



Perspectives on Environmental, Social, and Governance

What Boards and Management Should Know about ESG

Presentation to Central Pennsylvania FEI

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- Globally recognized thought leader and trusted adviser to corporate boards and C-suites
- Advises on high-stakes Environmental, Social, and Governance (ESG) and bespoke corporate governance matters
- Extensive experience as a corporate securities lawyer, corporate governance stewardship leader of a major institutional investor, CEO of a distinguished corporate governance association, and investment banker
- Adjunct professor at McDonough School of Business at Georgetown, Yale, and in the Skadden, Arps Honors Program in Legal Studies, and Colin Powell School for Civic and Global Leadership at City College of New York
- BA, Yale University; JD, Columbia Law School

Environmental, Social & Governance

“The thing about ESG is that it can be subjective, it’s forward-looking, involves considerable judgment... and it impacts everything.”



Agenda

-  — Defining ESG and how to think about it
-  — Current ESG landscape
-  — Framework for ESG oversight
-  — Q & A



Defining ESG and how to think about it



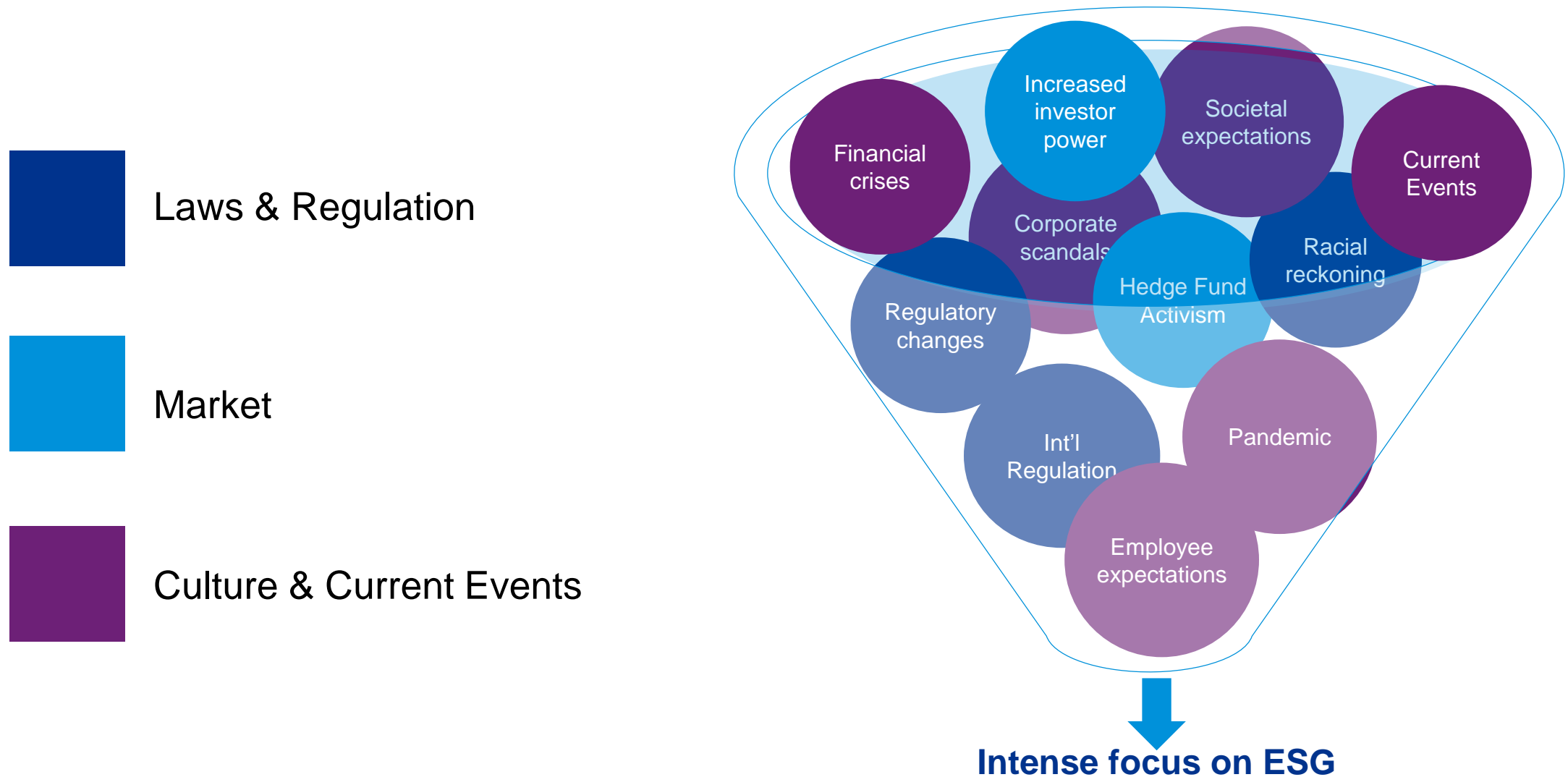
ESG: What's in a name?

