Morison Global

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Morison Global **Connections**

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A newsletter that connects ambitions with ideas and influencers

Building Better Business Globally

From the Editor's desk

Warm greetings to our readers. This editorial is special to me, as we are Embracing ESG: A Path to Sustainable Prosperity by covering aspects and trends in Global Environment with greater attention to ESG. In the recent G20 Summit organised in India, we saw the world unitedly committing to One Earth, One Family, One Future was also themed on the premise of sustainable actions by one and all.

In today's rapidly changing world, Environmental, Social, and Corporate Governance (ESG) have emerged as crucial pillars that can no longer be ignored by businesses, investors, and governments alike. The significance of ESG principles extends far beyond being a mere buzzword; they represent a fundamental shift in how we perceive the role of corporations and their impact on our planet and society. In this editorial, we will delve into the importance of ESG and how embracing it can lead us towards a future of sustainable prosperity.

Environmental Responsibility: The "E" in ESG signifies environmental responsibility, which involves a company's commitment to minimising its ecological footprint. This encompasses reducing greenhouse gas emissions, conserving natural resources, and adopting sustainable practices. As climate change continues to pose a severe threat to our planet, businesses that prioritise environmental sustainability are not only fulfilling their moral duty but also ensuring their long-term viability. A sustainable environment is the foundation of our economy, and companies that disregard it risk their own survival.

Social Accountability: The "S" in ESG stands for social accountability. It emphasises a company's role in fostering fair labour practices, diversity, and inclusion, and contributing positively to the communities in which they operate. By prioritising social responsibility, companies can create a workplace that is more diverse, equitable, and inclusive, leading to increased employee satisfaction, productivity, and innovation. Moreover, businesses that actively engage with their communities can build stronger relationships, enhance their reputations, and drive consumer loyalty. A commitment to social accountability is not only morally just but also economically beneficial.

Corporate Governance: The "G" in ESG represents corporate governance, which refers to the systems and practices that guide a company's internal management and decision-making processes. Strong corporate governance is essential for building trust with stakeholders, including shareholders and customers. It ensures transparency, ethical conduct, and accountability at all levels of an organisation. Companies that prioritise good governance are less likely to engage in unethical practices or suffer from internal conflicts. This leads to greater stability, resilience, and long-term value creation.

Investor Perspective: ESG considerations are not limited to altruism or regulatory compliance; they are also a critical factor for investors. An increasing number of institutional investors are incorporating ESG criteria into their investment decisions. This trend is driven by the recognition that companies that embrace ESG principles are more likely to weather risks and disruptions, making them better long-term investments. Investors are increasingly seeing ESG as a tool to assess a company's sustainability and ethical performance, helping them make informed investment choices.

Government and Regulation: Governments around the world are recognising the importance of ESG principles and are introducing regulations and incentives to encourage businesses to adopt them. This regulatory framework ensures that ESG is not merely a voluntary endeavour but a vital part of corporate responsibility. These measures help level the playing field, ensuring that companies that prioritise ESG do not face unfair competition from those that do not.

In conclusion, ESG is not just a passing trend; it represents a fundamental shift in the way we conduct business and perceive corporate responsibility. Companies that embrace ESG principles are not only contributing to a more sustainable and equitable world but also positioning themselves for long-term success. Investors, too, are increasingly recognising the value of ESG in their decision-making.

Therefore, it is in the best interest of businesses, investors, and society to fully embrace ESG as the path to sustainable prosperity. By doing so, we can build a future where economic growth is balanced with environmental protection, social justice, and ethical governance, ensuring a better world for generations to come.

The firms at Morison Global are aligned and committed to support our clients and associates to chart a new journey of extensive growth by catching the opportunities in these challenging times and containing the risks by following our innovative and detail-oriented approach.

Please feel free to connect to your immediate contact at Morison Global or reach out to the Global Executive Office in London, UK with your requirements and we shall be happy to direct you to the right expert who is equipped with adequate skill, knowledge, expertise, and experience to attend to your needs and support you in your endeavour towards building sustainable enterprise.

Happy reading!

Vaibhav Jain
Partner, Mehra Goel & Co

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8 Ways to achieve to achieve a strong relationship between sustainable finance, accounting and your business

1. What is sustainable development? What does sustainable finance & accounting have to do with investment growth?

Sustainable development is a development that meets the needs of the present, without compromising the ability of future generations to meet their own needs. Sustainable finance is considered as investment decisions that take into account the environmental, social and governance factors of an economic activity or investment.

The financial sector has tremendous power in financing and raising awareness of sustainability issues, whether by allowing research and development of alternative energy sources or supporting businesses that follow fair and sustainable business practices.

Environmental considerations may include climate change mitigation and adaptation, as well as the wider environment, for example biodiversity conservation, pollution prevention and circular economy. Social factors include human and animal rights, as well as consumer protection and diverse employment practices. Governance factors refer to management practices, employee relations and compensation for both public and private institutions.

2. Sustainable investment in economic projects with environmental and social practices

Investment in businesses, businesses and projects that seek to achieve development goals and environmental, social and sustainable governance standards is already increasing, with the demand for financial specialists with expertise in this fast-growing specialised field who are able to achieve a sustainable finance relationship and accounting in investments and projects. In addition, Bloomberg Global recently reported on this trend, saying that it is already one of the most sought-after areas in Asia.

A recent report by the United Nations Intergovernmental Panel on Climate Change makes it urgent to integrate environmental, social and institutional governance, among other factors, into investment decisions in order to make a rapid and actionable impact on the environment.

