

Working at the Intersection of EHS and ESG; When to Pivot and What to Leverage



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PRESIDENT & CEO
STAR SIGNAL PARTNERS

**ENVIRONMENTAL STEWARDSHIP PROGRAM ANNUAL MEETING
JULY 21, 2022**

Agenda

What is ESG and Why is it so popular? (framing EHS in ESG terms)

Pivot from:

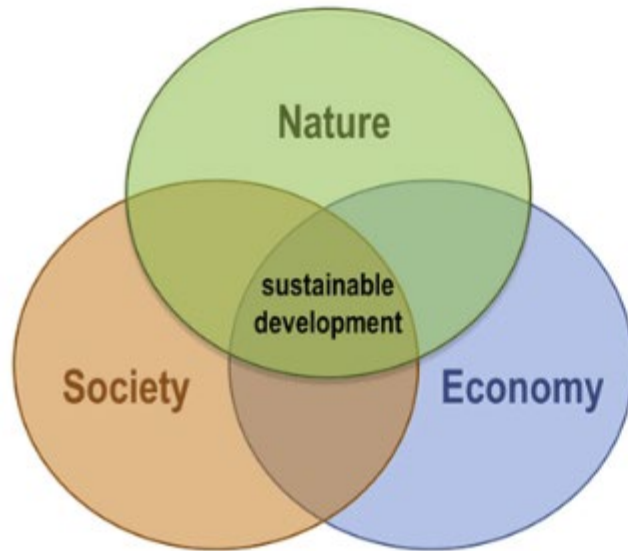
- only mandatory reporting to a reporting strategy that includes voluntary reporting
- a near term mindset to one that supports a broader resilience strategy including risk identification and assessment(Opps too!)

Leverage your expertise:

- during the ESG Data Assurance process
- to inform Top Management and the Board of Directors

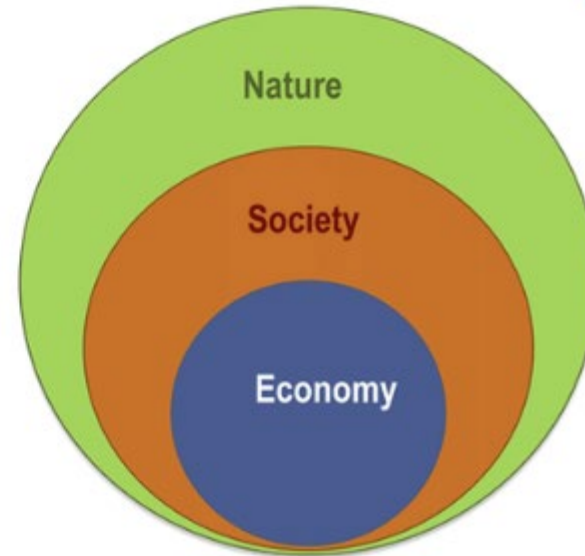
What?

Mental Models of Sustainability/ESG:



Weak sustainability

Based in Brundtland 1987.



Strong sustainability

Giddings 2002.



ESG

FSB 2017. (TCFD)

What?

CSR – vs – ESG

Corporate Social Responsibility (CSR)

- philanthropic actions of for-profit company or its foundation
- Framed as “giving back to our community”
- Voluntary and Volunteer driven
- Sustainability v1.0 (tree planting, community clean-ups, food drive, etc.)

ESG (Environmental, Social & Governance)

- Often defined by topics that are **“material”** to the wellbeing of the business
- Framed as **“proxy for good financial management”**
- Cross functional team (e.g., EHS, HR, Procurement, Comms, CSO, Board Committee)
- Sustainability v2.0 (material topics vary, performance is tracked and **reported**)

What?

ESG & Materiality

Topics are “material” if they significantly impact the business:

- High cost, highly regulated, high risk, highly visible, etc.

Topics are “material” if they are important to key stakeholders:

- Owner / Investors
- Officers and Directors
- Customers / Consumers
- Employees / Recruits
- Neighbors / Community
- Regulators (EPA, DOL, SEC) & NGOs

Material Topics are subject to Governance practices:

- Internal controls/audit
- Performance goals/targets
- Data management/quality
- Reporting/corrective action



What?