- Variety of definitions
- Range of ESG “IQ’s”
- Regulation uncertainty in the U.S., but growing consensus globally
- Deep stakeholder interests and “private ordering”
- Reporting “requirements” and demands are vast and expansive
- Some fatigue over the “Alphabet Soup” of reporting frameworks

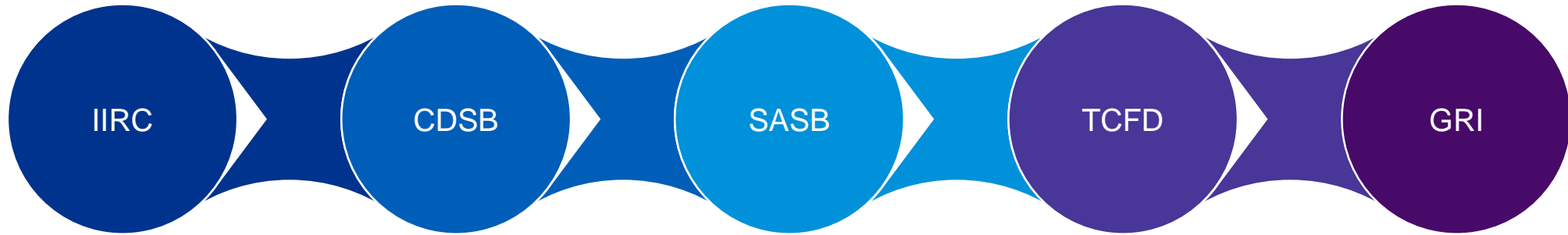
CPE knowledge check-in #1

- 1) “ESG” stands for what?
 - a) Energy, Science, Governance
 - b) Environment, Social, Governance
 - c) Environment, Science, Government