You can view the report here

3. Why is sustainable finance important?

One of the biggest reasons sustainable finance is important is that it forces us to take a generally fresh look at what we do for our world, and how it affects people and meets the needs of economic growth. This is by helping companies increase profitability which achieve a relationship between sustainable finance & accounting by helping them reduce costs for things in the financial system such as day-to-day operations, maintenance, and energy, ultimately saving money. Sustainable finance also builds trust related to customers who want to purchase products or services from companies they believe in.

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4. Challenges for achieving sustainable finance & accounting

The main challenge in implementing sustainable finance & accounting standards, is that it can be very complex. A lot of companies try to do this at the superficial level, which ultimately doesn't lead to change within their organisation. To make a real impact, companies need to consider sustainable finance & accounting in implementation strategies in all aspects of finance management.

5. How appropriate is achieving sustainable finance & accounting for your business?

There are plenty of benefits to implementing sustainable finance & accounting practices within your resources and business cost savings, reducing risk from obligations, and building trust with clients to name a few. Even if you are a small company in a small field or sector of the market, it is possible to start implementing basic sustainable development principles on a small scale and growing sustainable finance & accounting practices over time. If you're ready to take the next step, here are some things you can do.

Sustainable finance & accounting is the next development for many businesses. As society demands more companies to achieve sustainable economic development goals and know the value of these goals in terms of responsibility, transparency and environmental awareness, it is time to start seriously researching how to integrate natural and basic sustainable practices and ensure sustainability and financial capacity of the company. Today, it is no longer limited to companies with only large investment volumes, small companies have recently also begun to participate in this movement that has prioritised corporate responsibility, transparency and environmental awareness.

Achieving a relationship between sustainable finance & accounting is not only about doing what is best for your company, but also about doing what is best for your community and the planet and not doing any practices that may affect the development of the global ecosystem. And that you should look at all aspects of your business, not just one, to focus on areas where you can implement sustainable finance & accounting practices so that they are part of your day-to-day operations.

There are many benefits associated with development practices and projects used to finance the sustainable development of companies, some of these are common benefits such as:

Employees become happier and more productive when the company they work for makes positive contributions to society in the public perspective.

Environmental impacts can be measured and adjusted as needed, allowing for greater efficiency.

Achieving a sustainable finance and accounting relationship can attract new talent, which can mean easier hiring and increased retention rates.

It's a great way to express a company's social and financial responsibility.

6. Sustainable Development Goals or ESG for Trends and Sources in Sustainable Finance & Accounting

Sustainable development is the dominant or directed source of financing, as one CNBC report pointed out that there is no more interactive area than the triple sustainability governance area on Wall Street, as the size of funding funds that aim for sustainability approached nearly $ 2 trillion.

7. Promoting a green recovery to achieve sustainable development

As an example, Egypt's Vision 2030 is the basic strategy to achieve sustainable

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development, based on achieving the relationship of sustainable financing and accountability through 3 main dimensions in this sector, namely environmental, social and economic, and determines the course of policies and programs necessary to achieve the desired goals.

Egypt is working to attract environmentally friendly investments such as: manufacturing electric or natural gas-powered cars, solar energy, green hydrogen, seawater desalination, and wind power generation, in a way that helps improve Egypt's competitiveness in the environmental performance index by increasing the proportion of green public financial investments funded by the government to 50% by 2025.

There are other countries that are moving in this same direction.

8. What can accounting firms do in the sustainable finance & accounting sector?

A business doesn't need to do this alone. Accounting firms can help you establish your company or start your business in accordance with the methodology of sustainable development, environmental, social, and governance standards and in accordance with the objectives of sustainable development on an accounting basis. A firm should strive to achieve a relationship of sustainable finance & accounting in all your business and investments, and care and listen to your vision, challenges and needs in order to provide the right advice. That's the right partnership to have.

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What Does an ESG Score Really Say About Your Company?

Simeon Wallis
Chief Investment Officer - Aprio Wealth Management

Nicole Mitchell
Chief Practice Officer - Aprio

AT A GLANCE

MAIN TAKEAWAY: For many companies, there is no escaping the increasing demand for environmental, social and governance (ESG) transparency — and yet, the lack of standardisation for ESG rating agencies has some questioning the relevance of an ESG score.

IMPACT ON YOUR BUSINESS: While the wide range of rating frameworks, algorithms and grading scales can present challenges, obtaining an ESG rating can help establish your company's sustainability strategy.

NEXT STEPS: Aprio's ESG Practice can help your company identify sustainable opportunities through a materiality assessment to develop your strategic approach to ESG.

The full story

It's no secret that each ESG rating agency operates under its own framework, algorithm and grading scale. The disparity among agencies has presented significant challenges for companies, their shareholders and investors.

Many companies (specifically public companies) are feeling the pressure from shareholders and investors to increase the transparency and accountability of their ESG metrics by obtaining an ESG score. That's not to say that private and small companies do not need to worry about ESG metrics and scoring. In fact, it's quite the opposite, as the ESG score can be used as an effective tool to attract the attention of large, upstream buyers.

While the SEC launched a Climate and ESG Task Force in 2021 to identify ESG-related misconduct and compliance issues, the ESG sector has yet to see any significant regulations fall under the ESG rating agency umbrella to provide much-needed clarity and help prevent greenwashing.

It's this lack of standardisation that has many companies asking themselves: "What does an ESG score really say about my company?"

In some ways, an ESG score signals to the investment community, employees and customers that your company is dedicating the appropriate time, energy and resources to ESG. Then, you can use your company's sustainability or corporate social responsibility reports to highlight the areas where you're doing particularly well and where you're looking to make improvements.

