

1:05 – 1:55 p.m.

ESG State of Play: An Introduction to ESG

Karen Baum, CPA, CFE, Sustainability & ESG Services Leader,
BDO USA LLP

WICPA ACCOUNTING & AUDITING
CONFERENCE:

ESG State of Play

BDO

With You Today



KAREN BAUM, CPA,CFE

ESG & Sustainability
Services Leader, BDO USA

214-243-2928

kbaum@bdo.com

abc@bdo.com

BDO



Activating Sustainability

BDO inspires, educates and assists our clients establish, expand and report on their progress on sustainable business practices.

BDO

3



LEVEL SETTING:
What is ESG?
What are ESG's
Market Drivers?

BDO

4

ESG Will Drive Reporting & Disclosure

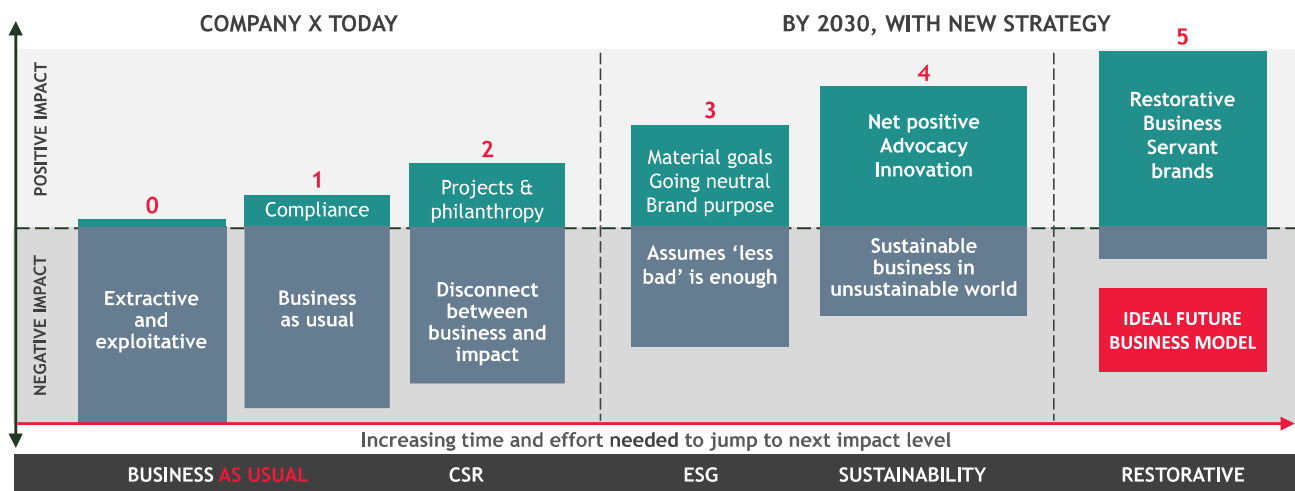


This is not intended as an all-inclusive list of ESG factors and will vary in relevance and importance by company

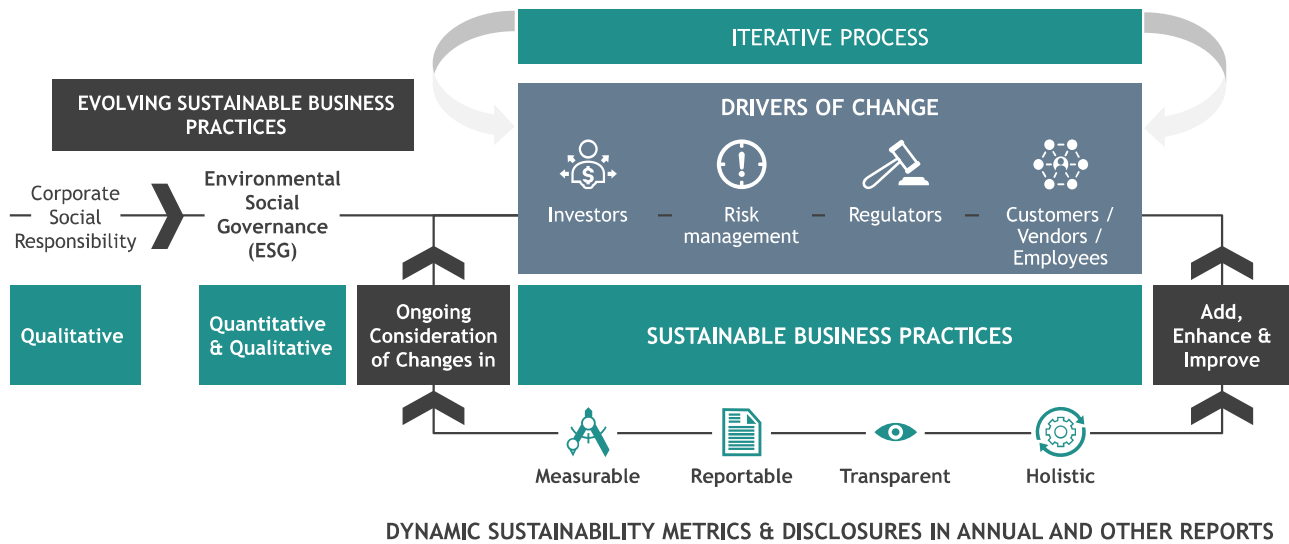
... AND CORPORATE VALUE



The Sustainability Leadership Journey



How Sustainability Is Changing the Business Landscape



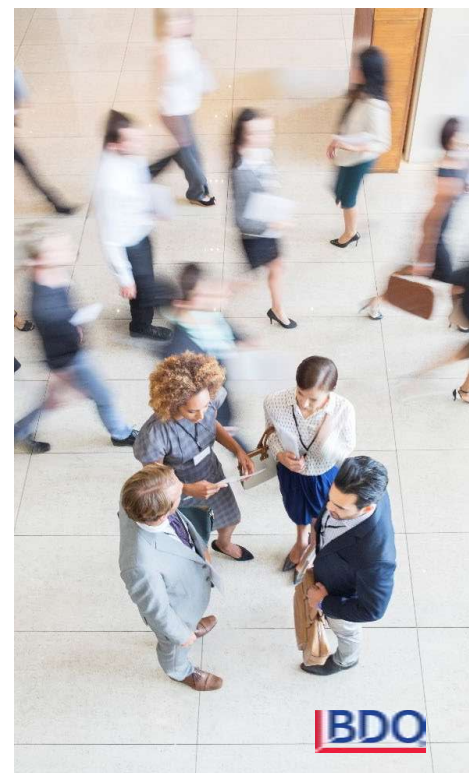
7



ESG: Market and Stakeholder Drivers

- ▶ Private Equity and broader investor community
- ▶ Sustainable lending and green bonds
- ▶ Lenders basing access to capital/rates on ESG rating/maturity
- ▶ Transparency surrounding ESG factors and voluntary disclosures
- ▶ Client demands for alignment with their ESG commitments
- ▶ Competitive and supply chain pressures
- ▶ Executive compensation tied to ESG performance
- ▶ Employee expectations
- ▶ Public pressure/reputational and brand risk
- ▶ Expanding regulation/pressure for disclosure
- ▶ Shareholder activism
- ▶ Environmental and social activism
- ▶ ESG rating agencies

8



Sustainability Is Transformational: Some Examples ...