ESG & Materiality

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

<div>1</div> <div>NO POVERTY</div> <div></div> <div>End Poverty in all its forms everywhere</div> <div>1 Econ 6 Social Social</div>	<div>2</div> <div>ZERO HUNGER</div> <div></div> <div>End hunger, achieve food security and improved nutrition and promote sustainable, agriculture</div> <div>5 Econ 3 Social Economic</div>	<div>3</div> <div>GOOD HEALTH AND WELL-BEING</div> <div></div> <div>Ensure health lives and promote well being for all at all ages</div> <div>13 Social Social</div>	<div>4</div> <div>QUALITY EDUCATION</div> <div></div> <div>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</div> <div>10 Social Social</div>	<div>5</div> <div>GENDER EQUALITY</div> <div></div> <div>Achieve gender equality and empower all women and girls</div> <div>9 Social Social</div>	<div>6</div> <div>CLEAN WATER AND SANITATION</div> <div></div> <div>Ensure availability and sustainable management of water and sanitation for all</div> <div>5 Social 3 Env Social</div>	<div>7</div> <div>AFFORDABLE AND CLEAN ENERGY</div> <div></div> <div>Ensure access to affordable , reliable sustainable and modern energy for all</div> <div>4 Econ 1 Social Economic</div>	<div>8</div> <div>DECENT WORK AND ECONOMIC GROWTH</div> <div></div> <div>Promote sustained, inclusive and sustainable economic growth and productive employment and decent work for all</div> <div>8 Econ 2 Social Economic</div>	<div>9</div> <div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div> <div></div> <div>Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation</div> <div>7 Econ 1 Social Economic</div>
<div>10</div> <div>REDUCED INEQUALITIES</div> <div></div> <div>Reduce inequality in and among countries</div> <div>8 Econ 2 social Economic</div>	<div>11</div> <div>SUSTAINABLE CITIES AND COMMUNITIES</div> <div></div> <div>Make cities and human settlements inclusive, safe resilient and sustainable</div> <div>1 Econ 8 Social 1 Env Social</div>	<div>12</div> <div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div> <div></div> <div>Ensure sustainable consumption and production patterns</div> <div>1 Econ 2 Social 8 Env Environmental</div>	<div>13</div> <div>CLIMATE ACTION</div> <div></div> <div>Take urgent action to combat climate change and its impacts</div> <div>1 Econ 4 Env Environmental</div>	<div>14</div> <div>LIFE BELOW WATER</div> <div></div> <div>Conserve and sustainably use the oceans, seas and marine resource for sustainable development</div> <div>2 Econ 8 Env Environmental</div>	<div>15</div> <div>LIFE ON LAND</div> <div></div> <div>Protect restore and promote sustainable use of terrestrial ecosystems , sustainably manage forests, combat desertification and reverse land degradation and biodiversity loss</div> <div>2 Econ 2 Social 3 Env Environmental</div>	<div>16</div> <div>PEACE, JUSTICE AND STRONG INSTITUTIONS</div> <div></div> <div>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective , accountable and inclusive institutions at all levels</div> <div>12 Social Social</div>	<div>17</div> <div>PARTNERSHIPS FOR THE GOALS</div> <div></div> <div>Strenthen the means of implementation and revitalise the global partnership for sustainable development</div> <div>9 Econ 10 Social Social</div>	<div></div>



WHY? (PART 1)

Valuation



- In 1975, 17% of the assets in the S&P 500 were “intangible”
- In 2015, 84% of the assets were intangible.¹

When market valuations are increasingly based on intangibles, such as intellectual capital, customer relationships, vendor relationships, and brand value, traditional financial statements tell a smaller part of the story.

Today, non-financial performance is being used as a proxy for financial performance or, at least, as a leading indicator for it. It's a better mousetrap for analysts and investors. Hence, the demand for “pre-financial” (ESG) data, which itself is an industry.

[1] <https://www.oceantomo.com/intangible-asset-market-value-study/>

WHY?