Focus on ESG has been accelerated

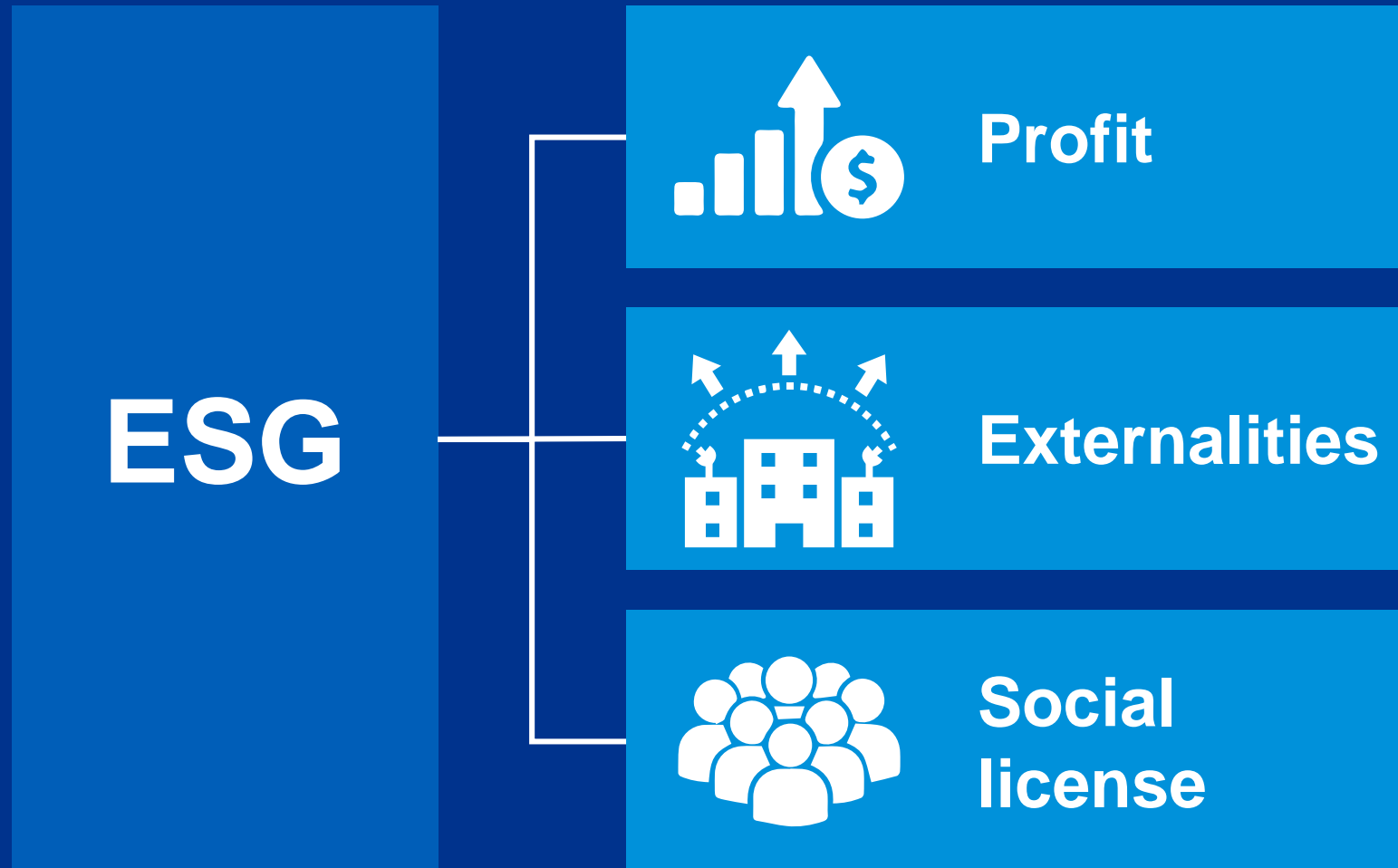


The “Alphabet Soup” of reporting standards/frameworks



- International Integrated Reporting Council, a global coalition of regulators, investors, companies, standard setters, the accounting profession, and NGOs.
 - Its mission is to establish integrated reporting and thinking within mainstream business practices.
- Climate Disclosure Standards Board; seeks to standardize environmental information reporting through collaboration and by coalescing around the most widely shared and tested reporting approaches that are emerging around the world. The framework adopts relevant principles from existing standards and practices with which the business is already familiar.
- Sustainability Accounting Standards Board; standards cover 77 different industries.
 - Independent standards board that has developed a set of globally applicable sustainability accounting standards .
- Task Force on Climate-related Financial Disclosures; TCFD framework focuses on governance, strategy, risk management, metrics, and targets.
 - Financial Stability Board’s recommendations for voluntary and consistent climate-related financial risk disclosures to investors and stakeholders.
- Global Reporting Initiative; first global standard for sustainability reporting.
 - A leading practice for reporting on a range of economic, environmental, and social impact.

ESG: Three considerations to thrive as a going concern





Current ESG landscape



Breadth of ESG



Environmental

- Climate change risks
- Energy efficiency strategy and carbon management
- Emission to air, land, and water
- Energy consumption
- Water use
- Use of raw materials
- Use of scarce resources
- Sourcing practices such as the use of responsibly sourced materials
- Management of waste and recycling
- Impacts on ecosystems and biodiversity
- Exposure to extreme weather
- Readiness to respond to changing regulations on environmental performance



Social

- Diversity, equity and inclusion
- Employee demographics
- Employee attraction/retention records
- Human rights risks
- Supply chain risks
- Product safety records
- Labor relationships
- Worker safety
- Mental health
- Artificial intelligence ethics
- Protection of customers' data and compliance with privacy laws