ENERGY TRANSITION

Corporations continue to make large carbon removal commitments to help fight climate change. Microsoft and Alphabet collectively pledged to invest \$400 million in carbon removal programs and Salesforce announced a new commitment to invest \$100 million in the purchase of carbon credits.



CIRCULAR ECONOMY

Walmart, the world's largest retailer has set the goal to become a regenerative company with net zero emissions by 2040. HP and Nestle, among others, commit to the use of 75% and 100%, respectively, recycled materials in product packaging by 2025.



GENDER EQUALITY

The Council and European Parliament announced an agreement on a new law setting targets for EU companies to improve gender balance on corporate boards. The new directive would promote increased representation of women on boards.



SUSTAINABLE FINANCE

The SEC proposed two rule changes that would prevent misleading or deceptive claims by U.S. funds on their ESG qualifications and increase disclosure requirements for those funds.



SUPPLY CHAIN

EU announced new rules requiring companies to integrate due diligence procedures into policies to identify actual or potential adverse human rights and environmental impacts, prevent or mitigate potential impacts and end or minimize actual impacts.



CORPORATE REPORTING

The comment period for the SEC's proposed new climate disclosure requirements for public companies recently concluded. The proposed EU Corporate Sustainability Reporting Directive (CSRD) will require comprehensive ESG reporting for public and private companies meeting certain size requirements. The International Sustainability Standards Board (ISSB) recently launched a consultation on its first two proposed standards.



Benefits of Adopting a Sustainability Program



Bolsters and reinforces corporate image and reputation, and improves employee and customer retention



Defines an innovative vision of the business by identifying non-financial drivers



Improves access to credit and the ability to attract investment



Allows you to compete with those already disclosing their sustainability focus



Drives true corporate value creation and simultaneously benefit the planet



Satisfies the expectations of stakeholders that you are maintaining your social license to operate



Systematically reports the link between strategy and financial performance including impacts of ESG factors



Identifies monitors and manages non-financial risks correctly



Improves data quality for more effective information management and decision making






The ESG Journey

11

BDO



BEFORE YOU TAKE THE LEAP

12

KEY CONSIDERATIONS before beginning your ESG journey:



Embrace stakeholder capitalism



Utilize change management best practices



Recognize that lack of internal leadership alignment is a deal killer



Define team roles as a critical first step



Know that it's not a one and done process; it is iterative in nature



Remember that it's a marathon, not a sprint



Consider costs, both financial and human capital

BDO

BDO's SUSTAINABILITY INTEGRATION ROADMAP



PHASE OF THE ESG JOURNEY



LEVEL OF GOVERNANCE



Getting Started

COACH & FRAME	
	Provide sustainability awareness training
	Identify stakeholder requirements and other inputs to develop ESG strategy
	Define the Board's role
	Perform maturity / material risk assessment
	Prioritize urgency/importance alongside effort/value
	Develop a sustainability roadmap including selecting reporting framework(s)
	Ensure internal controls in place for ongoing monitoring & compliance
	Conduct iterative enhancements

SAMPLE ACTIVITIES	
▶	Engage with internal and external stakeholders on sustainability issues
▶	Perform materiality analysis/gap assessment
▶	Define oversight responsibility among the board and/or within committees of the board
▶	Analyze business plans according to the Sustainable Development Goals (SDGs) and other frameworks
▶	Design / improvement of sustainability governance
▶	Develop sustainability policies and operational plans
▶	Update/development of the Code of Ethics
▶	Develop of Code of Conduct for suppliers
▶	Source education for employees and leadership on evolving sustainability and ESG matters
▶	Produce sustainability report using acceptable frameworks (e.g., WEF/IBC, GRI, VRF (SASB/IIRC), GBS, AA1000)



Perform an ESG Readiness Assessment

	What qualitative and quantitative information are we currently sharing internally/externally?
	Who is and how are we compiling this information?
	What is the knowledge level and learning being provided?
	What are we not yet doing/measuring/communicating that we should consider? (Gap analysis)
	Do we have adequate policies & procedures or do these need to be developed?
	How is what we defined in our scoping aligned with our ST/LT business strategy (ultimate objective)?
	Are the company's internal stakeholders ready to begin the journey?
	Have appropriate resources, such as financial or human capital, been allocated?

15











ESG Strategy Development

	Stakeholder Engagement: Determine relevant stakeholders and what matters to them (internally/externally)
	Materiality Assessment: Define specific ESG risk/opportunities material to your business
	ESG Roadmap: Define your strategy for prioritization and action; set goals and KPIs
	Data Collection and Controls: Identifying processes, systems and controls over data
	Reporting: Define reporting needs and identify standard(s) and framework(s)

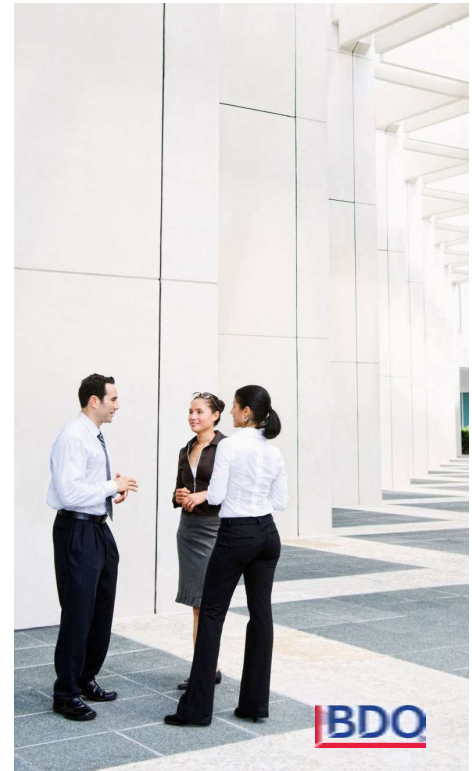
16



Define Stakeholders

	Shareholders
	Employees
	Customers
	Strategic Partners
	Vendors/Suppliers/Lenders/Insurers/Sureties
	ESG Raters and Proxy Advisors
	Regulators
	Communities

17



Consideration of Materiality

IN THE CONTEXT OF FINANCIAL REPORTING:

IAS 1, Financial Statement Presentation

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements.

