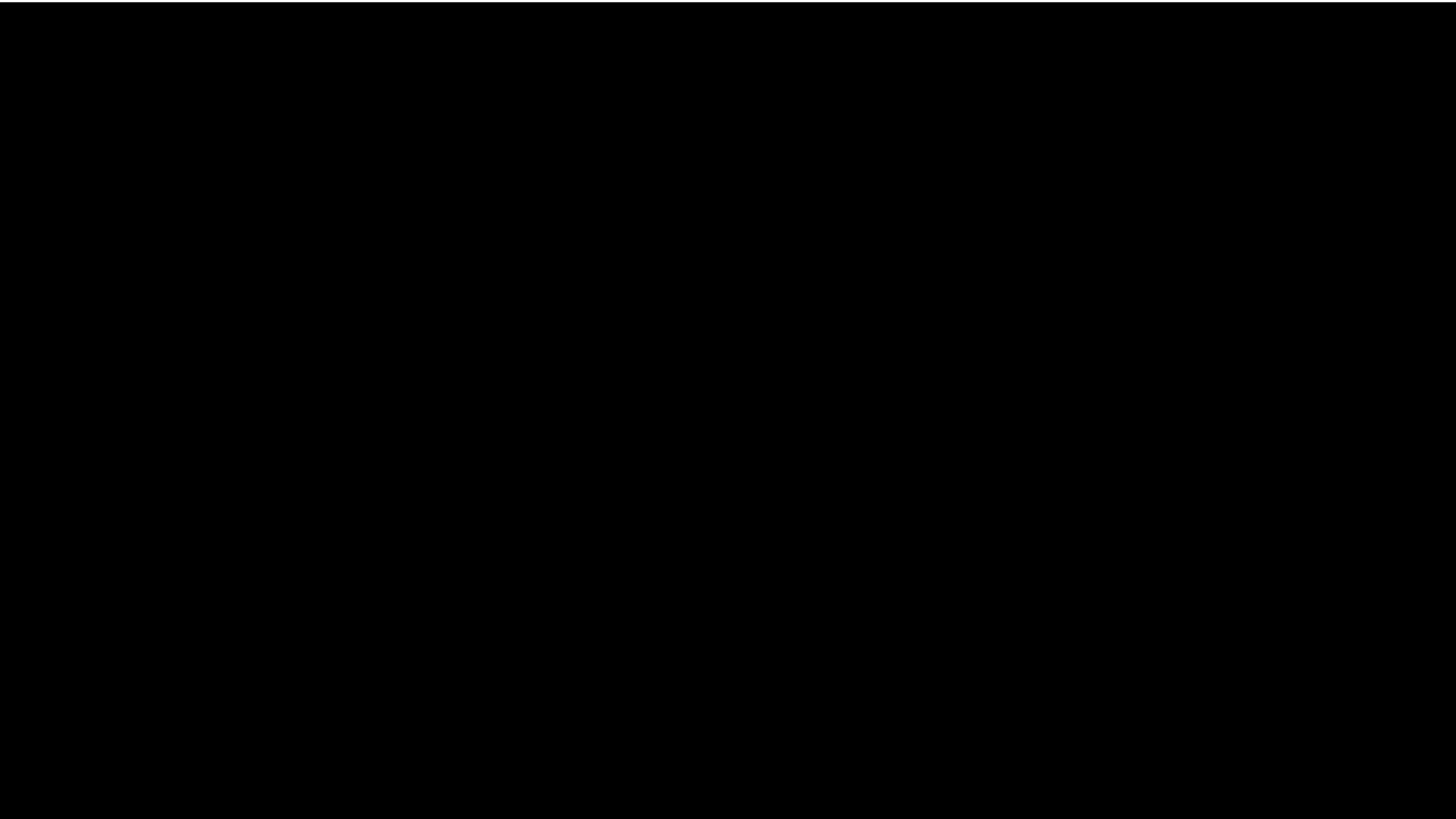




# Menti Questions

[www.menti.com](https://www.menti.com)

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# WBCSD who we are

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

**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.



## 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.



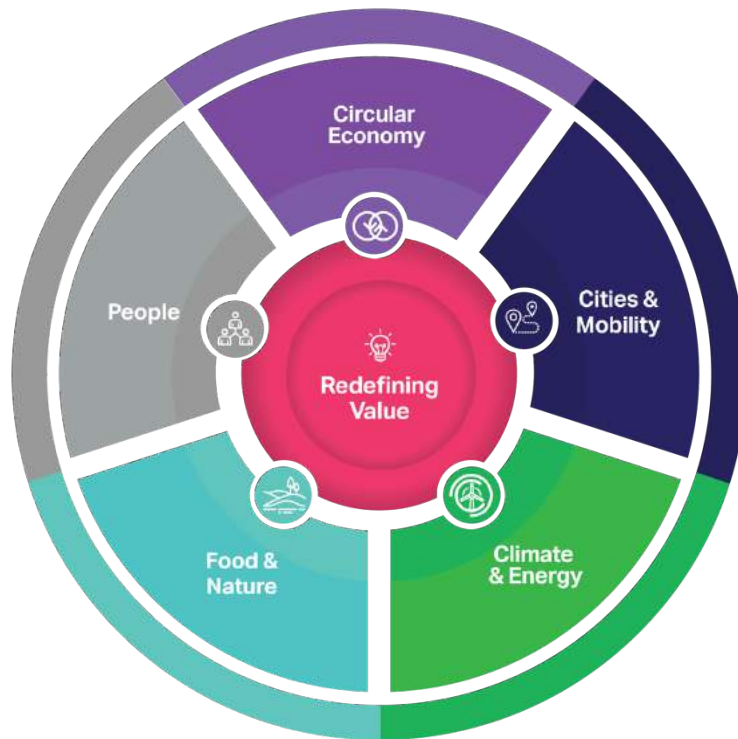
## MARKET-DRIVEN

We consider sustainable development as a strategic business opportunity. We strive to make more member companies more competitive.

# WBCSD's **approach**

We target the realization of the Sustainable Development Goals (SDGs) through six work programs to achieve systems transformation.

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 \(upcoming\)](#)
  - [Measurement & Valuation](#)
  - [Integrated Performance Management](#)

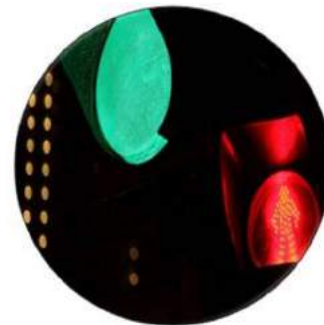


## External disclosure

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

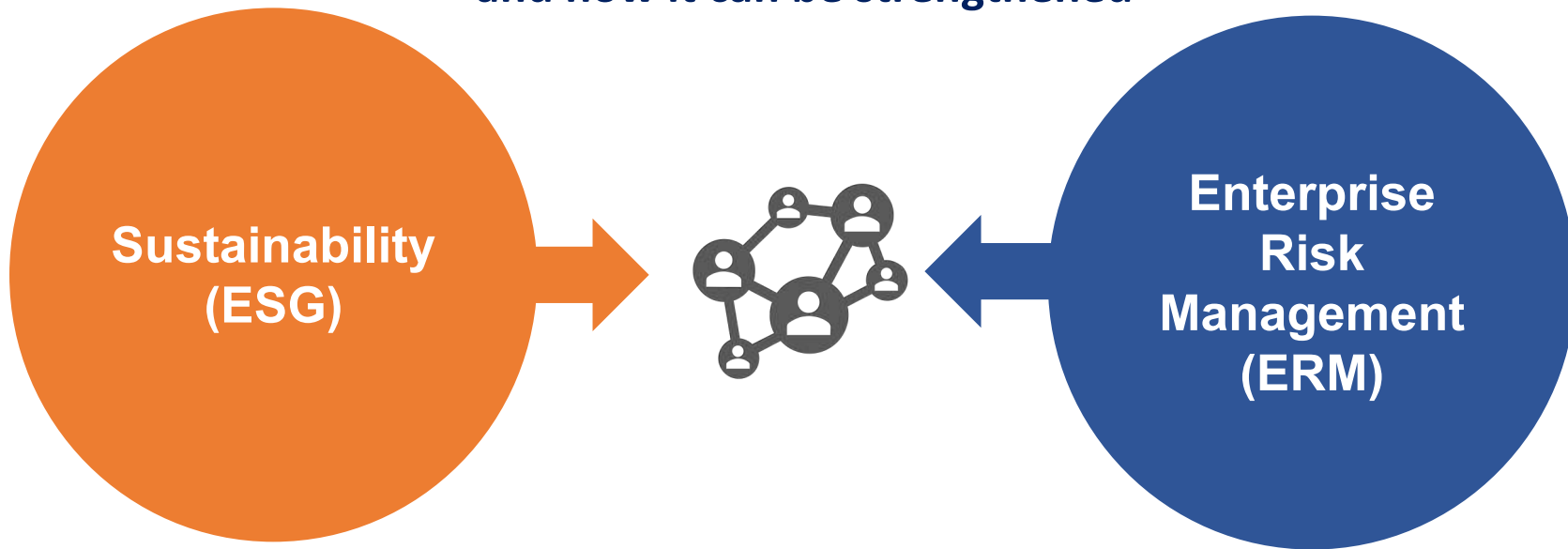
We help companies *demonstrate the investment case* for inclusive, sustainable business practices to their internal teams and external stakeholders, help them take advantage of emerging financing mechanisms, and mobilize their own investments

Project:

- [Aligning Retirement Assets](#)

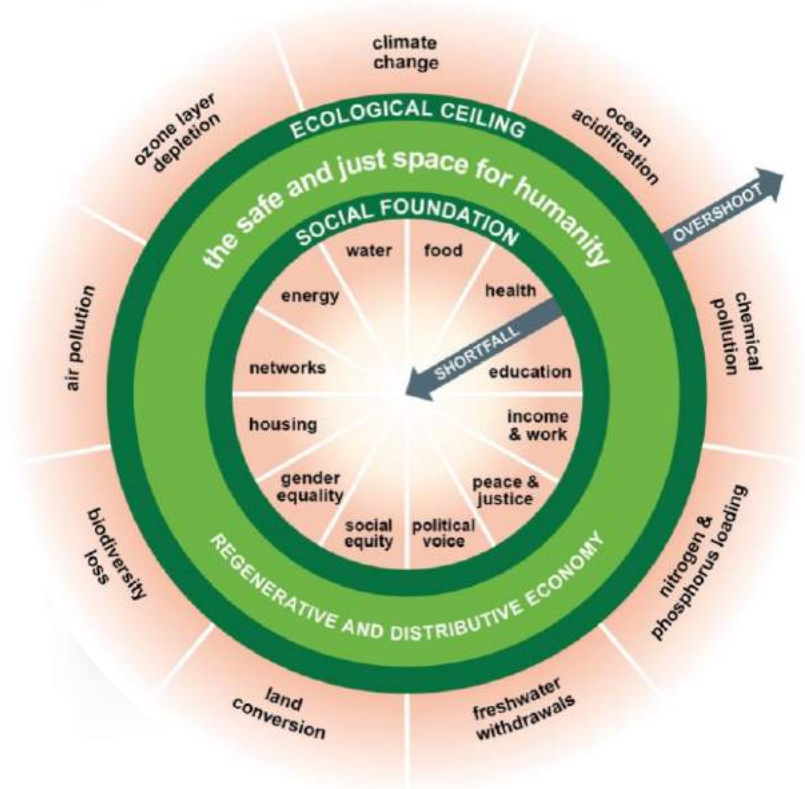
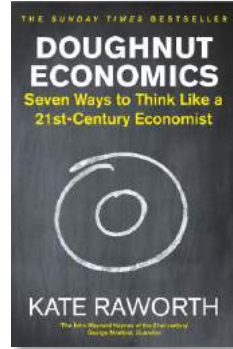
# Purpose of this session

Understand why the ESG-ERM relationship is valuable  
and how it can be strengthened



# The emergence of “Doughnut Economics”

A “sweet spot” for humanity to inhabit above a certain level of human development but within critical environmental ceilings





## Overview **of the Financial System**

Is the Financial System broken?

It is not designed for sustainability needs.

It moves money from A to B.

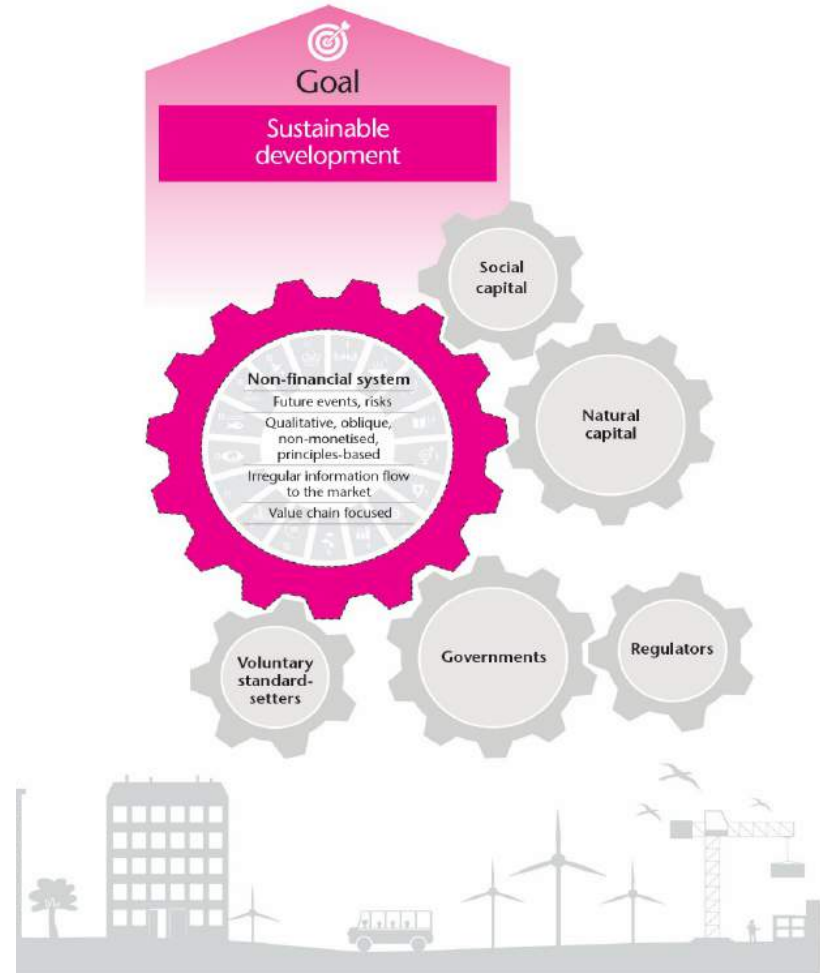
**It is:**

- Rules based
- Backward looking
- Monetized, value is assessed in terms of financial capital
- Deals with what you control and own
- Subject to standard, regulatory assessment and reporting
- Has legal and jurisdictional boundaries



