Dentons

A Guide to ESG Standards & Frameworks

Grow | Protect | Operate | Finance

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Measuring your ESG performance: what are your options?

Dentons can help you identify which standards, guidelines and frameworks your organization should consider adopting. Your choice will most likely be driven by your strategic goals and stakeholder expectations. We illustrate the breadth of standards and frameworks by explaining some of the main/trending options available.
Our Dentons ESG methodology of anticipate, measure, manage also applies here.
In addition to reviewing the information below, you need to **anticipate** what aspects of the various schemes are likely to become law and thus use appropriate schemes to help prepare your business for the upcoming compliance environment. So, in short, whilst the below provides a great overview, still take advice on:

What regulatory change should you anticipate happening

Aligning organizational and stakeholder goals to your choice of standards and frameworks

Liability exposure from over-promising. Adopting standards that are unachievable can expose the business to a range of legal risks

Four categories of standards/ guidelines/frameworks to consider adopting:

Third party principles

You may commission a third party ESG audit report or certification scheme. Committing to these sets of principles will lead to the third party scheme auditing or reporting on your performance against the principles.

Examples include: UN Global Compact; UN Guiding Principles on Business and Human Rights; ISO 26000; OECD Guidelines for Multinational Enterprises; B Corp certification; Eco Vadis.

Disclosure metrics

You may adopt standards and reporting frameworks to guide your ESG reporting and to allow for consistent and comparable ESG disclosures.

Examples include: the Global Reporting Initiative (GRI); Sustainability Accounting Standards Board (SASB); the Taskforce on Climate-related Disclosures (TCFD); the Carbon Disclosure Project (CDP); GHG Protocol; Science Based Targets Initiative; CDSB Framework; The International Financial Reporting Standards Foundation (IFRSF); Integrated Reporting Standards (IIRC).

Industry schemes

You may align with scheme guidelines and/or contribute to initiatives that are specific to your industry.

Examples include: OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas; Responsible Minerals Initiative; Better Cotton Initiative; Global Organic Textile Standard.

Ratings agencies

Credit ratings agencies are now providing separate ESG ratings, based on their view of a company's risk exposure versus their industry peers. This generally uses publicly available information and are published for the purpose of guiding investors of public companies through benchmarking data.

There are also standalone ESG ratings agencies, which will gather data about a company's ESG performance through both publicly available information and direct surveys. Similar to the credit ratings agencies, these can then contribute to public ESG comparison indices.

Examples include: S&P Global, Fitch, Moody's, MSCI, Sustainalytics.

Third party principles

Standard / validation body	Scope (ESG principle or theme of analysis)	Coverage (metrics, companies, sectors, regions)	Methodology / requirements
UN Global Compact Launched in 2000 as a special initiative of the UN Secretary-General, the UN Global Compact provides a framework for developing a more sustainable and responsible business.	**Human Rights** • **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and • **Principle 2:** make sure that they are not complicit in human rights abuses. **Labour** • **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; • **Principle 4:** the elimination of all forms of forced and compulsory labour; • **Principle 5:** the effective abolition of child labour; and • **Principle 6:** the elimination of discrimination in respect of employment and occupation. **Environment** • **Principle 7:** Businesses should support a precautionary approach to environmental challenges;	The UN Global Compact is a voluntary scheme that encourages a business to create a culture of integrity through strategy to operations. More than 9,500 participating companies and 3,000 non-business participants have already committed to the UN Global Compact. You can choose between two levels of engagement with the UN Global Compact: (1) a Participant or (2) a Signatory.	To participate in the UN Global Compact, your chief executive must make a commitment (either Signatory or Participant level) with support from the Board. **Signatory** As a signatory, you must voluntarily pledge to: • Operate responsibly, in alignment with universal sustainability principles • Take actions that support the society around you • Commit to the effort from your organisation's highest level, pushing sustainability deep into your DNA • Report annually on your ongoing efforts • Engage locally where you have a presence At the Signatory level, businesses with revenue over USD 50 million must make a required annual financial contribution, based on their annual gross sales or revenue. **Participants** It is asked that participants: • Make the UN Global Compact and its principles an integral part of your business strategy, day-to-day operations and organizational culture. • Incorporate the UN Global Compact and its principles in decision-making processes at the highest levels. • Engage in partnerships that advance the UN Global Compact's principles and support broader UN goals, such as the UN Sustainable Development Goals. • Advance the UN Global Compact and the case for responsible business practices through advocacy and outreach to peers, partners, clients, consumers and the public at large.