FASB Conceptual Framework - Concept Statement 8

Relevance and materiality: Relevance of information as being useful to investors while materiality is entity specific such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.

SEC / U.S. Securities Law

Material information is information that a reasonable investor would consider important; an omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote.

18

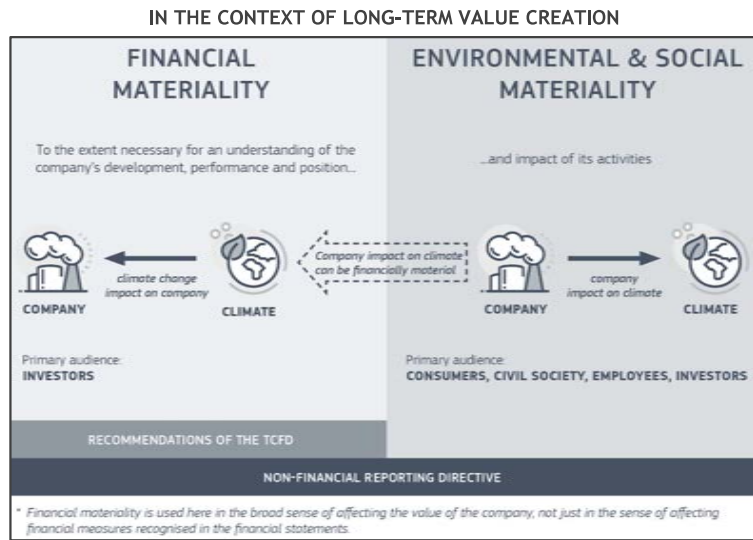
Consideration of Materiality

DOUBLE MATERIALITY

The concept of double materiality acknowledges that a company should report simultaneously on sustainability matters that are:

- ▶ financially material in influencing business value
- ▶ material to the market, the environment, and people

The Double Materiality perspective of the Non-Financial Reporting Directive.



Source: [Guidelines on Reporting Climate-related Information](#)

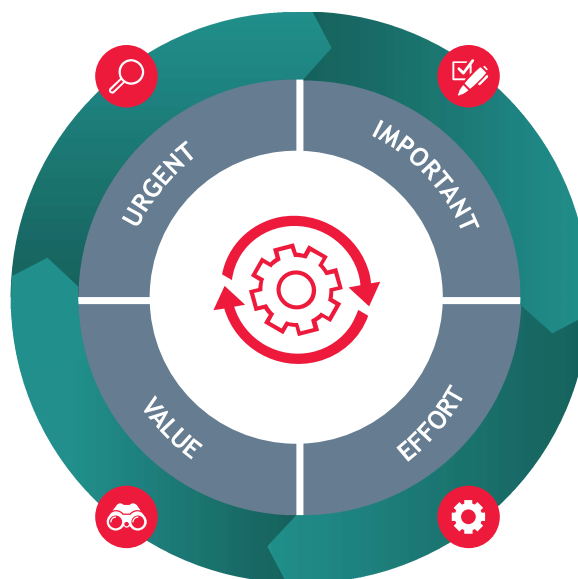


19

Prioritize Action

- ▶ Risk Drivers
- ▶ Competition
- ▶ Regulation
- ▶ Disruption
- ▶ Legal

- ▶ Opportunities
- ▶ New business
- ▶ Talent
- ▶ Brand



- ▶ S/T vs. L/T Focus
- ▶ Change management
- ▶ Strategy
- ▶ Emerging areas
- ▶ Resilience

- ▶ Resources
- ▶ Cost
- ▶ Advisors
- ▶ Systems



20

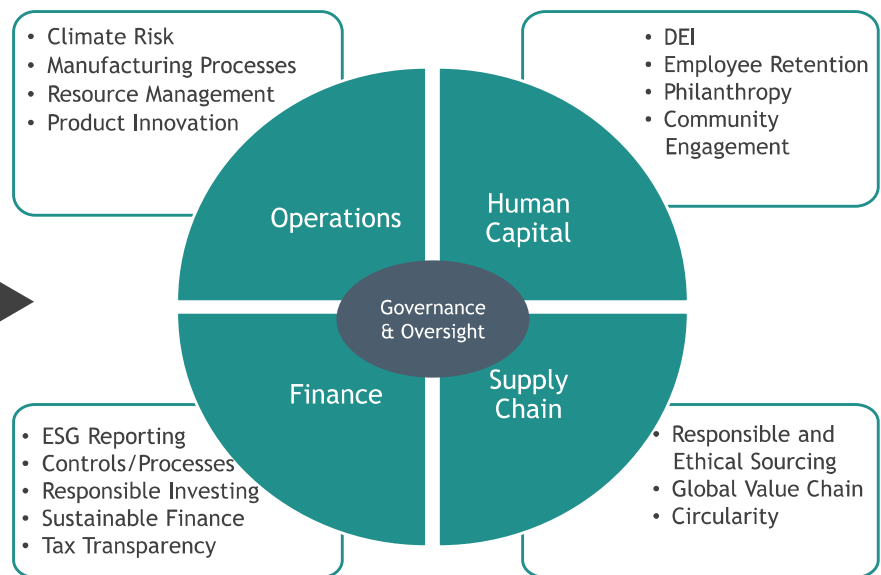
10 Key Elements of an Effective ESG Program



