BEST PRACTICES IN SUSTAINABILITY REPORTING AND COMMENTS ON DRAFT SUSTAINABILITY REPORTING GUIDANCE

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In partnership with

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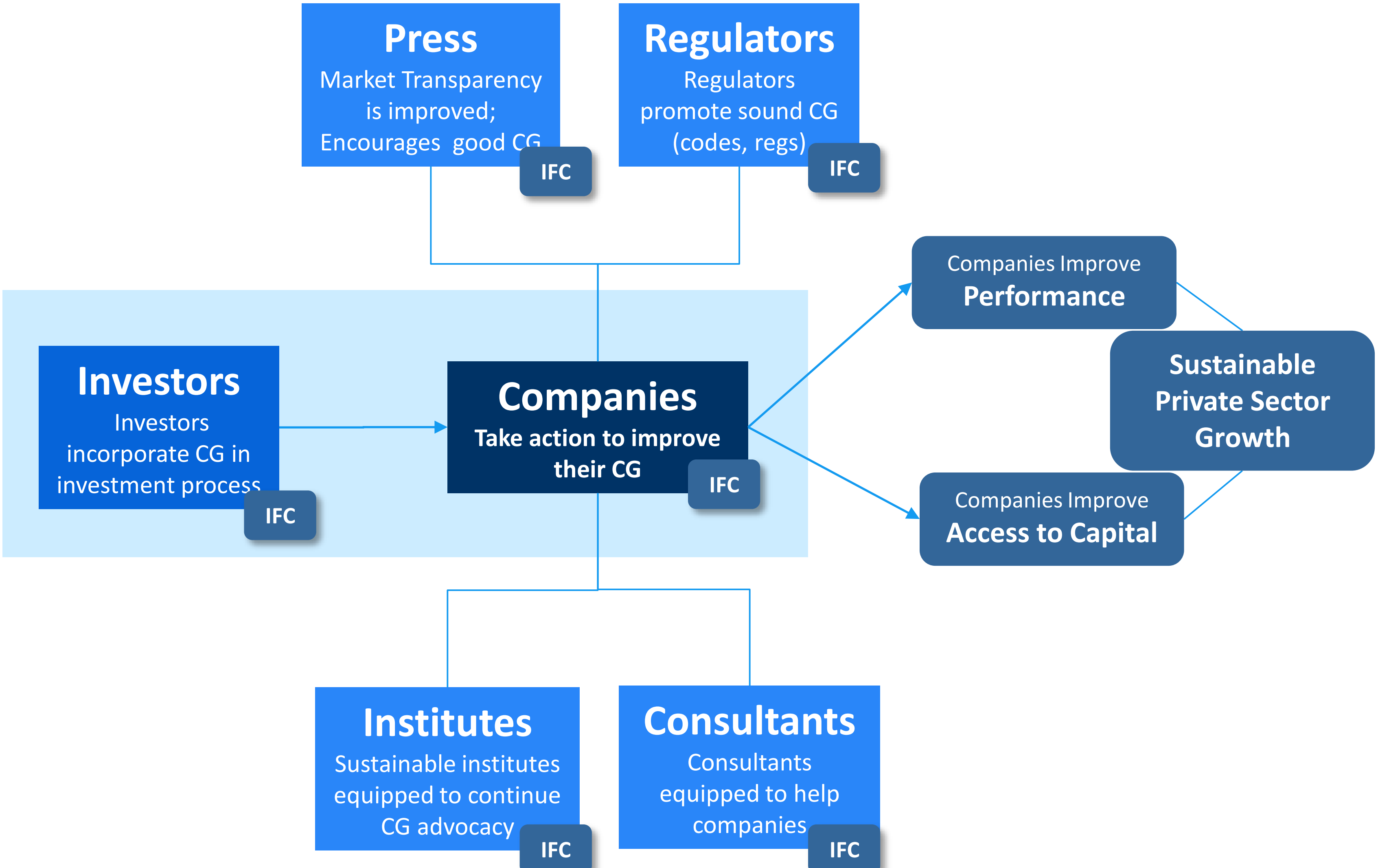
AGENDA