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Standard / validation body	Scope (ESG principle or theme of analysis)	Coverage (metrics, companies, sectors, regions)	Methodology / requirements
	[continued] • **Principle 8:** undertake initiatives to promote greater environmental responsibility; and • **Principle 9:** encourage the development and diffusion of environmentally friendly technologies. **Anti-Corruption** • **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.		*[continued]* • Make an annual financial commitment to support the work of the UN Global Compact Office. To engage as a Participant, businesses of all sizes must make a required yearly financial contribution, based on their annual gross sales or revenue.
UN Guiding Principles on Business and Human Rights (UNGPs) A set of guiding principles grounded in individual nation states' and business enterprises' obligations to respect, protect and fulfil human rights and fundamental freedoms.	There are 14 guiding principles in the UNGPs that apply specifically to business enterprises. These are further split into Fundamental Principles and Operational Principles. The Fundamental Principles contains the overarching principles that businesses should enshrine into their overall ESG mission statement, whereas the Operational Principles provide guidance on how those Fundamental Principles may be achieved in practice. *[continued on next page]*	Although the UNGPs are not a legal instrument, they are also not voluntary as they are underpinned by, and complement international human rights law; this is made clear in the Guidance and FAQs on the UNGPs. Guiding Principle 14 also elaborates that: • **Guiding Principle 14 (Fundamental):** The UNGPs apply to all business enterprises, regardless of size, sector, operational context and structure. However their application may vary based on the differing nature of those factors.	The UNGPs are not voluntary and hence apply automatically to every business enterprise.

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	[continued] A summary of the key fundamental principles is provided below as follows: • **Guiding Principle 11 and 12 (Fundamental):** Business enterprises should respect internationally recognised human rights (at a minimum, those in the International Bill of Human Rights and the principles concerning fundamental rights in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work). • **Guiding Principle 13 (Fundamental):** Businesses are required to avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts where they occur. This applies even where they have not directly contributed to those impacts, but where those impacts are directly linked to their operations, products or services. *[continued on next page]*		

Standard / validation body	Scope (ESG principle or theme of analysis)	Coverage (metrics, companies, sectors, regions)	Methodology / requirements
	[continued] • **Guiding Principle 15 (Fundamental):** Businesses should have in place policies and procedures appropriate to their size and circumstances to address adverse human rights impacts, including policy commitments to meet such responsibilities, and processes for remediation of any such impacts.		
ISO 26000 An internationally recognised operating standard providing guidance and clarification on what social responsibility is and assisting businesses translate social responsibility principles into effective practice.	• The detailed scope of ISO 26000 requires purchase.	The ISO 26000 is considered as guidance that assists in clarifying social responsibility a corporate and business environment. As such they have no legal force and are entirely voluntary. However, unlike other ISO standards, as it provides guidance rather than requirements, it cannot be certified unlike other such ISO standards.	No formal participation method – implementation of ISO:26000 is voluntary only, and implementation entails purchase of and use of the guidelines to shape a business' commercial activities rather than signing a formal charter.

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OECD Guidelines for Multinational Enterprises A set of recommendations addressed to multinational enterprises from governments regarding standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.	The OECD Guidelines comprise a series of general policies endorsed by local governments, alongside a number of specific directives in certain focus areas (e.g. combatting bribery and care for the environment). The overarching objective of the OECD Guidelines is aimed towards promoting sustainable development and encouraging local development. Key principles within the Guidelines include: • Contribution to economic, environmental and social progress with a view to achieving sustainable development; • Respect of internationally recognised human rights of those persons affected by a business' activities; • Encouragement of local capacity building through close cooperation with the local community and development enterprise activities in domestic markets; • Encouragement of human capital formation by e.g. creating employment opportunities and provision of training; *[continued on next page]*	The OECD Guidelines are a voluntary set of guidelines and as such are not legally enforceable, with the exception of countries within the EU that ratify the Council of Europe Convention on the OECD (the **Council of Europe Convention**), pursuant to which those ratifying countries recognise the guidelines as legally binding. However, the Guidelines themselves reiterate that the first obligation of business enterprises is to obey the domestic laws of the jurisdictions they operate in. However, the Guidelines should be complied with in a way that honours such principles and standards to the fullest extent possible in a way that does not place such businesses in violation of domestic law.	The OECD Guidelines are voluntary in nature and as such have no formal participation method, even for those businesses that are domiciled within countries that have ratified the Council of Europe Convention. https://www.oecd.org/sti/ieconomy/oecdguidelinesontheprotectionofprivacyandtransborderflowsofpersonaldata.htm https://www.oecd.org/legal/oecd-convention.htm https://www.oecd.org/daf/inv/mne/48004323.pdf

Standard / validation body	Scope (ESG principle or theme of analysis)	Coverage (metrics, companies, sectors, regions)	Methodology / requirements
	[continued] • Supporting and upholding good governance principles, including application of effective self-regulatory practices; and • Carrying out of risk-based due diligence into supply chains and management systems.		
B Corp Certification Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.	General ESG coverage, specifically: • Workers • Community • Environment • Customers	B Corp Certification measures a company's entire social and environmental performance. The B Impact Assessment evaluates how a company's operations and business model impact its workers, community, environment, and customers. Used by over 50,000 businesses.	A company needs to complete and submit the B Impact Assessment (BIA) to begin the performance requirement of certification. After completing the BIA, B Lab will verify the company's score to determine if it meets the 80-poin bar for certification. To maintain certification, B Corps update their BIA and verify their updated score every three years.