21








Functions Most Often Affected By the ESG Journey



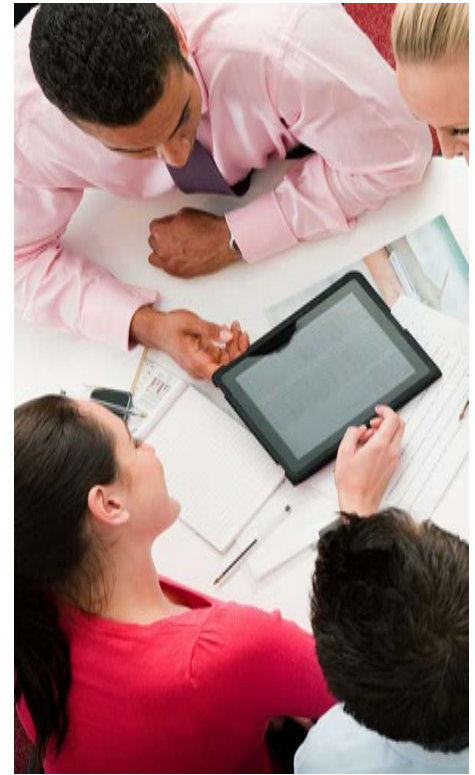
22



HUMAN CAPITAL: Key ESG Impact Considerations

-  Employees look to work for employers who demonstrate alignment with their values
-  Investments in a diverse and equitable work environment is needed to remain competitive
-  Increased scrutiny on disclosure of DEI and HCM data
-  Stakeholder pressure to integrate ESG into executive compensation
-  Issues like labor rights and pay equity may lead to regulatory, legal or reputational concerns

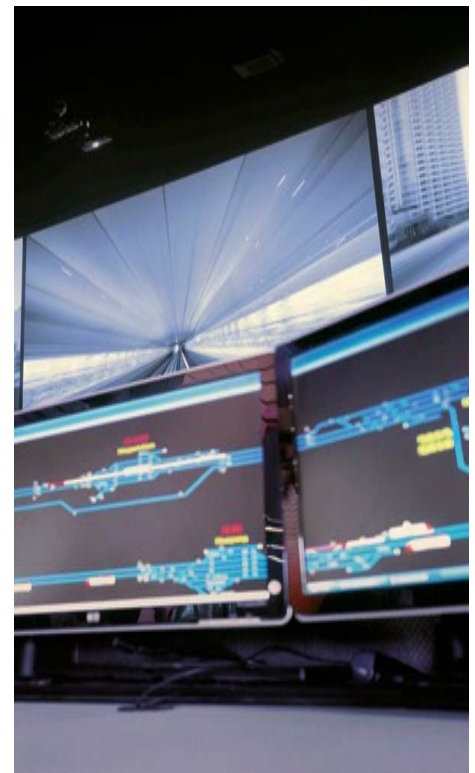
23



OPERATIONS: Key ESG Impact Considerations

-  Anticipated regulation mandating climate risk disclosures drives need to develop remediation strategies
-  Pressure for market transitions away from fossil fuels
-  Increasing costs for electricity, fuel and raw materials threaten margins
-  Business impact on natural ecosystem and management of biodiversity
-  Consumer demand for sustainably manufactured products drives need for product innovation

24



SUPPLY CHAIN: Key ESG Impact Considerations



Scrutiny on carbon intensity and human rights risks within supply chains



Disruption of operations and impact on business continuity due to extreme weather



Availability and accessibility issues due to global political instability

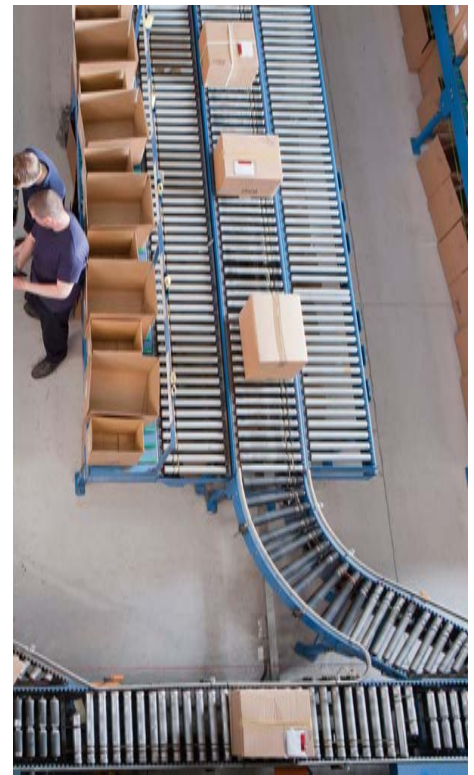


Ethical sourcing, as well as considerations of impacts of operations on local communities can destabilize supply chains



Addressing inefficiencies in logistics and warehousing to diversity in sourcing can have significant supply chain impacts

25



FINANCE Key ESG Impact Considerations



Total tax transparency is an expectation



Anticipated ESG regulatory disclosures may mandate reporting and attestation of non-financial data



Rise in impact investing and risk of stranded assets

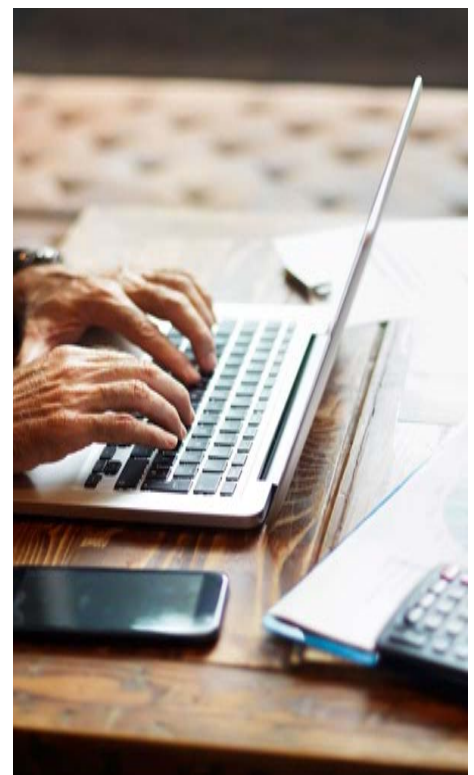


Reporting of non-financial data requires collection, management and monitoring of new data sets and controls and processes to ensure integrity



Level of sustainable maturity can directly impact access to debt and equity capital

26



Unlocking a Successful ESG-Driven Tax Strategy

Aligning the tax function with an overarching ESG strategy across the business is a heavy lift.

To build and implement a responsible tax program will take time and requires careful consideration of an organization's overall **approach to tax**, **tax governance**, and **total tax contribution**.

