September 23, 2020

Advancing Standardized Sustainability/ESG Metrics and Disclosures: International Business Council of the World Economic Forum and Big 4 Accounting Firms Release White Paper

In a bid to bring clarity, simplicity and coherence to the alphabet soup of ESG disclosure frameworks and prevent companies from being overwhelmed by the hundreds, if not thousands, of potential ESG-related data points and metrics, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with the four major accounting firms, has released its final recommendations for a set of universal, standardized, and industry-agnostic ESG and sustainability metrics and disclosures. The key metrics are outlined in Exhibit A to this memo; the final IBC/WEF report and associated glossary contain specific definitions and metric methodologies. A high-level summary of the types of disclosures that a company would make if reporting in line with the core recommendations is also set forth below.

Based on "a belief that the interrelation of economic, environmental and social factors is increasingly material to long-term value creation," the IBC/WEF framework defines a set of "Stakeholder Capitalism Metrics" for companies to use and publicly report performance against broader dimensions of sustainable value and ESG factors on a more standardized and consistent basis. These metrics can also be used to track a company's contributions toward the Sustainable Development Goals (SDGs). The consensus recommendations reflect overwhelmingly favorable input over the past year from consultations with IBC members and non-members, workshops with investors and across industry sectors, and conversations with regulators, stock exchanges and standards-setting bodies. IBC members, as well as the wider corporate community, are invited to declare their intention to report against the proposed metrics if they have not already done so. A proposed timetable for broader adoption will be developed over the next few months and presented at the IBC's winter meeting in January 2021.

The proposed framework continues to be organized under the four pillars of "Principles of Governance, Planet, People and Prosperity" originally proposed in the consultation draft released earlier this year and covers 21 "core" and 34 "expanded" metrics and disclosures. The inclusion of prosperity as the fourth pillar recognizes the importance of prosperous societies, highlights the role of businesses in fueling economic growth, innovation and shared wealth and is designed to take the project's work beyond simply "ESG." As with the original proposal, the "core" metrics are primarily quantitative metrics which many firms already report (or could collect and report with reasonable effort), and focus primarily on activities within an organization's boundaries. The "expanded" metrics are those that are emerging or less established in existing practice, incorporate a wider value chain scope or convey value in a more sophisticated or tangible way, including as to monetary value. The final report clarifies that companies would be expected to begin reporting on core indicators, with the possibility of adding expanded disclosures over time. The proposed framework would serve as a set of "foundational" disclosures across industries, beyond which companies can report with more sector- and industry-specific indicators using other established frameworks.

The recommendations encourage companies to begin reporting on the core metrics at the earliest opportunity, using a "disclose or explain" approach keyed to a materiality test of information that is "important, relevant, and/or critical to long-term value creation." In this regard, the report adopts a "dynamic" view of materiality, in which issues once considered relevant only to social value can rapidly become material as market and public expectations shift (this concept of materiality explicitly is not intended to be equivalent to "materiality" under the U.S. securities laws). Specific reasons highlighted in the report for not making particular disclosures include confidentiality constraints, legal prohibitions, data availability, geographic idiosyncrasies or lack of materiality. In order to ensure board-level consideration of material ESG factors, the report encourages companies to begin reporting, where relevant and possible, in mainstream annual reports, such as annual reports and proxy statements. It contemplates that separate sustainability reports would still be used by companies who wish to provide more comprehensive information or address more deeply the interests of stakeholders beyond investors.

Subject to the above, a company that decides to report in accordance with the recommended core metrics would disclose metrics and other information covering:

- *Governance*: (1) Corporate purpose; (2) Quality of governing body (board and committee composition, competencies and diversity); (3) Stakeholder engagement; (4) Ethical behavior (anti-corruption; internal and external mechanisms for ethics advice and reporting); and (5) Oversight and disclosure of material risks and opportunities, including as to economic, environmental and social issues.

- *People*: (1) Dignity and equality (diversity by age, gender, other indicators; pay by gender, ethnicity, other indicators; entry level wage; CEO pay ratio; risk of child or forced labor); (2) Health and well-being (workplace safety; access to healthcare); and (3) Skills for the future (training hours and expenses).

- *Planet*: (1) Climate change (Scope 1 and Scope 2 greenhouse gas emissions); (2) Full Task Force on Climate-related Financial Disclosures (TCFD) implementation; (3) Nature loss; and (4) Freshwater availability (water withdrawn and consumed and company operations in regions with high baseline water stress).

