

The Future of ESG

Presented by Evan Williams, Director



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS.

Overview

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AN OVERVIEW OF ESG

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THE FUTURE OF ESG

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CCMC RESOURCES



Question 1

Yes or No: 'ESG' is a well-defined term that's understood uniformly across the market.

- Yes
- No



What is ESG?

Subjects encompassed by 'ESG':

- Climate Change and Sustainability
- Corporate Board Diversity
- Human Capital Management
- Executive Compensation
- Political & Lobbying Spending

To whom does ESG apply?

- Primarily to companies who participate in public capital markets
- Growing interest in private companies

61%

**SAY IT IS A
SUBJECTIVE
TERM**

Companies are cautious about the term *ESG*.

Only **8%** say *ESG* encompasses a generally understood set of issues and can be easily defined by regulators. **61%** say it is a subjective term that means different things to different companies and is difficult to define by regulators.

Where did ESG Come From?

Corporate Social Responsibility

- ESG has strong roots in CSR and public relations efforts of the past
- Some companies still make ESG information available through their CSR

EU Regulatory Developments / Paris Climate Agreement

- US asset managers active in Europe – Timing of Larry Fink letter



Ongoing Regulatory Work in Europe

EU Sustainable Finance Directive – “To help improve the flow of money towards financing the transition to a sustainable economy ... by enabling investors to reorient investment towards more sustainable technologies and businesses...”

Sustainable Finance Disclosure Regime

- Sets specific rules for how and what sustainability-related information to be disclosed
- Captures financial market participants and financial advisers operating in the EU

Corporate Sustainability Reporting Directive

- Previously the Non-Financial Reporting Directive
- Sets prescriptive requirements for company ESG disclosure
- ‘Public interest’ over 500 employees

Sustainable Corporate Governance

- Creates director duty of care requirements related to sustainability
- Empowers societal stakeholders and creates value chain responsibilities for companies

Question 2

Does your organization have a comprehensive strategy for ESG?

- Yes
- No
- Don't know



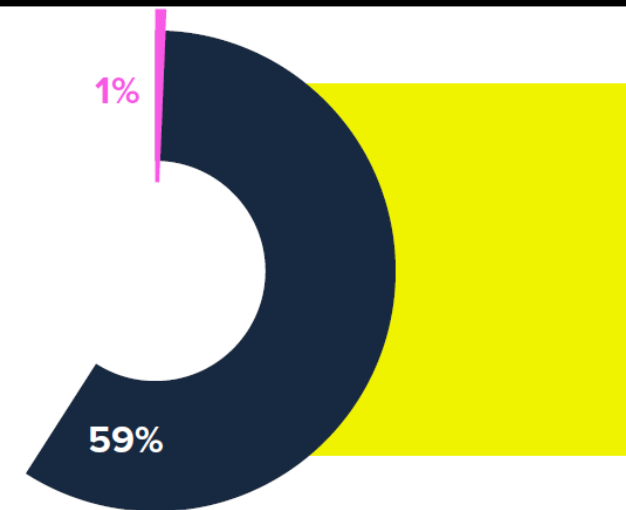
Current ESG Practices - Not a PR Exercise

Whereas previous iterations of ESG were tied to public relations, ESG has evolved as a serious movement for investors and companies alike.

- ESG dominated the 2021 Proxy Season, with 17 environmental or shareholder proposals receiving more than 50% support this year, a record.
- More than 60% of environmental shareholder proposals at energy companies passed.
- A growing trend of linking CEO pay to ESG metrics.

Over the last decade, most companies have increased the amount of climate change disclosure they provide.