# Overview of the Sustainability System

- Requires a forward-looking perspective
- It is not clearly understood
- Lack of standardized approach to measurement and reporting
- Standards are voluntary
- Spans jurisdictions and geographies
- Needs to think beyond financial capital – natural, human, social etc.
- Needs to consider wider risks and issues across the supply chain and markets





# 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**

**Customers**

**Demanding more  
sustainable products and  
services**

**Investors**

**Wanting more data on a  
company's ESG  
performance**

**Regulators**

**Increasing regulation  
around ESG issues**

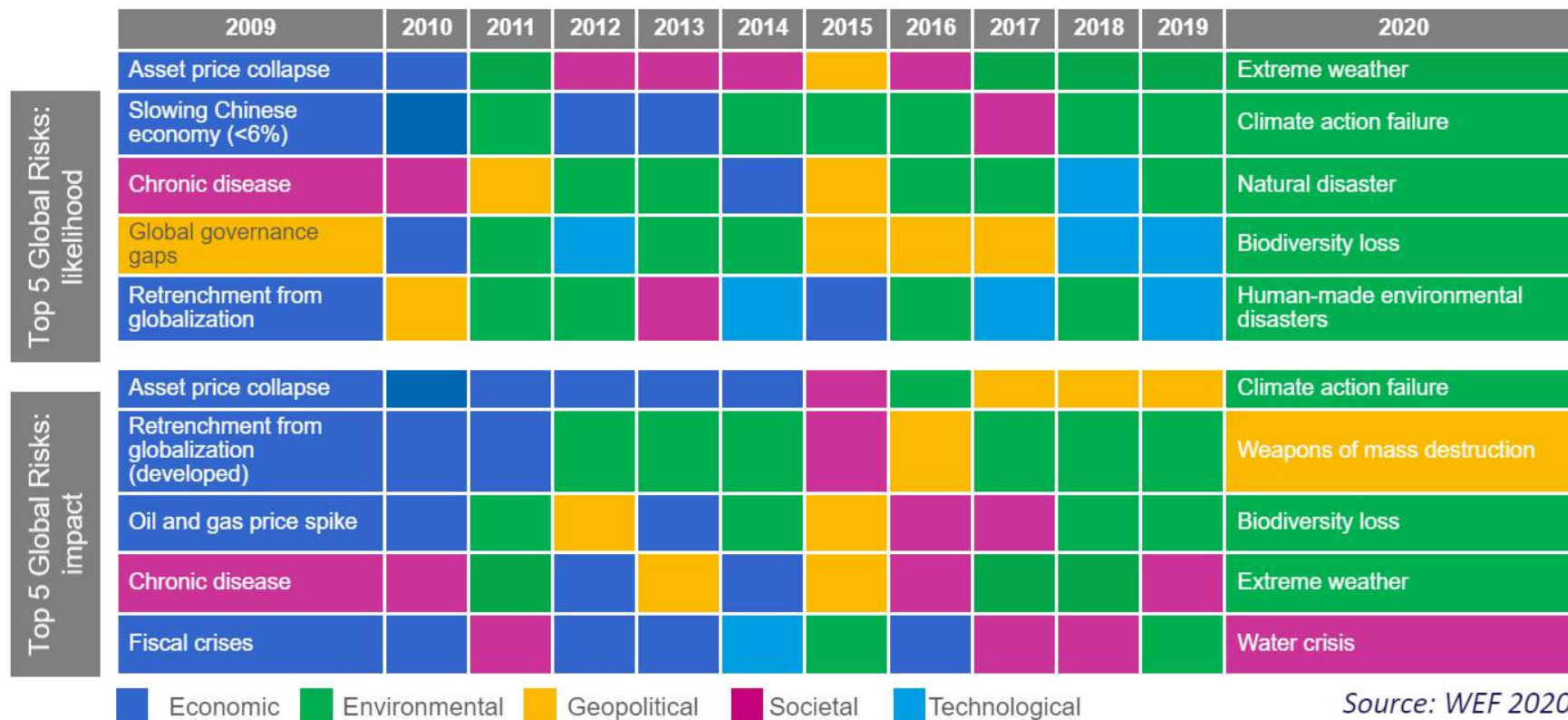
**Employees**

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

**NGOs and  
Communities**

**Increasing pressure for  
radical transparency**

# The global risk landscape has changed



Source: WEF 2020



Climate is Changing **Now**

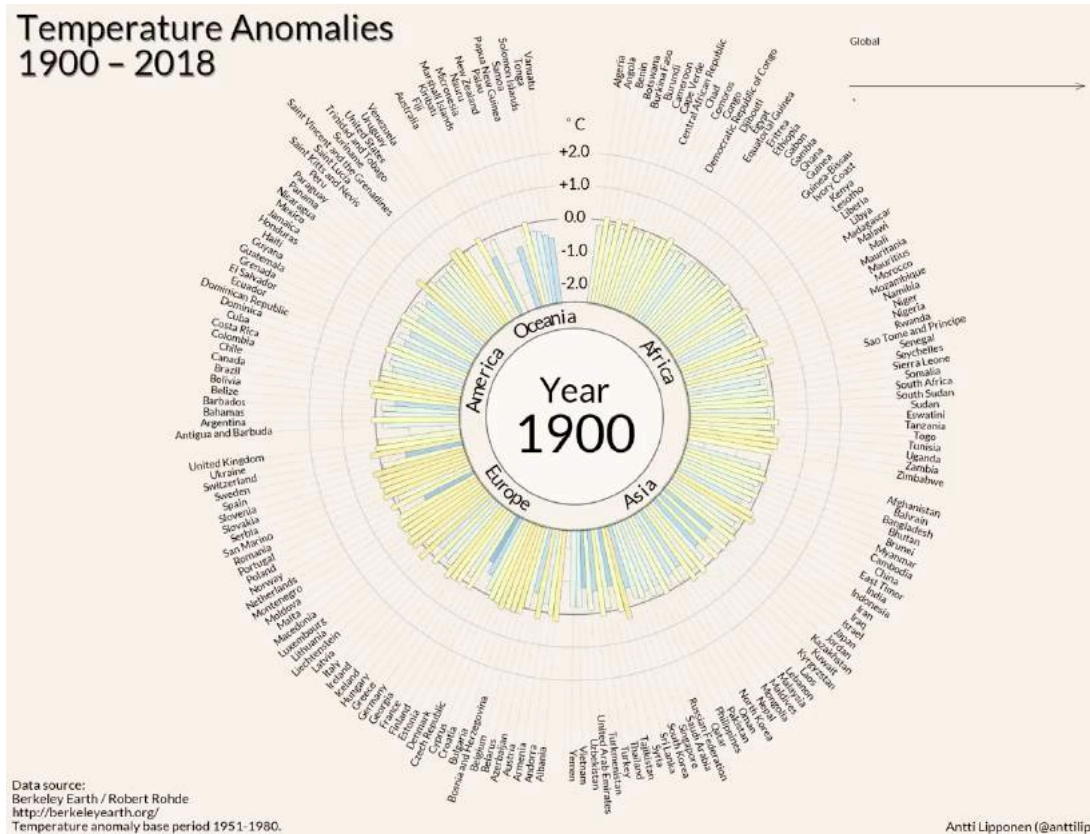


2019 Was the Second  
Hottest Year on  
Record





# Global vs Regional temperature anomalies



# How resilient are you to this trend?

- Operational impact?
- Supply chain?
- Logistics?
- Water security?



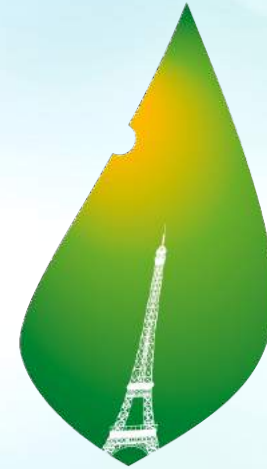


Universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity



17 Goals underlining a set of objectives for humanity to realize by 2030. Agreed unanimously by 193 UN member states.

Targeting a limit on global temperature rise to below 1.5 degrees above pre-industrial temperatures



COP21 • CMP11  
**PARIS 2015**  
UN CLIMATE CHANGE CONFERENCE

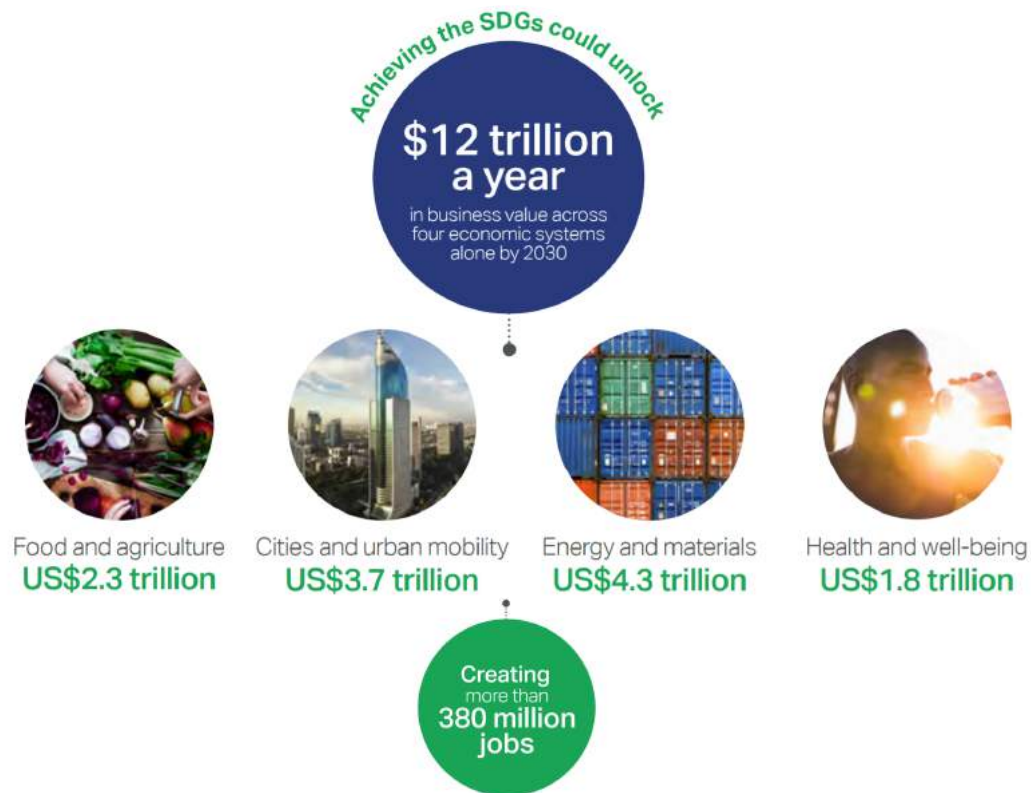
# The role of business in **achieving the SDGs**



# Opportunities for business: **New Markets**



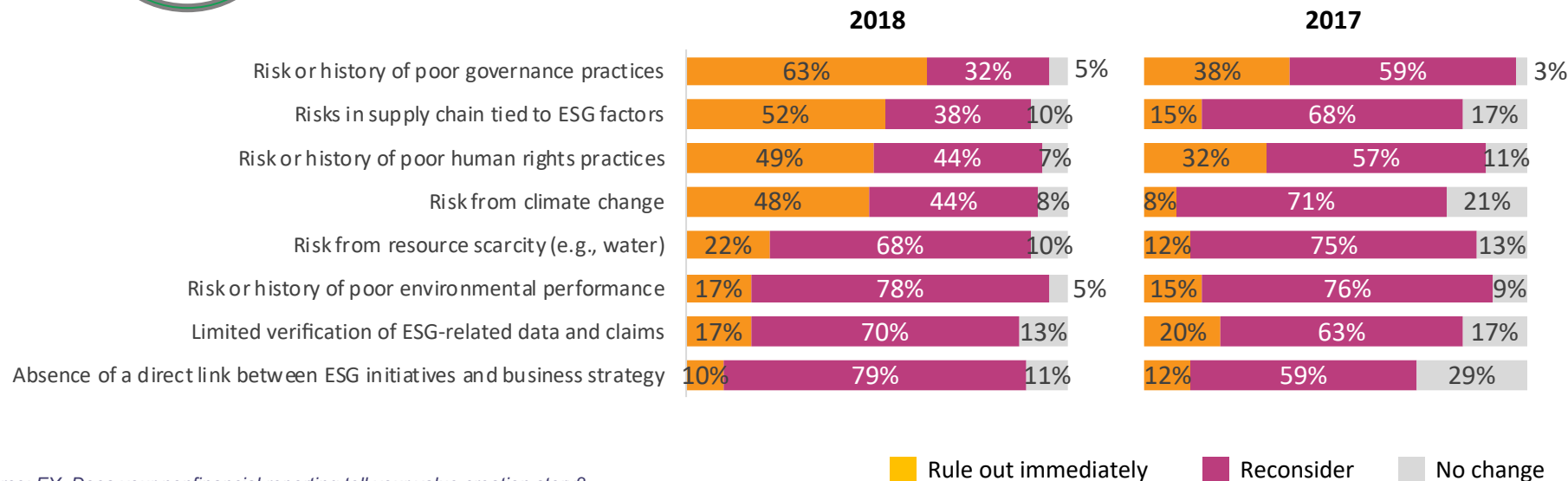
Business & Sustainable Development  
Commission, June 2017



# Growing interest from investors in ESG performance



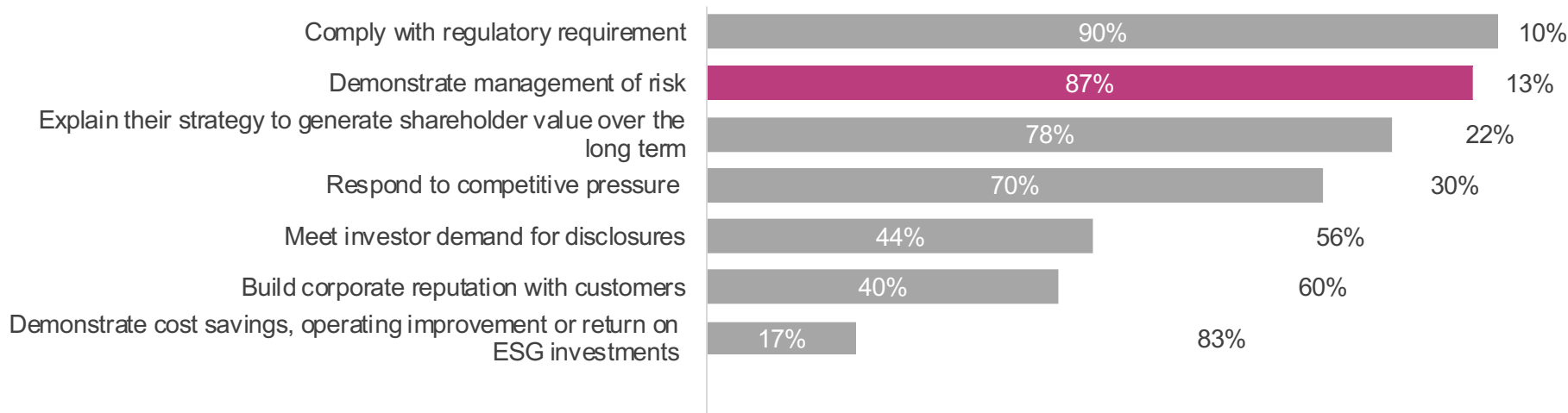
of institutional investors surveyed say they conduct an evaluation of target companies' non-financial disclosures



Source: EY, Does your nonfinancial reporting tell your value creation story?