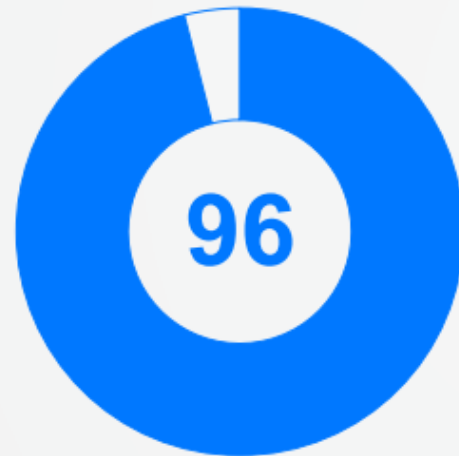


Governance

- Shareholder rights and voting structure
- Capital structure issues (share repurchases, dividends)
- Political contributions, lobby efforts, expenditures
- Board succession planning
- Executive remuneration and demographics
- Board demographics
- Pay equity issues
- Anti-competitive behavior
- Bribery, corruption, and responsible tax record

ESG is increasing in priority for institutional investors

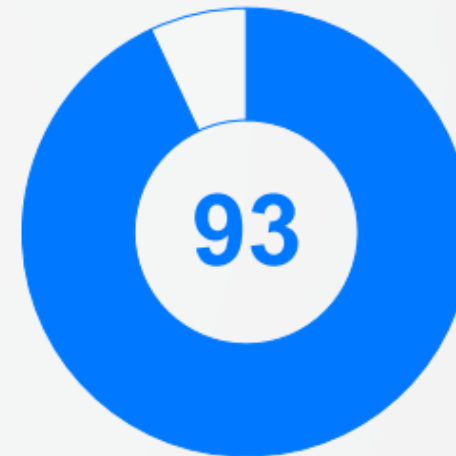
As we recover from COVID-19:



Of U.S. investors expect their firm to increase prioritization of ESG as an investment criteria

91% of 6-Market Global Average

&



Of U.S. investors expect the companies they invest in to increase their prioritization of ESG initiatives

88% of 6-Market Global Average

Source: Edelman Trust Barometer Special Report: Institutional Investors

Many institutional investors have already embraced ESG



Source: BlackRock 2020 Global Client Sustainable Investing Survey

Investors expect board engagement on ESG issues



Source: Edelman Trust Barometer Special Report: Institutional Investors

Boards are expected to oversee climate risk



Source: Edelman Trust Barometer Special Report: Institutional Investors

The challenge: Directors are perceived as having weak ESG credentials.

S Categories	% With Relevant Credentials	E Categories	% With Relevant Credentials	G Categories	% With Relevant credentials
Workplace Diversity	5.0% (60)	Energy	1.2% (14)	Accounting oversight/experts	2.6% (31)
Health Care (physicians, hospital, clinic boards, etc.)	3.5% (41)	Conservation/Nature	1.2% (14)	Regulatory body (SEC, FCC)	1.0% (12)
Health challenges/advocacy	1.9% (22)	Sustainable Business	.8% (10)	Cyber/telecom security	.6% (8)
CSR/ESG	1.5% (18)	Sustainable Development	.8% (10)	Risk	.4% (5)
Civil/human rights	1.5% (18)	Environmental law	.5% (6)	Ethics/corruption/corporate responsibility	.3% (4)
Youth education, health, safety	1.2% (14)	Environmental protection	.5% (6)	Fiduciary/director responsibility	.3% (4)
Economic/community development	1.1% (13)	ESG investing	.3% (4)	Governance	.1% (2)
Human Resources	.8% (10)	Climate	.2% (3)		
Adult education	.7% (9)	Water	.1% (2)		
Nonprofit CEO	.7% (9)				
Philanthropy	.7% (9)				
Sustainable development	.5% (6)				
Media/arts	.3% (4)				
Public policy	.3% (4)				
Affordable housing	.2% (3)				
Workplace benefits	.1% (2)				
Nutrition	.1% (2)				
Workplace safety	.08% (1)				
ESG Investing	.08% (1)				

Source: NYU Stern Center for Sustainable Business, survey of credentials of 1,188 board members of Fortune 100 companies

CPE knowledge check-in #2

2) Which one is a private sector ESG standard setter/governance standard setting body?