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Eco Vadis Ratings - Sustainability Assessment Universal Sustainability Ratings Provider (for both public and private companies) which helps businesses manage their network both upstream and downstream, either by sharing performance with stakeholders or monitoring the performance of upstream value chains.	Broad ESG, covering: • Environment • Ethics • Labour & Human Rights • Sustainable Procurement	EcoVadis Ratings has tested over 75,000+ companies across 200+ industries and 160+ countries. The coverage includes 7 main indicators across 21 sustainability criteria in the four themes. It is based on GRI, UNGC and ISO 26000 and is supervised by an international scientific committee. Performance is rated by assessment of a company's policies, actions and results as well as inputs from third-party professionals and external stakeholders.	Data is sourced through a single and customised questionnaire to industry, size and country. After Eco Vadis has analysed the data, it provides a scorecard from 1-100 across 4 themes. It provides strengths and improvement areas and enables benchmarking. This scorecard is then available for you to share as appropriate – it is not made public. If you wish performance level to be communicated, you can be rated with Platinum, Gold, Silver & Bronze medals on a public scoreboard.

Industry schemes

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OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas **(Mineral Supply Chains Guidance)**	The Mineral Supply Chains Guidance focuses specifically on responsible sourcing of minerals from conflict-affected and other areas regarded as "high risk". The guidance provides for a five step framework for carrying out effective due diligence and minimising any potential impacts it may have on human rights issues and the local community as follows: 1. **Establish strong company management systems,** including structuring of internal management to support transparent supply chain due diligence; 2. **Identify and assess risk in the supply chain** following recommendations in the supplements to the guidelines; 3. **Design and implement a strategy to respond to identified risks,** involving e.g. reports of the findings from any due diligence and implementation of a risk management plan to tackle such issues; *[continued on next page]*	The guidance is not legally binding but as been approved by the OECD Investment Committee and additionally endorsed by eleven member states of the International Conference on the Great Lakes Region. The guidelines are of relevance to all companies in the mineral supply chain that supply or use materials sourced from conflict-affected or high-risk areas, but should be interpreted in a way that is tailored to specific company activity and relationships.	The Mineral Supply Chains Guidance is voluntary in nature and have no formal adherence procedure. https://www.oecd.org/corporate/oecd-due-diligence-guidance-for-responsible-supply-chains-of-minerals-from-conflict-affected-and-high-risk-areas-9789264252479-en.htm https://www.oecd-ilibrary.org/docserver/9789264111110-en.pdf?expires=1624030148&id=id&accname=guest&checksum=E02003E113D28547C8E0BD82848D8173 https://www.duediligenceguidance.org/

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	[continued] 4. **Carry out independent third-party audit of supply chain** due diligence at identified points in the supply chain for transparency an independent verification of internal diligence; and 5. **Report on supply chain due diligence,** involving public reporting on both due diligence policies and practices.		
Responsible Minerals Initiative (RMI)	The RMI defines standards for smelters and refiners that assist those companies in making sourcing decisions to improve regulatory compliance and responsible sourcing of minerals from conflict-affected and high-risk areas. The RMI operates the Responsible Minerals Assurance Process (RMAP) program, which provides certifications for assurance standards in difference mining sectors (e.g. tin, copper or gold). The key overarching theme of the RMI is transparency and responsible sourcing for minerals.	The RMI is a voluntary initiative and has no legally binding force. However, it is internationally recognised and has over 400 members globally.	Participation in the RMI requires membership to the initiative, which is obtained via online application and payment of a fee based on annual revenue. There are five types of membership which are suitable for different companies in the minerals supply chain as follows: • **Partner Members -** individual companies that use or transact in raw materials. • **Upstream Members -** individual companies whose primary business is mining, smelting, and/or refining raw materials. Upstream members have the option to upgrade to full Partner Members. • **Association Members and Partners -** associations of companies that use or transact in raw materials. • **Vendor Members -** companies that provide goods and/or services for use by RMI member companies. Vendor members are those companies that do not meet the partner member category requirements. Vendor members are not eligible for RMI membership through association members. *[continued on next page]*

