



Integrating Sustainability & Enterprise Risk

IDEM 2018 Pollution Prevention Conference

September 19, 2018



AGENDA

1. The Changing View of Risk
2. Integrating Sustainability and Risk
3. Assessing and Disclosing Risk

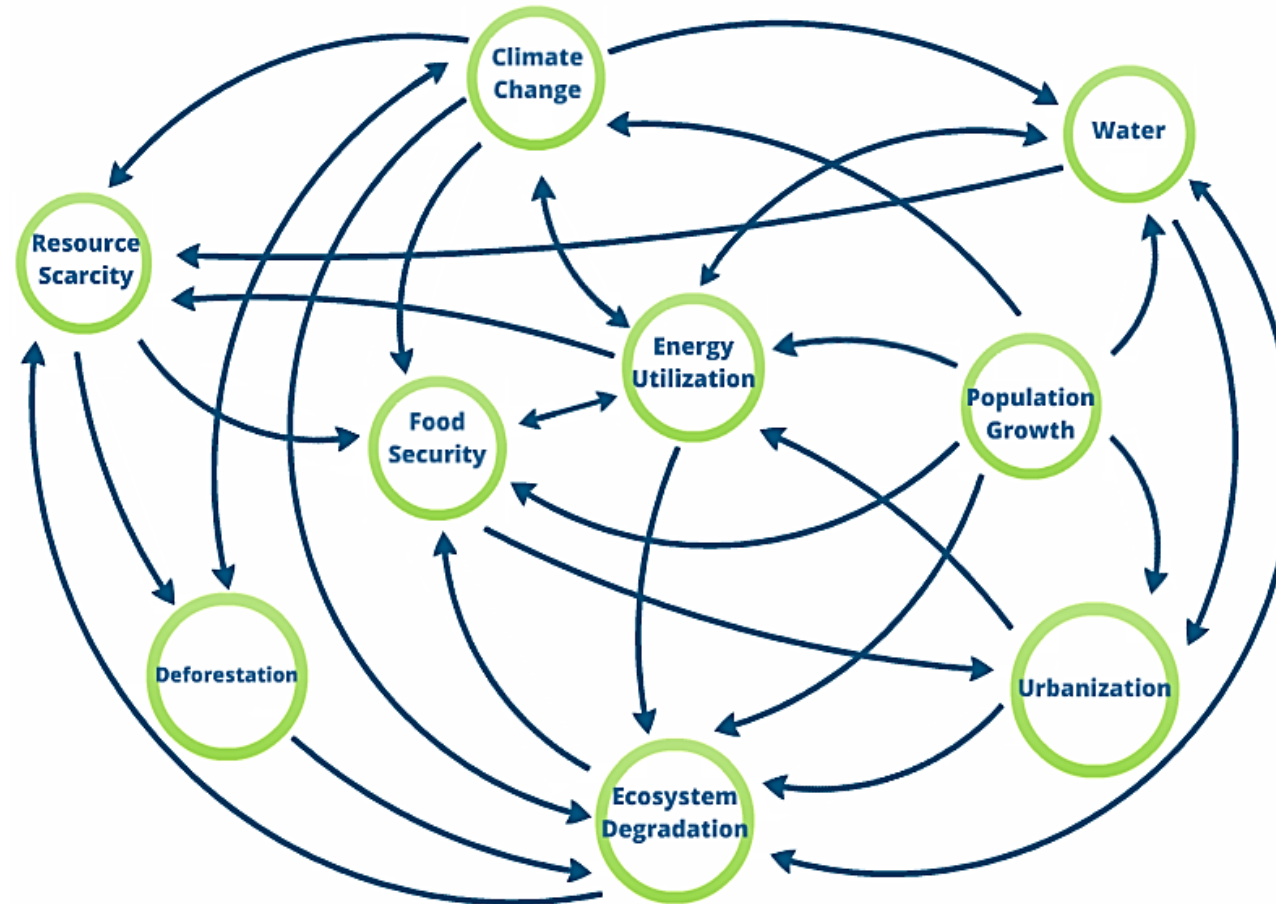
The Changing View of Risk

	2008	2013	2018
Top 5 global risks in terms of likelihood	Asset price collapse	Severe income disparity	Extreme weather events
	Middle East instability	Chronic fiscal imbalances	Natural disasters
	Failed and failing states	Rising greenhouse gas emissions	Cyberattacks
	Oil and gas price spike	Water supply crises	Data fraud or theft
	Chronic disease, developed world	Mismanagement of population aging	Failure of climate-change mitigation and adaptation
Top 5 global risks in terms of impact	Asset price collapse	Major systemic financial failure	Weapons of mass destruction
	Retrenchment from globalization (developed)	Water supply crises	Extreme weather events
	Slowing Chinese economy (<6%)	Chronic fiscal imbalances	Natural disasters
	Oil and gas price spike	Diffusion of weapons of mass destruction	Failure of climate-change mitigation and adaptation
	Pandemics	Failure of climate-change mitigation and adaptation	Water crises