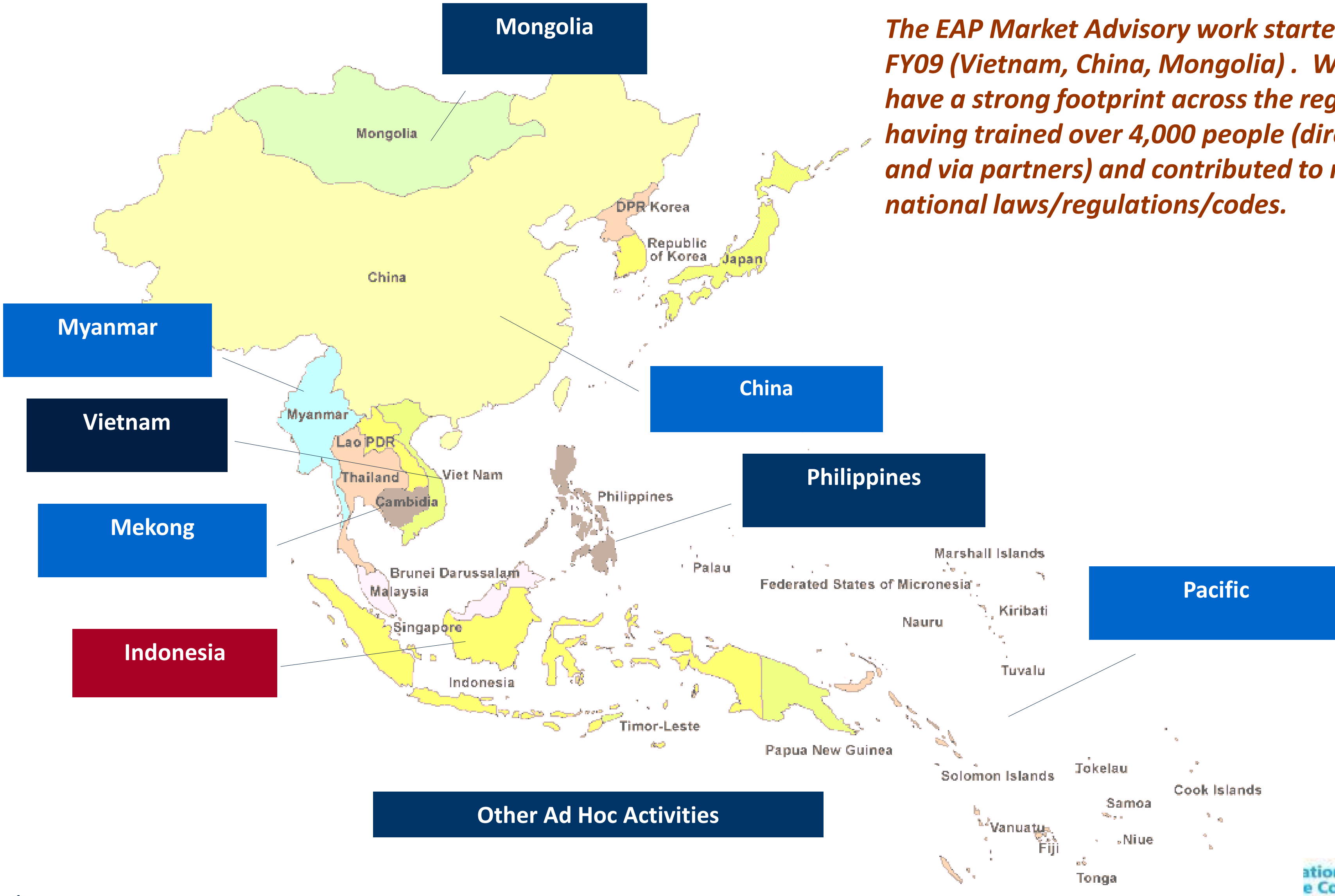
- Overview of IFC activities
- Sustainability Reporting Trends: Background on ESG Integration
- IFC Comments on draft guidelines

IFC Corporate Governance Program



IFC Programs Around The Region

The EAP Market Advisory work started in FY09 (Vietnam, China, Mongolia) . We now have a strong footprint across the region, having trained over 4,000 people (directly and via partners) and contributed to many national laws/regulations/codes.



SUSTAINABILITY REPORTING TRENDS: Background on ESG Integration

Changes in Best Practices/Conclusion that E&S needs to be integrated into CG

- Standard setters > UN PRI, ICGN, WFE, UN SSE, IOSCO, OECD, EU, US SEC, TCFD,
- Reporting & Disclosure > GRI, IIRC, SASB
- Institutional Investors / Asset Managers > Aviva Investors, Cartica Capital, Bank of Montreal, Triodos
- Various Standards and Codes (S.A., Brazil, H.K., etc.) incorporated E&S/Sustainability
- Data providers > BBG, ISS, Thomson Reuters (Asset4), MSCI, Sustainalytics
- Rating agencies > S&P, Moody's