When it comes to the score itself, it's important to remember that the first score should be viewed as a benchmark. It reveals where your company is at in this moment in time. Then, next year and the year after that your score hopefully increases further. What you're really looking for is the trajectory of change, and the key to establish this is by staying consistent, which includes sticking with one rating agency.

Leveraging your ESG metrics to meet investor and shareholder expectations

Part of the challenge for any company or management team is determining where to place their focus. Should your company be concentrating on greenhouse gas emissions; diversity, equity and inclusion (DEI); or executive board composition? The options are vast and can be overwhelming.

Performing a materiality assessment can help your company evaluate and identify the ESG factors that will have the greatest impact on your company and its profitability. What's unique about a materiality assessment? It connects your financials with long-term sustainability impacts, enabling you and your ESG advisor to build out an effective strategy that supports the ESG factors your company should place an emphasis on first, while also potentially improving your bottom line. Often, the material areas you select will provide the strongest value to your business, thus generating better margins and returns for shareholders' overtime.

The bottom line

In a perfect world, ESG rating agencies would be relatively standardised. Of course, there would be industry-specific variations, but ultimately each agency's algorithms and grading scales would produce consistent results.

Aprio's ESG team can help your company take the first step into sustainable opportunities by performing a materiality assessment to determine your company's strategic approach to ESG. To learn more about ESG, connect with our team for a complimentary consultation.

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Sustainability and Employee Retention: A Winning Combination for Businesses

Jaclyn Sherman
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In today's rapidly evolving business landscape, employees look at companies with a discerning eye and pay close attention to how they incorporate sustainable practices into their daily operations. As a business, sustainability serves as a tool by which we measure our impact and it offers a path to assess the interconnectedness of environmental responsibility, social well-being, and economic growth. Ultimately, it sets us apart from other businesses and confers our potential competitive advantage.

Employees want to have a mission worth championing. At the same time, employers are seeking a stable, talented workforce to enhance the company's ability to adapt to changing market conditions. There's symbiosis in the relationship between increased sustainability efforts and employee retention. For employers, finding strategies to optimise sustainability offers employees a mission and purpose worth latching onto. Simultaneously, it enhances loyalty and commitment to the company.

The Link Between Sustainability and Employee Retention

More than ever, employees want to have their identities and values aligned with how their company does business. Concurrently, employers are responsible for keeping their employees satisfied, engaged, and productive — all of which can be leveraged through internal sustainability initiatives.

This commitment requires companies to look internally and understand what matters to their employees and stakeholders. By leveraging sustainable business practices that are material, companies can demonstrate their dedication to making a positive difference. This helps attract employees who want to be part of that mission, which, in turn, strengthens the company's brand, reputation, and value alignment.

Creating a Sustainable Work Environment

Furthermore, effective employee retention can be enhanced dramatically by a company's ESG (environmental, social, and governance) initiatives. With a warming climate and heightened awareness surrounding social and environmental issues, employees want to know that their company is doing its part in fostering a diverse and eco-friendly space.

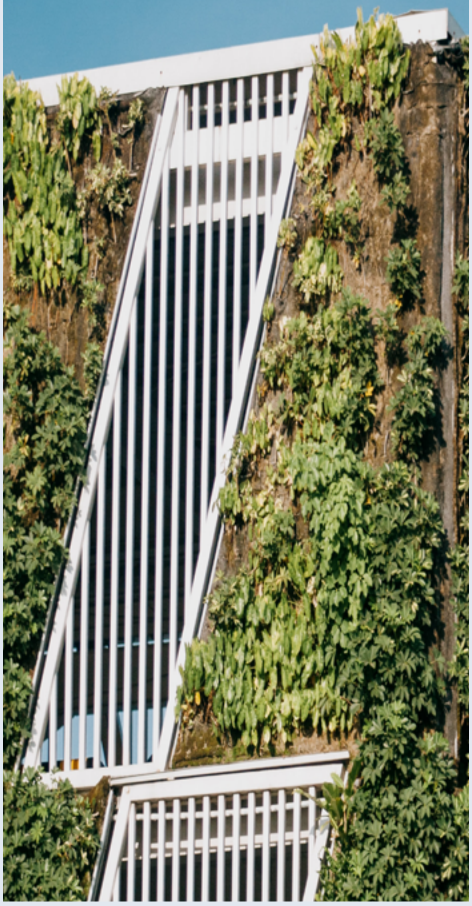
Employee Input and Energy Efficiency

How can this be achieved? Ask your employees what changes they want to see. Implementing energy-efficient equipment in physical workspaces, utilising renewable energy sources, encouraging waste reduction, and recycling are great places to start. Employers can also offer incentives for sustainable transportation, such as carpooling and public transit, or eliminate the commute altogether by encouraging remote work options.

Social Well-Being and DEI Initiatives

On the social side, companies can promote work-life balance by discussing the importance of setting boundaries, offering mental health initiatives, and subsidising wellness programs.

> *Employees want to have a mission worth championing. At the same time, employers are seeking a stable, talented workforce to enhance the company's ability to adapt to changing market conditions*



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Arguably most important, is setting DEI (diversity, equity, and inclusion) targets, emphasising the value of an inclusive work environment that respects and celebrates differences.

Empowering Employees for Sustainable Success

Investing in your employees can provide substantial benefits to your company and can be critical to long-term success. High employee turnover, for instance, not only results in a financial loss but also a loss of valuable institutional knowledge. By focusing on retaining talented individuals, companies can reduce recruitment and training expenses and allocate resources to initiatives that promote long-term growth and innovation.