# Significant interest from investors in ESG performance

Which of the following items most strongly motivate companies to report details on their nonfinancial and ESG activities?



Source: EY, Does your nonfinancial reporting tell your value creation story?

# Investor expectations for Board priorities are changing

1

**Board diversity —  
investors push for  
diverse directors as  
focus on board  
composition  
continues**

2

**Company-relevant  
environmental and  
social issues,  
particularly climate  
risk**

3

**Human capital  
management —  
investors seek to  
understand how  
boards are governing  
talent and culture**

*Source: EY Center for Board Matters, 2019 proxy season preview: What we're hearing from investors*

# Customer preferences and demands for transparency

... are exacerbating the risks and potential impact to the company



agree

“ A good reputation may get me to try a product — but unless I come to trust the company behind the product I will soon stop buying it, regardless of its reputation.”

“Consumers now care about the ingredients that are in the products they are buying, how those ingredients will affect their personal health and increasingly the health of the environment.”

Source: Building Trust: Why Transparency Must Be Part of the Equation

# Task Force on Climate-related Financial Disclosures

- The TCFD published its recommendations in June 2017.
- Created in UN Climate Change Conference (COP21) in Paris.  
Overseen by the FSB reporting to G20 finance ministers
- The recommendations help address climate-related disclosure challenges faced by:
  - **Issuers** who have an obligation to disclose material information, but lack a **coherent framework** to do so for climate-related information, and
  - **Investors, lenders, and insurers** who need investor grade and decision-useful, climate-related information to make informed capital allocation and financial decisions





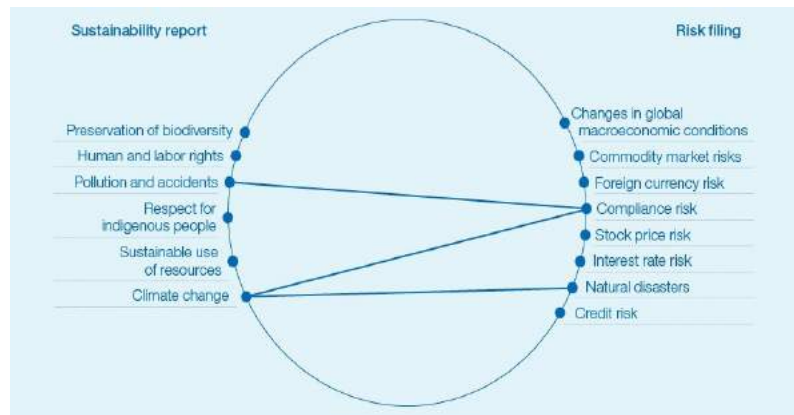
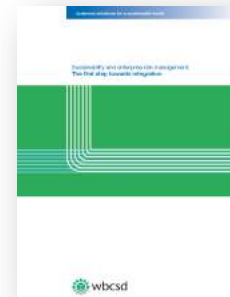
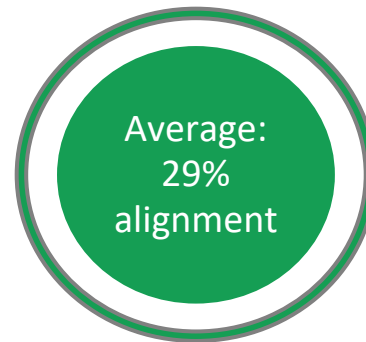
# TCFD progress & learnings

- **Four fifths of the top 1,100 G20 companies** now disclosing climate-related financial risks in line with some of the TCFD recommendations
- More needed to support **quantity and quality** of disclosure, decision-useful **metrics** and assessment of **strategic resilience**

| Recommendation      | Recommended disclosure                      | Banking | Insurance | Energy | Materials & Buildings | Transport | Agri, Food & Forest | Tech & Media | Consumer Goods |
|---------------------|---|---------|-----------|--------|-----------------------|-----------|---------------------|--------------|----------------|
| Governance          | a. Board Oversight                          | 48%     | 29%       | 38%    | 37%                   | 25%       | 22%                 | 19%          | 29%            |
|                     | b. Management's Role                        | 54%     | 35%       | 32%    | 35%                   | 18%       | 26%                 | 17%          | 40%            |
| Strategy            | a. Risks and Opportunities                  | 51%     | 39%       | 57%    | 50%                   | 39%       | 40%                 | 38%          | 50%            |
|                     | b. Impact on Organisation                   | 55%     | 26%       | 64%    | 65%                   | 34%       | 45%                 | 25%          | 52%            |
|                     | c. Resilience of Strategy                   | 20%     | 12%       | 13%    | 12%                   | 5%        | 4%                  | 2%           | 6%             |
| Risk Management     | a. Risk ID and Assessment Processes         | 52%     | 30%       | 38%    | 41%                   | 23%       | 24%                 | 24%          | 22%            |
|                     | b. Risk Management Processes                | 46%     | 33%       | 42%    | 39%                   | 17%       | 26%                 | 19%          | 23%            |
|                     | c. Integration into overall Risk Management | 22%     | 16%       | 21%    | 18%                   | 11%       | 9%                  | 17%          | 21%            |
| Metrics and Targets | a. Climate-Related Metrics                  | 51%     | 27%       | 49%    | 63%                   | 36%       | 45%                 | 37%          | 55%            |
|                     | b. Scope 1,2,3 GHG Emissions                | 42%     | 22%       | 39%    | 41%                   | 28%       | 26%                 | 29%          | 38%            |
|                     | c. Climate-Related Targets                  | 50%     | 24%       | 45%    | 53%                   | 32%       | 30%                 | 24%          | 51%            |

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

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”**

[Link here to Sustainability and enterprise risk management: The first step towards integration](#)

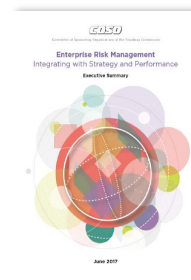
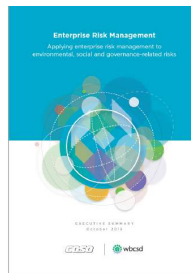
# Menti Questions

[www.menti.com](https://www.menti.com)

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# The guidance: “Applying ERM to ESG-related risks”

## WBCSD & COSO began a collaboration in response



# 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*

# COSO 2017 framework

There are established ERM frameworks that are applied globally



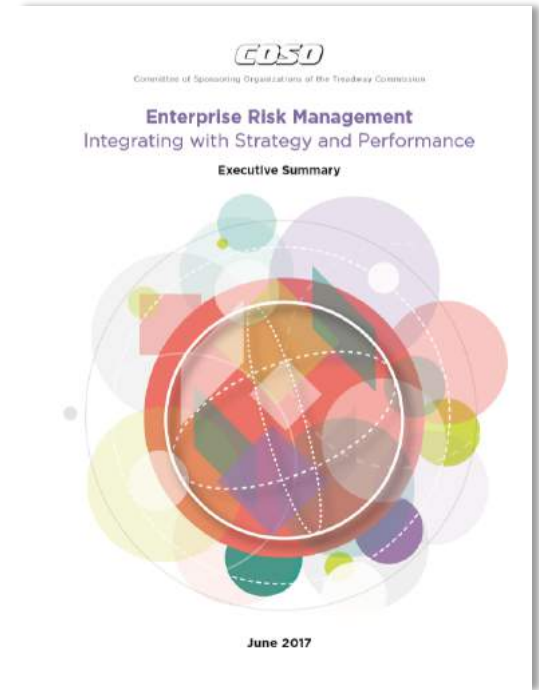
2004



2017

# COSO's ERM framework

1. New structure that follows the business model
2. Focuses on integration with business practices for better decision-making
3. Emphasizes value
4. Links to strategy
5. Links to performance
6. Recognizes the importance of culture
7. Focuses on decision-making



*Source: COSO ERM Framework –Integrating Strategy and Performance, 2017*



# 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**

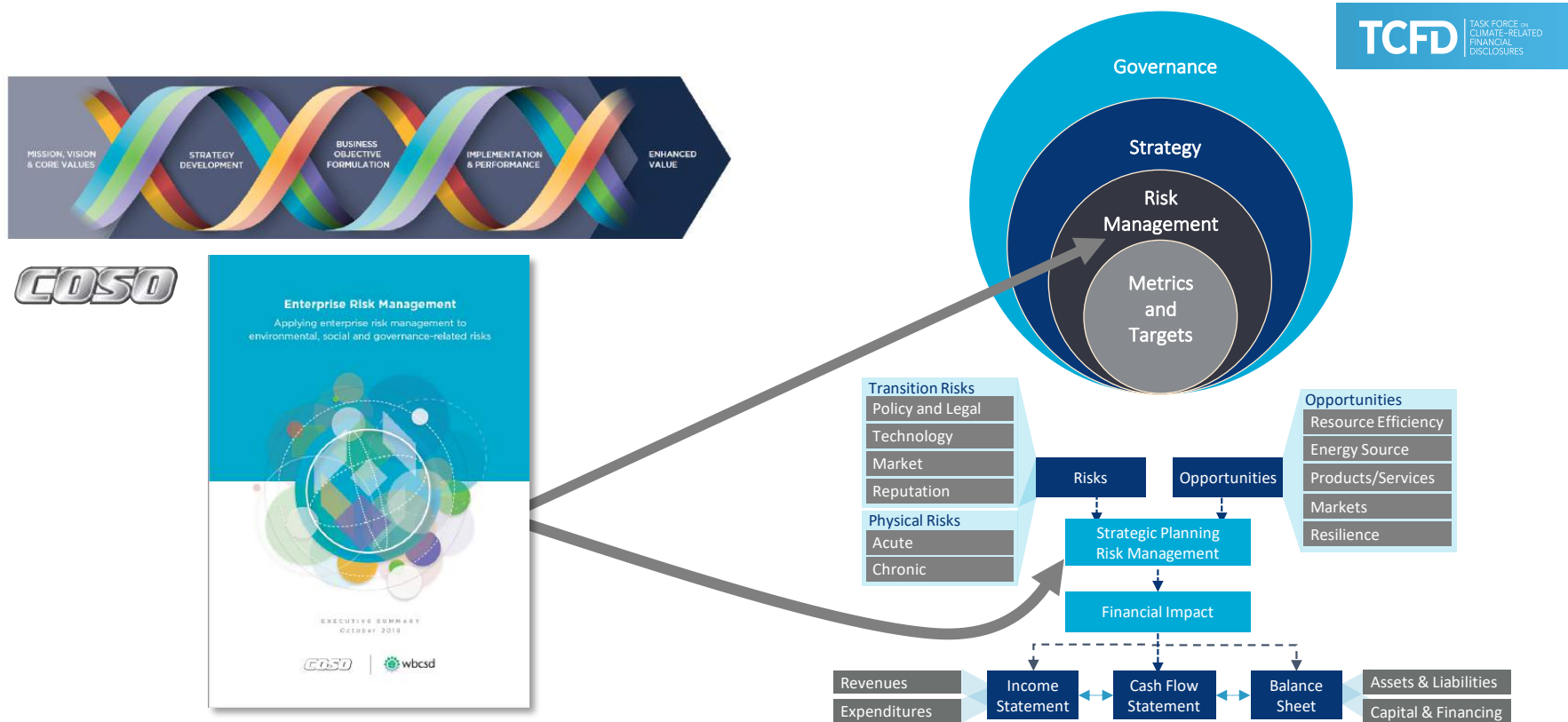
# Diagnostic tool for assessing the level of integration of ESG-related risks

- ▶ 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>

# Connecting COSO & TCFD - ERM



# Chapter 1: Governance & Culture for ESG-related Risks



# Governance & culture for ESG-related risks



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.



# Chapter 1 - Governance & culture

## Core elements

- **Oversight and governance framework for ESG**
- **Responsibilities to manage ESG risks**
- **Embedding ESG awareness in culture** - translate ESG risks, trends and responses into the business context
- **ESG at the board level** – enhancing risk awareness and oversight at the board level
- **ESG at the management level** – risk ownership, risk awareness, consideration of the strategic planning process
- **Collaboration and integration on risk management** – a common language and a shared responsibility
- **Leveraging existing ERM skills, capabilities and knowledge**

Boards are acknowledging the critical nature of sustainability, but still struggle with the right policies.