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			• **Responsible Business Alliance (RBA) Members -** automatically obtained upon RMI membership. http://www.responsiblemineralsinitiative.org/ http://www.responsiblemineralsinitiative.org/minerals-due-diligence/standards/ http://www.responsiblemineralsinitiative.org/responsible-minerals-assurance-process/ http://www.responsiblemineralsinitiative.org/membership/
Better Cotton Initiative	The BCI Initiative focuses specifically on seven key principles which span ESG areas of environmental impact, sustainability and worker rights: • **Principle 1:** Minimisation of the harmful impact of crop protection practices; • **Principle 2:** Promotion of water stewardship; • **Principle 3:** Care for health of soil; • **Principle 4:** Enhancement of biodiversity and responsible land use; • **Principle 5:** Care for and preservation of fibre quality; • **Principle 6:** Promotion of "decent" work (involving rights of workers and promotion of labour standards); • **Principle 7:** Promoting operation of effective management systems.	The RMI is a voluntary initiative and has no legally binding force. However, it is internationally recognised and has over 1,840 members spanning the global cotton supply chain.	Participation in the BCI requires membership to the initiative which is obtained via online application and payment of a fee. There are five types of membership which are suitable for different types of organisation within the cotton supply chain as follows: • **Civil Society:** NGOs which serve the public interest; membership offers a way for advancing ESG and sustainability goals for mainstream global cotton production. • **Producer Organisation:** Organisations that work with or represent cotton producers (farmers and farm workers); membership offers opportunities for multi-stakeholder dialogue and stewardship of global cotton standards. • **Supplier / Manufacturer:** Organisations that run for-profit activity within the cotton supply chain beyond the farm gate and before retail, from buying, selling, and financing to processing. Membership grants opportunities for networking with and fostering collaborative dialogue with partners in the cotton supply chain. • **Retailer and Brand:** Any for-profit organisation selling cotton based goods directly to consumers. Membership offers opportunities for progressive retailers and brands to take decisive steps towards securing a more sustainable future for mainstream global cotton production.

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			[continued] • **Associate:** Any organisation that does not fit into the other categories, but which have an agreement with BCI or represent the interests of other members. https://bettercotton.org/ https://bettercotton.org/about-bci/who-we-are/ https://bettercotton.org/better-cotton-standard-system/production-principles-and-criteria/ https://bettercotton.org/get-involved/membership-offer/
Global Organic Textile Standard (GOTS) GOTS is a certification standard board which provides certifications to cotton producers and related operational entities in the cotton supply chain.	GOTS applies a single standard certification for organic fibres (the **IFOAM Standard**), which is a conglomeration of a number of local standards in cotton producing nations and regions.	GOTS is a voluntary initiative and has no legally binding force. However, it is internationally recognised and is the largest textile processing standard for organic fibres and the textile supply chain.	A GOTS certification requires participation within the GOTS certification scheme and compliance with the criteria of the GOTS / IFOAM Standard and payment of a fee. Compliance involves e.g: • **Review of bookkeeping** in order to verify the flow of GOTS Goods (input/output reconciliation, mass balance calculation and trace back lots and shipments). This is a key aspect of the inspection of any operation that sells/trades GOTS Goods. • **Assessment of the processing and storage system** through visits to the applicable facilities. • **Assessment of the separation and identification system** and identification of any areas of risk to organic integrity. • **Inspection of the chemical inputs** (dyes and auxiliaries) and accessories used and assessment of their compliance with the applicable criteria of the GOTS. • **Inspection of the wastewater** (pre) treatment system of wet-processors and assessment of its performance. *[continued on next page]*

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			[continued] • **Check on social criteria** (possible sources of information include interviews with management, confidential interviews with workers, personnel documents, physical on-site inspection, unions/stakeholders). • **Verification of the operator's policy** on risk assessment of contamination and residue testing, which includes residue testing of random samples (optional) and testing of samples drawn in case of suspicion or manifest non-compliance (compulsory). https://global-standard.org/the-standard