● Economic
● Environmental
● Geopolitical
● Societal
● Technological

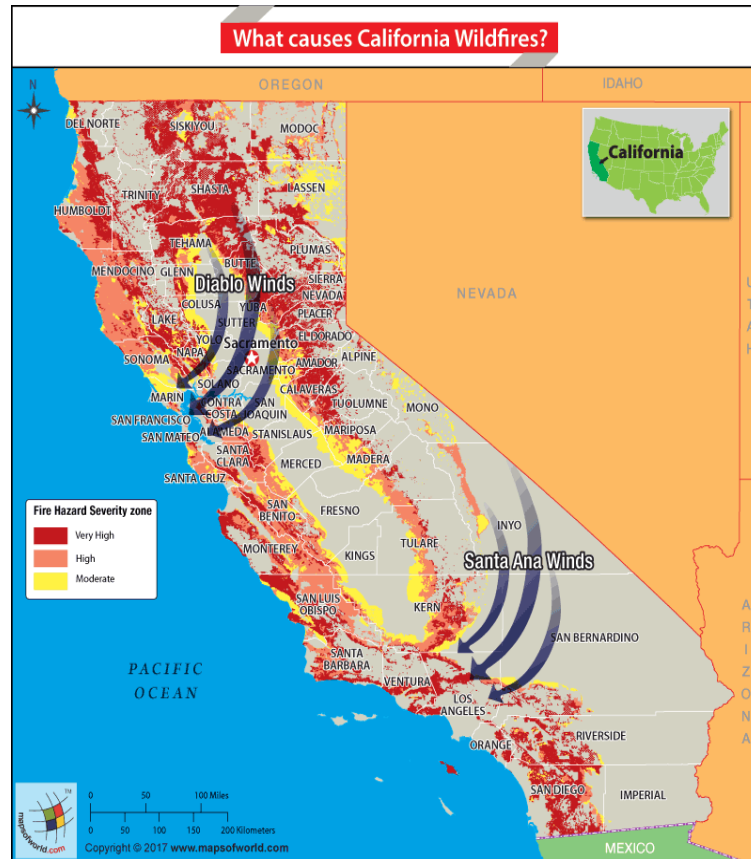
<https://www.coso.org/Documents/COSO-WBCSD-Release-New-Draft-Guidance-Online-viewing.pdf>