65%

of companies recognize sustainability as a management agenda item

**BUT ONLY**

22%

of executives believe that their own boards properly oversee sustainability issues



# Governance and Culture for ESG-related risks

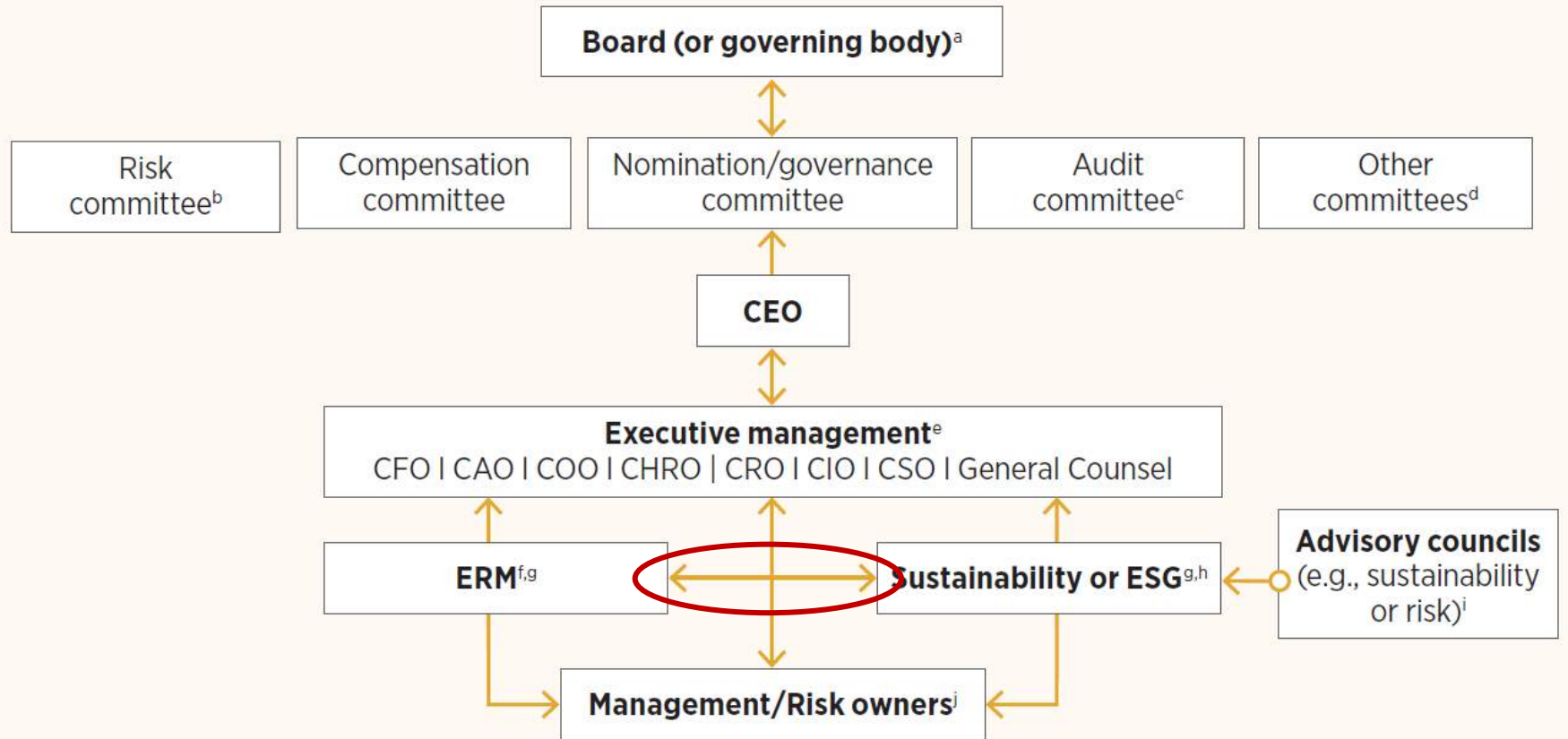
## ESG at Board level

- The board has a duty to ensure the long-term success of the company.
- ESG risks are complex, less familiar and challenging to manage effectively ...
- ... and the potential impact of these risks on performance can be significant.
- The responsibility to manage the ESG risks is no different from any other risk.
- Integrating ESG risks into the core ERM structures and processes supports the Board to meet its responsibilities.
- Approaches for enhancing ESG awareness on the Board, include:
  - an ESG charter
  - A dedicated Board sub-committee
  - Ensuring that the board has the appropriate mix of skills and diversity.

# Practical application: Enhancing board awareness

|                                     |  |
|-------------------------------------|--|
| <b>Board Charter</b>                | <p>Stora Enso's subcommittee on sustainability and ethics' Charter includes requirement to:</p> <ul style="list-style-type: none"><li>• Review sustainability and ethics matters which may have a significant impact on Stora Enso's activities and reputation</li><li>• Review of social, political, economic and environmental trends that may have a significant impact on Stora Enso's business activities and performance</li></ul> |
| <b>ESG Subcommittee</b>             | <p>Mondi plc divides responsibility for overseeing risks between a sustainable development subcommittee and the audit committee. The sustainable development committee manages health, safety and environment risks, and the audit committee manages the rest of the company's risks.</p>  |
| <b>Directors with ESG expertise</b> | <p>In 2017, ExxonMobil added an atmospheric scientist and former president and director of the Woods Hole Oceanographic Institution to its board of directors. ConocoPhillips and GM also recently added directors with ESG to their boards.</p>   |

# Board oversight & responsibility



# Governance & culture for ESG-related risks

Some considerations for enhancing ESG culture and integration include:

- Do the organization's mission, vision and core values address ESG-related risks?
- Does the tone from the organization's leaders convey expectations on ESG?
- Does management carry out the entity's mission, vision, core values and strategy?
- Is the entity hiring the right talent and is the selection process compatible with building an inclusive and talented workforce that reflects its business needs?
- Does the entity tie compensation and promotion decisions to the metrics that advance performance on critical ESG issues?
- Is the entity empowering people and giving authority to teams that can make decisions by considering ESG information reflecting local knowledge?
- Is the entity's culture promoting employee behaviors that are consistent with priorities?

# Modernizing governance to address sustainability matters

Report launched at Davos aimed to strengthen board decision-making and oversight to respond to today's challenges

## Key Recommendations

- Ensure company purpose is clearly established and aligned with material sustainable development impacts and opportunities
- Develop strategy and assess risks in light of ESG concerns – making sustainability concerns a core board consideration
- Enhance board sustainability capacity through expert presentations, engagement with sustainability management and training on material sustainability issues
- Establish a performance review process which considers ESG-related matters and is supported by clear key performance metrics and outcomes. Ensure board responsibility and remuneration policies are aligned and integrated.

**Findings will inform a toolkit for more effective sustainability oversight**



<https://www.wbcsd.org/gikrfebr>

# Diagnostic for Chapter 1: Governance and Culture

Which of the following activities does your company promote to integrate ESG into governance and culture?

- ☐ Map your company's mandatory or voluntary ESG-related requirements
- ☐ Consider opportunities for embedding ESG in your culture and core values
- ☐ Be informed of ways to increase board awareness of ESG-related risks, including expert input
- ☐ Map the operating and governance structures, risk owners, reporting lines and end-to-end ERM and strategic planning process to identify opportunities for improved oversight, governance and collaboration
- ☐ Create opportunities for collaboration throughout the organization
- ☐ Embed ESG-related skills, capabilities and knowledge in the hiring and talent management to promote integration



| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |

# Chapter 2: Strategy & objective setting for ESG-related risks



# Strategy & objective setting for ESG-related risk



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.



# Chapter 2 - Strategy & objective setting



## Core elements

- **Value creation and the business model**
  - The value creation process
  - Types of capital
- Understanding the **business context and integrating ESG**
  - Time horizons, future trends
  - Assessing internal and external factors, impacts & dependencies
  - Materiality and performing a materiality assessment
  - Stakeholder engagement
- **Risk Appetite** - setting and managing ESG-focused
- Evaluating **alternative strategies and formulating business objectives**

## Understand **the company's value creation process**

## The value creation process

(1) Value is created through the business model

(2) which takes inputs from the different capitals and ...

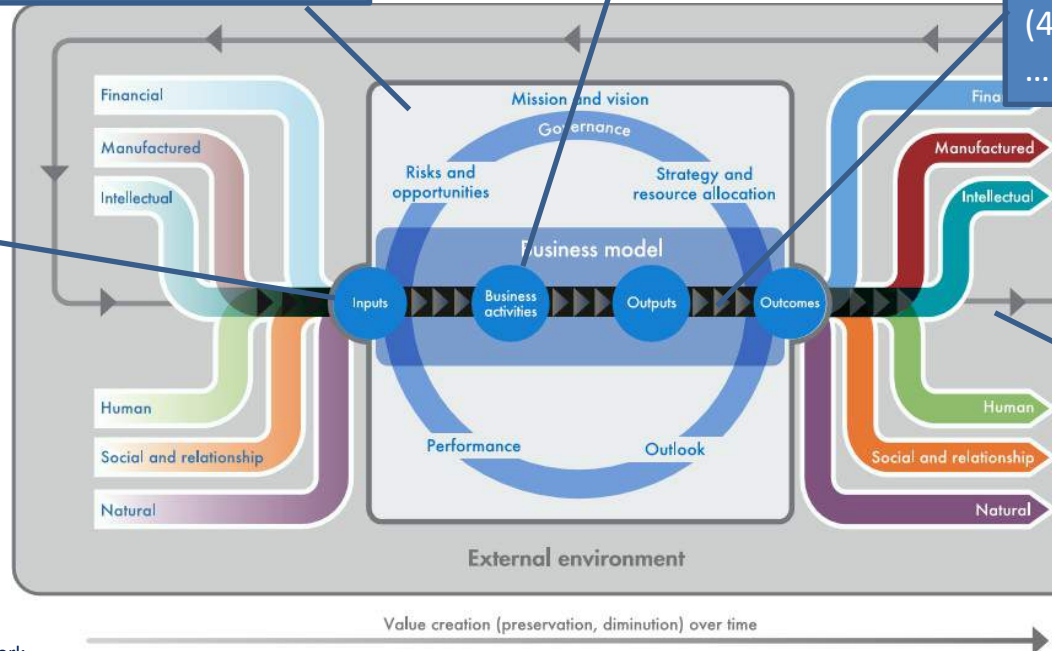
erve (3) transforms them through the relationship between  
ces business activities to produce ... e resources (COSO, ERM

(4) outputs and outcomes that ...

(5)  
... over the short, medium  
and long term

create or destroy value

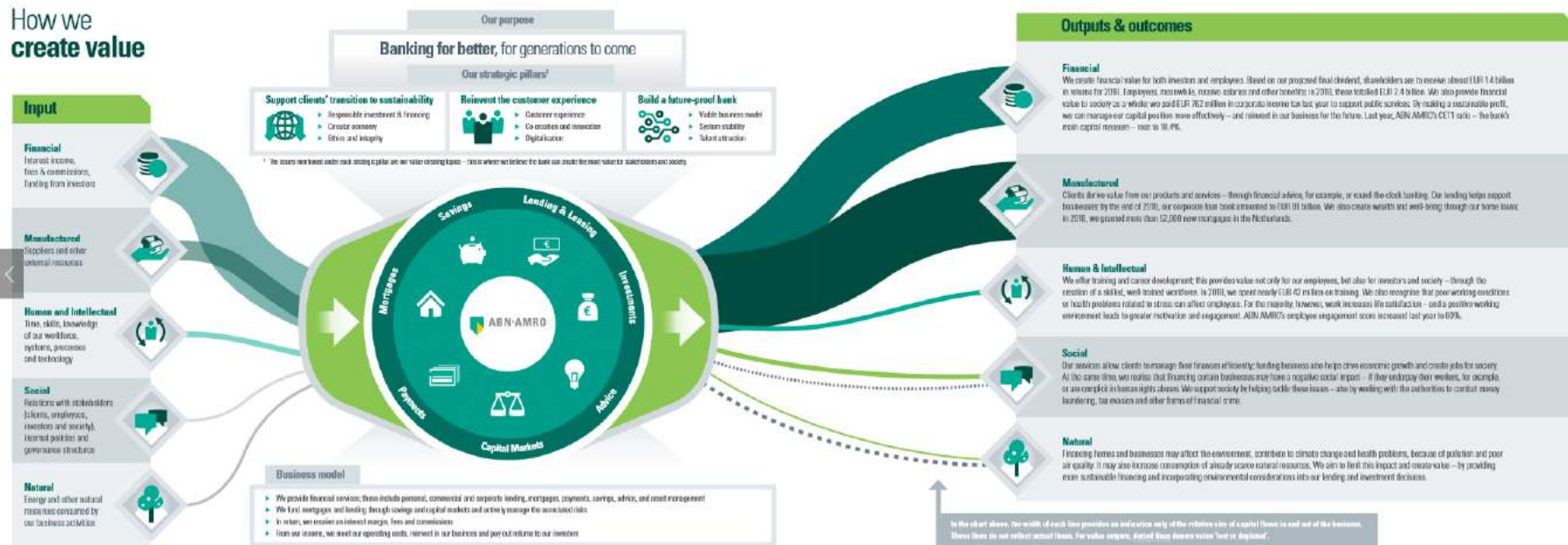
for the organization, its  
stakeholders, society and  
the environment.



Source: The International <IR> Framework

# Understand the company's value creation process

## How we create value



Source: ABN Ambro Integrated Report 2018

# Approaches to understand the business context

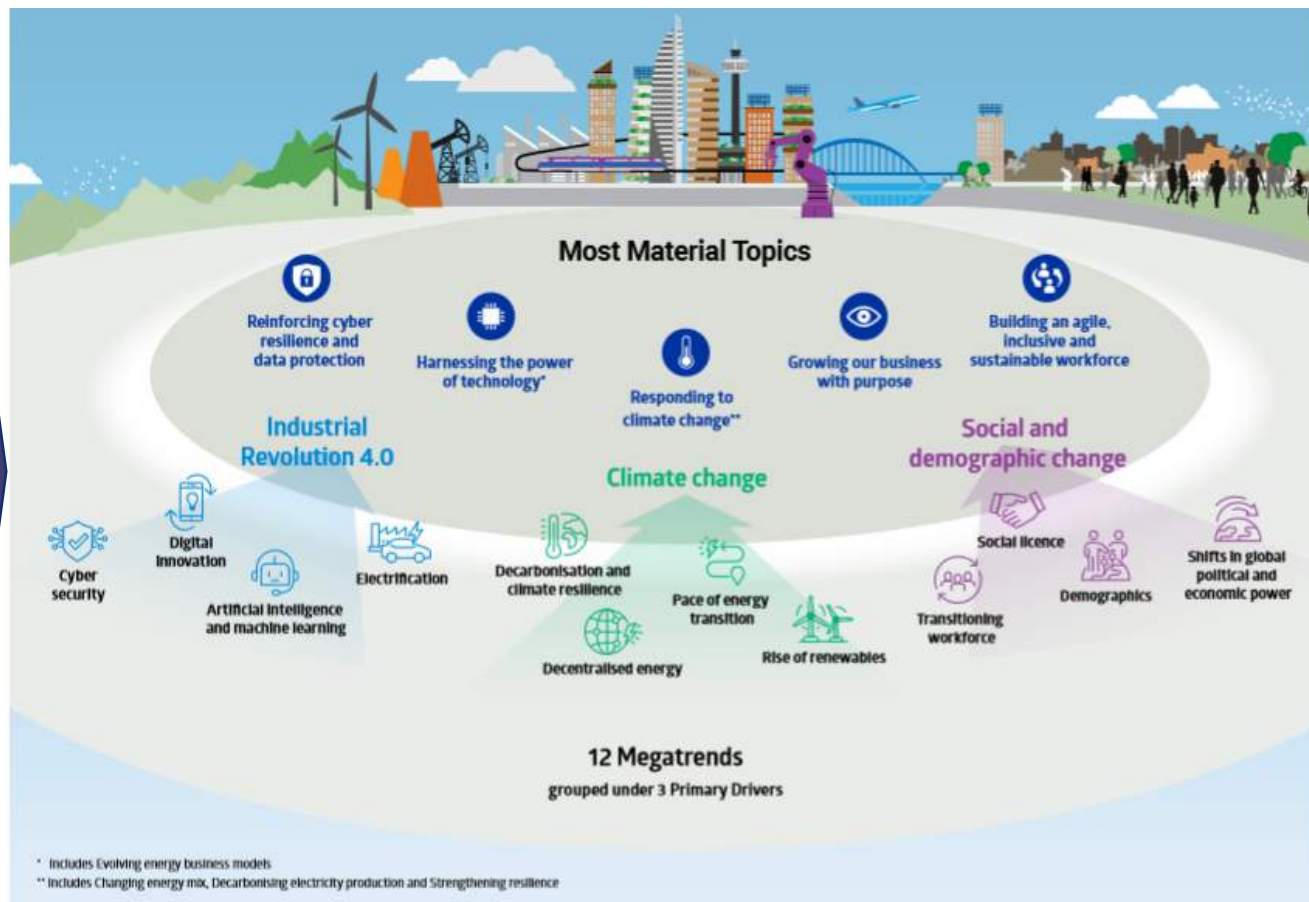
Risk management and sustainability practitioners use a selection of tools and resources to understand the impacts of dependencies on the entity.