Data is central to the ESG marketplace

**WE MEAN
BUSINESS**

238 cities and counties, **9** states,
1,736 businesses, and
325 institutions of higher education
are committed to the goals
of the Paris Agreement.

WE ARE STILL IN.

AMERICA'S PLEDGE

**Climate
Action 100+**
Global Investors Driving Business Transition

S&P Global

CDSB
Climate Disclosure Standards Board

BLACKROCK

GSA

CALSTRS

POWERED BY
**CDP
DATA**

Walmart

TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

**Global
Reporting
Initiative™**



United Nations Global Compact

MSCI
ESG Research

TRUCOST™



Bloomberg

ISS

CalPERS

WHY? Asset Managers and Investors use ESG Data

- As a proxy for corporate governance
- As a proxy for environmental management
- For investment decision ideas
- To create financial products
- Complex algorithms of ESG metrics/ratings/rankings
- To construct climate risk assessment of portfolios
- Topics for shareholder resolutions / Engagement campaigns
- Some may only be interested in a sub-set of the data

WHY? (PART 2)

Supply Chain

Your Customers are already disclosing their ESG performance

- Increasingly accountable for their supply chain's material impacts.
- What is material to them is material to you.



For the average company, supply chain emissions are around **11.4 times greater** than direct emissions.



Companies could face **US\$120 billion** of increased costs from environmental risks in their supply chains within 5 years.



Disclosing suppliers reported 619 million metric tons in annual emission savings, while saving over **US\$33.7 billion**.

WHY? (PART 2)

Supply Chain

Your Investors & Customers are driving voluntary ESG reporting via disclosure platforms and unique Supplier Sustainability Surveys.

Your impacts are their impacts!

- If they have set a Science-Based Target, they may have to reduce their scope 3 emissions = **Your Scope 1 & 2 GHGs are their Upstream Scope 3 GHGs**
- Customers are making ESG disclosures a requirement for doing business with them
- Companies are setting thresholds for ESG performance (Silver, Gold, CDP 'B'+)
- Some stakeholders are even asking about the ESG-competence of your board!



ecovadis

S&P Global

ProjectGigaton™



Intersection of EHS & ESG: When to Pivot

PIVOT #1: from only mandatory reporting to a reporting strategy that includes voluntary reporting

PIVOT #1: add Strategic Voluntary ESG reporting

Prioritize your Stakeholders –

Are Key Investors or Customers requesting this information?

Is disclosure a requirement for doing business with them?

What is the return on investment of the resources needed?

Is the request on behalf of a cohort of stakeholders?

May be worthwhile if you benefit from efficiencies and consistency

Will the report get scored and will that score be made public?

Understand the Methodology of the scoring system

Can you mock score your first draft to see how you might perform?

How do peers perform? Is there a threshold above which you must score?

What is the scope of the ESG data request?