Governance of Stakeholder Engagement

Global Trends in Sustainable Reporting

Governments and regulators increasingly require or encourage companies to disclose sustainability information in their annual reports

Trends in sustainability reporting instruments

		2006		2010		2013		2016	
Reporting Instruments	Mandatory	35	58%	94	62%	130	72%	248	65%
	Voluntary	25	42%	57	38%	50	28%	135	35%
	Total	**60**		**151**		**180**		**383**	
Countries & Regions		**19**		**32**		**44**		**71** (64 with instruments)	

Source: Carrots and Sticks Report, 2016

Main drivers of disclosure

- Investor pressure (83%) and
- International regulation (77%)

Source: 2017 HSBC research

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ESG Drivers

Investors believe that sustainability creates tangible value

MIT 2015 survey –

- 75% of investors cite sustainability as reason to invest
- 60% believe that solid sustainability reduces company risk
- 60% are ready to divest from companies with poor ESG

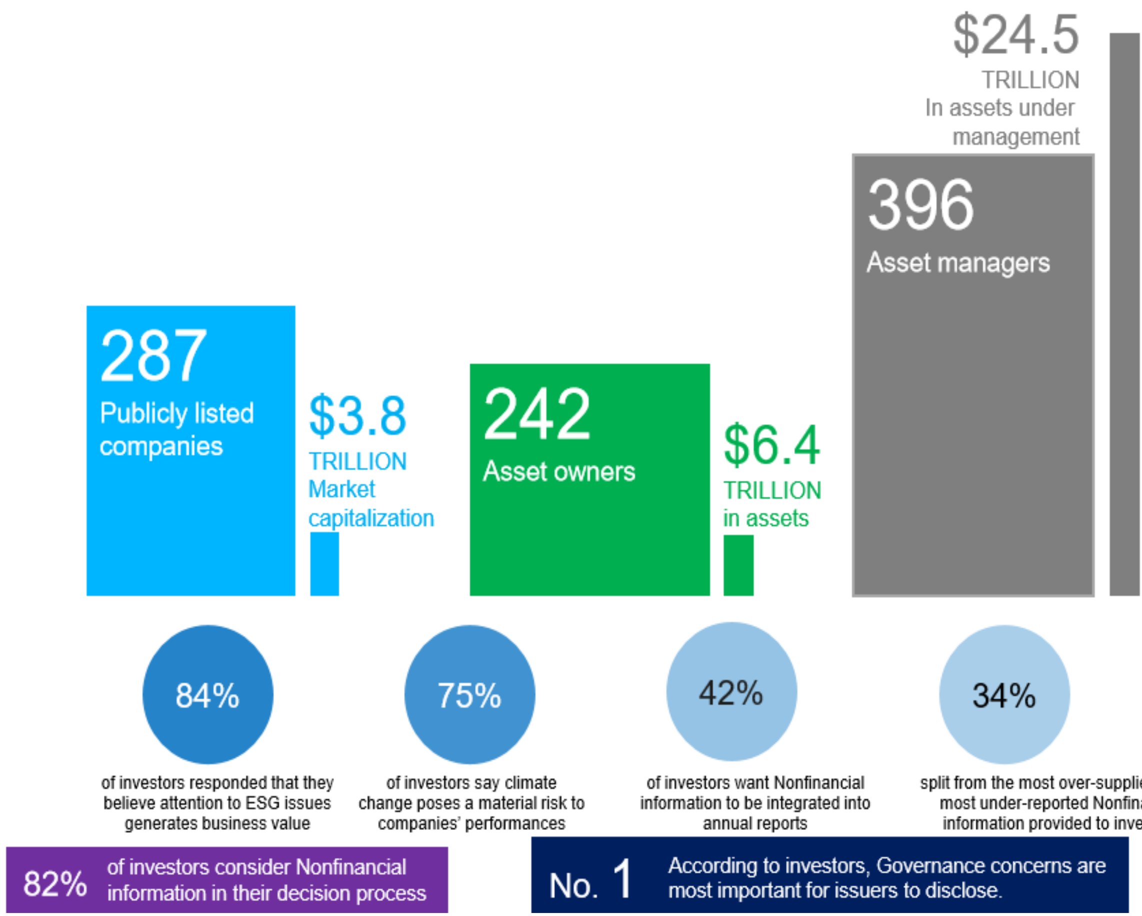
Cambridge Associates (2016) - ESG made a stronger contribution to performance of companies in emerging markets than those in developed markets (4% difference)

World Bank Investors survey - Governance considerations are today an integral part of the ESG analysis

ESG matter for short and long term business success – Harvard Business School Study (2011, 2013, 2016)

Firms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues (over 6%).