Disclosure metrics

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Global Reporting Initiative The GRI provides ESG standards that address disclosures of socially material topics affecting a company's stakeholders. The standards are designed to be used by organisations on a **voluntary basis** to report their impacts on the economy, the environment, and society.	Environmental: • Climate change • Nature loss Social: • Dignity and equality • Health and well being • Skills for the future • Employment and wealth generation • Community and social vitality • Human rights, grievances and modern slavery Governance: • Governing purpose • Quality of governing body • Stakeholder engagement • Ethical behaviour (Anti-corruption) • Risk and opportunity oversight	There are two types: Universal Standards and Topic-specific standards. **Universal Standards** (Applicable to all organisations): • **Foundation –** Starting point for using the GRI standards • **General Disclosures –** To report contextual information about an organisation • **Management Approach –** To report the management approach for each material topic **Topic-specific Standards:** • **Economic –** Economic Performance, Market Presence, Indirect Economic Impacts, Procurement Practices, Anti-corruption, Anti-competitive behaviour) • **Environmental –** Materials, Energy, Water and Effluents, Biodiversity, Emissions, Effluents and Waste, Environmental Compliance, Supplier Environmental Assessment • **Social –** Employment, Labour/Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity, Non-discrimination, Freedom of Association and Collective Bargaining, Child Labour, Forced or Compulsory Labour, Security Practices, Rights of Indigenous Peoples, Human Rights Assessment, Local Communities, Supplier Social Assessment, Public Policy, Customer Health and Safety, Marketing and Labelling, Customer Privacy, Socioeconomic Compliance There are two basic approaches for using the GRI Standards: 1. The GRI Standards can be used as a set to prepare a sustainability report that is in accordance with the Standards. There are two options for preparing a report in this way (Core or Comprehensive), depending on the extent of disclosures included in the report. *[continued on next page]*	The sustainability reporting process begins with the organisation identifying relevant topics to report on. Relevant topics are those that reflect the organisations' significant economic, environment and social impacts and that are important to its stakeholders, known as 'material topics'. The topic-specific GRI Standards contain disclosures that an organisation can use to report on its impacts in relation to its material topics, and how it manages these impacts. For instance, an organisation can use the GRI Standard on water and effluents to report on the impacts it has on the environment because of its water withdrawal from areas facing water stress, and how it manages these impacts. The Universal Standards support the organisation in identifying its material topics, and lay out important principles to use when preparing a report. They also contain disclosures on the organisation's specific context, such as its size, activities, governance, and stakeholder engagement. Interaction with UN SDGs and business disclosures.

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		[continued] 2. Selected GRI Standards, or parts of their content, can also be used to report specific information, without preparing a report in accordance with the Standards. Any published materials that use the GRI Standards in this way are to include a 'GRI-referenced' claim. For each approach to using the Standards there is a corresponding claim, or statement of use, which an organisation is required to include in any published materials.	
Sustainability Accounting Standards Board SASB provides guidance on how organisations can align their sustainability reporting with the financial needs of investors.	Environmental: • Climate change (TCFD) • Freshwater availability / water pollution Social • Discrimination and harassment incidents • Freedom of association and collective bargaining risk Governance: • Monetary reward for unethical behaviour	The SASB recommends topics and metrics for 77 different industries across all three pillars of ESG. To help businesses identify, manage and report on sustainability topics that matter to their investors. SASB contributes to the industry standards but does not rate company performance on the standards. Rating, ranking, and scoring is the role of licensees. "Licensees" includes the following: 1. Asset managers and asset owners developing unique ESG scoring methodologies rather than relying solely on 3rd party ratings firms 2. Data, analytics and research firms incorporating an SASB lens or add-on to their existing or new product lines 3. Corporate reporting software making it easier for companies to leverage SASB standards in ERM, ERP, and related services	SASB has 77 industry-specific standards, detailed on the SASB Materiality Map. SASB's Materiality Map identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. These are broken down into 5 "Dimensions": 1. Environment 2. Social Capital 3. Human Capital 4. Business Model and Innovation 5. Leadership and governance In the left-hand column, SASB identifies 26 sustainability-related business issues, or General Issue Categories, which encompass a range of Disclosure Topics and their associated Accounting Metrics that vary by industry. For example, the General Issue Category of Customer Welfare encompasses both the Health and Nutrition topic in the Processed Foods industry and the Counterfeit Drugs topic in the Health Care Distributors industry. *[continued on next page]*

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			[continued] Within each Dimension there are several General Issue categories: • **Environment –** GHG Emissions, Air Quality, Energy Management, Water & Wastewater Management, Waste & Hazardous Materials Management, Ecological Impacts • **Social Capital –** Human Rights & Community Relations, Customer Privacy, Data Security, Access & Affordability. Product Quality & Safety, Customer Welfare, Selling Practices & Product Labelling • **Human Capital –** Labour Practices, Employee Health & Safety, Employee Engagement Diversity & Inclusion • **Business Model & Innovation –** Product Design & Lifecycle Management, Business Model Resilience, Supply Chain Management, Materials Sourcing & Efficiency, Physical Impacts of Climate Change • **Leadership & Governance –** Business Ethics, Competitive Behaviours, Management of the Legal & Regulatory Environment, Critical Incident Risk management, Systemic Risk Management.
TCFD The TCFD provides 11 recommendations across four pillars: governance, strategy, risk management, and metrics & targets. Currently requirement is "comply or explain" for premium listed companies, voluntary for any other company, but due to become mandatory.	Environmental: • Climate change Governance • Board structure and management role in dealing with climate-related risks and opportunities	Governs a business' climate-related disclosures in relation to the following categories: **"climate-related risk" –** the potential negative impacts of climate change on an organisation. • Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). • Transition risk, most commonly relating to policy and legal actions, technology changes, market responses, and reputational considerations *[continued on next page]*	The Task Force structured its recommendations around four thematic areas that represent core elements of how companies operate: • Governance • Strategy • Risk Management • Metrics & Targets. Recommended Climate-Related Financial Disclosures: • Governance – The organisations governance around climate-related risks and opportunities *[continued on next page]*