| Commonly used approaches to understand the business context |  |
|---|--|
| Megatrend analysis  | How might the emergence of a global risk or megatrend impact Symrise's strategy and operations?  |
| SWOT analysis   | What are the ESG-related strengths, weaknesses, opportunities and threats?   |
| Impact and dependency mapping                               | What are the impacts and dependencies relating to the business model (inputs, business activities, outputs, outcomes)?   |
| Stakeholder engagement                                      | Engaging internal and external stakeholders can help identify risks that are related to the broader group of stakeholders or have been overlooked by internal management.    |
| Materiality and ESG assessments                             | The significant issues identified through the company's ESG materiality assessment or other ESG risk assessment tools should be considered for their impact on the business. |

# Example: Megatrend analysis

## 12 Megatrends:

- Climate change mitigation and adaptation
- Demand for renewables
- Changing energy mix
- Evolving energy business models
- Technology as enabler and disrupter
- Smart systems
- Data privacy and security
- Electrifying transport and energy
- Changing society
- Digitally adept and diverse workforce
- Changing role of business
- Asian growth





# Impact & dependency mapping

| Examples   | Impact or dependency   | Value creation or loss   |
|--|--|--|
| <b>Apparel companies</b> use third-party manufacturers in low-cost countries (e.g., Bangladesh, China, and Vietnam). | Employees working for apparel manufacturers in Bangladesh are <b>impacted</b> by the standard of the buildings leased or owned by those companies.   | The Rana Plaza factory in Bangladesh collapsed because health and safety standards were not enforced. The UN-backed scheme to support families raised less than half of target compensation for families. <sup>31</sup> Apparel companies have worked to improve working conditions in factories because of reputational damage. <sup>32</sup> |
| <b>Coca-Cola</b> opened a bottling plant in a water-scarce region of India in 1993.                                  | Beverage manufacturing <b>depends</b> on water availability in the country of operations.  | The local watershed could not support both community water requirements and Coca-Cola's manufacturing process. Local authorities closed Coca-Cola's plant. <sup>33</sup>   |
| <b>Freeport McMoRan</b> was accused by its union of improperly firing furloughed workers in 2017. <sup>34</sup>      | Copper mining <b>depends</b> on a stable workforce; 3,000 full-time and 1,000 contract employees who were absent and had "voluntarily resigned" were <b>impacted</b> .   | The treatment of employees resulted in a loss of trust with local community and globally. The company then incurred time and expense to draft a company statement and open an Employee Return to Work center. <sup>35</sup>  |
| <b>Wells Fargo &amp; Company</b> opened financial accounts without its customers' consent.                           | Customers were <b>impacted</b> when the company created millions of accounts in their name without consent, likely impacting credit scores among other concerns. <sup>36</sup> Wells Fargo is impacted by the limits on growth, fines, penalties, settlements and effects on its reputation. | The bank paid USD\$185 million in fines plus another USD\$5 million in customer remediation to the Consumer Financial Protection Bureau. <sup>37</sup> The bank paid USD\$110 million in settlement to customers. <sup>38</sup>  |

# Natural and Social & Human Capital Protocols

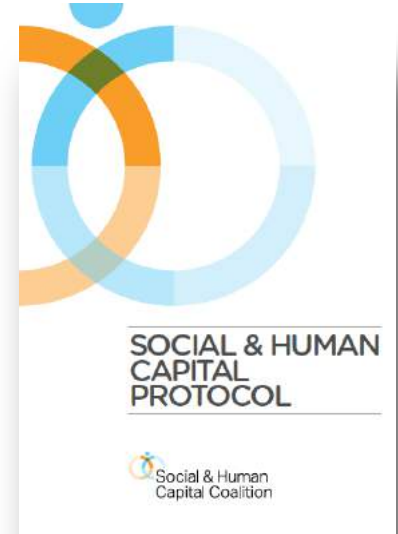
Generally-accepted frameworks for business to identify, measure and value its impacts and dependencies on natural, social and human capital.



2016



2019



# Leveraging the ESG materiality assessment

**Credit Suisse materiality assessment**

| Material issues                             | Importance<br>(high to very high) | Definition and scope of terms  | See pages               |
|---|-----------------------------------|--|-------------------------|
| 1 Culture of compliance and conduct         |                                   | 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 | 12–17, 18–23, 42–46     |
| 2 Company performance and strategy          |                                   | Business strategy / financial results / share price / dividends / capital, liquidity and funding position / stability of the company / operational risk (incl. business continuity management, technology risks) / cost efficiency / cost reductions     | 12–17, 31–35, 49        |
| 3 Environmental and social risk management  |                                   | 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     | 18–23, 51–56            |
| 4 Financial and political system stability  |                                   | Systemic risk / capital and liquidity / total loss-absorbing capacity (TLAC) / legal entity structure / resolvability / political and economic stability / negative interest rates   | 12–17, 31–35            |
| 5 Corporate governance                      |                                   | Operational structure / governance framework / management team / voting rights   | 12–17                   |
| 6 Digitalization / fintech                  |                                   | Blockchain / fintech / digital transformation / big data, automation   | 14, 27                  |
| 7 Consumer and investor protection          |                                   | Suitability and appropriateness / data security / privacy / transparency of fees   | 12–17                   |
| 8 Climate change                            |                                   | 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 disclosure                       | 18–23, 51–56            |
| 9 Incentives and compensation policy        |                                   | Responsible approach to compensation / executive compensation / criteria for incentives / deferrals, claw-backs  | 49                      |
| 10 Quality and range of services and advice |                                   | Advisory process, relationship managers / range and quality of products and services / expertise (e. g. research, advisory) / performance and pricing of products and services / technology  | 15–17, 24–29, 36, 42–45 |
| 11 Human resources and talent management    |                                   | 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   | 42–49                   |
| 12 Responsible investments                  |                                   | 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)              | 24–29, 51–53, 56        |
| 13 Human rights                             |                                   | Fair working conditions; no child labor, no forced labor / human rights aspects in supply chain and business relations / indigenous peoples' rights / positive contribution to the realization of human rights   | 18–23                   |
| 14 Contribution to the economy              |                                   | Purchasing, sourcing / tax contribution / lending to small and medium-sized enterprises (SMEs) and start-ups   | 31–35                   |
| 15 Social commitments                       |                                   | Philanthropy / supporting social and humanitarian projects / employee engagement, including skills-based volunteering / 'militia' system of politics in our Swiss home market  | 27, 33–40               |

Detailed information on Credit Suisse Group's financial performance, corporate governance and compensation practices can be found in the Annual 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.

Source: Credit Suisse Corporate Sustainability Report 2018



# Diagnostic for Chapter 2: Strategy & objective-setting

Which of the following activities does your company perform to integrate ESG into strategy and objective-setting?

- ☐ Examine the value creation process and business model to understand impacts and dependencies on all capitals over varying timescales
  - Conduct megatrend analysis to understand the impact of emerging issues
  - Perform SWOT analysis of business of internal and external ESG-related factors
  - Undertake impact and dependency mapping for all types of capital
  - Engage with internal and external stakeholders to understand emerging ESG trends and stakeholder focus
- ☐ Align risk management processes to strategy, objectives and risk appetite
- ☐ Consider the ESG-related risks that will impact strategy delivery, resilience and objectives

| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |



# Chapter 3: Performance: Identify, Assess & Prioritize Risks



# Performance for ESG-related risks

## Identify risks



Organizations use multiple approaches for identifying ESG-related risks: megatrend analysis, SWOT analysis, impacts and dependency mapping, stakeholder engagement and ESG materiality assessments.

These tools can help identify and express ESG issues in terms of how a risk threatens achievement of an entity's strategy and business objectives.

# Chapter 3A - Identify risk



## Core elements

- **Using a risk inventory or register**
  - Categorizing risks – e.g. strategic, operational, financial, compliance
- **Approaches to identifying risk**
  - Surveys, workshops, interviews
  - Quantitative or qualitative analysis
  - Internal and external monitoring
- **Connecting the business context and strategy to risk identification**
- **Framing risks**
  - Understanding impact to business strategy
  - Describing risks with precision
  - Analyzing root cause – e.g. “The five whys”

# Identifying ESG-related risks

## Connecting the business context and strategy to risk identification

### Understanding of internal and external environment

- Megatrend analysis
- Strengths, weakness, opportunities, and threats
- Impact and dependency mapping
- Stakeholder engagement
- Materiality assessment
- ESG-related resources

**Risk identification:** threats or opportunities to achieving strategy and business objectives

Risk inventory

# Identifying ESG-related risks

| Strategic   | Operational   | Financial  | Compliance   |
|---|---|--|--|
| <ul style="list-style-type: none"><li>• Vision and core values</li><li>• Corporate governance</li><li>• Organizational structure</li><li>• Strategic planning</li><li>• Mergers and acquisitions valuation and pricing</li><li>• Investor relations</li><li>• Competition</li><li>• Changing customer preferences or lifestyles</li><li>• Growing middle class</li><li>• Urbanization/growing population</li><li>• Emerging markets</li></ul> | <ul style="list-style-type: none"><li>• Research and development</li><li>• New products</li><li>• Marketing</li><li>• Budgeting and forecasting</li><li>• Raw material availability</li><li>• Suppliers</li><li>• Production management</li><li>• Product stewardship</li><li>• Inventory management</li><li>• Employee engagement</li><li>• Labor relations</li><li>• Human rights</li><li>• IT investment</li><li>• Cybersecurity</li><li>• Business continuity</li><li>• Pandemic</li><li>• Physical impacts of climate change</li></ul> | <ul style="list-style-type: none"><li>• Interest rate volatility</li><li>• Foreign currency volatility</li><li>• Cash management</li><li>• Credit risk</li><li>• Accounting policies</li><li>• Accounting estimates</li><li>• Internal control</li><li>• Tax strategy and planning</li></ul> | <ul style="list-style-type: none"><li>• Fraud</li><li>• Bribery</li><li>• Conflicts of interest</li><li>• Country/state/local regulation</li><li>• Tax regulation</li><li>• Trade regulation</li><li>• IP management and protection</li><li>• Greenhouse gas emissions</li><li>• Water treatment</li><li>• Health and safety</li></ul> |

# Framing risks & impacts

- “The possibility of *[describe potential occurrence or circumstance]* and the associated impacts on *[describe specific business objectives set by the organization]*”
- “The risk to *[describe the category set by the organization]* relating to *[describe the possible occurrence or circumstance]* and *[describe the related impact]*”



# Framing risks & understanding root cause

| Precise risk definition  | ESG issue or megatrend | Root cause   | Impact on strategy, objectives and performance  |
|--|------------------------|--|---|
| The possibility that drought will impact crop yields and revenue                             | Water scarcity         | The organization has invested primarily in water-intensive crops and therefore will be impacted by water scarcity during April and May.        | Water scarcity may impact the ability to produce enough crops at the right price to meet the organization's revenue goals.  |
| The possibility that a declining customer base will impact sales                             | Demographic shifts     | The entity's customer base in Europe is declining because of negative population growth, an aging population and restrictive immigration laws. | The declining number of domestic customers in Europe could decrease revenue and profitability.  |
| The possibility that participating in corrupt activities will impact the entity's operations | Anti-corruption        | The entity operates in markets where corruption is commonplace and does not have processes in place to assess due diligence risks.             | Bribery violates the US Foreign Corrupt Practices Act, UK anti-bribery legislation and the entity's core values and would preclude operations in those countries. |

Collaborating to determine root cause increases the breadth of knowledge, understanding and experience, which can make the analysis more robust.



# Diagnostic for Chapter 3a: Identify ESG-related risks

Which of the following activities does your company perform to integrate ESG into identifying risk?

- ☐ Examine the risk inventory to identify which ESG-related risks have or have not been identified (and check consistency with the sustainability report)
- ☐ Involve ESG risk owners and sustainability in the risk identification process to leverage subject-matter expertise
- ☐ Convene meetings with both risk management and sustainability representation to understand ESG-related risks and issues
- ☐ Identify ESG-related risks that may impact strategic and operational plans – e.g. impacts and dependencies of the business model.
- ☐ Define the impact of ESG-related risks on the organization
- ☐ Use root cause analysis to understand the drivers of the risk (5 whys, cause & effect diagrams etc.)

| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |



# Performance for ESG-related risks

## Assess & prioritize



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.