BNY-Oxford Non-Financial Information Study



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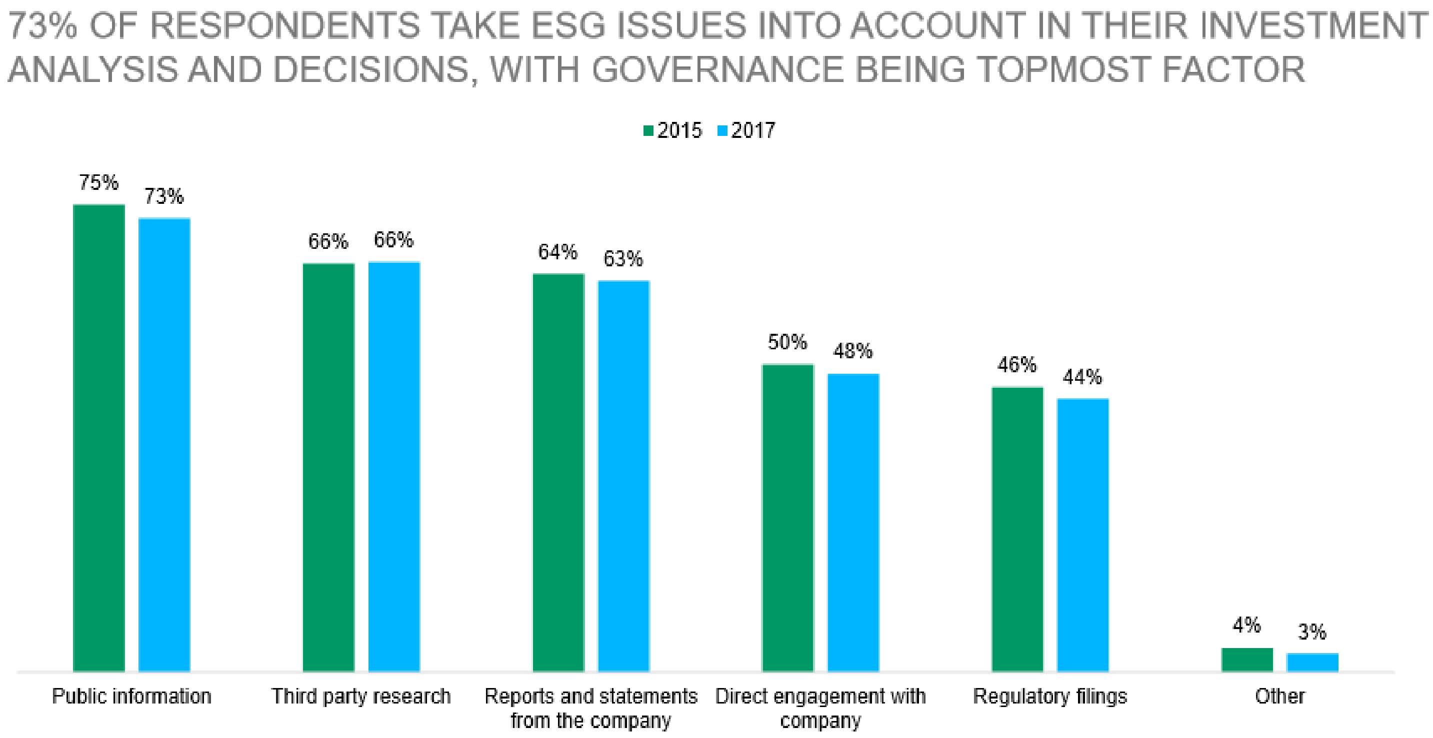
CFA Institute Survey: Consideration of ESG & Information Sources