Walmart & Sam's Club suppliers

6 PILLARS:

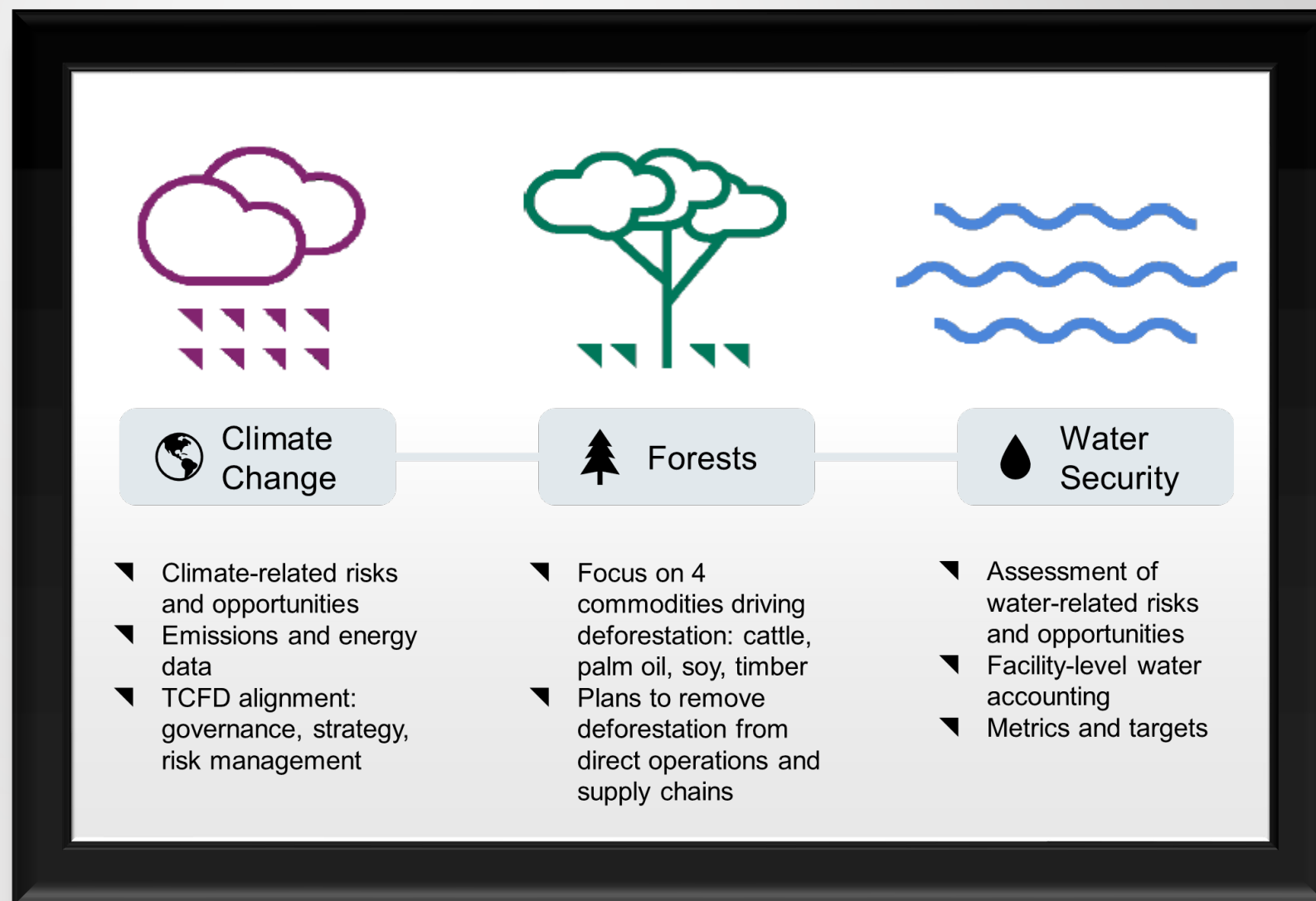
- Energy
- Nature
- Waste
- Packaging
- Transportation
- Product Use and Design