- a) SEC
- b) PCAOB
- c) SASB
- d) ESPN



Framework for board oversight



Framework for board oversight of ESG

Level setting



Agree on definition of ESG and its importance to the company.

Assessment



Determine which ESG risks and opportunities are of strategic significance to the company.

Board oversight



Ensure that the board has the right composition, structure, and processes to oversee ESG in the context of strategy and long-term value creation

Stakeholder communications



Shape the company's key ESG messages to investors and other stakeholders in the context of strategy and long-term value creation.

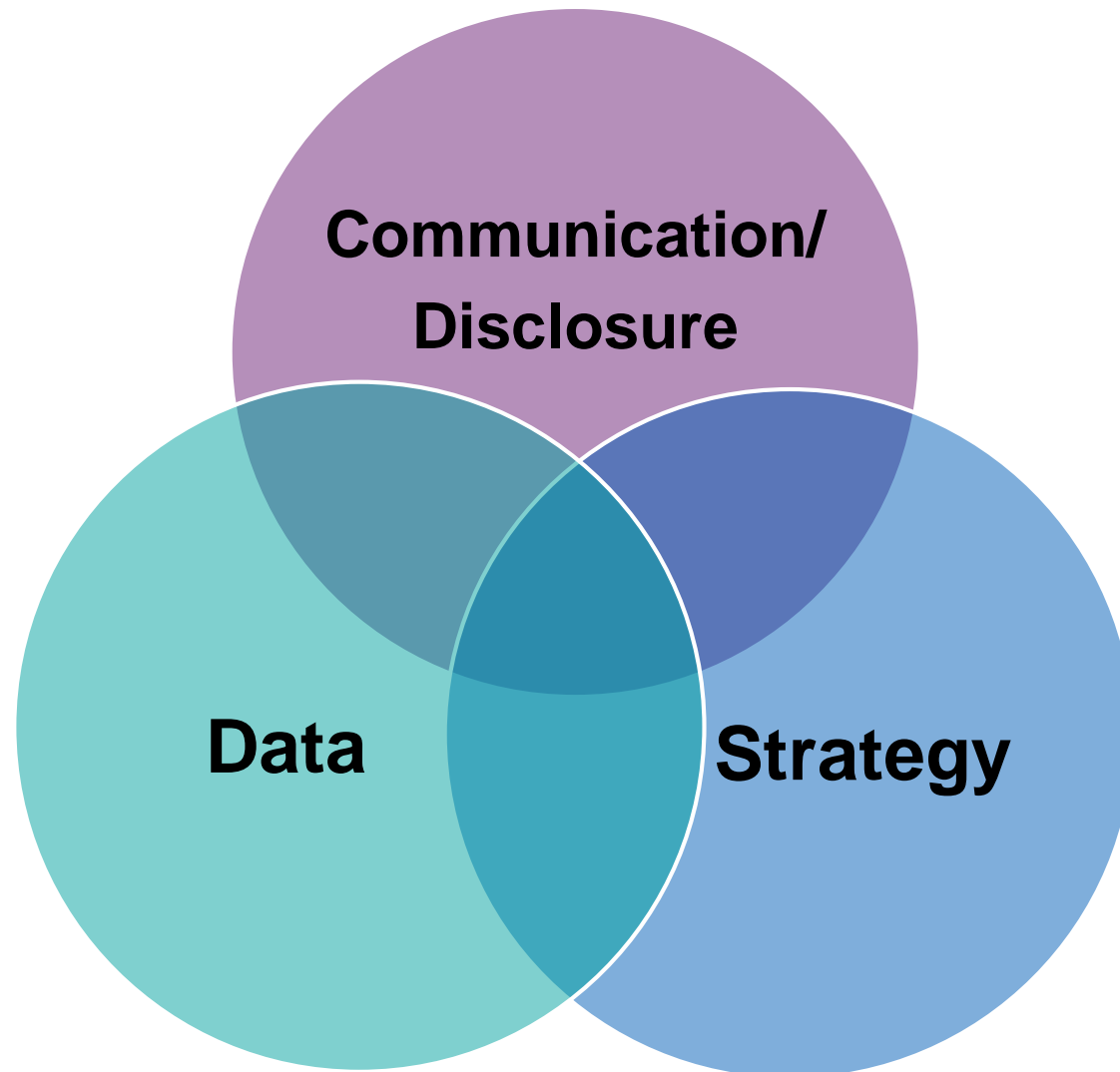