Whether you are just beginning or at the stage of reassessing your approach based on changing market conditions, updates to your ESG strategy, or regulations, the BDO Tax ESG Cipher to the right can be used to guide these critical considerations and help ensure tax is meaningfully incorporated in ESG strategy.

The process should be iterative over time and when implemented successfully, will drive **improved decision-making on risk mitigation**, **strengthen risk awareness** and **increase transparency and accountability**.

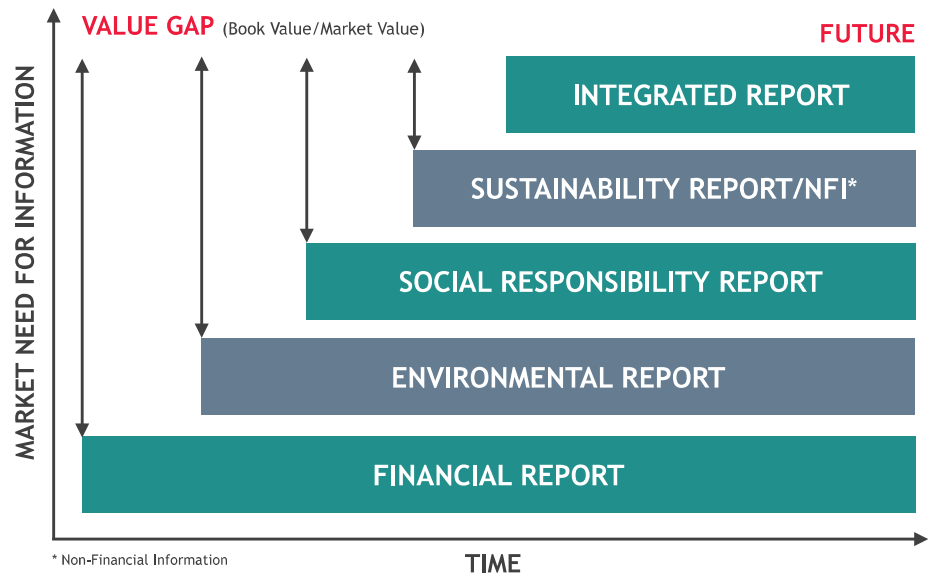


Sustainability Reporting and Attestation

May include both qualitative discussions and qualitative metrics such as measures of a company's performance against ESG risks, opportunities and related strategies

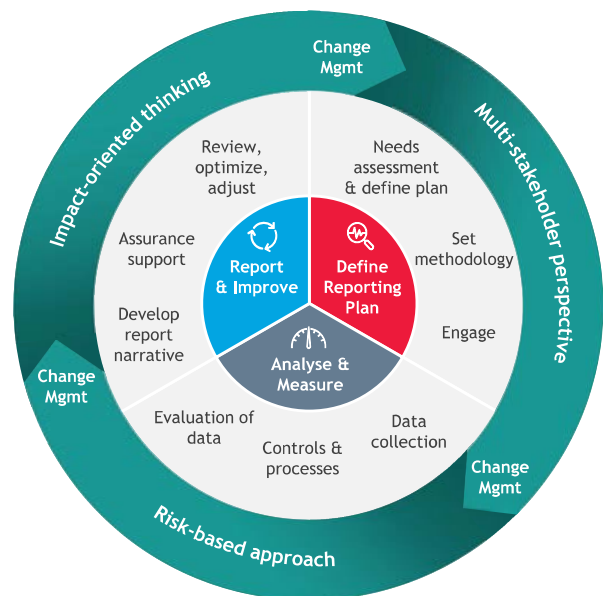
REPRESENTATION OF VALUE OVER TIME

Evolution of Reporting



Reporting Process Phases

Integrating sustainability into a business is a transformation journey and ongoing process of monitoring, modification and rethinking 'how' you can ultimately embed sustainability across the organization.



Sustainability Reporting and Attestation Readiness Guide

BDO has prepared a practice aid of iterative considerations for management and boards to help them assess a company's readiness to report out on its sustainability strategy:

Taking Inventory

- ☐ Materiality assessment
- ☐ Competitive landscape
- ☐ Corporate story
- ☐ Reporting standards & frameworks
- ☐ Current state assessment

Establishing Governance Oversight

- ☐ ESG roles
- ☐ ESG goals/objectives
- ☐ Third party resources
- ☐ Progress and accountability
- ☐ Continuing education
- ☐ Board strategy & ERM agenda

ESG Reporting Readiness

- ☐ Reporting requirements
- ☐ Quantitative measures and data
- ☐ Data collection (processes, policies, procedures)
- ☐ Control effectiveness
- ☐ Qualitative information
- ☐ Draft disclosures
- ☐ Review as reasonable shareholder
- ☐ Third party attestation value



Access publication [here](#)

BDO



Examples of ESG Global Regulatory Landscape

U.S.

- On June 17, 2022, the [comment period ended](#) for the SEC [proposed](#) rules mandating climate-related disclosures by U.S. listed companies
- In May 2022, the SEC [proposed](#) rule changes that would prevent misleading or deceptive claims by U.S. funds on ESG qualifications and increase disclosure requirements

IISB (International Sustainability Standards Board)

- On July 29, 2022, [the comment period ended](#) for two ISSB proposals on sustainability reporting standards, one with respect to general standards and the second with respect to climate. ISSB will review at September 2022 meeting

EU Council

- In February 2022, [adopted position](#) on the Corporate Sustainability Reporting Directive (CSRD)
- In February 2022, the European Commission published [its proposal](#) for a Directive on Corporate Sustainability Due Diligence (CSDD). The Directive sets mandatory human rights' supply chain due diligence rules for large companies headquartered or operating in the EU
- In May 2022, the European Financial Reporting Advisory Group (EFRAG) [released a sustainability standards draft](#), setting out the proposed rules and requirements for EU ESG reporting under the CSRD

Canada

- In April 2022, [mandated reporting](#) of climate-related financial risks for federally-regulated financial institutions