One important way to invest in your employees is to offer tangible growth opportunities. By encouraging employees to take on leadership roles, learn new skills, and increase their responsibilities, they become more confident, efficient, and effective individuals. Simultaneously, employers eliminate the risk of stagnation and disengagement among their staff.

In a study conducted by MIT, researchers found that employees who engage in professional development not only exhibit enhanced productivity, but they also contribute enormously to company profitability. In this study, the MIT Sloan School of Management found that "an employer's year-long training program led to a roughly 250% return on investment within eight months."

In the quest to retain talent, prioritising employee development serves as a distinct commitment to nurturing the well-being of your staff and the overall growth of the company.

Promoting a Sustainable Corporate Culture

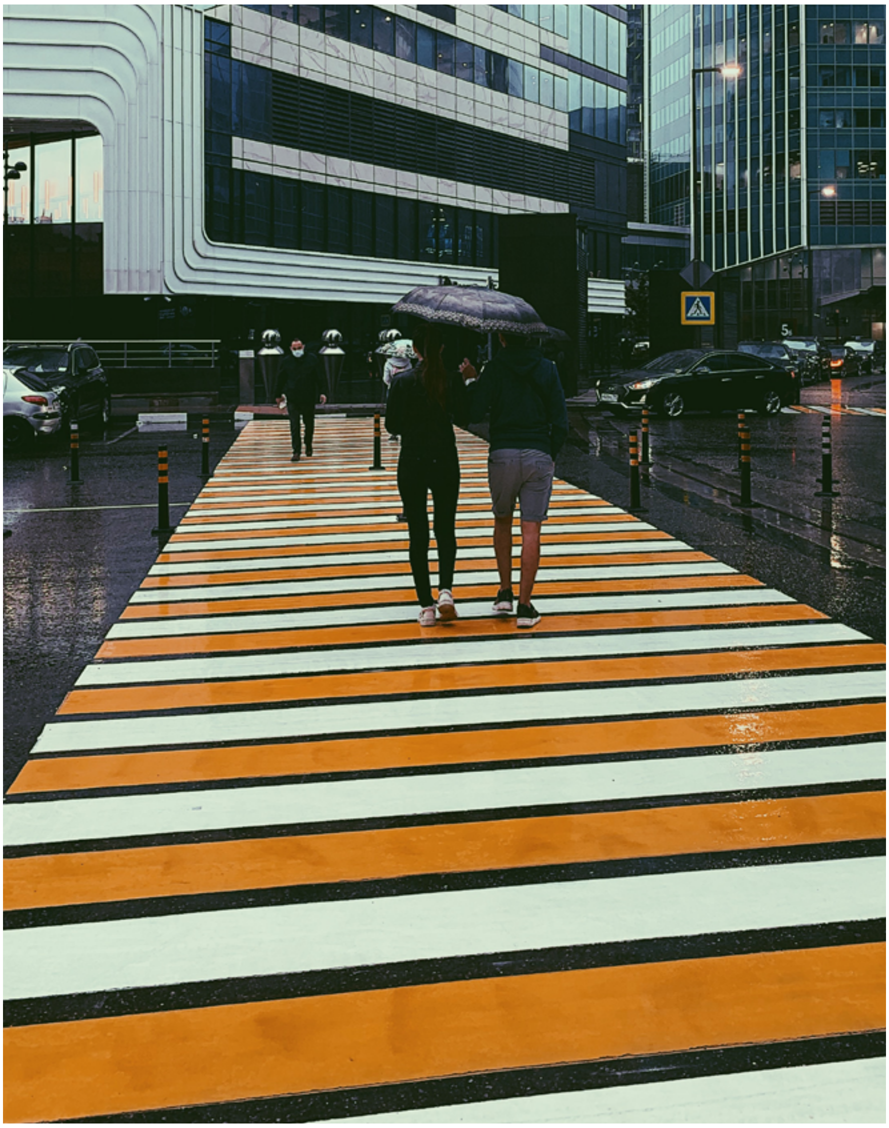
An African proverb says, "If you want to go fast, go alone. If you want to go far, go together." Achieving a strong sense of company culture and togetherness is essential in retaining talent and fostering a sense of loyalty within your team. Ultimately, this sentiment is set by leadership (the tone from the top). Upper management plays a large role in eliminating silos within the company and ensuring congruency between departments and people.

Above all else, employers must recognise that their teams have lives outside of their jobs. Their employees need to know their free time is valued just as much as the work they produce internally. Offering flexible hours and challenging the 9-to-5 schedule can be pivotal in retaining talent and cultivating trust. In addition, taking breaks from work can result in enhanced creativity, productivity, engagement, and loyalty in the workplace.

Join the Movement

Profits don't have to come at the expense of a company's stakeholders and employees. Investing in your employees is mutually beneficial to your organisation. At the end of the day, happy employees produce better work.

By cultivating a work environment that encourages personal growth, loyalty, and longevity, organisations can enhance their adaptiveness to market changes and maintain a competitive edge while simultaneously retaining their valuable workforce.



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The Evolution of ESG: From Niche to Mainstream in Global Commerce

Paul Dean
Principal at Dean & Associates

ESG

It is almost impossible to pick up a business publication or read an online commerce newsletter which does not contain coverage of, or references to the subject of "Environmental, Social and Governance" or using its acronym, "ESG" and yet there is still a widespread lack of knowledge and understanding, not only about what these letters stand for but how far-reaching ESG is poised to become within Global Commerce.

The ESG Umbrella and what sits beneath it

The 'E' for **ENVIRONMENTAL** covers:

The 'S' for **SOCIAL** covers:

The 'G' for **GOVERNANCE** covers:

The days when a Company's value was based solely upon its balance sheets, book values and earnings multiples are disappearing. Environmental, Social and Governance considerations have become the bedrock of corporate sustainability. An ESG focused approach to business incorporates non-financial factors which have financial consequences.