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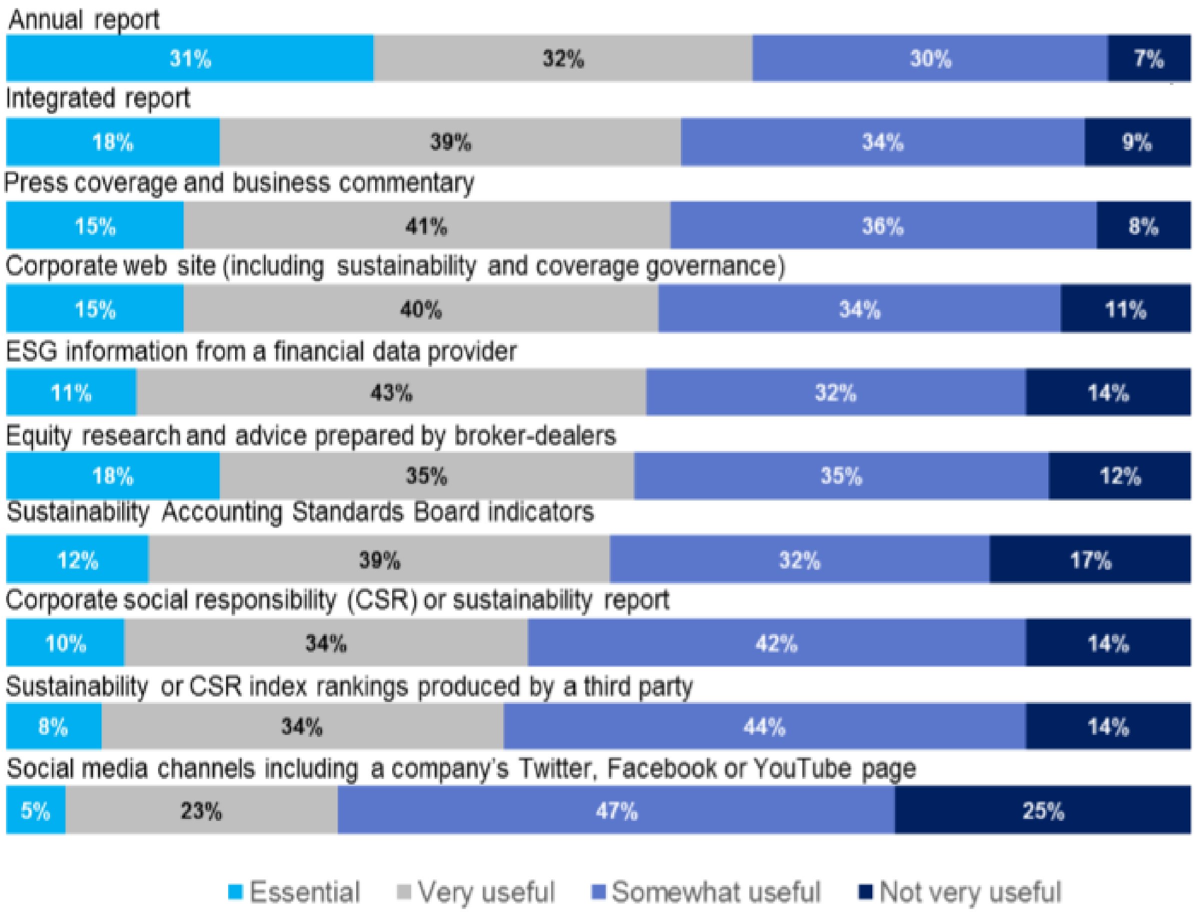
E&Y Investor Survey on Non-Financial Information: Annual Report — A Key Source



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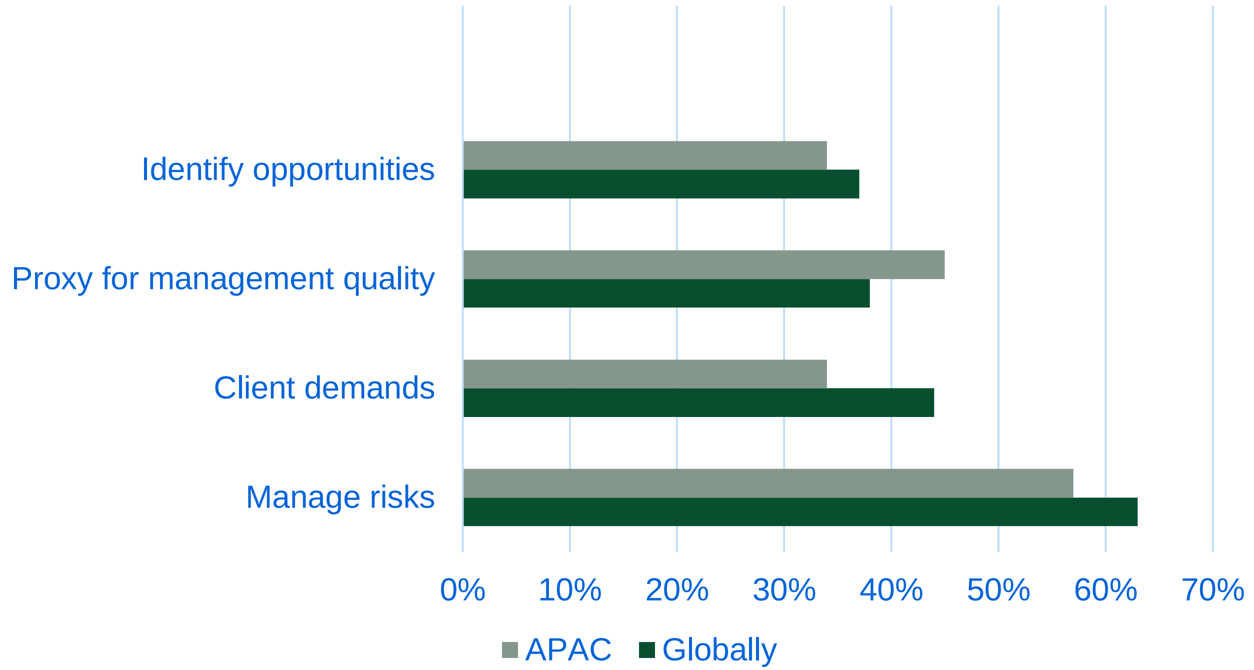
From CFA Institute's Survey of Investors