# Chapter 3B - Assess & prioritise risks



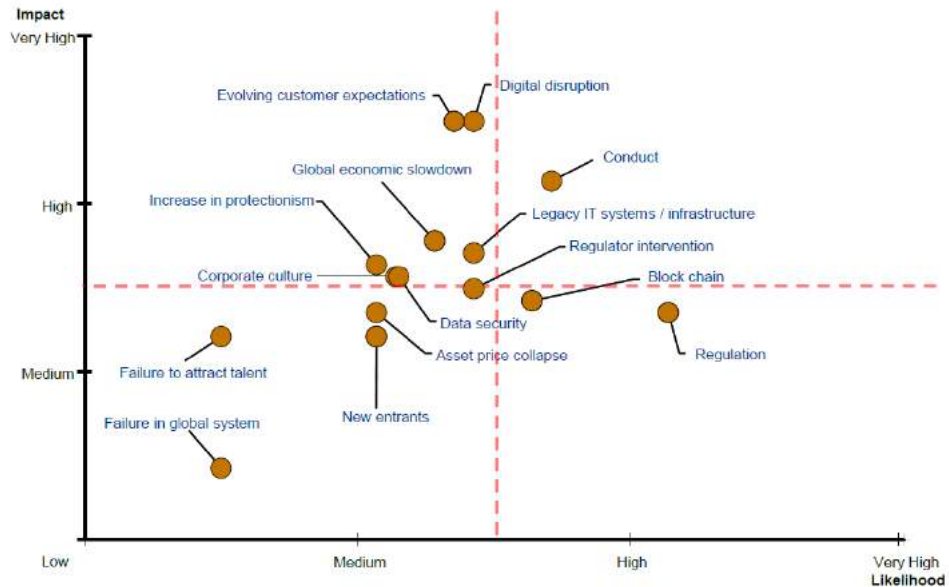
## Core elements

- **Potential impact and effects of risks**
- **Methodologies and criteria to prioritize ESG risks** (e.g. severity, speed of onset, complexity, vulnerability, impact, likelihood)
- **Metrics for measuring severity** – e.g. quantitative/qualitative, monetary/non-monetary
- **Risk assessment approaches** – e.g. role of forecasting, scenario analysis, expert judgement, ESG-specific tools
- **Selecting the appropriate assessment approach** – measures and effects on performance
- **Data dependencies and requirements** – e.g. Primary and secondary sources, data quality, timing, scope, discount rates
- **Identifying and challenging bias**

# Assess and prioritize risks

- A range of quantitative and qualitative measures may be used to estimate the severity of risks while comparing and prioritizing them.
- Risk severity is commonly expressed in terms of **Likelihood** and **Impact**

- Example impact/likelihood diagram



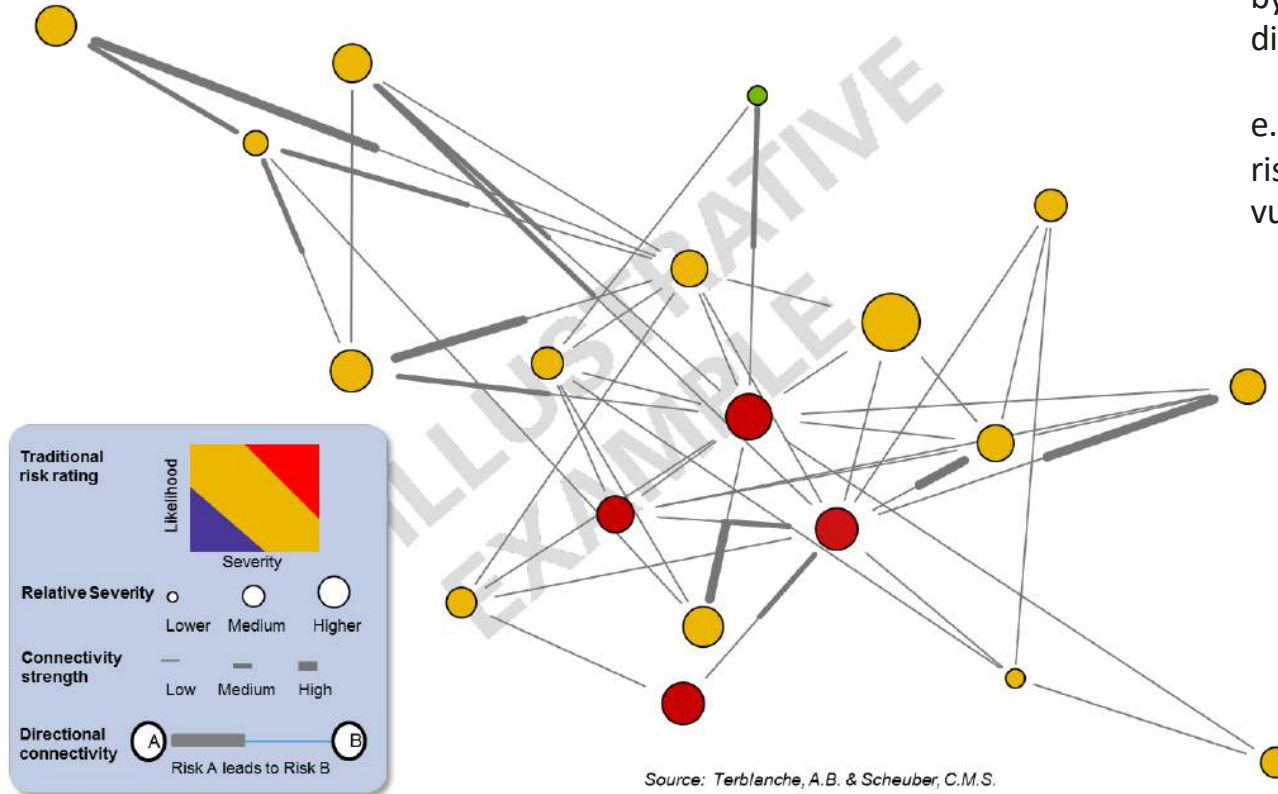
# Moving beyond impact and likelihood

| Criteria                          | Description   |
|-----------------------------------|---|
| <b>Adaptability</b>               | The capacity of an entity to adapt and respond to risks |
| <b>Complexity</b>                 | The scope and nature of a risk to the entity's success  |
| <b>Velocity or speed of onset</b> | The speed at which risk impacts an entity               |
| <b>Persistence</b>                | How long a risk impacts an entity                       |
| <b>Recovery</b>                   | The capacity of an entity to return to tolerance        |

# Velocity, persistence, connectivity, recovery, adaptability...

Review risk prioritization  
by assessing under  
different criteria

e.g. Replot identified  
risks by threat vs  
vulnerability



(Source: KPMG Dynamic Risk  
Assessment)

# KPMG's Dynamic Risk Assessment

Applying this enhanced methodology produces insights that can be generated only using a risk network

**Risk clusters:** risks most expected to spread to each other and hence to occur in combination;

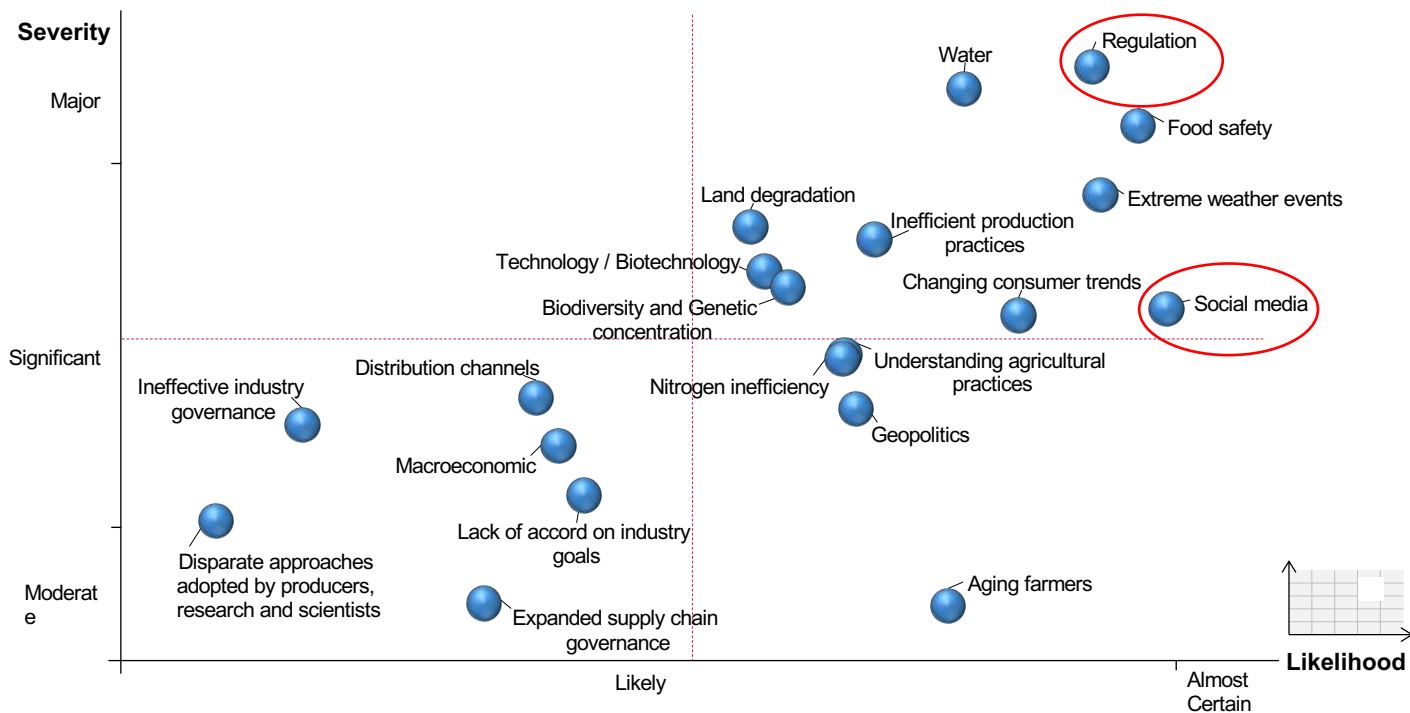
**Stress scenarios:** combinations of risks that are weakly linked, yet catastrophic in aggregate severity should they occur;