BDO

ESG Frameworks / Standards

Framework Name	Where to Report	Focused Area	Information to Report	Topic-specific disclosures or multi-topic?	Industry Specific or Industry agnostic?	Standard/ Framework/ Guidelines	Target Reporter	Primary Audience
Carbon Disclosure Project (CDP)	CDP's Online Platform	Environment/ Governance	<ul style="list-style-type: none"> Climate Change Forest Water Security Supply Chain 	Environmental Specific	Industry-Specific	Guidelines	Companies, Cities, States and Regions	Investors, buyers, other stakeholders
Sustainable Development Goals (SDG)	Sustainability Report	Environment/ Social/ Governance	<ul style="list-style-type: none"> 17 SDG Goals 	Multiple disclosures	Industry-agnostic	Guidelines	All Companies	Multiple stakeholder groups
Climate Disclosure Standards Board (CDSB)	Mainstream reports, such as annual reports, 10-K filing, or integrated reports.	Environment/ Social	<ul style="list-style-type: none"> Climate Water Biodiversity Social disclosures 	Multiple disclosures	Industry-Specific	Guidelines	Companies, Cities, States and Regions	Investors, buyers, other stakeholders
International Integrated Reporting Council (IIRC)	Stand alone integrated report	Environment/ Social/ Governance	<ul style="list-style-type: none"> Organizational overview Governance Structure Business Model Risks and opportunity Strategy Performance Outlook Basis of Presentation 	Framework which covers all financial and non-financial issues	Industry-agnostic	Framework	Public Companies	Investors and multiple stakeholder groups
Task Force on Climate-related Financial Disclosures (TCFD)	Annual Financial filings (Annual Report)	Environment/ Governance	<ul style="list-style-type: none"> Governance Risk Management Strategy Metrics and Target 	Climate change specific	Industry-agnostic (+ some sector specific guidance)	Framework	All Companies	Investors, lenders, and insurers

33

GET TO KNOW TARGET CO.



ESG Frameworks / Standards

Framework Name	Where to Report	Focused Areas	Information to Report	Topic-specific disclosures or multi-topic?	Industry Specific or Industry agnostic?	Standard/ Framework/ Guidelines	Target Reporter	Primary Audience
WEF-IBC	Mainstream report (annual report or proxy statements)/ Sustainability Report	Environment/ Social/ Governance	<ul style="list-style-type: none"> Principles of Governance Planet People Prosperity 	Multiple disclosures	Industry agnostic	Framework	All companies	Investors and multiple stakeholder
Principles of Responsible Investment (UNPRI)	public and private Transparency Reports and Assessment Reports	Environment/ social	<ul style="list-style-type: none"> 6 principals Climate Change Human Rights 	Topic-specific relating to investment impacts such as climate-related impacts	Financial sector	Framework	All signatories companies	Investors
Global Reporting Initiative (GRI)	Corporate sustainability report	Environment/ social/ Governance	<ul style="list-style-type: none"> General disclosures Economics Environment Social 	Multiple standards across economic, environment and social	Industry-agnostic (+ some sector specific guidance)	Standard	All companies	Multiple stakeholder groups
Sustainability Standards Board (SASB)	SEC form 10K, 20F filings	Environment/ social/ Governance	<ul style="list-style-type: none"> Environment Social capital Leadership and governance Business model and innovation Human capital 	Multiple disclosures across economic, environment and social	Industry specific	Standard	All companies	Regulators
UN Global Compact	Annual communication on progress (COP)	Environment/ social/ Governance	<ul style="list-style-type: none"> Human rights Labor Environment Anti-corruption 	Multiple disclosures across economic, environment and social	Industry specific	Standard	All companies	Regulators

34

GET TO KNOW TARGET CO.



Rating Agencies / Index

Rating Agencies	Total Companies Covered	Source of Info	Number of Topics	Companies Involvement	Scoring Scale	Update Frequency
MSCI	Over 14,000	Disclosures of the companies Database (government, science, NGO's) News and media	35	Companies are invited to verify the data	AAA (Leader) to CCC (Laggard)	Ongoing monitoring, annual in-depth review
S&P / DJSI	Over 10,000	Disclosures of the companies	20-30	Companies fill out questionnaire	0 (Lowest Risk) -40+ (Highest Risk)	Yearly
Sustainalytics / Morning Star	Over 14,000	Disclosures of the companies Media NGO	20	Companies are invited to provide feedback and additional data	0 (Lowest Risk) -40+ (Highest Risk)	Ongoing monitoring, annual in-depth review
ISS	Over 7,300	Disclosures of the companies Media NGOs	Up to 100	Companies are invited to provide feedback and additional data	A+ (Highest Performance) to D- (Lowest Performance)	Yearly
Reprisk	Over 200,000	Media Other public information Explicit exclusion From corporate reporting	73	No interaction	0(Lower Risk)-100 (Highest Risk) AAA (Low ESG risk Exposure) to D (High Risk Exposure)	Daily Update
Bloomberg	Over 11,800	Disclosures of the companies Multiple ESG third party providers	14 (includes 2100 fields)	Companies can request updates at any time	1-100	Daily Update
CDP	Over 13,000	Disclosures of the companies / Annual reporting process	3	Companies fill out questionnaire	A(Leadership) to D- (Disclosure) F = Failure to provide sufficient info.	Yearly
EcoVadis	Over 90,000	Customer-provided documentation Third-party endorsements (certifications, labels, etc.) News, Watchlist etc.	21	Companies fill out questionnaire	1 (Insufficient)-100 (Outstanding)	Yearly

35



The Road to Reporting Convergence



36



ISSB Launches Consultation on First Two Proposed Standards

- ▶ On March 31, 2022, the ISSB issued its first two exposure drafts on IFRS Sustainability Disclosure Standards:
 - [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)
 - [IFRS S2 Climate-related Disclosures](#)
- ▶ The proposals have been developed in response to requests from G20 leaders, the International Organization of Securities Commissions (IOSCO) and others for enhanced information from companies on sustainability-related risks and opportunities.
- ▶ The proposals set out requirements for the disclosure of material information about a company's significant sustainability-related risks and opportunities that are necessary for investors to assess a company's enterprise value and are not limited only to climate-related.
- ▶ The deadline for comments on both proposals was July 29, 2022.