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		[continued] **"climate-related opportunity" –** potential positive impacts related to climate change on an organisation. • Resource efficiency and cost savings, adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. • Climate-related opportunities will vary depending on the region, market, and industry in which an organization operates.	*[continued]* • Strategy – the actual and potential impacts of climate-related risks and opportunities on the organisations businesses, strategy and financial planning • Risk Management – The processes used by the organisation to identify, assess, and manage climate related risks • Metrics & Targets – The metrics and targets used to assess and manage relevant climate-related risks and opportunities Align sustainability report climate disclosures with TCFD or create a separate climate report.
Carbon Disclosure Project The CDP supports **voluntary participants** to measure their risks and opportunities on climate change, deforestation, and water security. CDP is a not-for profit charity, that runs the global disclosure system.	Environmental: • Climate change • Biodiversity • Water security	Each year, CDP takes the information supplied in its annual reporting process and scores companies and cities based on their disclosure and environmental leadership. Organisations are asked by investors or voluntarily disclose information about supply chains or investment portfolios to CDP. This is done through corporate questionnaires.	Three very detailed corporate questionnaires, requesting a mixture of data and written responses: • Climate Change • Forests • Water Security The questionnaires provide a framework for companies to provide environmental information to their stakeholders covering governance and policy, risks and opportunity management, environmental targets and strategy and scenario analysis. **Scoring Methodology** The scoring methodology provides an assessment of progress towards environmental stewardship as reported by a company's CDP response. The score assesses the level of detail and comprehensiveness of the content, as well as the company's awareness of climate change issues, management methods and progress towards action taken on climate change as reported in the response. *[continued on next page]*

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			[continued] **Publication** CDP run an Open Data Portal containing climate-related datasets for over 800+ cities and 120+ states and regions. This data is self-reported by governments through an annual questionnaire and is free of charge.
GHG Protocol Corporate Standard Measurement standard for an organisation's Scope 1, 2 and 3 GHG inventory.	Environmental: • Climate change	This GHG Protocol Corporate Standard provides standards and guidance for companies and other types of organisations preparing a GHG emissions inventory. It covers the accounting and reporting of the six greenhouse gases covered by the Kyoto Protocol — carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6). The standard and guidance were designed with the following objectives in mind: • To help companies prepare a GHG inventory that represents a true and fair account of their emissions, through the use of standardized approaches and principles • To simplify and reduce the costs of compiling a GHG inventory • To provide business with information that can be used to build an effective strategy to manage and reduce GHG emissions • To provide information that facilitates participation in voluntary and mandatory GHG programs • To increase consistency and transparency in GHG accounting and reporting among various companies and GHG programs.	**Scope 1:** Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment. Direct CO_2 emissions from the combustion of biomass shall not be included in scope 1 but reported separately. GHG emissions not covered by the Kyoto Protocol, e.g. CFCs, NOx, etc. shall not be included in scope 1 but may be reported separately. **Scope 2:** Electricity indirect GHG emissions Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated. **Scope 3:** Emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

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CDSB Framework An international consortium of business and environmental NGOs that offers a framework for reporting of environmental information with the same rigour as financial information, thereby providing a resource to investors to make informed ESG investment decisions.	The CDSB Framework for reporting environmental and climate change information is designed to help organisations prepare and present environmental information in mainstream reports for the benefit of investors. For investors, the Framework assists in assessment of the relationship between specific environmental matters and the organization's strategy, performance and prospects. The CDSB Framework does not itself contain any standards or principles but leverages those of other principles and reporting metrics such as the TCFD, SASB and IFRS to provide an overview of any given company's ESG profile.	The CDSB Framework applies to all sectors and companies. The CDSB itself works closely with EU Parliament, Council and Member States and other governments to monitor and report on companies.	https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital
The International Financial Reporting Standards Foundation (IFRSF) A not-for-profit, public interest organisation established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards.	No specific key principles, but the IFRS has an overarching principle of transparency and provision of high qualify financial information to the markets to enable investors to make informed economic decisions.	A voluntary standard that is nonetheless globally recognised as the dominant international accounting methodology.	Voluntary in nature; applied via audit and examination of accounts in accordance with the IFRS principles via a business' accounting firm. https://www.ifrs.org/

<table>
<tr><th>Standard / validation body</th><th>Scope (ESG principle or theme of analysis)</th><th>Coverage (metrics, companies, sectors, regions)</th><th>Methodology / requirements</th></tr>
<tr><td>International Integrated Reporting Framework (IIRC)

A not-for-profit, public interest organisation established to examine and improve allocation of capital to effect financial stability and sustainable development.</td><td>No specific key principles, but an overarching principle of transparency in corporate reporting to enable efficient and productive allocation of capital.