How did ESG evolve?

Socially responsible investing ("SRI") emerged from social movements in the 1970s, when groups such as the Quakers pioneered the notion that one could connect the dots between morals and money. During the 1980s, social movements drove awareness of business's shortcomings, calling out companies that helped prop up the apartheid regime in South Africa or contributed to environmental degradation.

The terms ESG, SRI and impact investing are often used interchangeably, but have important differences. ESG looks at the company's environmental, social, and governance practices alongside more traditional financial measures whilst SRI involves choosing or disqualifying investments based on specific ethical

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criteria for example, investing in Companies producing alcohol, tobacco of firearms. Impact investing aims to help a business or organisation produce a social benefit.

Earlier recognition of the importance of non-financial factors in evaluating business performance came about in 1994 with the advent of the "Triple Bottom Line," or the notion of People, Planet, Profit (PPP), which was arguably the first-time businesses were encouraged to focus on two other P's, beyond just their profits. The triple bottom line is an accounting framework with three parts: social, environmental, and financial. The concept was the brainchild of author John Elkington and was the starting point of what later became ESG or SRI. Briefly explained, the three P's covered:

- **Profit.** Organisations mostly depend on financial data to gauge performance. Profits tend to focus on aspects of a business that generate revenue, such as business decisions made, strategic planning, or performance and cost reduction methods.
- **People.** This measures an organisation's social impact. This bottom line should help measure the organisation's commitment to people. This includes all stakeholders, employees, individuals throughout the supply chain, customers, the organisation's surrounding community and future generations. Methods to help measure this bottom line include advancing human rights; volunteering; donating to the global poor and promoting diversity, race, and gender equality.
- **Planet.** This measures an organisation's environmental impact. Companies have contributed to poor air quality and pollution, affecting the environment and climate change at staggering rates. This bottom line should help measure and improve an organisation's commitment to reducing its environmental footprint. Methods to help measure this bottom line include reducing carbon footprints by reducing energy consumption and reliance on fossil fuels, improving waste management, streamlining logistical practices and using ethically sourced materials.

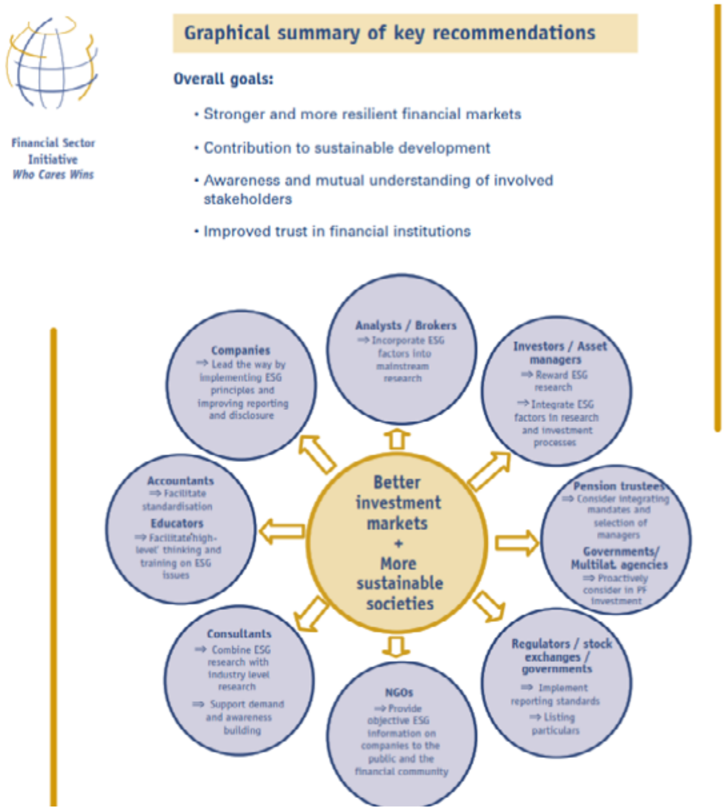
As can be appreciated, ESG factors cover a wide spectrum of issues that traditionally are not part of financial analysis yet may have financial relevance. This might include how corporations respond to climate change, how they manage their supply chains, how they treat their workers and whether they have a corporate culture that builds trust and fosters innovation.

A growing number of investors also want their money to fund companies which are as committed to a better world, as they are to their bottom line. Put another way, these Investors want to encourage companies to act responsibly, in addition to delivering financial returns. Socially responsible investing today is widely understood to mean the integration of environmental, social and governance (ESG) factors, as well as ethical criteria, into investment processes and decision-making.

The term "ESG" can most likely trace its roots back to early 2004 when former UN Secretary General, Kofi Anan contacted the CEO's of more than 50 of the world's largest Financial Institutions asking them to participate in a joint initiative to find ways to integrate ESG into capital markets. A year later, in 2005, Kofi Anan's initiative resulted in the publication of a landmark study entitled "Who Cares Wins"[1] which made the case that embedding ESG factors in capital markets made solid business sense and would lead to more sustainable markets. A graphical summary of this publications key recommendations is shown below.

At around the same time, the law firm Freshfields Bruckhaus Deringer published a Report entitled "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment"[2] otherwise known as the Freshfield Report, which demonstrated that ESG issues were relevant for financial valuations.

