Lynk-letter

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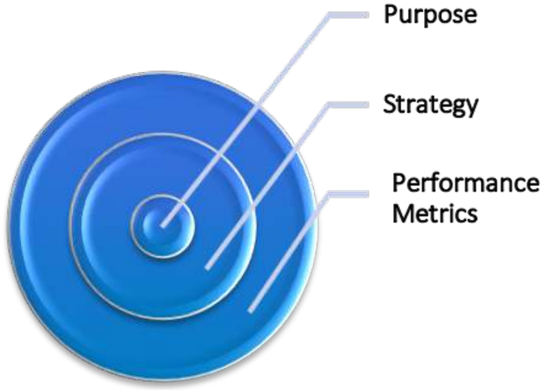
www.esglynk.com
info@esglynk.com

ESG IN A NUTSHELL:
RISK AND REPORTING

At a recent corporate directors' association meeting, one of the members in the audience asked the panelists: Is there a top ESG (Environmental, Social & Governance) metric companies can focus on? Another one asked: Should a corporate board form a sustainability committee? These are the ESG questions board members are asking about. So, what can board members do to lead their companies to address ESG issues?

After attending the Sustainability Accounting Standards Board (SASB) Symposium during Sustainability week in New York City, one message from leading sustainability board members was clear: ESG is about risk management. Sustainability rating agencies base their ratings on 1) Inherent sustainability risk of a company; and 2) How a company manages those risks. The way ESG rating agencies find that information is through 3) Public disclosures in the Reports of those companies or direct communication between the analysts and the companies. Therefore, the role of the Board is to lead by exercising oversight of the risk management process:

environmental • social • governance • reporting



By following SASB standards as a guide, a company can perform an ESG risk analysis and decide what topics are financially material to their performance. Because SASB standards are subject to a rigorous vetting process for each industry, there is a high probability that companies currently have processes, disclosures and metrics that are in line with SASB standards. During the **ESG risk analysis process**, the company has an opportunity to re-align its ***purpose***, ***strategy***, and ***performance metrics***.

Because SASB has partnered with the Climate Disclosure Standards Board, existing guidance also addresses the Task Force on Climate-related Financial Disclosures (TCFD) reporting principles and requirements (recently referred to by BlackRock's CEO, Larry Fink).

In an environment where multiple reporting frameworks ask companies for voluminous amounts of sustainability information, finding one ESG metric to report is an impossible task. However, in focusing on sustainability risks that are financially-material to a company, boards can focus on ESG metrics that are decision-useful to investors. Whether the board has a dedicated sustainability committee or a risk or audit committee, the key is the identification and management of **risks**, and the communication to investors within **reporting** through 1) sustainability reports, or 2) as integrated disclosures in SEC filings. Using financially-material ESG disclosures will help simplify the sustainability reporting process and enhance the strategic oversight role of the board.

SUSTAINABILITY REPORTING MADE SIMPLE

ESG Lynk helps guide companies to become a leader among peers in reporting financially-material ESG issues that contribute to a sustainable future.

Contact us to find out how we can help:
www.esglynk.com
Phone: (346) 230-3800
info@esglynk.com

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