Integration



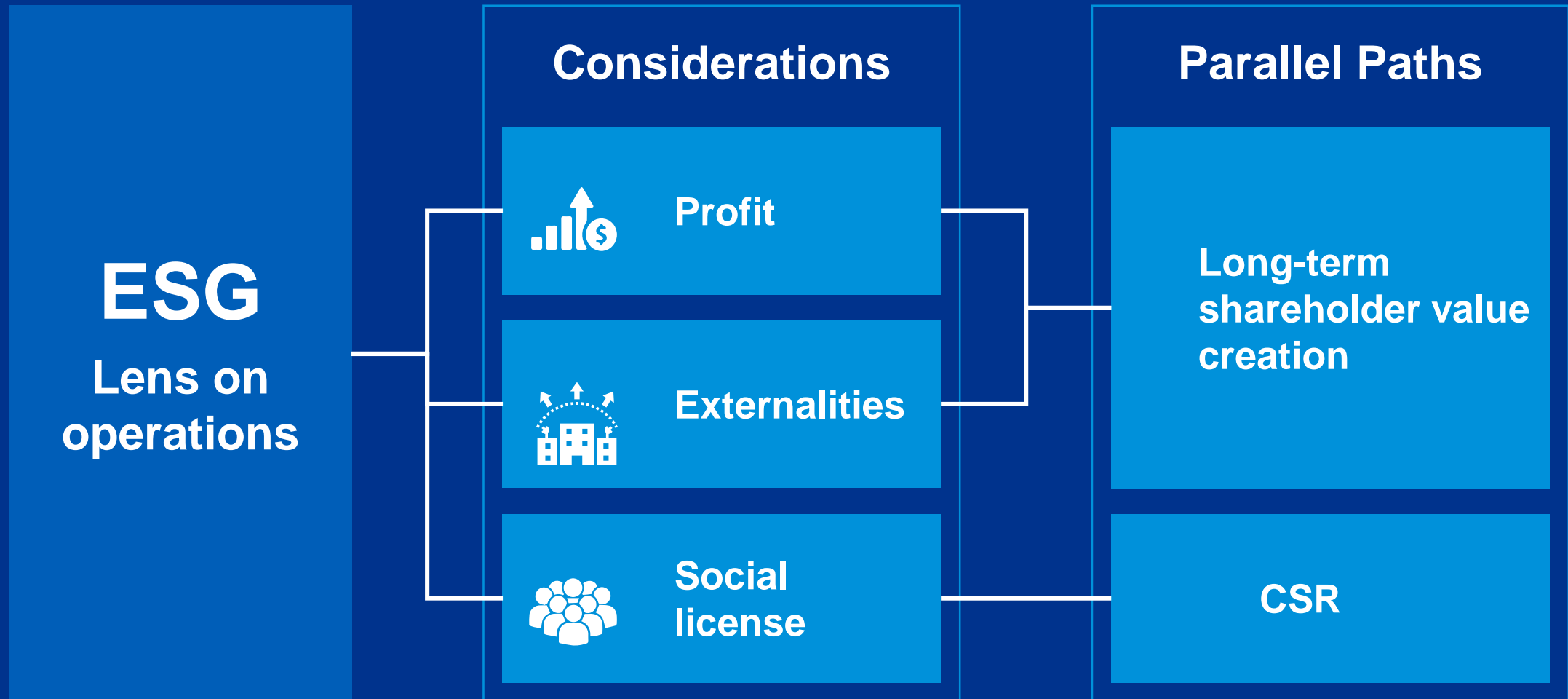
Encourage integration of strategically significant ESG issues into the business.

Framework developed by the KPMG Board Leadership Center in collaboration with Professor George Serafeim of Harvard Business School.

3 areas involving ESG impact on your operations



ESG: Three considerations to thrive as a going concern



Additional insights

ESG, strategy and the long view



The ESG journey: Lessons from the boardroom and C-suite



CPE knowledge check-in #3

3) True or false: ESG is being pushed only by regulators?

a) True

b) False

c) Don't Know



Q & A





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