37

European Union

CSRD Proposal

The European Commission's proposal revises the non-financial reporting directive (NFRD) from 2014 and will ensure the robustness of companies' commitments by introducing the following new features:

- ▶ an extension of the scope to all large companies and companies listed on a regulated market (except listed micro-companies)
- ▶ a certification requirement for sustainability reporting
- ▶ more detailed and standardized requirements on the information to be published by companies
- ▶ improved accessibility of information, by requiring its publication in a dedicated section of company management reports
- ▶ First standards to be adopted by October 2022
- ▶ Refer [here](#) for more information

CSRD Timing and Scope

Year ending 31 December 2024

- ▶ Companies within scope of current NFRD (approx. 12,000)
 - Large PIEs with >500 employees

Year ending 31 December 2025 (approx. 50,000)

- ▶ All listed companies, and all companies meeting two of the following criteria
 - >250 employees
 - >EUR 40m turnover
 - >EUR 20m assets

Later:

- ▶ Listed micro entities
 - <10 employees
 - < EUR 2m turnover or assets

38

European Union

CSDD Proposal

The proposed CSDD directive shall apply only to EU and non-EU companies of a considerable size and economic power - not SMEs, as defined in the EU. Would require companies to:

- ▶ integrate due diligence into their company policies and have in place a due diligence policy;
- ▶ identify actual and potential adverse human rights and environmental impacts;
- ▶ prevent or mitigate potential adverse impacts, and bring to an end or minimize actual impacts;
- ▶ establish and maintain a complaints procedure;
- ▶ monitor the effectiveness of the due diligence policy and measures; and.
- ▶ Annual report describing due diligence, adverse impacts, actions.

The directive sets out several corporate governance provisions, including directors' duties to set up and oversee the implementation of due diligence and to integrate it into the corporate strategy. For further information on the proposal, refer [here](#) and [here](#).

39

CSDD Timing and Scope

Legislation expected to be finalized

- ▶ H1 2023

Two years after legislation finalized:

- ▶ EU companies
 - >500 employees
 - >EUR 150m net worldwide turnover
- ▶ Non-EU companies
 - >EUR 150m net EU turnover

Four years after legislation finalized

- ▶ EU companies
 - >250 employees
 - >EUR 40m net worldwide turnover if 50%+ generated in high risk sectors
- ▶ Non-EU companies
 - >EUR 150m net EU turnover if 50%+ generated in high risk sectors



REPORTING LANDSCAPE UPDATES

Current Disclosure in U.S.

PUBLIC COMPANIES

- ▶ Standalone reports including corporate social responsibility (CSR)/sustainability reports
- ▶ Company websites & marketing materials
- ▶ MD&A sections of annual & quarterly filings
- ▶ Earnings calls
- ▶ Proxy statements and 8-Ks

PRIVATE COMPANIES

- ▶ Nascent with respect to sustainability reports
- ▶ Sustainability statements, Code of Ethics and Reports have begun surface on company websites



Investors seeking ESG information do not necessarily expect any or all of that information to be presented in SEC filings, and sustainability disclosure on corporate websites may provide effective vehicles for this disclosure to investors.



40

SEC Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors

On March 21, 2022, the SEC proposed rule changes requiring certain climate-related disclosures. The disclosures are modeled in part on the [TCFD disclosure framework](#) and draws upon the [Greenhouse Gas \(GHG\) Protocol accounting standards](#). The SEC reporting requirements would be phased in based on filer status beginning in the year following the effective date, with further phase in for attestation requirements. The comment period was extended to June 17, 2022.

Climate-Related Disclosure:
Reg S-K Subpart

Climate-Related Disclosure:
S-X Footnote

Other Climate-Related Disclosures:
Oversight, governance, transition plan, scope 1, 2 and 3 metrics, etc.



- ▶ Click [here](#) to access the proposed rule
- ▶ Click [here](#) to access the fact sheet
- ▶ Click [here](#) to access the SEC's press release
- ▶ Click [here](#) to access speeches and statements from Chair Gensler and Commissioners
- ▶ Refer to BDO's Insights [here](#).

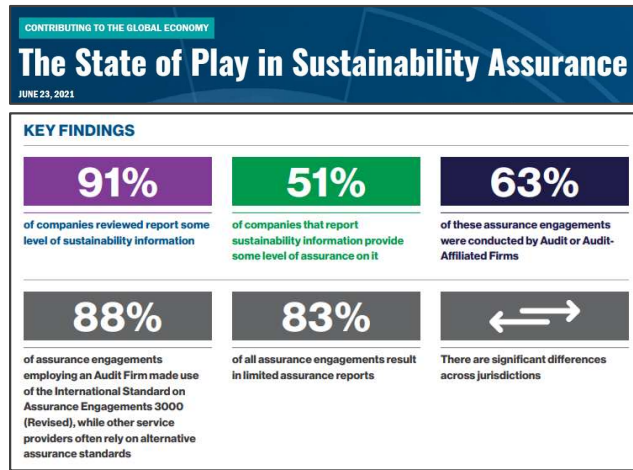
SEC Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors

Phase-In Periods and Accommodations

Following tables assume proposed rules adopted with an effective date of December 2022 and filer has a December 31st fiscal year-end:

Registrant Type	Disclosure Compliance Date		
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	GHG emissions metrics: Scope 3 and associated intensity metric	
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	
Accelerated Filer and Non-Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	
SRC	Fiscal year 2025 (filed in 2026)	Exempted	
Filer Type	Scopes 1 and 2 GHG Disclosure Compliance Date	Limited Assurance	Reasonable Assurance
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

The State of Play in Sustainability Assurance



43



ESG REPORTING ATTESTATION

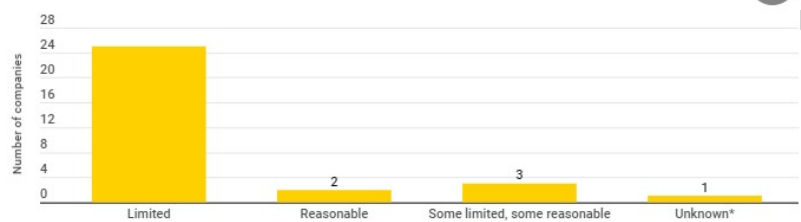
U.S. State of Play: S&P 500

- ▶ 95% of S&P make available sustainability information
- ▶ 51% have had some form of Assurance or verification over ESG metrics
- ▶ 6% had assurance from public company audit firm while 47% had assurance from engineering or consulting firm (non-CPA)

Source: [Center for Audit Quality Review of S&P 500 ESG Reporting](#) as of 6/18/2021

Level of Assurance: Of the companies that had assurance from public company auditors, most of them obtained limited levels of assurance over select information. Three companies obtained limited assurance over some metrics and reasonable assurance over other metrics and two companies obtained just reasonable assurance.

Level of Assurance Provided by Public Company Auditors



*Level of assurance could not be determined from the company's documentation of assurance in its ESG reporting.