The IIRC's framework and integrated thinking principles fall within the wider remit of the Value Reporting Foundation, which also administers the SASB reporting standard.</td><td>A voluntary standard that is nonetheless globally recognised as a key aspect of integrated reporting that sits alongside SASB as a reporting standard for companies wishing to demonstrate commitment to improving allocation of capital and sustainable development.</td><td>Participation in the IIRC requires membership to the IIRC's IR Business Network, which requires application and payment of a fee. Membership benefits are universal to all members and there is no distinction between different classes of membership.

https://integratedreporting.org/the-iirc-2/</td></tr>
<tr><td>S&P Global ESG Score

S&P Global Ratings manages Dow Jones Sustainability Indexes and several other ESG indexes.

Covering 100+ ESG factors across 40 sectors in ‘Key Credit Factors’ analysis. Financial stability is the foundation and ESG impact on corporate finances.

[continued on next page]</td><td>S&P measures several ESG factors for their impact on stakeholders to measure if they have a material relevance to the company.</td><td>This year, S&P Global is extending the list of invited companies to over 10,000. The extended list of invited companies is made up of eligible constituents from the Dow Jones Sustainability Indices (DJSI) and the S&P ESG Index series. In addition, S&P Global invites companies that are of interest to the broader investment community and therefore part of S&P Global’s research universe.

Private companies can decide to commission the assessment in order to have their corporate sustainability performance evaluated as a service. The underlying methodology and assessment approach are similar for all companies participating in the CSA, making the results comparable with DJSI members and other invited companies. Contact our ESG Benchmarking team to learn more.</td><td>ESG Evaluation

ESG Profile + Preparedness = ESG evaluation

Final score is aligned with GRI, SASB, CDP and TCFD

ESG profile = assessment of how exposed organisation is to ESG risks and opportunities – baseline for this is a global assessment S&P performs to measure exposure by both sector and location called the ESG Risk Atlas. It contains sub-profiles on each ESG topic then the final score on the profile will reflect the weighted scores that an organisation earns for each of the three sub-topics and is graded on a 100 point scale with higher numbers being better.

Preparedness = measure of how well the company can anticipate and adapt to the long term risks and opportunities identified in the ESG profile. R&Os are related mainly to E&S factors. S&P organization looks at governance factors to determine how well the org prepares for and responds to ESG risks.

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Standard / validation body	Scope (ESG principle or theme of analysis)	Coverage (metrics, companies, sectors, regions)	Methodology / requirements
[continued] **S&P Global ESG Evaluation,** a separate product offered by S&P Global Ratings, is a forward-looking opinion of a company's ability to manage future ESG risks and opportunities. With company permission, the ESG Evaluation uses data from the CSA and is further supported by deeper engagement between the Ratings' Analysts, company management and a board member. These ESG ratings are generally involuntary and apply to publicly trading companies, however private companies can commission the ESG evaluation assessment – S&P will carry out the assessment using publicly available information.			*[continued]* <u>Publication</u> Public ESG score and public rankings on: https://www.spglobal.com/esg/solutions/ S&P Global ESG Scores are not available for companies with limited ESG information in the public domain. All companies are assessed using the industry specific CSA questionnaire and methodology reflecting a company's score compared to its industry peers. The CSA focuses on past and current performance on ESG issues. CSA is already used to create Dow Jones Sustainability Index and will inform future stock market indices focused on sustainability.

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Fitch ESG relevance scores developed in 2019 to demonstrate how the corporate ESG factors impact individual credit ratings decision making. Ratings began more than 1,500 non-financial corporate ratings issued by Fitch for use by banks, etc. These ESG ratings are generally involuntary and apply to publicly trading companies – S&P will carry out the assessment using publicly available information.	General ESG Risk elements considered by Fitch include: Environmental: • GHG emissions • energy management • water & wastewater management • waste & hazardous materials management Social: • human rights • community relations • access • customer welfare • labour relations • employee wellbeing • exposure to social impacts Governance: • management strategy • governance structure • group structure • financial transparency	82 ESG sector templates used by credit analysts in their assessment of an entity and assigning ESG relevance scores. The scores can **directly affect a firm's credit rating.**	The templates have standardised general issue risk categories – these sector specific scores are then assessed by the analysts for their credit profiles of an entity. In this process more than 22,000 entities have been assigned e, s and g scores of 1-5. • 1-2 means no impact on credit rating. • 3 indicates minimal impact • 4-5 indicates ESG risk is emerging or is a contributing factor to the credit decision • 5 is a risk that drives a rating change • Fitch initially said Governance scores of 4-5 are the most dominant factor in ratings but this will change over time. Global Sustainable Finance Group follows the classification standard of the SASB **Data sources** Fitch uses the same dataset to determine ESG scores as its general credit ratings – therefore the primary sources of info are public and private information disclosed by an organisation to Fitch e.g. financial statements, strategy, investor presentations. Fitch analysts also engaged with company management to understand ESG risks/impacts beyond the organisation.