**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

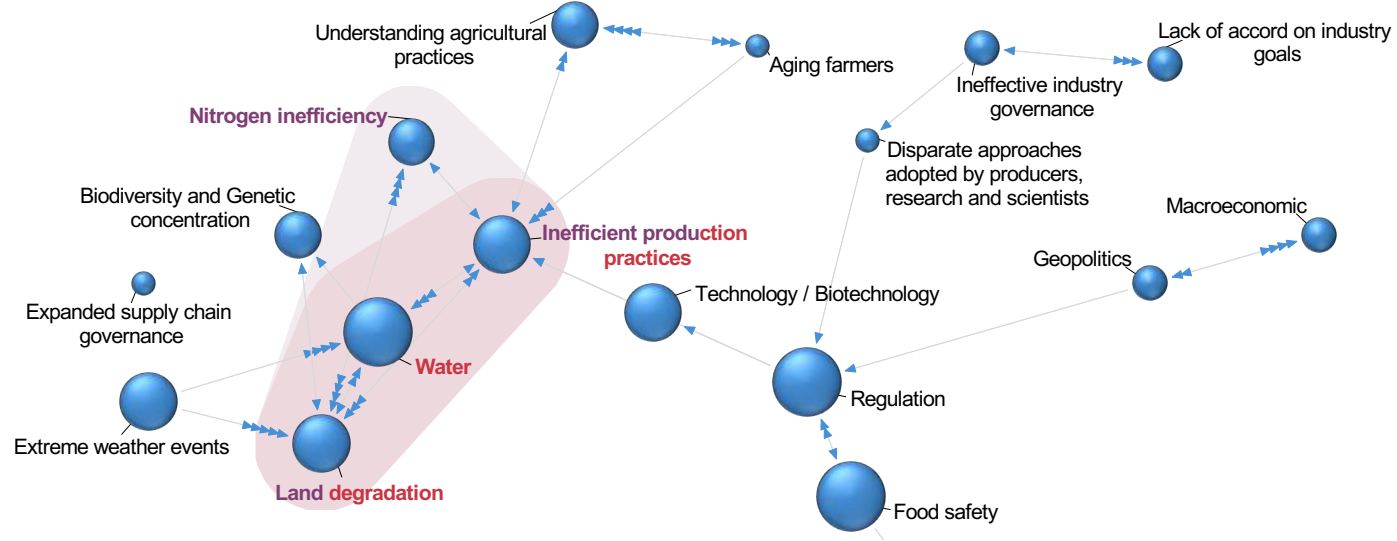




# Network view

Captures  
connections  
between risks

Identifies clusters  
of connected risks



## Risk Cluster 1

Inefficient production practices

Land degradation

Nitrogen inefficiency

## Risk Cluster 2

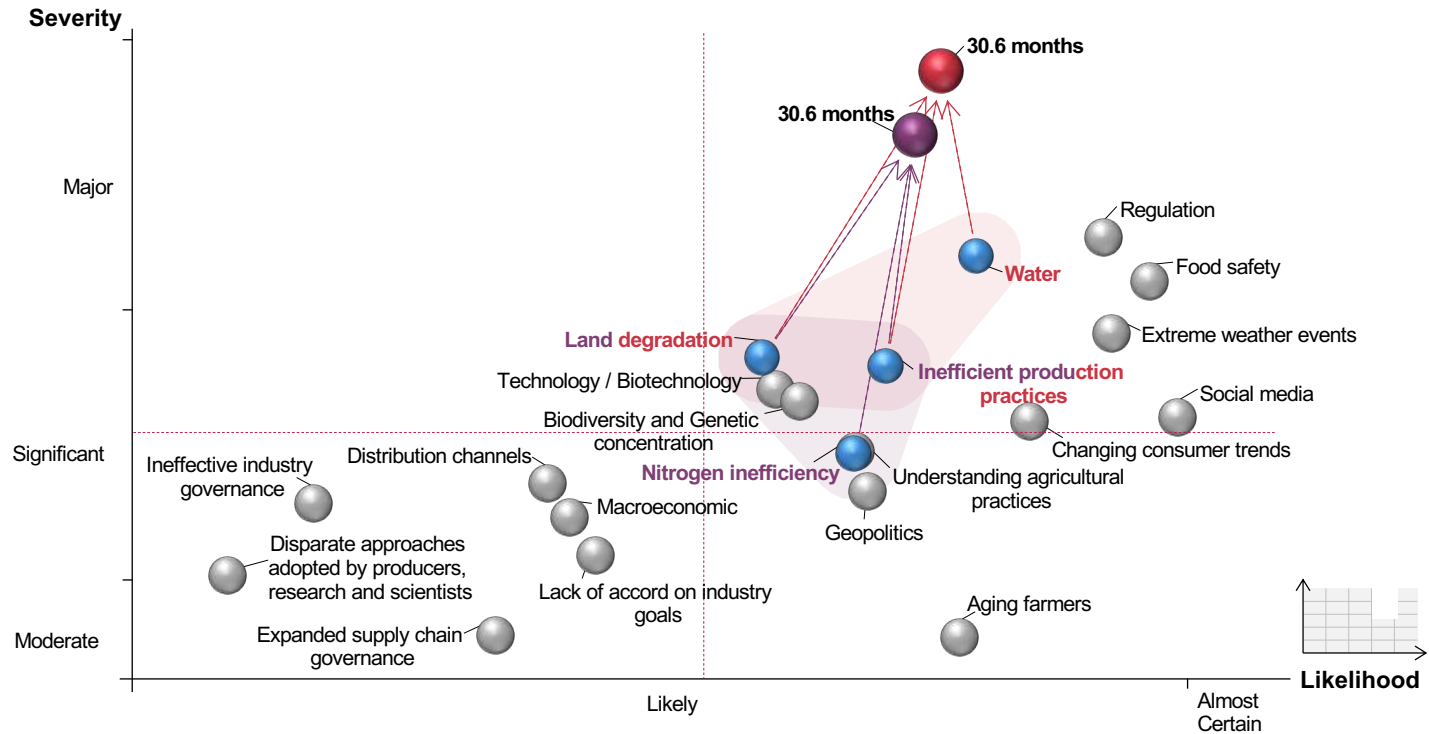
Inefficient production practices

Land degradation

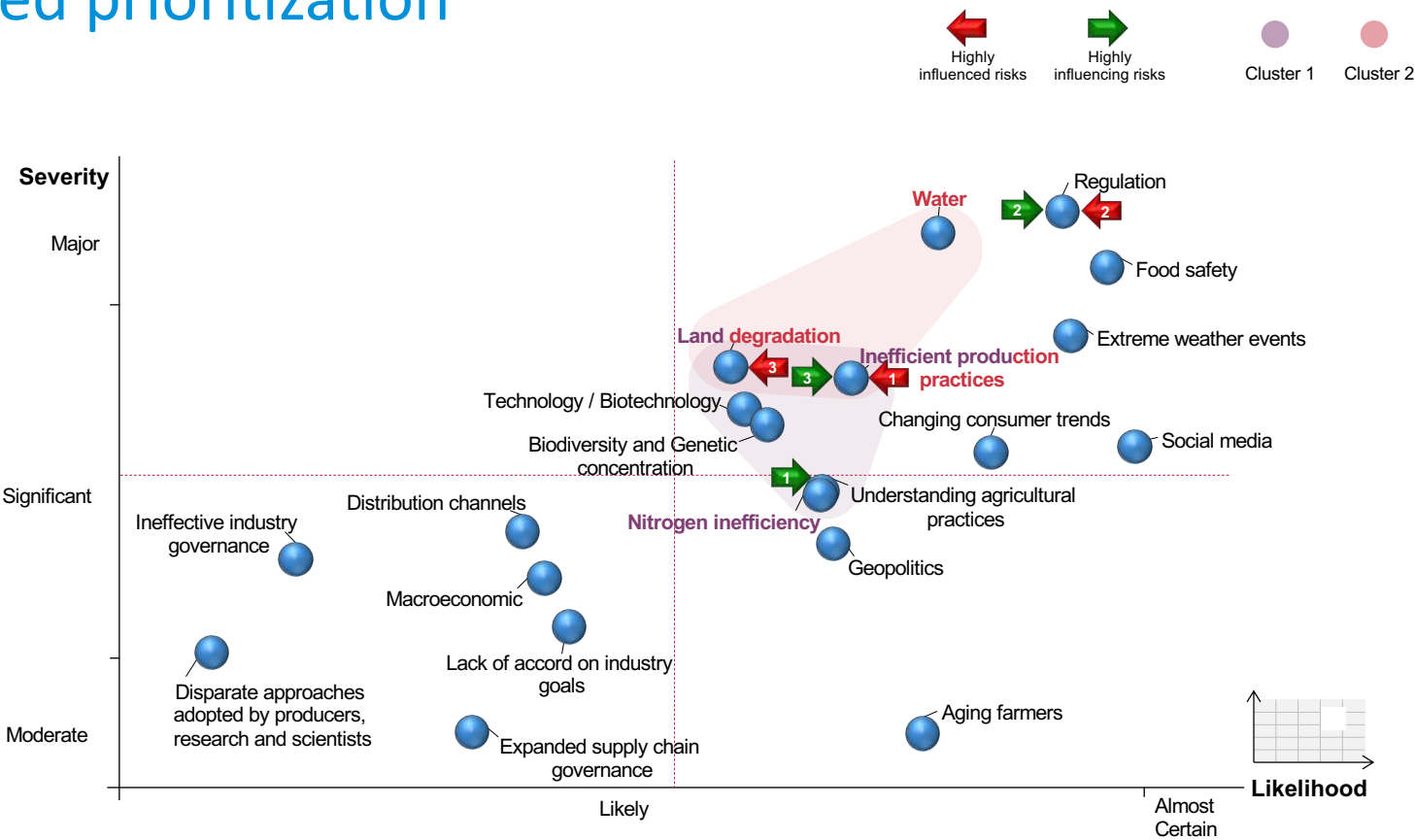
Water

# Aggregated impacts of clusters

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



# Revised prioritization



# Dynamic Risk Assessment

The full report was launched at the World Economic Forum at Davos

Available at <https://www.wbcds.org/ermdrabbp>



# Managing bias

A robust ERM process can help to counteract bias.

- **Practice open-mindedness:** Improve judgment and challenge the status quo by eliminating the influence of stereotypes, idiosyncratic associations and irrelevant factors.
- **Develop cross-functional teams and obtain objective informed inputs:** Seek advice from both internal and external experts to obtain diverse perspectives.
- **Quantify risks and use common language:** Identify methods for communicating with cross-functional teams using a common language and consistent metrics.
- **Provide reference points:** Ask questions using a frame of reference that can be well understood.

For example, instead of asking colleagues to identify potential environmental risks, ask them to answer a question such as, “How will our supply chain be impacted by severe flooding or hurricanes?” or “What would be the costs to our supply chain if we can no longer access our facilities?”

# Diagnostic for Chapter 3b: Assess ESG-related risks

Which of the following activities does your company perform to integrate ESG into assessing and prioritizing risks?

- ☐ Understand the required output of the risk assessment (e.g. impact on strategy and business objectives)
- ☐ Understand the criteria for prioritizing risks (impact, likelihood, adaptability, velocity)
- ☐ Understand the metrics used for expressing risk – quantitative or qualitative
- ☐ Select appropriate measurement approaches to assess risk severity
- ☐ Select and document data parameters and assumptions
- ☐ Leverage subject-matter expertise to prioritize ESG-related risks
- ☐ Identify and challenge organizational bias against ESG issues



| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |

# Performance for ESG-related risks Implements risk response



How an entity responds to identified risks will ultimately determine how effectively the entity preserves or creates value over the long term.

Adopting a range of innovative and collaborative approaches that consider the source of a risk as well as the cost and benefits of each approach supports the success of these responses.

# Chapter 3C - Implement risk response



## Core elements

- **Choosing risk responses** - Accept, Avoid, Pursue, Reduce, Share
- **Factors that influence choice of risk response** – e.g. business context, cost & benefits, obligations and expectations etc.
- **Building risk resilience** through preparation of responses and business continuity planning
- **Developing the business case** (for business and society) and obtaining buy-in for recommended ESG risk responses
- **Assessing risk impacts on value** – e.g. by pursuing, reducing or sharing a risk
- **Framework for implementing the risk response** – e.g. ownership, responsibility, required information and inputs, embedding effectiveness measurement, communications
- **Consideration of net impacts across the risk portfolio**



# Practical application: Implementing risks responses

## Accept

Take no action to change the severity of the risk

## Pursue

Convert risks into opportunities

## Share

Transfer a portion of the risk or collaborate externally

## Avoid

Remove the risk

## Reduce

Take action to reduce the severity of the risk

# Risk response – **reduce**

## Take action to reduce the severity of the risk

Some common elements of a risk reduction program include investments in:

|                  |  |
|------------------|--|
| <b>Strategy</b>  | New strategy, goal or target to reduce the risk  |
| <b>People</b>    | Assemble a team to lead a new initiative or provide training and support to improve R&D with environmental benefits  |
| <b>Processes</b> | Establish a “code of conduct” within the entity or across the industry to establish standards and expectations; risks and enhance transparency to stakeholders |
| <b>Systems</b>   | Implement management systems to provide ongoing monitoring of risks according to the code of conduct   |

# Risk response – **share**

## Transfer a portion of the risk or collaborate externally

### 1. Share the risk where it is too large or complex for a single organization to manage

This may happen in the finance and insurance industry with mortgages and insurance policies.

### 2. Collaboration with other businesses

Industry or issue-specific collaborations can be an appropriate response. Carefully managed sharing of information, expertise and priorities can result in collaborative and trusted relationships that yield outcomes for both the business involved in the collaboration as well as society. It may also help achieve scale to realize sustained impact.

# Diagnostic for Chapter 3c: Respond to ESG-related risks

Which of the following activities does your company perform to integrate ESG into implementing risk responses?

- ☐ Select an appropriate risk response based on specific factors (e.g. cost and benefits, risk appetite)
- ☐ Develop the business case for the response and obtain buy-in
- ☐ Implement the risk response to manage the entity's risk
- ☐ Evaluate the risk response to understand the overall impacts to risk profile

| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |



# Chapter 4: Review and revision for ESG- related risks

# Review & revision for ESG-related risks



Review and revision of ERM activities are critical to evaluating their effectiveness and modifying approaches as needed.

Organizations can develop specific indicators to alert management of changes that need to be reflected in risk identification, assessment and response. This information is reported to a range of internal and external stakeholders.

# Chapter 4 - Review & revision



## Core elements

- Oversight of **substantial change that may impact business strategy**
  - Monitoring of Internal and external environments
  - Identification of changes that may impact business context and markets - e.g. new technology, new data/research, changes to risk appetite, stakeholder and public perspectives
- **Review of risk assessments, context and responses** in response to change
- **Revision of strategy and business objectives** in response to change and review of identified business risks
- **Pursuit of improvement in the ERM** applied to ESG-related risks

# Assess substantial change

Compared to more traditional risks, ESG-related risks can change or evolve quickly due to changing demographics, emerging scientific data, new technology and innovation, growing stakeholder awareness and greater access to information and social media.

| Internal environment  | External environment   |
|---|--|
| <ul style="list-style-type: none"><li>• Changes in strategy or objectives</li><li>• Rapid organizational growth</li><li>• Organizational changes including change to leadership</li><li>• Mergers and acquisitions</li><li>• Innovation</li><li>• Change in risk appetite</li></ul> | <ul style="list-style-type: none"><li>• New or pending regulations</li><li>• Emerging technology</li><li>• Changing stakeholder expectations</li><li>• More frequent or extreme weather</li><li>• Trends or strategies adopted by peer organizations</li><li>• Shifts in global megatrends</li></ul> |



# Review ERM activities to respond to change

- Review governance and culture
- Review strategy or business objectives
- Review new or changing risks
- Review assessment approach or assumptions
- Review effectiveness of risk responses
- Review communication and reporting approach

## Example indicators

- **Inputs:** cost of training
- **Processes:** number of training events
- **Outputs:** number of ppl trained
- **Outcomes:** higher performance due to training

# Pursuing improvement

- **New technology:** ESG-related software platforms may offer an opportunity to compile higher-quality or real time data (e.g. water, waste, satellite images of degradation etc.)
- **Organizational change:** An organization that is expanding operations into emerging markets may expect to face more ESG-related risks (e.g., human rights) in the future and therefore may appoint a subject-matter expert to the board, executive or management team.
- **Risk appetite:** Reviewing performance provides clarity on factors that affect the entity's risk appetite. It also gives management an opportunity to refine its risk appetite.
- **Peer comparison:** Reviewing industry peers can help an organization determine if it is operating outside of industry performance boundaries.
- **Historical shortcomings:** Organizations that have failed to identify or manage ESG-related risks in the past may conduct a “lessons learned” exercise to understand how ESG can be better integrated throughout the ERM process.

# Diagnostic for Chapter 4: Review & revise ESG-related risks

Which of the following activities does your company perform to integrate ESG into reviewing & revising?

- ☐ Identify and assess internal and external changes that may substantively affect the strategy or business objectives
- ☐ Review ERM activities to identify revisions to ERM processes and capabilities
- ☐ Pursue improvements for how ESG-related risks are managed by ERM

| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |



# Chapter 5: Communication & reporting



# Information, communication & reporting for ESG-related risks



Applying ERM to ESG-related risks includes consulting with risk owners to identify the most appropriate information to be communicated and reported internally and externally to support risk-informed decision-making.

# Chapter 5 - Information, communication & reporting



## Core elements

- **Information and channels** for communication and reporting
- **Internal stakeholder communications**
  - Inform directors
  - Enhance awareness of ESG risks and their management
  - Support risk-informed decision-making
- **External stakeholder communications**
  - Mandatory obligations
  - Voluntary communication and reporting
- **Quality of reported ESG information and data**

# Risk information **requirements**

**For each stakeholder, what ESG-related risk information is required for decision-making?**

- **Which ESG-related indicators and metrics are appropriate** to provide decision-useful information?
- **How frequently** is the information required?
- **Which channel and medium** should be used to communicate the information?
- **What are the appropriate escalation paths** for a given risk?
- What controls or processes are in place to ensure **data quality** (e.g., controls over internal data, external assurance)?
- What is the most **effective way to communicate the risk**?