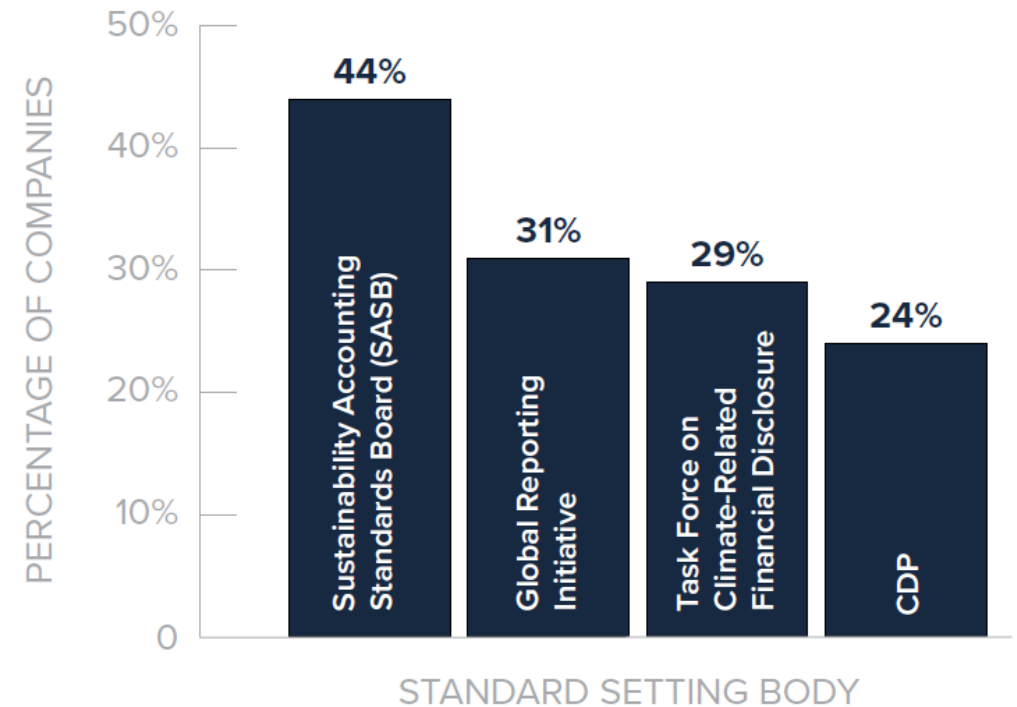
Roughly **59%** report they are disclosing more information regarding climate change since the SEC issued its 2010 guidance; **only 1% of companies** report they are disclosing less information during that same period.