Customer and/or Investor Requested

3 DIMENSIONS:

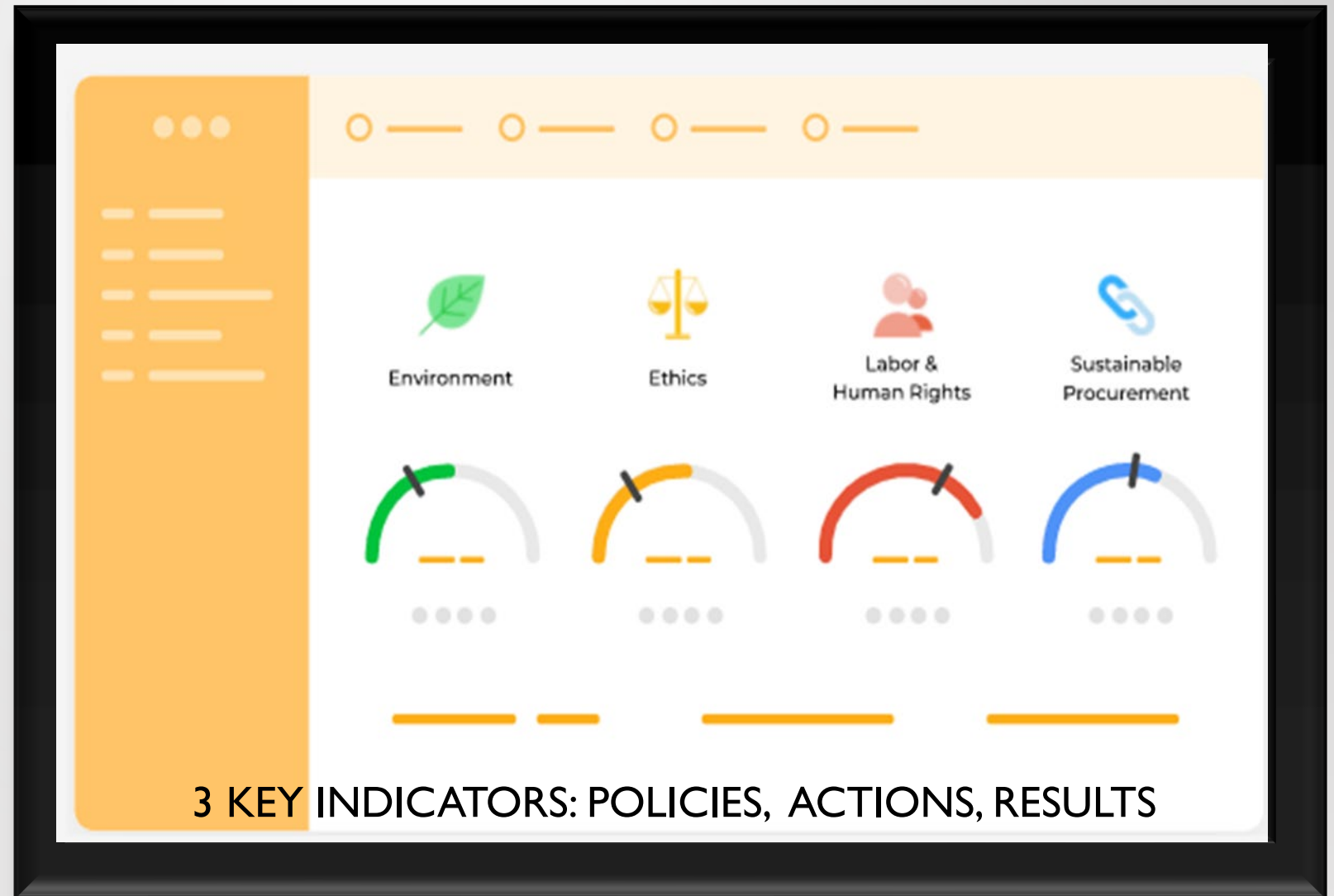
- Climate Change
- Forests
- Water Security



Customer Requested

4 DIMENSIONS:

- Environment
- Ethics
- Labor & Human Rights
- Sustainable Procurement



S&P Global

Investor Requested

3 DIMENSIONS:

- Governance & Economic
- Environmental
- Social

2	Environmental Dimension	<input type="checkbox"/>
▶ 2.1	Environmental Reporting	<input type="checkbox"/>
▶ 2.2	Environmental Policy & Management ...	<input type="checkbox"/>
▶ 2.3	Operational Eco-Efficiency	<input type="checkbox"/>
▶ 2.4	Product Stewardship	<input type="checkbox"/>
▶ 2.5	Biodiversity	<input type="checkbox"/>
▶ 2.6	Climate Strategy	<input type="checkbox"/>

PIVOT #1: add Strategic Voluntary ESG reporting

Who might have received one of these requests?

- Marketing Department
- Procurement Department
- **EHS Department**
- Investor Relations
- Someone who has retired or left organization
- You, but it went to your spam folder
- The President or CEO (awkward! Especially if it's a third notice)

Often, its the person who did it last year who never told you about it. Or worse, its a person who waits until the last minute to let you know they need your help.



PIVOT #1: add Strategic Voluntary ESG reporting

Benefits of Strategic Voluntary ESG Disclosure:

- Opportunity for competitive advantage
- Enhanced reputation
- Preferential Vendor status or meet criteria to *remain* a vendor
- Improved employee loyalty & talent attraction
- Expanded revenue growth
- Improved risk management and resilience
- Reduced costs (caution, this means better pricing for customers!)
- Access to technical resources

When you do better, they do better!