# Internal stakeholders

**Table 5.1: Internal stakeholder groups, information and communication**

| Stakeholder group   | Example information needs  | Example communication methods  |
|---|--|--|
| <b>Board of directors</b><br>Provides strategic oversight for critical risks to the entity      | <ul style="list-style-type: none"> <li>• Significant changes to the internal and external business environment and the organization's approach to these changes</li> <li>• Risks that are falling outside the risk appetite or tolerance</li> <li>• Overall effectiveness of risk responses</li> </ul> | <ul style="list-style-type: none"> <li>• Board meeting pre-reads and presentations</li> <li>• External/third-party materials (e.g., industry, trade and professional journals, media reports, peer company websites, key internal and external indices)</li> </ul>   |
| <b>Operational management</b><br>Oversees day-to-day operations that incorporate risk responses | <ul style="list-style-type: none"> <li>• Significant changes to the internal and external environment impacting strategy and risk appetite</li> <li>• Significant changes to a risk or risk profile</li> <li>• Status and effectiveness of risk responses</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Written internal documents (e.g., briefing documents, dashboards, performance evaluations, presentations, questionnaires and surveys, policies and procedures, FAQs)</li> <li>• Informal/verbal communications (e.g., one-on-one discussions, meetings)</li> </ul>  |
| <b>Employees</b><br>Perform day-to-day operations that incorporate risk responses               | <ul style="list-style-type: none"> <li>• Nature of the risk responses and impacts on roles and responsibilities</li> <li>• Importance of the risk response activities to the organization</li> </ul>   | <ul style="list-style-type: none"> <li>• Training and seminars (e.g., live or online training, webcast and other video forms, workshops)</li> <li>• Materials, meetings or interactions</li> <li>• Electronic messages (e.g., emails, social media, text messages, instant messaging)</li> <li>• Public events (e.g., road shows, town hall meetings, industry/technical conferences)</li> </ul> |



# External stakeholders

**Table 5.2: External stakeholder groups, information and communication**

| Stakeholder group  | Example information needs  | Example communication methods   |
|--|--|---|
| <b>Investors</b><br>Provide capital to the entity with an expectation of financial returns                                 | <ul style="list-style-type: none"> <li>Entity's approach for managing significant changes to the internal and external environment leading to ESG-related impacts or dependencies</li> <li>Understanding of how the entity identifies, assesses and manages its ESG-related risks (e.g., climate-related risks)<sup>6</sup></li> </ul>                 | <ul style="list-style-type: none"> <li>Annual general meeting of shareholders</li> <li>Annual report, risk filing or 10-K</li> <li>Integrated report</li> <li>Proxy</li> </ul>  |
| <b>Suppliers</b><br>Supply goods or services to the entity   | <ul style="list-style-type: none"> <li>Entity's standards for suppliers which may include areas such as ethics, integrity, legal standards, compliance, health and safety and environment</li> <li>Supplier performance against the entity's ESG-related standards</li> </ul>  | <ul style="list-style-type: none"> <li>Supplier code of conduct</li> <li>Report card, including, for example, quality, delivery, quantity delivered, performance history, incident report and comments</li> <li>Management meetings<sup>7</sup></li> </ul>                            |
| <b>Customers</b><br>Purchases the entity's goods or services   | <ul style="list-style-type: none"> <li>Information on how the product was made (e.g., ingredients, country of origin, factory information)</li> <li>Information on how to use the product and whether it may impact the consumer's health and safety (e.g., side effects of pharmaceuticals)</li> </ul>  | <ul style="list-style-type: none"> <li>Responsible marketing practices (e.g., promoting accurate facts about the product)</li> <li>Product labeling (e.g., nutrition facts)</li> <li>Licensed, certified or authorized retailers (e.g., pharmacists)</li> <li>Focus groups</li> </ul> |
| <b>NGOs and communities</b><br>Hold entities accountable for impacts on their interest groups (e.g., environment, society) | <ul style="list-style-type: none"> <li>Entity's approach for mitigating against negative impacts to NGO interests (e.g., deforestation from palm oil extraction)</li> <li>Understanding of how the entity benefits the local and global environment and society (e.g., volunteer hours, employee monetary contributions to cancer research)</li> </ul> | <ul style="list-style-type: none"> <li>Annual general meeting of shareholders</li> <li>Integrated report</li> <li>Sustainability report</li> <li>Website</li> <li>One-on-one engagement or facilitated stakeholder meetings</li> </ul>  |

# Challenges faced by reporters

## Fragmented reporting landscape



Reporting Exchange contains more than 1,900 reporting regulations, codes and guidance from governments, stock exchanges, sector organizations and others



**Bewildering array** of reporting frameworks and approaches

**Increasing regulation**



10-fold increase in ESG reporting requirements and guidance in 20 years

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



**'Non-financial' becoming financial:**



e.g. TCFD climate risk disclosure

**Many and various stakeholder groups**



differing and competing needs for disclosure

**Limited resources**



(human and financial) to deliver reporting



**Lack of coherence**

between ESG in internal decision-making and external reporting

# The Reporting Exchange – navigating the regulatory landscape

The Reporting Exchange is *the* global resource for sustainability reporting.

We aim to

- ▶ Help business understand what, where and how to report sustainability information; and
- ▶ Provide the evidence base for harmonization and alignment of corporate reporting on ESG.



>2,000

Reporting  
requirements  
and resources



>70

Countries



>3,000

Users



11

Country case  
studies & Research  
reports



ecodesk

GORDON AND BETTY  
MOORE  
FOUNDATION



New  
Indicator  
library

Winner of  
ISAR Honors  
Award 2018

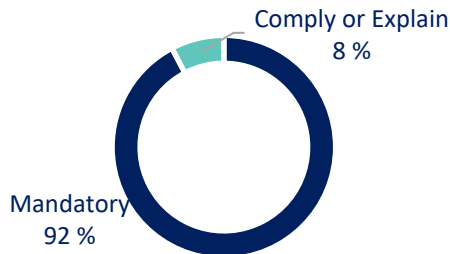


# Finland's ESG reporting requirement landscape

64  
countries  
covered

## Finland

### Obligation

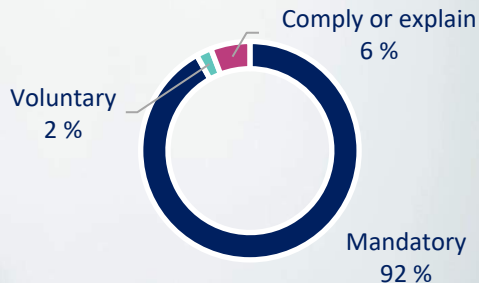


### Channel of disclosure

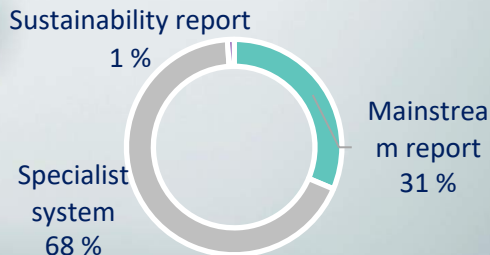


## European countries

### Obligation

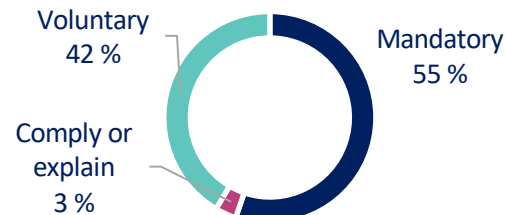


### Channel of disclosure

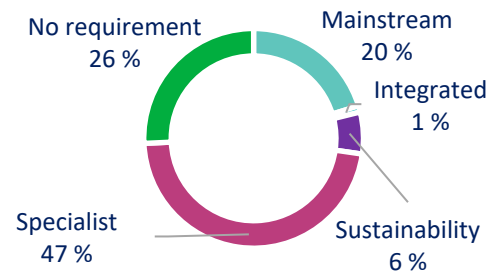


## Rest of the world

### Obligation



### Channel of disclosure



# Finland's ESG reporting landscape

## Key findings

- The majority of (92%) reporting requirements are mandatory similar to the European average (94%) but much higher than the ROW (55%)
- About a half (54%) steer disclosure towards specialist systems and the other half (46%) to mainstream reports that help information flow to a larger stakeholder audience
- Provision subject focus divided relatively evenly between ESG with environmental subjects most represented

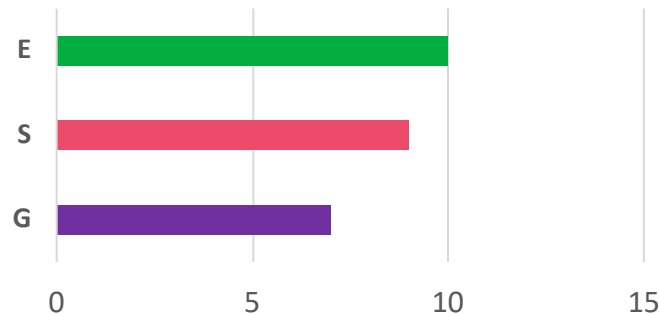
## 18 Reporting provisions

13 Reporting requirements

2 Management resources

3 Reporting resources

### Subject focus of provisions



# Challenges faced by investors

## Incomplete ESG

**data:** disclosures are often largely voluntary resulting in gaps



## Inconsistent data and metrics:



lack of comparability between companies, sectors and geographies; lack of standardization between data providers

**Many investors unfamiliar** with complex systemic interactions of environmental and social megatrends and potential impacts on investments



## High cost



of gathering and analyzing ESG data

## Scarcity of ESG data from emerging markets



where ESG is arguably especially useful as an indicator of good corporate governance

## Discrepancies between ESG ratings



**Not enough sectoral information** on differences in material ESG issues between industries



**Lack of ESG data with materiality** to near-term investment horizons



“In recent years, the market has seen a large influx of ESG data and disclosure standards, but missing elements, including an absence of standard performance metrics, limit their utility for mainstream investors.... standardized global reporting requirements would strengthen the integrity and accuracy with which sustainable investors can do business.”

World Resources Institute

# ESG Disclosure Handbook

The ESG Disclosure Handbook offers guidance and process to help companies navigate the many choices associated with ESG reporting.

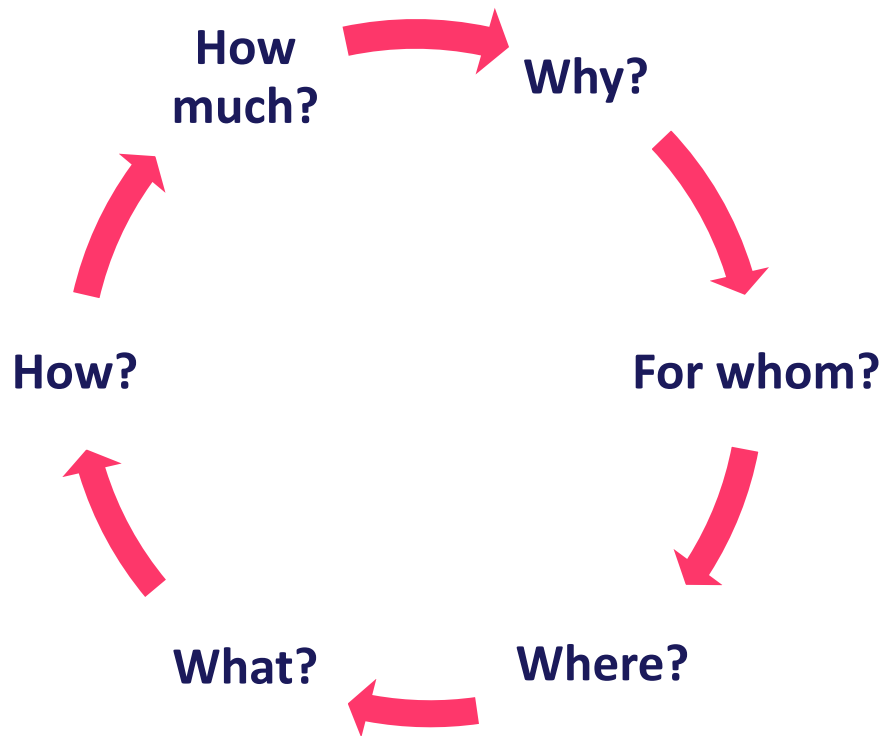
*"As Chair of the CRD, I welcome the ESG Disclosure Handbook. It is a valuable resource for companies aiming to evaluate the way in which they may use different reporting frameworks and standards to achieve effective and purpose-driven disclosure... by providing a structured evaluation process, the ESG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

Ian Mackintosh, Chair, Corporate Reporting Dialogue



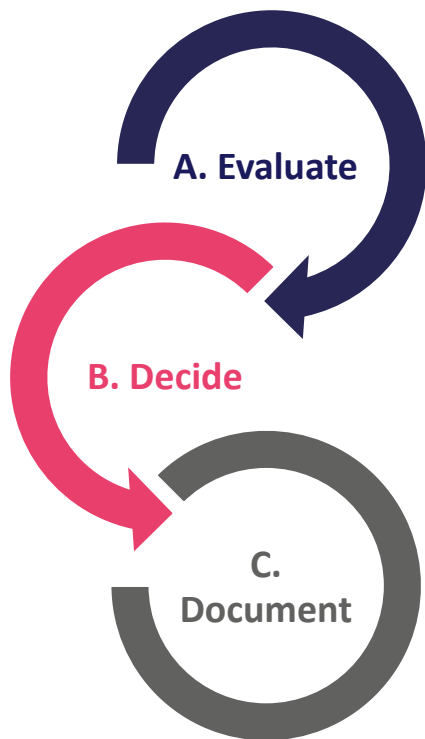
# Process: Six key questions

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.





# Steps: 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**

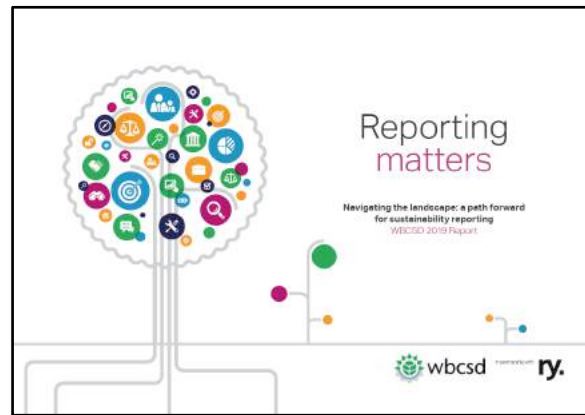
- Final conclusion
- Sensitivities and uncertainties

# Reporting Matters

WBCSD developed *Reporting matters* in partnership with Radley Yeldar to help improve the effectiveness of sustainability reporting.

WBCSD analyzes the fullest source of sustainability information from each member each year against a framework and uses the resulting data in two ways:

- **For members:** We provide confidential scoring dashboards with analysis and anonymized peer group data. We offer confidential feedback sessions to explain our findings to all members.
- **For the public:** We compile the overall results and publish an annual overview of reporting trends within our membership, showcasing good practice examples and providing high level recommendations on reporting.



You can learn more in our [2019 publication](#) and access past publications and additional resources [online](#).

# Diagnostic for Chapter 5: Information, communication and reporting for ESG-related risks

Which of the following activities does your company perform to integrate ESG into informing, communicating & reporting?

- ☐ Identify relevant information and communication channels for internal and external stakeholder communication and reporting
- ☐ Communicate and report relevant ESG-related risk information internally for decision-making
- ☐ Communicate and report relevant ESG-related risk information externally to meet regulatory obligations and support stakeholder decision-making
- ☐ Continuously identify opportunities for improving the quality of ESG-related data reported internally and externally

| 1     | 2          | 3           | 4       | 5        |
|-------|------------|-------------|---------|----------|
| Basic | Developing | Established | Leading | Advanced |



# Takeaways

**How do you  
create value?  
Mission, vision,  
purpose,  
strategy,  
business model?**

**Consider wider  
criteria when  
assessing,  
prioritizing and  
integrating risks**

**Tell key  
stakeholders  
what you're  
doing in a  
strategic way**

# How we support companies

**We help companies leverage and enhance their ERM framework to reduce potential risk and capture opportunities.**

- ▶ Guidance is available via the WBCSD webpages – see <https://www.wbcسد.org/bn68>
- ▶ We conduct training to:
  - Lead you through the guidance
  - Help you understand ERM applied to ESG
  - Arm you with methodologies and insight to apply the guidance in your business
- ▶ Global Network partner training, multiple company workshops, company-specific implementation workshops.
- ▶ Workshops are free - we come to you.



Contact [darling@wbcسد.org](mailto:darling@wbcسد.org)

# Questions & comments



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## as Customers - Practical tips for Employers and Service Providers

1. LOKAKUUTA 2019

The closet door is open. In recent years, sexual and gender minorities have come to the fore in our society. Belonging to these minorities is no...

IHMISOIKEUDET

JAA   



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# Thank you!

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