Why investors take ESG issues into consideration in investment decisions?



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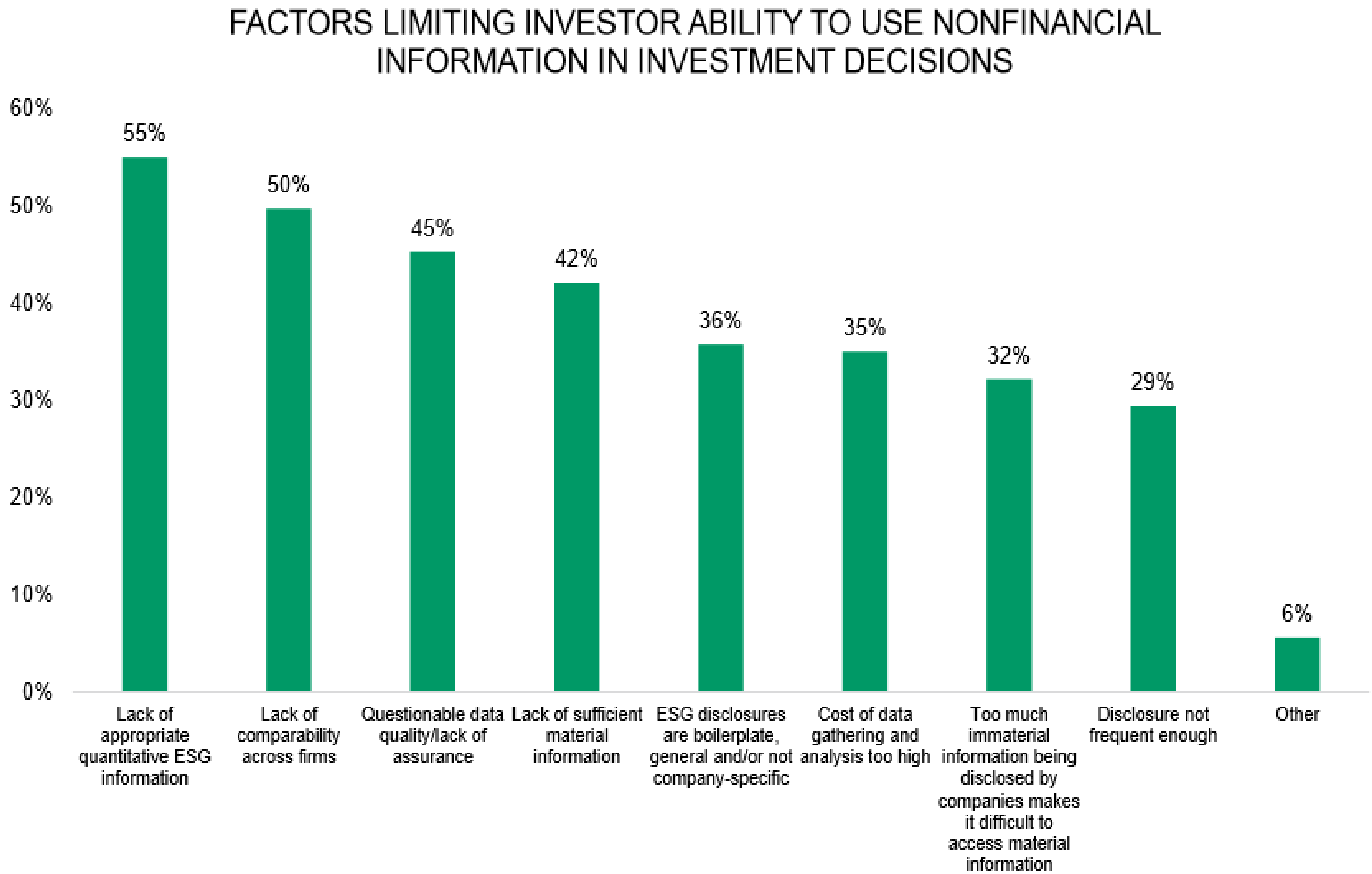
2017 ESG CFAI Survey Insights: Impediments to Use of Information