Intersection of EHS & ESG: When to Pivot

Pivot #2: from a short-term mindset to one that supports a broader resilience strategy including ESG risk ID and assessment (Opps too!)

PIVOT #2: ID and Assess ESG-related Risks & Opps

What is your company's process for Risk Assessment? Generally:

- A. Insurance company-led** (often these result in purchasing more insurance products)
- B. Enterprise-wide, integrated, annual process** (with a risk register, quantifying severity and likelihood, rolls up to magic number above which R's & R's assigned)
- C. Siloed process within EHS Department** (may or may not converge with ERM process)
 - May be Management System-related.
 - Often EHS compliance-related risks are identified and ranked.

PIVOT #2: ID and Assess ESG-related Risks & Opps

Common ESG risks and opportunities include:

- Increased cost of compliance due to new ESG reporting rules (SEC, esp.).
- Increased cost of reporting due to customer and investor requests.
- Increased cost of energy as emphasis is placed on procuring renewables.
- Increased cost of operations in the case of water scarcity.
- Increased risk of supply chain shortages, e.g., certified sustainable products.
- Opportunity to provide goods or services which meet customers' need to reduce their own ESG risks.

Intersection of EHS & ESG: What to Leverage

LEVERAGE #1: your expertise during the ESG data Assurance process

LEVERAGE #1:

3rd Party ESG data Assurance

3rd party verification of ESG data adds reliability and credibility

- Many data users incentivize companies for getting their data assured.
- The SEC's proposed Climate rule asks some filers to report Scopes 1 & 2 with "limited" assurance moving to "reasonable" assurance after two years. Scope 3 GHGs are to be assured if they are "material" or part of goal/targets under a phased transition.



Possible assurance compliance dates

Assuming an effective date of December 2022 for the final rule and a registrant with a December 31 year-end:

	Scope 1 and 2 disclosure	Limited assurance thereon	Reasonable assurance thereon
Large accelerated filer	Fiscal 2023	Fiscal 2024	Fiscal 2026
Accelerated filer	Fiscal 2024	Fiscal 2025	Fiscal 2027



LEVERAGE #1:

3rd Party ESG data Assurance

The criteria for third party verification standards are:

- **Relevance:** The standard should specify that it relates to a 3rd party audit or verification process; for a program related standard, 3rd party verification should be specified as part of the program compliance.
- **Competency:** The standard should include a statement regarding competency of verifiers; where it is a program and verification parties are stipulated, competency is assumed to be determined by the 2nd party and therefore need not be explicit in the standard.
- **Independence:** The standard should contain a requirement that ensures that impartiality is maintained in cases where the same external organization compiles and verifies a responding company's inventory.
- **Terminology:** The standard should specify the meaning of any terms used for the level of the finding (e.g. limited assurance; reasonable assurance).
- **Methodology:** The standard should describe a methodology for the verification that includes the verification of the process and/or system controls and the data.
- **Availability:** The standard should be available for scrutiny.





KPMG launches multi-year program to accelerate global solutions for Environmental, Social and Governance issues

KPMG plans to spend more than US\$1.5 billion to focus on the ESG change agenda.

Press release

10 May 2021

EY US expands commitment to environmental and social issues - Names ESG leadership team to drive long-term value for clients and firm



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ESG Reporting

The importance of ESG performance is increasing due to new regulatory requirements, an evolving ESG reporting landscape, shifting stakeholder expectations and pressure from investors.

Press releases

Deloitte announces \$1 billion investment in global Sustainability & Climate practice



Press release

14 Feb 2022 | London, GB

EY Carbon launched to support listed businesses preparing net zero plans ahead of looming 2023 deadline