The Changing View of Risk



**Risks are often interlinked and thus require systems approach to manage*

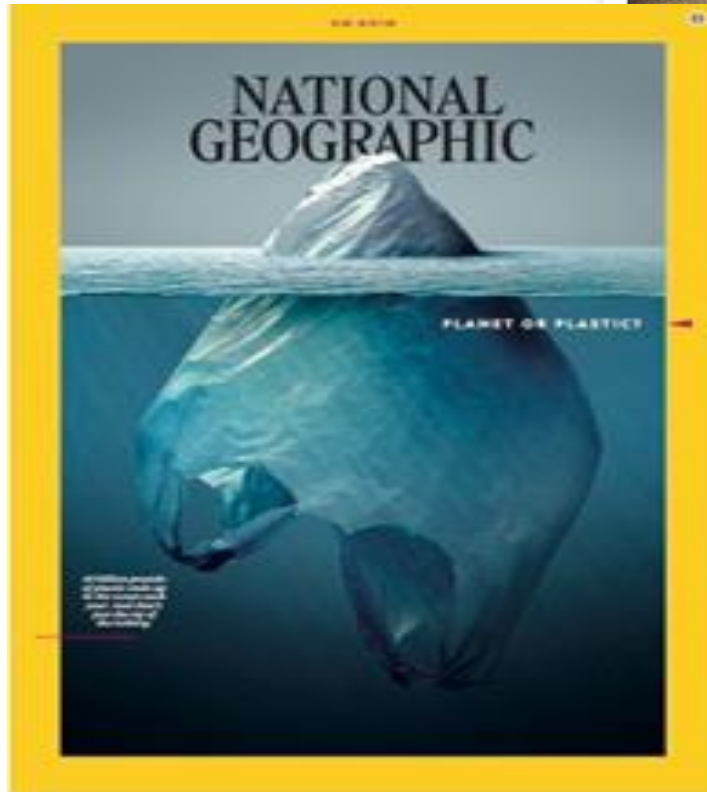
The Changing View of Risk



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Outside In

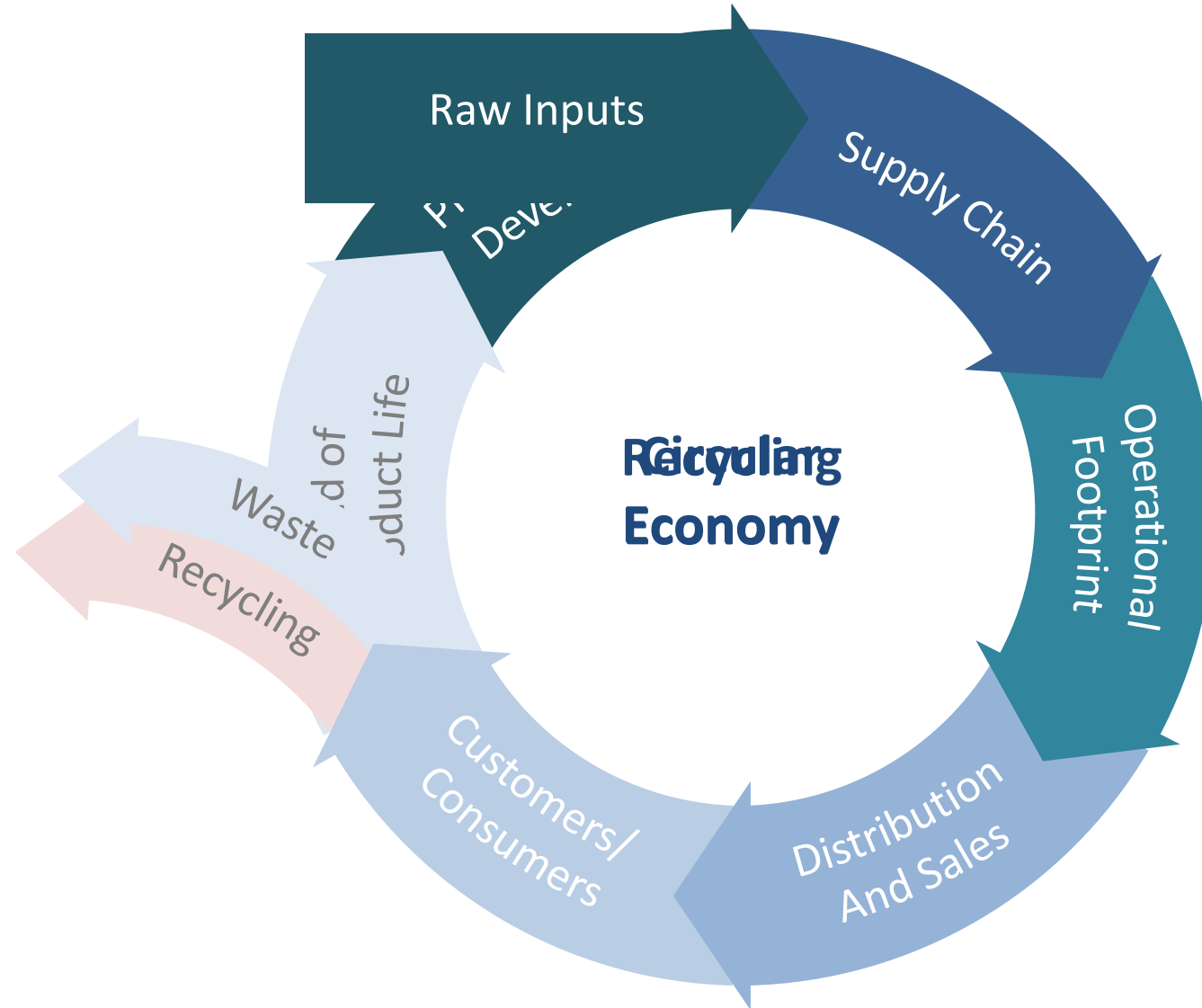
How forces and trends outside of the enterprise affect the value chain