These two reports provided the foundation for the launch in 2006 of the United Nation's Principles for Responsible Investment (PRI)[3] and the subsequent launch of the Sustainable Stock Exchange Initiative ["SSEI"] during 2007. The number of signatories to PRI has grown approximately 40-fold since its inception, from 100 to over 4,000.



Source: Who Cares Wins 2005

ESG's relevance and importance was further advanced in 2015 by the publication of a Study entitled "From the Stockholder to the Stakeholder- How Sustainability can drive financial outperformance" [4]

2015 was also the year in which Sustainable Development Goals (SDGs)[5] were established by the United Nations General

Source: United Nations

Assembly. The intention is to achieve them all by the year 2030. There are 17 goals, as shown in the diagram below, with a holistic approach to addressing these five pillars: Basic Needs (Nutrition, Affordable Housing); Empowerment (Decent job, Education); Climate Change (Alternative Energy, Green Buildings); Natural Capital (Sustainable Water, Sustainable Agriculture); Governance (Bribery & Ethics, Governance Structure).

The Task Force on Climate-Related Financial Disclosures (TCFD)[6] was also launched in December 2015, formed by the Financial Stability Board (FSB), with a view to developing a set of voluntary climate-related financial risk disclosures which could be adopted by companies. In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation.

These disclosure recommendations were structured around four thematic areas that represented core elements of how companies operate: governance, strategy, risk management, and metrics and targets. The four recommendations are interrelated and supported by 11 recommended disclosures that build out the framework with information designed to help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities.

ESG's relationship with climate change

ESG is heavily interwoven into the challenges posed by climate change and given the potential for climate change to drive transformation across entire economic sectors, the fact that it often dominates the ESG conversation is hardly surprising. Among the many ESG factors that are especially viewed as having financial relevance, are those related to climate change. The reason for this emphasis is that climate change is no longer a distant threat on the horizon but rather an existential crisis for Planet Earth, with trillion-dollar economic consequences.

In parallel with the evolution of ESG, significant research on climate change was being undertaken under the auspices of the United Nations. The Intergovernmental Panel on Climate Change (IPCC)[7] is the UN body formed to assess the science related to climate change. It was established by the United Nations Environment Programme (UNEP) and the World Meteorological Organisation (WMO) in 1988 to provide political leaders with periodic scientific assessments concerning climate change, its implications, and risks, as well as to put forward adaptation and mitigation strategies. It has 195 member states. In 2018, the IPCC released its Special Report on Climate Change on the impacts of global warming of 1.5°C above pre-industrial levels.

For those wanting to know more, comprehensive scientific assessment reports are published every 6 to 7 years by the

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IPCC. The Fifth Assessment Report was completed in 2014 and provided the main scientific input to the Paris Agreement. In February 2015, the IPCC decided to produce a Sixth Assessment Report (AR6). The Working Group I contribution to the "Sixth Assessment Report Climate Change 2021: the Physical Science Basis" was released on 9 August 2021. The Working Group II contribution, "Climate Change 2022: Impacts, Adaptation and Vulnerability", was released on 28 February 2022. The Working Group III contribution, "Climate Change 2022: Mitigation of Climate Change", was released on 4 April 2022.

Additionally, in 2021 the Sustainable Finance Disclosure Regulation (SFDR)[8] covering market participants within the European Union was launched in March of that year. The full text of the EC Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector can be found at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088]. The legislation is intended to promote strong ESG values and mandate fund managers to actively disclose whether their fund falls under Article 6 (no ESG incorporation), Article 8 (ESG Fund), or Article 9 (Impact Fund).

ESG's Continuing Growth and adoption

ESG's rapid growth builds on the Socially Responsible Investment (SRI) movement which started in the 1970's before morphing into Corporate Social Responsibility [CSR"] but unlike SRI, ESG investing assumes that ESG factors have financial relevance. Many investors recognise that ESG information about corporations is vital to understand corporate purpose, strategy, and the management quality of companies. It is now, quite literally, big business. But what explains the remarkable rise of ESG investing and what does this mean for the future?

A Business Wire article[9] published in April. 2017 with the headline *"Asset Owners Say Integration of ESG has Significantly Improved Returns"* is particularly noteworthy in charting the wider adoption of ESG. The piece reported "…State Street Global Advisors Study Shows 80 Percent of Asset Owners Now Have an ESG Component in Their Investment Strategies. State Street Global Advisors, the asset management business of State Street Corporation (NYSE: STT), today announced the results of a global survey of 475 institutions, which found that 68 percent of respondents say the integration of an environmental, social and governance (ESG) strategy has significantly improved returns, showing that the adoption of ESG driven investment strategies has a future in institutional portfolios The survey also found that 77 percent of respondents said they invested in ESG strategies because such factors play a role in a public company's broader financial performance."

The emphasis on ESG is increasingly growing as major institutional investors are making it clear they expect the companies they invest in to commit strongly to ESG criteria. The idea that investors who integrate corporate environmental, social and governance risks can improve returns is now rapidly spreading across capital markets on all continents. In Europe, for example, a critical mass of pension funds and insurers have started to award new business exclusively to asset managers with ESG capabilities. Today, ESG investing is estimated at over $20 trillion in Assets Under Management or around a quarter of all professionally managed assets around the world.

What about Frameworks and Reporting Challenges?

One of the most pressing challenges has been the creation of some combination of heightened regulatory requirements, risk awareness, and demand for data and transparency to enable the management and disclosure of ESG factors. Everything from carbon emissions to racial and gender balance to the sustainability of sourcing strategies has been examined. Investors, governments, and other stakeholders want to know whether businesses have identified and are managing ESG risks. As companies are constantly reviewing what they report publicly, as we shall see in a subsequent article, formal non-financial disclosures are starting to augment or replace non-binding frameworks.