Ready to take the next step on your ESG reporting journey? PwC can help

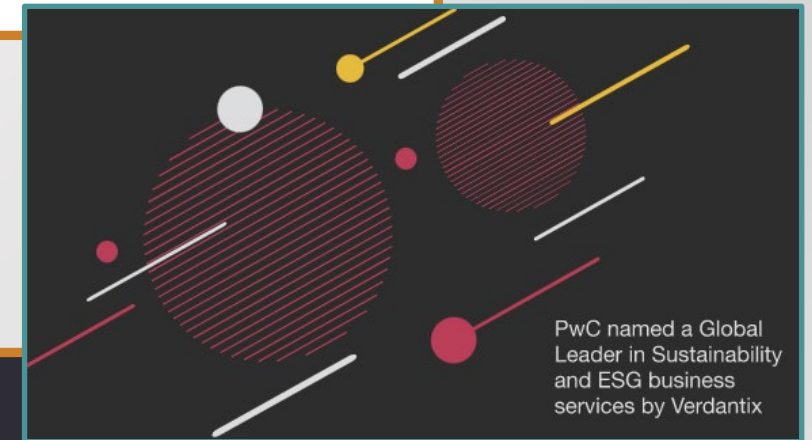
Compelling ESG reporting doesn't come together in a flash. It requires collaboration and insight from across the organization to work towards common goals as a team. Many organizations start by assessing the maturity of their data. Others want to focus on climate change, diversity, equity and inclusion or other significant areas of reporting. Some are further along in their thinking and ready to make optimizations. And in boardrooms across the country, corporate directors are looking to best understand their **ESG oversight roles**.



Services Industries About us Products Press room

PwC in the Caribbean > Press releases > The New Equation

PwC announces new strategy and commitment to invest in digital, diversity and ESG in Caribbean region



PwC named a Global Leader in Sustainability and ESG business services by Verdantix

We've done it, again: Deloitte wins 2022 Digital Innovation of the Year award

Deloitte's Omnia ESG Module was named Digital Innovation of the Year by the International Accounting Bulletin at The International Accounting Forum and Awards 2022. This is the third consecutive year that Deloitte has received this award. It comes at a time when Deloitte is building upon years of sustainability experience including an investment of \$1 billion in client-related services, data-driven research, and assets and capabilities.

The Omnia ESG Module is an insight-fueled platform that helps professionals provide ESG reporting readiness and assurance with quality and agility. Its materiality assessment function pulls together critical information to pinpoint top ESG priorities to stakeholders. Machine learning tools help map a disclosure assessment, turning an onerous reconciliation into a data-driven decision-making process. Our disclosures checklist organizes the various ESG standards for streamlined evaluations and eye-opening insights.

Digital Innovation of the Year



INTERNATIONAL ACCOUNTING BULLETIN



Press release

1 Feb. 2022 | London, GB

EY named a leader for ESG consulting services by independent research firm



COMPLIANCE WEEK

FOR THE WELL-INFORMED CHIEF COMPLIANCE OFFICER AND AUDIT EXECUTIVE

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More cheating charges at KPMG: SEC fines firm \$50M

By Tammy Whitehouse | Mon, Jun 17, 2019 1:53 PM

The SEC has fined KPMG for not only allegations of cheating on regulatory inspections, but also new charges of numerous auditors cheating on training exams.

◆ WSJ NEWS EXCLUSIVE | [FINANCIAL REGULATION](#)

Big Four Accounting Firms Come Under Regulator's Scrutiny

By [Dave Michaels](#) [Follow](#)

Updated March 15, 2022 2:45 pm ET

SEC has launched probe into how firms manage conflicts of interest caused by sale of nonaudit services

It is reported that the FRC has been working on its recommendations for the last two years, since the collapse of Carillion shocked the audit sector. They include:

1. Creating a firewall between audit and other activities of an organisation
2. Separate accounting and reporting for audit departments
3. Separate board appointed to oversee audit department
4. Change to pay structure of those employed in audit.

According to *The Times* "PwC, Deloitte, KPMG and EY will have to submit their plans for structural separation to the FRC by the end of October and will need [to] implement the changes by June 2024". If these firms implement any additional changes to their governance before the deadline, that will be genuinely leading by behaviour and will instil greater confidence.

Ernst & Young is considering a split of its global audit and advisory businesses in part to remove roadblocks to growth for the advisory side.