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Global Reporting Initiative Guidelines (GRI)	International Integrated Reporting Framework (<IR>)	Sustainability Accounting Standards Board Sector Standards (SASB)
Intent is to improve sustainability of organisations and support **sustainable development**	Intent is **increase long-term, integrated thinking**—considering multiple capitals—and improve allocation of financial capital	Intent is to democratize the availability **decision-useful ESG information**
Multi-stakeholder focus	All stakeholders are addressed, **investors are prioritised**	Primary audience is **investors**
• Standalone sustainability report • Qualitative and quantitative indicators—long list for all companies	• Transformed annual financial report • Principal based, not prescriptive—no indicators	• Addition to standard annual financial report • Qualitative and quantitative indicators, but with separate standards for sectors—and sub-sectors

IFC Response

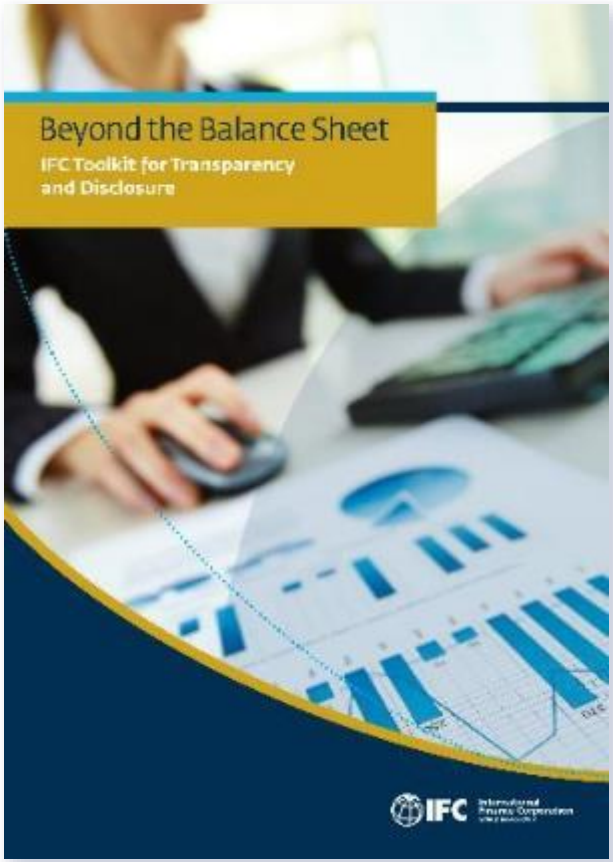
	IFC Disclosure and Transparency framework
Objective	**Improve capital flows to emerging markets** by reducing actual and perceived risk
Format	Flexible framework IFC's Performance Standards and ESG Methodology as well as other international best practices
Target audience	All stakeholders are addressed, investors are prioritized
Materiality criteria	A combination of 1) financial materiality and 2) sustainability materiality

World-class disclosure and transparency can mitigate some inherent risk of investing in frontier markets, including weaker public institutions and governance, heightened social and environmental risk and smaller companies with controlling shareholders.

Disclosure and Transparency Toolkit

- Offers a flexible reporting framework for companies of different sizes, locations, and operational complexity.
- Based on the IFC ESG Progression Matrix and compliments its D & T Section.
- Main focus technically is the PS, with flexibility to go beyond towards other reporting frameworks (GRI, IIRC, OECD, SASB, IFRS, and others)
- Designed to guide companies and financial institutions (including IFC clients) in the preparation of integrated annual reports for investors that include strategic, governance, and performance information.
- At its core are three pillars: Strategy and Sustainability, Corporate Governance, and Performance.
- References and integrates internationally recognized standards and frameworks (GRI, IIRC, OECD, SASB, IFRS, and others), and best practices relevant to the preparation of a comprehensive annual report.
- Ancillary tools: DT Assessment Diagnostic/Review, Training curriculum
- Toolkit available as of December 2017