Inside Out

How the enterprise affects change and communicates its position

The Changing View of Risk



The Changing View of Risk

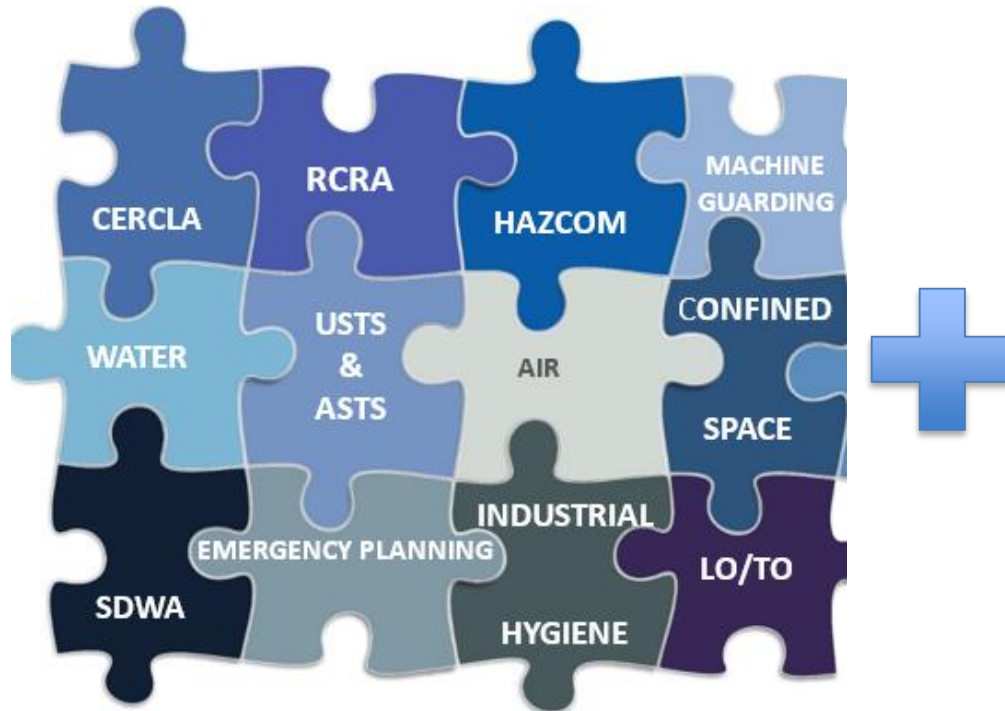


Pollution Prevention as an SDG

SDG 12: Sustainable growth and development require minimizing the natural resources and toxic materials used, and the waste and pollutants generated, throughout the entire production and consumption process.

Integrating Sustainability - EHS

Traditional EHS Responsibilities



Additional EHS Responsibilities

- Sustainability Reporting
- Carbon & Water Footprints
- Product Stewardship
- Supply Chain
- Green Buildings
- Energy Management
- Biodiversity
- Community Affairs
- Stakeholder Engagement

What is the carbon footprint of your product?

What is the environmental impact of your product & packaging?

Is this product better for the environment than your competitor's?

Are your products socially responsible?

What are you doing to address water scarcity?

Are your suppliers socially and environmentally responsible?



Strategic Risks – risks that affect or are created by an organization's business strategy and strategic objectives.