At the World Economic Forum 2017 Annual Meeting in Davos, CEOs from the World Economic Forum's International Business Council (IBC) issued the "Compact for Responsive and Responsible Leadership", which has been signed by more than 140 CEOs. The Compact states that "society is best served by corporations that have aligned their goals to the longterm goals of society," and it identifies the UN Sustainable Development Goals (SDGs) as the roadmap for that alignment. The following quote from that meeting provides a clear statement of the IBC's purpose.

"As CEOs, we want to create longterm value to shareholders by delivering solid returns for shareholders AND by operating a sustainable business model that addresses the longterm goals of (the) society, as provided for in the SDG roadmap. At the same time, data on responsible business and sustainability is proliferating, enabling companies to better understand their impact and implement responsible strategies. What we seek is a general framework for companies to demonstrate their longterm sustainability; a framework that integrates financial metrics along with relevant nonfinancial criteria such as ESG considerations, gender equality, compensation practices, supply chain management, and other activities." —Brian Moynihan, Chairman and CEO Bank of America

In a 19-page document entitled "Measuring Stakeholder Capitalism WEF-IBC common metrics Implementation guide for sustainable value creation"[10] KPMG wrote in its introduction: "The WEF IBC, comprising more than 140 CEOs of global companies, view sustainability and the Sustainable Development Goals ("SDGs") as critical to long-term business value creation. To address practical challenges in balancing short- and long-term value for shareholders and society, the IBC wanted to develop a set of metrics for companies to demonstrate and communicate their sustainable business performance and long-term value creation in a clear, comparable way to investors and other stakeholders".

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Developing and implementing a consistent and transparent ESG reporting for financial and non-financial metrics that were consistent within each industry sector was never going to be easy. The WEF and the IBC - in collaboration with the Big 4 professional services organisations Deloitte, EY, PWC and KPMG - presented a Consultation Draft Report at Davos in January 2020. The report identified a set of industry-agnostic, material ESG metrics and reporting requirements that could be reflected in the mainstream annual reports of companies.

Following an extensive consultation with more than 200 companies, investors, standard setters and other key stakeholders, the result was a framework comprising 22 specific metrics for companies to report their results, were released at the IBC's meeting in August 2020. In September 2020, the final report, including the refined set of metrics was published.

For readers of tis article seeking a deeper understanding of the challenges related to the development of the framework covering climate-related Financial Disclosures, the TFCD June 2017 Report entitled "Implementing the Recommendations of the Task Force on Climate Related Financial Disclosures. The TCFD[11] is worth checking out. This 85-page document is also worth referring to for an explanation of all the metrics plus the coverage of its seven Fundamental Principles for Effective Disclosure, as well as the various sectorial disclosure guidelines.

So, we are we today regarding reporting regulations or guidelines, as a clearer picture begins to emerge?

In December 2020, to coincide with the fifth anniversary of the Paris Agreement[12, 13], five leading organisations in sustainability and integrated reporting, who had published a shared vision for a comprehensive corporate reporting system earlier that year, took the next practical step together by publishing a paper addressing one part of the system standards for reporting on enterprise value, with a prototype climate-related financial disclosure standard.

CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), co-authored an illustration of how their current frameworks, standards and platforms, along with the elements set out by the Task Force on Climate-related Financial Disclosures (TCFD), could be used together,to provide a running start for development of global standards that would facilitate disclosure of how sustainability matters create or erode enterprise value.

The rating agencies as well as the ESG Framework entities are listed in the following table.

Each of the frameworks has its own particular focus.

The CARBON DISCLOSURE PROJECT ["CDP"] is a global non-profit entity that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. CDP was started in 2000 with the goal to create a "global economic system that operates within

Rating Agencies	ESG Frameworks
Bloomberg Professional Services	UN Sustainable Development Goals [SDG]
Dow Jones Sustainable Indices [DJSI]	UN Principles for Responsible Investment [PRI]
FTSE Russell	Climate Disclosure Standards Board [CDSB]
ISS Environmental and Social Quality Score	Sustainability Accounting Standards Board [SASB]
MSCI	Carbon Disclosure Project [CDP]
Reprisk	Global Reporting Initiative [GRI]
Sustainalytics	Taskforce on Climate related Financial Disclosures [TCFD]
Vigeo Eiris	Workforce Disclosure Initiative [WDI]

sustainable environmental boundaries and prevents dangerous climate change." The idea behind the CDP was that if business considered environmental reporting and risk management as part of its core responsibility, it would be possible to transform capital markets.

CDP started its environmental disclosure program in 2002, and through this platform today, more than 9,600 companies with over 50% of global market capitalisation disclosed environmental data through CDP in 2020 and use CDP to report on their climate, water, and deforestation impacts. This has made the CDP platform one of the richest sources of information globally on how companies and governments are driving environmental change. Voted number one climate research provider by investors and working with institutional investors with assets of over US$106 trillion, CDP has leveraged investor and buyer power to motivate companies to disclose and manage their environmental impacts.

The Climate Disclosure Standards Board ["CDSB"] was founded in 2007 and is an international consortium of business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. It does so by offering companies a framework for reporting environmental and climate information with the same rigour as financial information. In turn, this helps them to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Collectively, CDSB aims to contribute to more sustainable economic, social, and environmental system. CDSB also hosts the TCFD Knowledge Hub on behalf of the Task Force on Climate-related Financial Disclosures.