- *Prosperity*: (1) Employment and wealth generation (new hires; employee turnover; economic value generation; financial assistance from government; investments); (2) Innovation of better products and services (R&D expenses); and (3) Community and social vitality (taxes paid).

In the iteration between the original discussion draft and the final proposal, dozens of changes were made to the details of the disclosure (including eliminating taxes paid by jurisdiction as a metric), but the vast majority of disclosure topics were retained. The most significant changes relate to an increased focus on ESG governance and integration (including diversity in addition to gender), environmental disclosures (including full TCFD reporting), and greater use of absolute values for metric disclosures rather than ratios. Based on feedback from investors and corporates, the recommendations encourage companies to provide qualitative commentary and narratives that provide context for quantitative disclosures.

Looking ahead, private sector-led coalitions involving investors, corporates and other key public and private stakeholders are converging on the need for a standardized ESG reporting framework. The IBC/WEF paper recognizes that widespread adoption of its proposed standards will signal to investors, regulators, governments and others that the corporate sector has converged on a set of baseline decision-useful sustainability metrics that could form the foundation of a market-based, global set of ESG accounting standards. It already has provided significant momentum for the leading voluntary frameworks and standard-setters to work towards a single, coherent, widely applicable ESG reporting system. Whether or not widespread disclosure against the entire IBC/WEF standard develops, the finished framework will prove useful to an increasing number of companies as part of ongoing efforts to self-assess and consider the potential types of disclosures they are willing and able to make.

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Exhibit A

The topics covered by the IBC/WEF's recommended core and expanded metrics include:

Governance	**People**
Core • Governing purpose (setting purpose) • Quality of governing body (board and committee composition, competencies and diversity) • Stakeholder engagement (material issues/ topics impacting stakeholders and engagement process) • Ethical behavior (anti-corruption; internal and external mechanisms for ethics advice and reporting) • Risk and opportunity oversight (disclosure of company-specific material risks and opportunities, including as to material economic, environmental and social issues) *Expanded* • Governing purpose (purpose in strategy, policies and goals) • Quality of governing body (progress against strategic milestones; remuneration) • Ethical behavior (lobbying; losses from unethical behavior) • Risk and opportunity oversight (ESG integration)	*Core* • Dignity and equality (diversity by age, gender, other indicators; pay by gender, ethnicity, other indicators; entry level wage; CEO wage to median employee; risk of child or forced labor) • Health and well-being (workplace safety; access to healthcare) • Skills for the future (training hours and expenses) *Expanded* • Dignity and equality (further pay gap disclosures; discrimination and harassment incidents and monetary losses; collective bargaining coverage of workforce and suppliers; human rights grievances and risks; living wage assessment) • Health and well-being (cost of occupational incidents; workplace fatalities; well-being programs; absentee rate) • Skills for the future (unfilled skilled positions; investment and effectiveness of training)

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<tr><th>Planet</th><th>Prosperity</th></tr>
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Core
• Climate change (Scope 1 and Scope 2 greenhouse gas emissions; full TCFD implementation)
• Nature loss (focusing on sites adjacent to protected areas and/or key biodiversity areas)
• Freshwater availability (water withdrawn and consumed; region-based percentages for high baseline water stress areas)
Expanded (including disclosure for full supply chain where material)
• Climate change (Paris-aligned targets; Scope 1, 2, and 3 reporting along value chain)
• Nature loss (land use for plant, animal or mineral commodities; sustainability certification; conversion of ecosystems)
• Freshwater availability (valued impacts)
• Air pollution (including nitrogen oxides, sulfur oxides, particulates)
• Water pollution (fertilizer-related pollution)
• Solid waste (single use plastics; impact of solid waste disposal)
• Resource availability (resource circularity)
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Core
• Employment and wealth generation (new hires; employee turnover; economic value generation; financial assistance from government; investments)
• Innovation of better products and services (total R&D expense/cost)
• Community and social vitality (taxes paid)
Expanded
• Employment and wealth generation (infrastructure investments and services; indirect economic impacts)
• Innovation of better products and services (social benefits generated; share of revenue from recently launched products)
• Community and social vitality (Total Social Investment; additional tax disclosures)
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