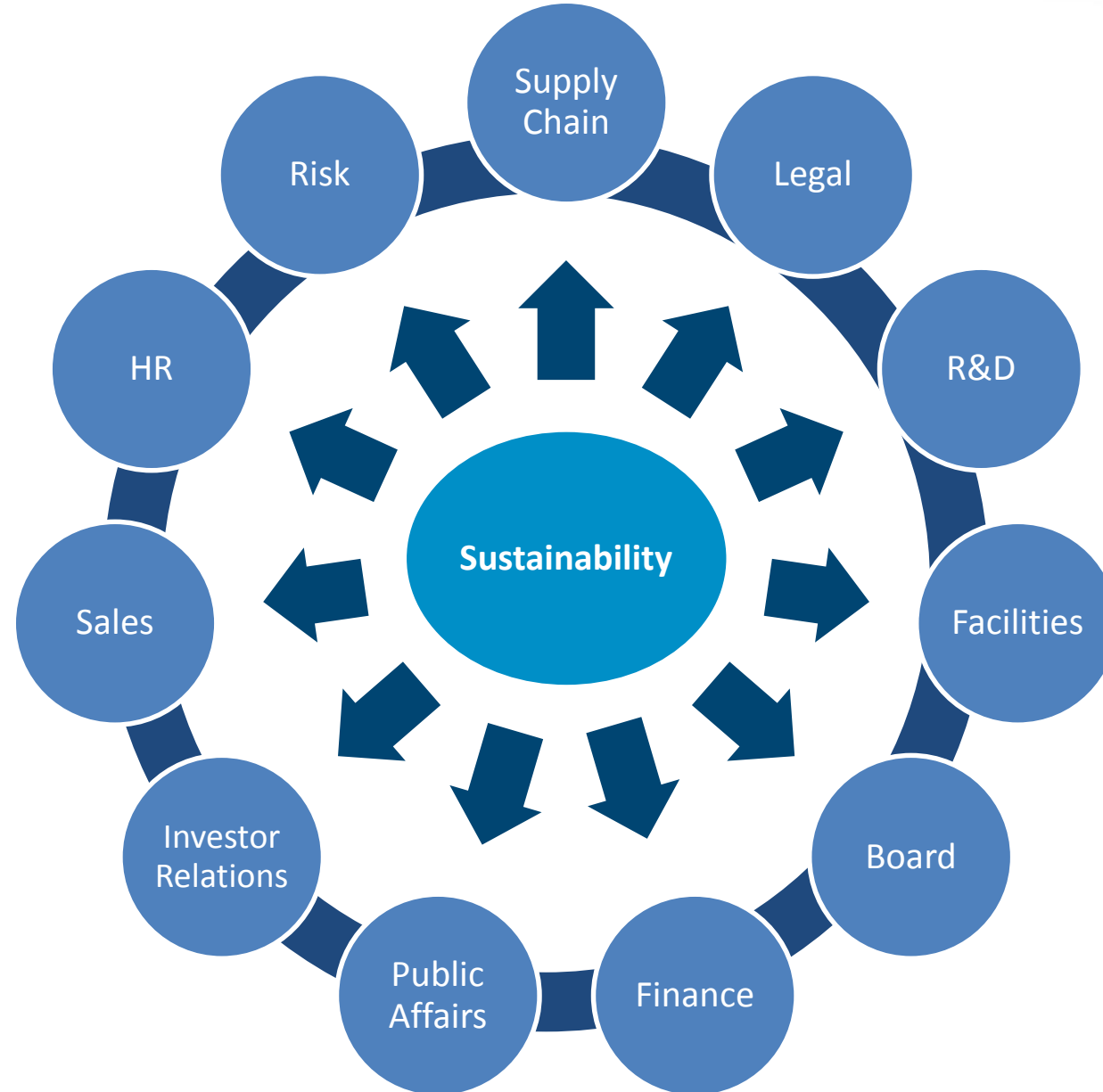
Operational Risks – impacts to the operations from the environment and society

Reputational Risks – impacts to brand or image

Regulatory/Reporting Risks – legal and regulatory requirements and growing EHS governance and transparency demands

**Risks are often interlinked and thus require systems approach to manage*

Integrating Sustainability – Enterprise-wide



Integrating Sustainability – The Board’s Role

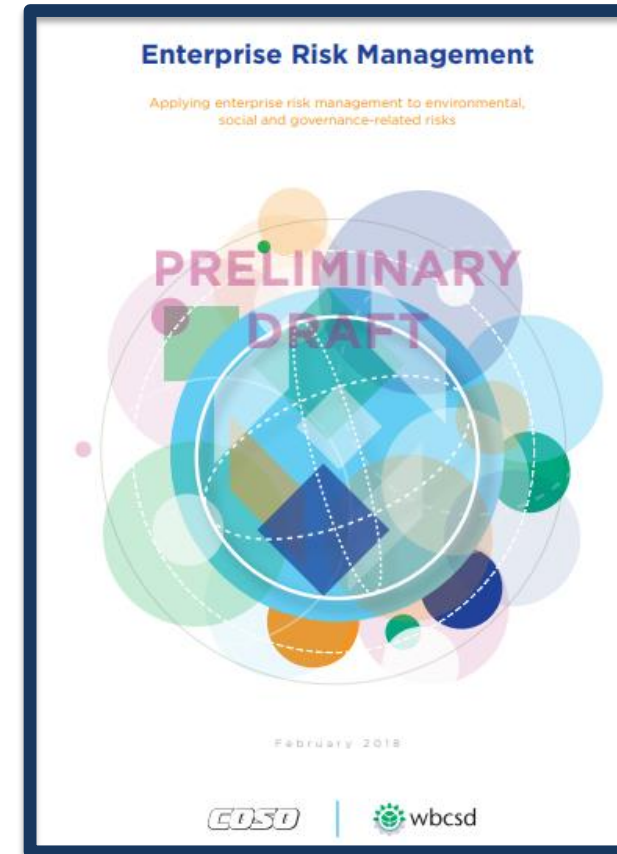


Oversight and Fiduciary Responsibility

Enterprise risk management (ERM) -

The process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings.

Internal Audit: Enhance and protect organizational value by providing stakeholders with risk based, objective & reliable assurance, advice, and insight.