44



ESG REPORTING & ATTESTATION

The Auditor's Role

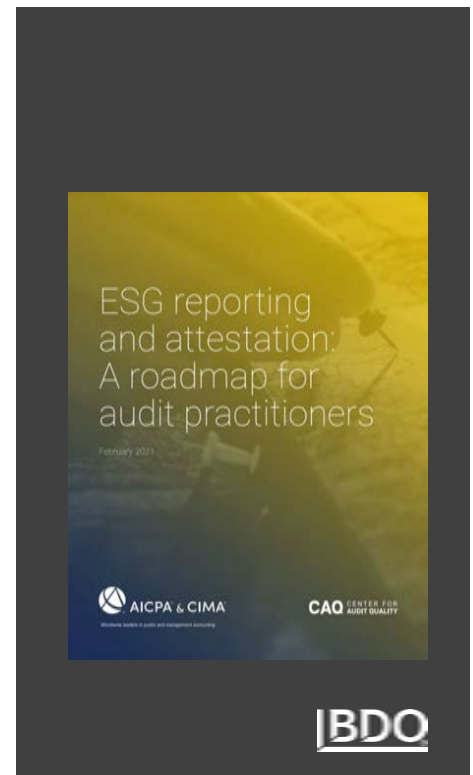
KEY CONSIDERATIONS

- ▶ Scope of subject matter
- ▶ Sufficient/appropriate evidence
- ▶ Reporting criteria to be measured against (e.g., ESG standards/frameworks; custom metrics)?
- ▶ Level of attestation - e.g., exam/review
- ▶ Where/how will ESG information and attestation report be disclosed/used
- ▶ Consistency, comparability, frequency of reporting
- ▶ Appropriate governance and controls over process
- ▶ Materiality
- ▶ Other rules/regulations

UNDERLYING ASSUMPTIONS

- ▶ The building blocks of reliable, comparable and relevant ESG information begin with quality reporting by management.
- ▶ 3rd-party assurance from an independent accounting firm can enhance the reliability of ESG information reported by companies, in a manner similar to the rigorous process that occurs with audits of F/S and ICFR.

Source: [AICPA & CAQ ESG Reporting and Attestation Roadmap](#)



45

Keeping ESG Reporting Clean

- ▶ Ensure policies, procedures and internal controls.
- ▶ Utilize relevant ESG ratings and reporting frameworks.
- ▶ Consistently represent ESG disclosures and claims.
 - Are we using unclear terms like “sustainable?”
 - Are our labels and logos from accredited organizations?
 - Is there easily accessible evidence provided to support ESG claims?
 - Is the frequency and timing of reporting appropriate, sufficient, consistent and comparable?
 - Is reported information factual or misleading; are standards and metrics “cherry picked?”
- ▶ Verify ongoing monitoring of methodologies and requirements.
- ▶ Compare to peers.

46

BDO



Board and Management Oversight

47

BDO

At a Glance - Role of the Board



Establish the tone from the top with respect to ESG



Define oversight responsibility and board committee structure



Identify, monitor and oversee management of non-financial risks correctly



Be alert to controls over data quality for more effective information management, decision-making and reporting



Establish management accountability criteria and integration of ESG objectives into overall corporate strategy



Ensure communication and reporting is reflective of prioritized ESG factors, related objectives and tracking of progress

48

BDO

Addressing Stakeholder Expectations of Boards

Stakeholder	Expectations of the Board
Investors	Oversee the integration of ESG into operations that support sustainable value creation strategies.
Proxy Advisors	Disclose the board's role in overseeing environmental, social and governance issues.
Rating Agencies	Ensure management provides up to date information on ESG policies, initiatives and performance.
Regulators	Ensure the organization discloses its material ESG risks and impact on the business, and how management is mitigating those risks.
Management Teams	Oversee the development and direction of the ESG strategy, goals and objectives to address related risks, including oversight of the controls, policies, processes, metrics, incentives and monitoring processes in executing the strategy.
Employees	Establish clear communication and tone of urgency from the top. Hold the management team accountable for carrying out the organization's mission, visions and values while encouraging innovation and ensuring the well-being of all employees.



49

CEO, Management Team and Board Considerations For Proactive & Evolving ESG Risk Management & Oversight

Identifying Business-Relevant ESG Issues

- ▶ Current process and assumptions
- ▶ Competitor analysis
- ▶ Integration into ERM

Prioritizing ESG Risks/Opportunities Based Upon:

- ▶ Materiality assessment/risk tolerance
- ▶ Stakeholder impacts/expectations - engagement
- ▶ Market impact, valuation
- ▶ Decision-useful information

Clearly Define Board Oversight:

- ▶ Identify full board/committee roles
- ▶ Update board charters
- ▶ Consider disclosure of oversight

Tying to Strategy and Value Creation:

- ▶ Establishing short-term and long-term targets, goals and metrics in line with business strategy
- ▶ Assessing resource needs internally/externally
- ▶ Establishing compensation incentives

Selecting Applicable Frameworks and Methodology

- ▶ Assess availability of data
- ▶ Process/internal controls for collecting/integrity of data

Defining Performance Accountability

- ▶ Tracking & monitoring mechanisms

Designing Reliable Reporting

- ▶ Selecting appropriate standards/frameworks
- ▶ Designing controls and processes over ESG data
- ▶ Identifying communication channels - sustainability reports, websites, filings
- ▶ Integrating within financial statements

Maintaining ESG as a Regular Board Agenda Item

- ▶ Defining and formalizing responsibilities among board/committees/management
- ▶ Ensuring continued education on ESG matters

Assessing Need for Third-Party Assurance

- ▶ Compliance
- ▶ Data integrity



50

Thank You!

51



US ESG EXECUTIVE LEADERSHIP TEAM

ESG Leadership Team



Christopher Tower
ctower@bdo.com



Karen Baum
kbaum@bdo.com



Phillip Austin
paustin@bdo.com



Dan Fuller
dfuller@bdo.com



Amy Rojik
arojik@bdo.com



Dan Harris
dharris@bdo.com



Blake Wilson
dwilson@bdo.com



Deneen Akture
dakture@bdo.com



Cara Mooses
cmooses@bdo.com



James Fountain
jwfountain@bdo.com



Marisol Berrios-Silletti
mberrios-silletti@bdo.com



Jesse Hertstein
jhertstein@bdo.com

52

2022 BDO National Finance Conference