Photographer: Tolga Akmen/AFP via Getty Images



EY Consulting Split Aims to Free Firm from Ethics Crackdown

May 31, 2022, 4:45 AM



- Audit, advisory split could allow practices to compete freely
- Big Four competitors to stick with current business model

COMPLIANCE WEEK

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PwC Canada fined \$950K for internal training exam cheating

By Kyle Brasseur | Fri, Feb 25, 2022 11:41 AM

The Canadian affiliate of Big Four audit firm PwC has agreed to pay \$950,000 in penalties between audit regulators in the United States and Canada after discovering widespread cheating among employees taking internal exams.

— [Analysis](#)

KPMG, once again, accused of conflict over its advisory work

Former KPMG partner Brendan Lyon alleges his report was more about ensuring a valuable client got what it paid for: a pre-determined answer.

[Edmund Tadros](#) *Professional services editor*

Nov 8, 2021 - 5:38pm

Former KPMG partner Brendan Lyon's blockbuster testimony before a NSW



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Press Release

Ernst & Young to Pay \$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation

Largest Penalty Ever Imposed by SEC Against an Audit Firm

FOR IMMEDIATE RELEASE
2022-114

Washington D.C., June 28, 2022 — The Securities and Exchange Commission today charged Ernst & Young LLP (EY) for cheating by its audit professionals on exams required to obtain and maintain Certified Public Accountant (CPA) licenses, and for withholding evidence of this misconduct from the SEC's Enforcement Division during the Division's investigation of the matter. EY admits the facts underlying the SEC's charges and agrees to pay a \$100 million penalty and undertake extensive remedial measures to fix the firm's ethical issues.

LEVERAGE #1:

3rd Party ESG data Assurance

- **Make your expertise available to the folks procuring assurance services and help them evaluate the competency and independence of possible vendors.**

- **Competency:** The standard should include a statement regarding competency of verifiers; where it is a program and verification parties are stipulated, competency is assumed to be determined by the 2nd party and therefore need not be explicit in the standard.
- **Independence:** The standard should contain a requirement that ensures that impartiality is maintained in cases where the same external organization compiles and verifies a responding company's inventory.

- **Question the use of assurance standards only those in the accounting profession are allowed to use (ASAE 3000, ISAE 3000) and perhaps express your preference for the ISO 14064-3 standard.**

Intersection of EHS & ESG: What to Leverage

LEVERAGE #2: your expertise to inform the Board of Directors



LEVERAGE #2:

Be an ESG-SME Resource to the Board

Boards are being asked to demonstrate fluency in ESG matters:

- **ESG issues are part of fiduciary responsibility.**
- **Boards and management teams accountable for the potential mismanagement or lack of oversight of material issues**
- **Investors are requiring companies to demonstrate robust management systems, oversight mechanisms, and measurable performance**
- **Customers see Board-competency in ESG as an indicator of a resilient supply chain partner.**

LEVERAGE #2:

Be an ESG-SME Resource to the Board

- **Contribute to risk assessment/business continuity processes.**
- **Embrace the Board's Audit Committee review those voluntary ESG reports.**
- **Participate on ESG-specific committee with board presence.**
- **Get to know the Board's annual agenda cycle.**
- **Engage on EHS matters beyond compliance, such as data assurance.**
- **Help them articulate the business case for doing the right thing.**

So, then what?

PLAN:

- Add voluntary ESG reporting, company risk assessment and data assurance timelines to your compliance calendar.
- **Inventory material topics from your own engagement efforts.**
- Identify any EHS-related risks or opportunities that correlate to material topics. Consider incorporating these into your existing EHS Management System.

So, then what?

DO:

- **Track your effort related to voluntary ESG reporting.**
- **Engage the young folks on your HSE team in ESG, they love this stuff and it's a great retention tool. And it will free you up to focus your ESG efforts on supporting the Board.**

CHECK:

- **Ask how your company performed on those voluntary reports and be sure your effort is recognized. If you were not involved, advocate for the resources to get you involved.**

So, then what?

ACT:

- Explore the Investor Relations page of your company website so you can learn about and support the company's ESG disclosures and commitments.
- Seek out and share continuing education opportunities focused on ESG for you and board members to attend.
- Prepare for next year's reporting

Thank you!



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**ENVIRONMENTAL STEWARDSHIP PROGRAM ANNUAL MEETING
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