Assessing and Disclosing Sustainability Risk

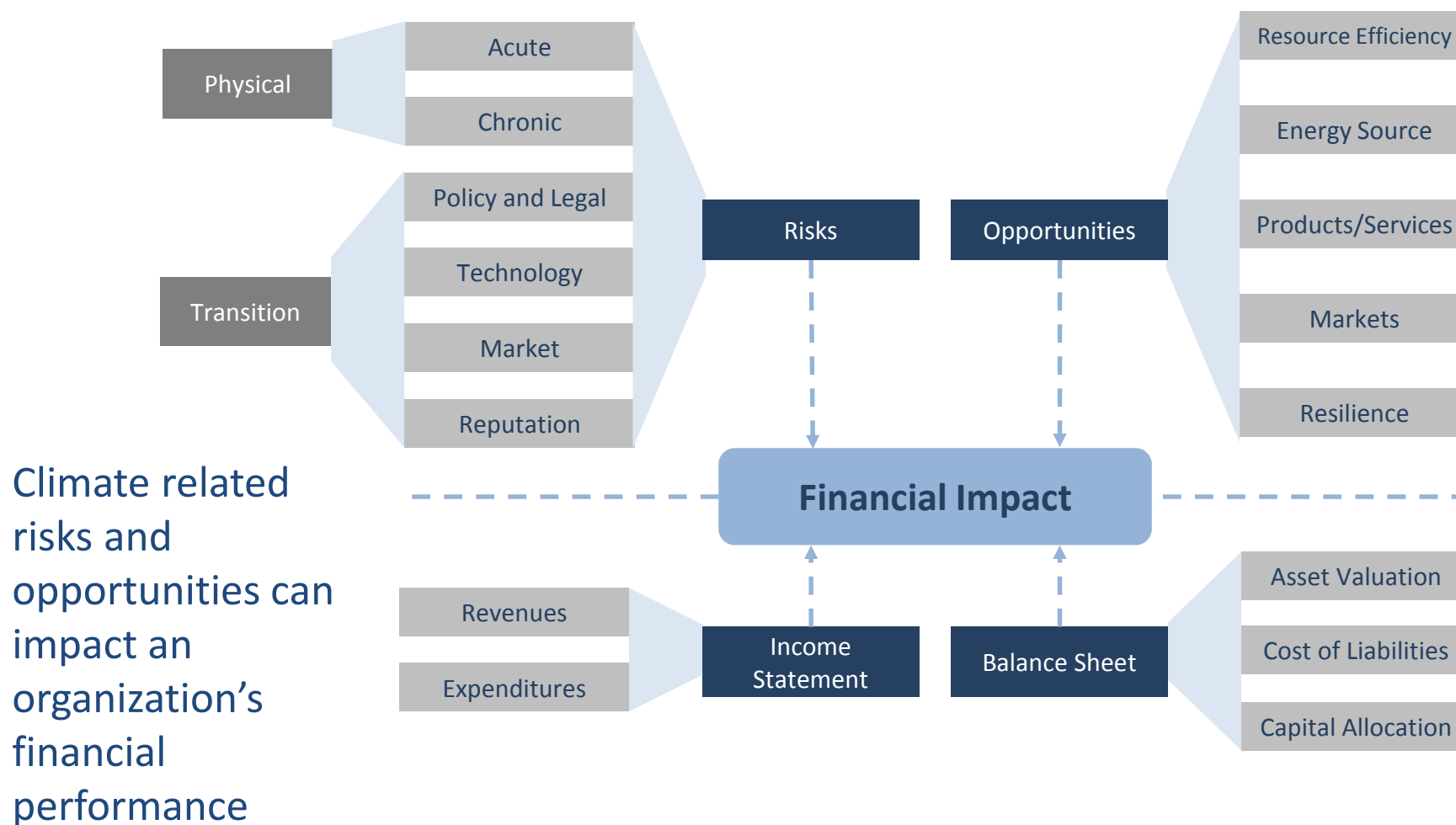
- Are the right risks identified?
 - Inclusion of External and Internal Context?
 - Consistent with Stakeholder Expectations?
 - Appropriate Time Horizon?
 - **Integrated with Business Strategy**
- Are the identified risks disclosed right?
 - Meet Regulatory Requirements?
 - Follow Accepted Protocols and Standards?
 - **Third Party Assured**

Sustainability Disclosure Frameworks



Sustainability Disclosures - TCFD

Task Force on Climate-Related Financial Disclosures



Sustainability Disclosures

	Performance Indicators	Management Disclosures
Impacts	Indicators to measure material risks and key performance indicators in major environmental and social dimensions (quantitative)	Strategies and systems designed to address business transformation risks and minimize/mitigate impacts (qualitative)
Innovation	Indicators to measure company performance in realizing opportunities and using innovation to create positive environmental/social outcomes (quantitative)	Strategies designed to advance innovative products and services that create positive environmental/social outcomes (qualitative)