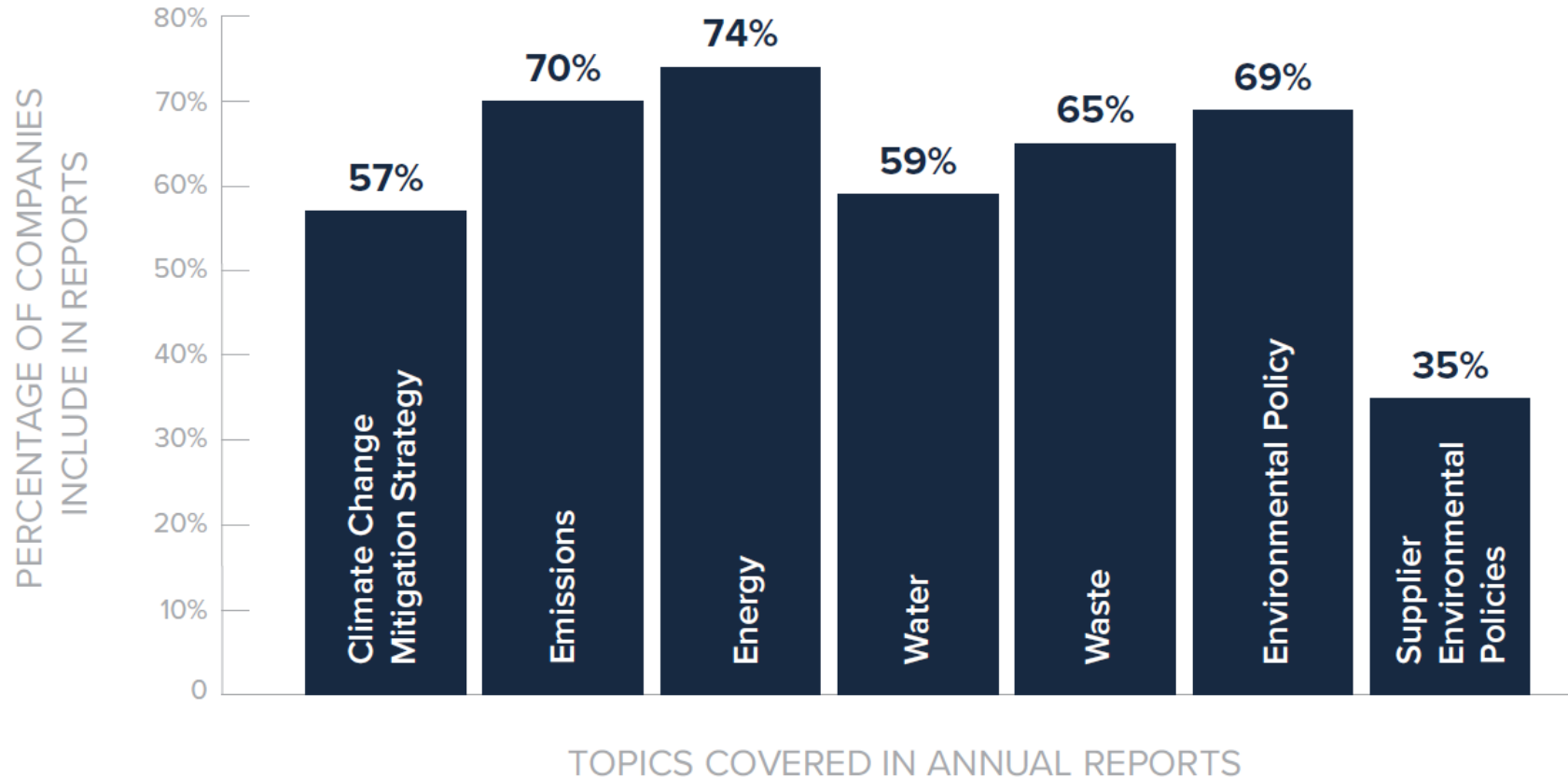
Current ESG Practices Continued

- Sustainability Accounting Standards Board (SASB): **44%**
- Global Reporting Initiative (GRI): **31%**
- Task Force on Climate-Related Financial Disclosure (TCFD): **29%**
- CDP: **24%**
- International Financial Reporting Standards (IFRS): **6%**
- United Nations Principles for Responsible Investment (UNPRI): **6%**
- EU Non-Financial Reporting Directive: **5%**

COMPANIES THAT RELY ON STANDARD SETTING BODIES



Current ESG Practices Continued



Many companies also reported they include information on human capital management and diversity in their annual reports.

Question 3

How many ESG-related rulemakings could the Securities and Exchange Commission promulgate in 2021-22?

- 0
- 1-4
- 5+

The Future of ESG: Forthcoming Rulemaking Proposals

Rulemakings Noticed for October 2021

- Climate Change Disclosure
- Human Capital Management Disclosure
- Cybersecurity Risk Governance & Disclosure
- Corporate Board Diversity Disclosure

Rulemakings Noticed for April 2022

- Share Repurchase/Stock Buyback Modernization
- 10b5-1 Modernization
- Executive Compensation?
- Political Spending Disclosure?



Proposed Rulemaking on Climate Disclosure: What We Know

Tenets for a proposed rulemaking on climate disclosure as laid out by Chair Gensler's July speech to UNPRI:

- Disclosures will be **mandatory**: Disclosure requirements will be mandatory to ensure consistency and comparability.
- Information will be **filed**, not furnished: Climate information should be included along other decision-useful information filed in Form 10-K.
- Disclosures will be **prescriptive**, not principles-based: To prevent “generic” disclosures, SEC staff should recommend prescriptive disclosures of both a qualitative and quantitative nature.
 - **Qualitative**: Questions like how a company's leadership manages climate-related risks and opportunities, and how those factors feed into the company's strategy.
 - **Quantitative**: Provide information on greenhouse gas emissions, financial impacts of climate change, and progress toward climate-related goals. It seems clear the SEC will require information on Scopes 1 & 2 and is evaluating to what extent it will incorporate Scope 3 emissions.
- There will be **industry-specific considerations**: Chair Gensler said there may be a need for industry-specific requirements within the SEC's rulemaking (specifically referencing banking, insurance, and transportation industries).
- **Third-party standard setters** may be called upon: The Chair said he expects the SEC will continue to write rules and establish the appropriate risk disclosure regime for markets, but that the SEC staff should “learn from and be inspired by” third-party standard setters. He specifically made reference to the TCFD framework.
- The SEC is exploring **scenario analysis requirements**: The Chair also made reference to requiring “scenario analysis” on how a business might adapt to the range of possible physical, legal, market, and economic changes that the company could contend with in the future related to climate.



Proposed Rulemaking on Human Capital Management: What We Know



Chamber ESG Resources

- [Comment Letter](#) to the SEC detailing the Chamber's climate and ESG disclosure principles.
- [CCMC Study of the Public Company Perspective on ESG](#) – Chamber-completed study of public company practices and sentiments toward climate change/ESG disclosures and new requirements from the SEC.
- [White Paper on the Importance of the Materiality Standard](#) – A deep dive into the dangers of over-disclosure and the need for continued prioritization of the 1976 materiality standard.
- [White Paper on Corporate Sustainability Reporting](#) – Analyzing the ESG standard-setting bodies and various disclosure frameworks.
- [White Paper on ESG Reporting Best Practices](#) – Recommendations for navigating the complexities of voluntary ESG disclosure and advocating continued flexibility in ESG practices.
- [Growth Engine Report](#) – CCMC's policy recommendations for the 2021 and beyond, with recommendations related to ESG and corporate governance beginning on page 28.
- [CCMC Letter](#) to the SEC regarding recent announcements on climate change disclosure and the enforcement task force.
- [Editorial on the Role of ESG in the Business Community](#) – Characterizing the role that ESG can play for issuers, shareholders, and stakeholders alike.



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