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MSCI The MSCI ACWI Sustainable Impact Index is designed to identify **listed** companies whose core business addresses at least one of the world's social and environmental challenges, as defined by the United Nations Sustainable Development Goals (UN SDGs). The Index selects companies that contribute to the SDGs through the provision of products and services that can help address some of these challenges and meet minimum ESG standards for their operations. These ESG ratings are generally **involuntary** and apply to publicly trading companies – S&P will carry out the assessment using publicly available information.	MSCI ESG Research grouped the 17 SDGs into five actionable themes: 1. Basic needs 2. Empowerment 3. Climate change 4. Natural capital 5. Governance	The MSCI ACWI Sustainable Impact Index aims to identify companies that derive at least 50% of their revenues from products and services that address environmental and social challenges as defined by the themes and the UN Sustainable Development Goals. As a positive screen, it is designed to highlight companies that are deriving sales from products or services that may have a positive impact on society and the environment under the various categories. The index excludes companies that fail to meet minimum environmental, social and governance (ESG) standards and weights securities by the percentage of revenue derived from products or services that address the themes.	To arrive at a final ESG Rating, the weighted average of individual Key Issue Scores is normalised relative to ESG Rating Industry peers. Companies are given a rating from AAA down to CCC, and the search identifies where companies are lagging behind industry standards, where they are average, and where they are industry leaders. **Publication** MSCI ratings are publicly available on their website as of November 2019. Previously this data was only available to clients or the media, but is now available for anyone to search against the 7500 companies in their database The ESG ratings database is available here and is free to use. Use the search bar to search by company or ticker.

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Sustainalytics Sustainalytics' ESG Risk ratings are designed to help investors identify and understand financially material ESG risks at the security and portfolio level and how they might affect the long-term performance for equity and fixed income investments. These ESG ratings are generally involuntary and apply to publicly trading companies – S&P will carry out the assessment using publicly available information.	General ESG risk-based gap analysis covering: • Total exposure • Manageable risk • Unmanageable risk • Managed risk	The ESG Risk Ratings, combined with qualitative analyses, provide insights into the materiality of ESG issues for a company and whether the company is managing them effectively. The ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors or, the magnitude of a company's unmanaged ESG risks. This means that a bank, for example, can be directly compared with an oil company or any other type of company. Comprised of three central building blocks: corporate governance, material ESG issues, and idiosyncratic issues: **Corporate Governance** Applies to all companies in the rating universe, irrespective of the subindustry they are in. The exposure to Corporate Governance is similar across the board. On average, unmanaged Corporate Governance risk contributes round about 20% to the overall unmanaged risk score of a company. The final weight varies depending on the individual selection of material ESG issues for that specific company. **Material ESG Issues** Material ESG issues are focused on a topic, or set of related topics, that require a common set of management initiatives or a similar type of oversight. For example, the topics of employee recruitment, development, diversity, engagement and labour relations are all encompassed by the material ESG issue of Human Capital because they are all employee-related and require Human Resources initiatives and oversight. The Material ESG Issues building block of the ESG Risk Ratings forms the core and centre of the methodology. It rests on the assumption that ESG issues can influence the economic value of a company in a given subindustry in a fairly predictable manner.	Based on a two-dimensional materiality framework that measures a company's exposure to industry-specific material risks and how well a company is managing those risks. Overall a company's ESG Risk Rating is calculated by adding the amount of unmanaged risk for each material ESG issue. Publication: https://www.sustainalytics.com/esg-ratings/ A company's ESG Risk Rating score is assigned to one of five risk categories: • Negligible Risk (Overall Score of 0-9.99 points) Enterprise value is considered to have a negligible risk of material financial impacts driven by ESG factors • Low Risk (10-19.99 points): Enterprise value is considered to have a low risk of material financial impacts driven by ESG factors • Medium Risk (20-29.99 points): Enterprise value is considered to have a medium risk of material financial impacts driven by ESG factors. • High Risk (30-39.99 points): Enterprise value is considered to have a high risk of material financial impacts driven by ESG factors. • Severe Risk (40 and higher points): Enterprise value is considered to have a severe risk of material financial impacts driven by ESG factors

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		[continued] **Idiosyncratic Issues** Idiosyncratic Issues are 'unpredictable' or unexpected in the sense that they are unrelated to the specific subindustry. Typically, issues like this are event-driven. Idiosyncratic Issues become material ESG issues if the event assessment passes a significance threshold. This threshold has been set at a Category 4 or 5 level. Note that idiosyncratic issues become material issues only for the specific company in question, not for the entire subindustry that company is part of.	

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