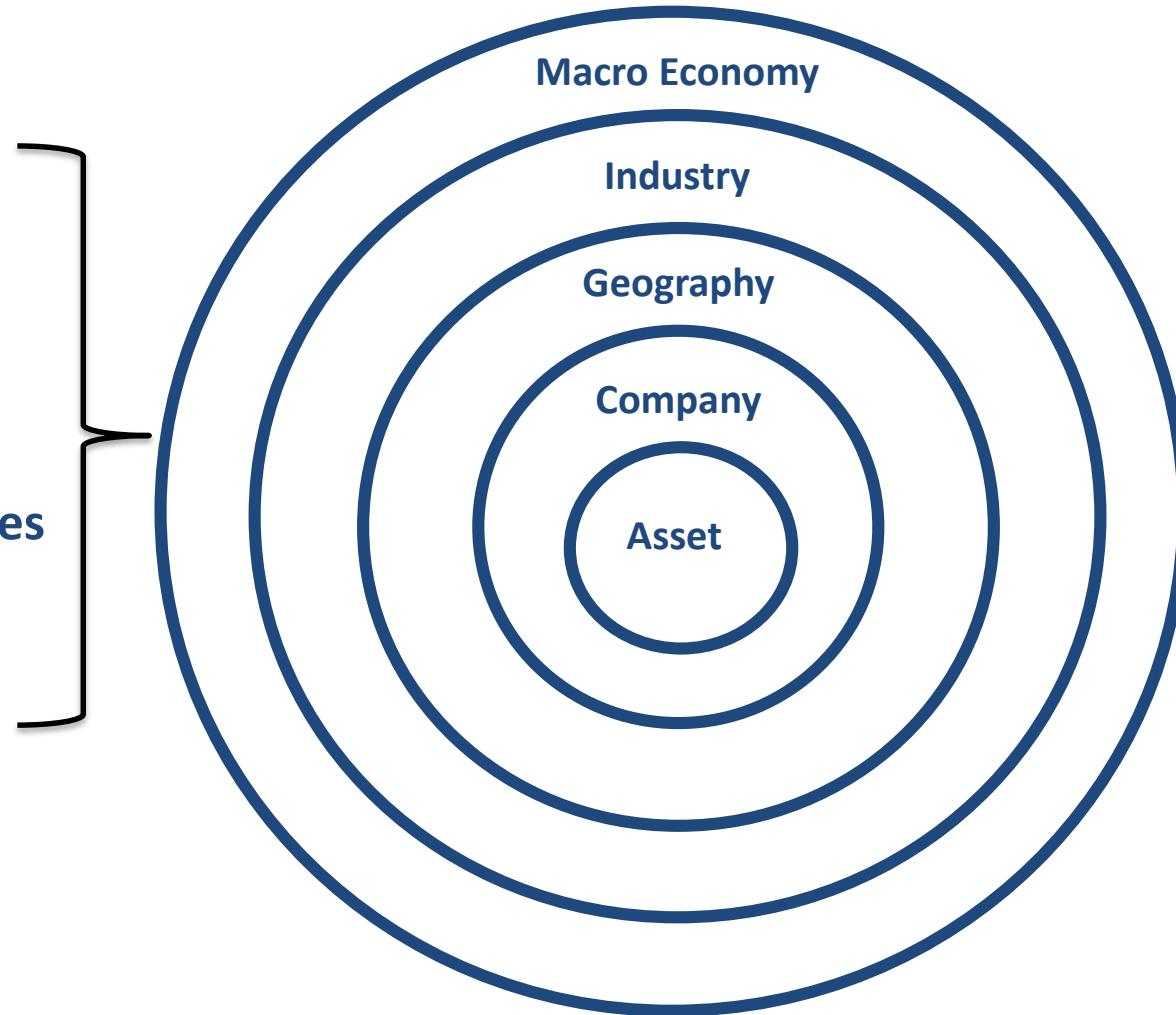
Assessing and Disclosing Risk - Context Matters

External Influences

- Political
- Economic
- Social
- Technological
- Legal
- Environmental

Stakeholder Influences

- Shareholders
- Customers
- Consumers
- Regulators
- Suppliers
- NGOs
- Community