The Sustainability Accounting Standards Board ["SASB"] is a non-profit organisation, founded in 2011 by Jean Rogers to develop sustainability accounting standards. SASB Standards guide the disclosure of financially material sustainability

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information by companies to their investors. Available for 77 specific industries, the Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry. SASB Standards are now maintained under the auspices of the Value Reporting Foundation, a global non-profit organisation that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved, or eroded. The resources—including Integrated Thinking Principles, the Integrated Reporting Framework, and SASB Standards—can be used alone or in combination, depending on business needs. The Value Reporting Foundation Board of Directors oversees the strategy, finances, and operations of the entire organisation, and appoints the members of the SASB Standards Board. The SASB Standards Board is an independent board that is accountable for the due process, outcomes, and ratification of the SASB Standards

The Global Reporting Initiative ["GRI"] was launched in 1997. The United Nations Environment Program (UNEP) was also influential in the creation of GRI, and the U.S. Environmental Protection Agency and General Motors were at the table in the earliest discussions. GRI is the independent international organisation that helps businesses, governments and other organisations understand and communicate their impacts. The GRI Standards are the world's most widely used for sustainability reporting. GRI started using the term "ESG" in 2009 and stakeholders, including investors, businesses and governments, use the GRI Sustainability Reporting Standards to communicate on a range of impacts, including climate change, human rights, governance and social well-being.

The International Integrated Reporting Council ["IIRC"] is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. The IIRC's vision is a world in which capital allocation and corporate behaviour are aligned to the wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. www.integratedreporting.org

Taskforce on Climate-related Financial Disclosures: In April 2015, the G20 asked the Financial Stability Board (an international body that monitors and makes recommendations about the global financial system) to consider climate risk. In response, the board established the Taskforce on Climate-related Financial Disclosures[14] (TCFD) in December 2015, The Task Force consists of 31 members from across the G20 with Michael Bloomberg as chair. Today, the TCFD's voluntary disclosure program gives companies a consistent way to report on their climate-related financial risks to investors, lenders, insurers and others. TCFD covers physical, liability and transition risks. Amongst its 3,400 supporters across 95 jurisdictions private sector organisations with a collective market capitalisation of nearly $12 trillion and financial firms responsible for assets of $138.8 trillion. On June 7th, 2021, G7 finance ministers announced a commitment to mandate climate reporting in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Workforce Disclosure Initiative (WDI) was launched by the UK responsible investment non-profit ShareAction in late 2016 and was dedicated to responding "to institutional investors' concerns that they struggle to access meaningful data on company workforce management,". WDI collects data from companies on how they manage both direct employees and people working in their supply chains. ShareAction started life as a campaign that worked with People & Planet and helped Britain's largest pension scheme adopt a responsible investment policy. Since then, it has expanded to campaign on the most pressing issues facing the world today.

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Role of Auditing Firms in ESG

Auditing firms play a pivotal role in helping companies set, measure, and monitor their Environmental, Social, and Corporate Governance (ESG) goals. As ESG considerations become increasingly critical for businesses, investors, and stakeholders, auditing firms can provide valuable expertise and assurance in the following ways:

Setting ESG Goals

Assessment and Benchmarking: Auditing firms can conduct an initial assessment of a company's current ESG performance by evaluating its existing practices, policies, and impact on the environment, society, and governance. They can then benchmark the company against industry peers and best practices to help set realistic and relevant ESG goals.

Materiality Analysis: Auditors can help companies identify which ESG factors are most material to their business and stakeholders. This ensures that ESG goals are aligned with the issues that matter most and have the greatest impact on the company's long-term sustainability.

Stakeholder Engagement: Auditing firms can facilitate stakeholder engagement processes to gather input from investors, customers, employees, and other relevant parties. This input can inform the development of ESG goals that resonate with the interests and expectations of key stakeholders.

Measuring ESG Performance

Data Collection and Reporting: Auditors can assist companies in collecting accurate and reliable ESG data. They can help design data collection systems, ensure data quality, and prepare ESG reports in accordance with industry standards such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) framework.

Verification and Assurance: Auditing firms can provide independent verification and assurance services for ESG reports, ensuring that the data is accurate, complete, and in compliance with reporting standards. This adds credibility to the company's ESG disclosures.

Key Performance Indicators (KPIs): Auditors can work with companies to identify and establish meaningful ESG KPIs that align with their goals. These KPIs enable ongoing measurement of progress and can be used to track performance against targets.

Monitoring ESG Goals

Periodic Audits and Reviews: Auditing firms can conduct regular audits or reviews of a company's ESG performance to assess progress toward goals, identify areas for improvement, and provide recommendations for course correction.

Continuous Improvement: Auditors can help companies establish a framework for continuous improvement by comparing actual ESG performance against targets and industry benchmarks. This feedback loop allows companies to adapt and refine their ESG strategies over time.

Risk Assessment: Auditors can assist in identifying ESG-related risks and opportunities that may impact the company's long-term financial performance. By monitoring these risks, companies can proactively address issues and mitigate potential negative impacts.

Compliance and Regulatory Support

Stay Updated: Auditing firms can help companies stay informed about evolving ESG regulations, reporting requirements, and disclosure standards. They can ensure that companies remain in compliance with changing legal and regulatory landscapes.

Advisory Services: Auditors can offer advisory services to assist companies in aligning their ESG strategies with regulatory expectations and emerging best practices.

In conclusion, auditing firms have a critical role to play in assisting companies with their ESG goals. Their expertise in data collection, reporting, verification, and assurance, combined with their ability to provide independent assessments, ensures that ESG goals are set realistically, measured accurately, and monitored effectively. As ESG considerations continue to gain prominence, collaborating with auditing firms can help companies not only enhance their ESG performance but also build trust with stakeholders and investors.

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