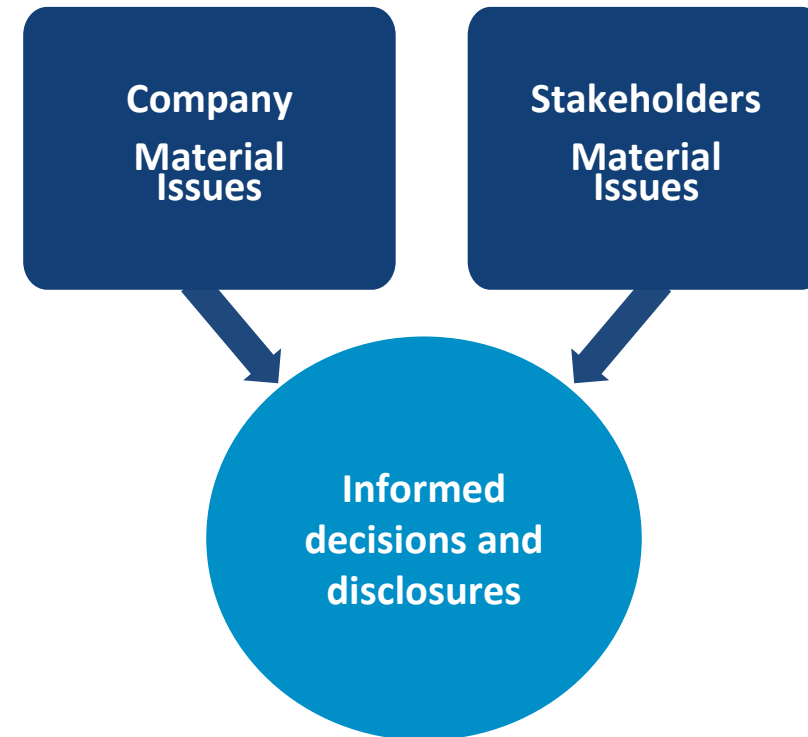


Assessing and Disclosing Risk - Materiality

Focus on what matters, where it matters

GRI: Those topics that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

SASB: Information is material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available.



Security and Exchange Commission (SEC)

When assessing potential disclosure obligations, a company should consider whether the impact of certain existing laws and regulations, international accords, indirect consequences of regulation or business trends, and/or physical impacts, are material with respect to climate change

- Water issue is also highlighted in SEC's interpretive guidance: *"Changes in the availability or quality of water...can have material effects on companies"*



3 ways an issue can be deemed “higher materiality”:

Evidence of Interest (backward-looking)

Issue has been raised more frequently than others in corporate reports, etc.
Financial, Legal, Industry Norms, Stakeholder Relevance, Opportunity for Innovation

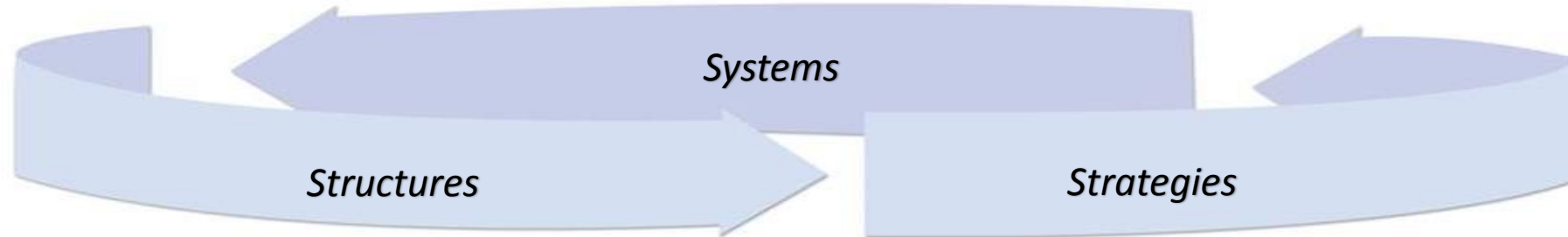
Evidence of Economic Interest (current)

Management/mismanagement of the issue affects corporate valuation parameters

Evidence of Emerging Interest (forward looking adjustment)

The issue is reasonably likely to create positive or negative externalities and/or systemic disruption and is significant in the view of investors

Assessing and Disclosing Sustainability Risk



Inputs

- Context Review
- Stakeholder Expectations
- Risk Assessment
- Data Collection Tools
- KPI Selection
- Benchmarking
- Industry Standards & Regulations
- etc.

Outputs

- Materiality Assessment
- Stakeholder Maps
- Performance Data
- Life Cycle Inventories
- Public Disclosures
- etc.

Outcomes

- Improved Financial Performance
- Access to Capital
- Brand Protection/Enhancement
- Risk management
- etc.

The Bottom Line

- Environmental and social megatrends continue to be big influencers for investors, customers, and consumers who expect greater transparency on these issues.
- Integrating sustainability risks into the enterprise risk function can leverage sustainable ROI opportunities
- Environmental has a unique opportunity today to secure a seat at the table

Thank you

Questions?

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