IFC Toolkit for Disclosure & Transparency



Introduction

Why This Toolkit
- The Business Case
- Broad Push for Transparency and Disclosure
- Flexible framework
- Incorporating Sustainability

Part 1: Disclosure Framework

Strategy
- Business Model and Environment
- Strategic Objectives
- Risk Analysis and Response
- Sustainability Risks and Impacts
- Key Performance Indicators

Performance
- Performance Report
- Financial Statements
- Sustainability Statements

Corporate Governance
- Leadership and Culture
- Board Structure and Functioning
- Control Environment
- Minority Shareholders
- Governance of Stakeholder Engagement

Part 2: Reporting Guidance

- Materiality
- Information Quality
- Scope of Disclosure
- Disclosure Requirements
- Reporting Formats

Appendixe

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Comprehensive and Integrated Reporting

This approach presents **strategic** and **corporate governance** information together with **financial results**—providing investors with a better understanding of how the company is likely to perform in the future.

It also calls for disclosure of the **impact** that environmental and social (E&S) issues may have on the company's strategy, risk profile, and performance, and how key risks and impacts are managed as part of the company's corporate governance.

Integration of E&S Issues

1 STRATEGY

Identify material E&S issues

- **Assess impact of core E&S issues** based on the IFC Performance Standards and other generally accepted frameworks
- **Identify industry- or context-specific E&S issues** that represent key opportunities or risks based on industry or location (climate change, product footprint, data privacy, etc.)

Create an E&S strategy

- Develop/modify strategy and risk management based on material E&S issues (entity-specific E&S issues)
- Develop key performance indicators (KPIs) based on most material E&S opportunities and risks

2 GOVERNANCE

Governance structure

- Integrate E&S in corporate culture and commitment
- Develop/modify governance structure to manage E&S issues
- Develop/modify control environment to control and mitigate E&S risks and impacts (risk, compliance, reporting)

Stakeholder Engagement

- Identify key stakeholders and oversee stakeholder engagement process

3 PERFORMANCE

Performance report

- Management analysis of performance on strategic E&S opportunities and management of key E&S risks, including a presentation and discussion of KPIs

Sustainability Statements

- Performance measures (or metrics) for the most relevant E&S issues, including core E&S Issues, industry- or context-specific E&S issues and entity-specific issues

OVERALL OBSERVATIONS

- A very good draft which demonstrates strong integration of the GRI approach and specific coverage of issues that need to be reported on.
- The introduction section is strong and explains well the value of sustainability reporting.

RECOMMENDATIONS:

A. To consider to integrate below **4** dimensions of sustainability issues:

- **1. Risk** – what ESG risks the company is exposed to and how it is managing these (i.e. this is the approach taken by IFC PSs and the TCFD).
- **2. Management commitment and capacity** – are senior management and the board committed to manage ESG risks and impacts and does the company have sufficient capacity to do so (this speaks to the overall requirement for an E&S management system under IFC Environmental and Social Sustainability Performance Standards 1).
- **3. Performance management** – this speaks to the various issues that are covered in the guidance. Each of these is an aspect of performance and should be managed appropriately to the issue.
- **4. Define Impact** – Suggest to define impact, which is the outcomes for the environment and society as a result of the performance of the company. Impact can be both positive and negative. The guidance should promote improved impacts in line with the SDGs, which is consistent with global sustainability reporting trend.

B. Materiality: To balance different approaches toward materiality to include approaches from the other frameworks.

SPECIFIC COMMENTS:

Introduction

- Added link to Code of Corporate Governance (Principle 10 on non-financial and sustainability reporting) and Reporting Guidance.
- Added reference to CG Code Principle 10, Recommendation 10.1: " … Companies should adopt a globally recognized standard/framework in reporting sustainability and non-financial issues."
- Added section on Integrated Sustainability Reporting – to clarify the link between different reporting frameworks, and how companies can gradually progress from having no sustainability report, to having separate sustainability report, to having integrated report where sustainability is part of strategy, governance and performance, with reference to the IFC Toolkit, which bridges the gap.
- Unified the terms used in the CG Code and the Guidance – The Code uses more precise definitions. For example, IIRC and SASB are not sustainability reporting frameworks--they are not used to produce sustainability reports. They are frameworks which companies use to report on sustainability and non-financial information. Only GRI is sustainability reporting framework per se.
- Added Materiality as a row in the comparison table of different reporting frameworks, as this is the key differentiating factor between them.

SPECIFIC COMMENTS:

- In the table of disclosure standards, we introduced the recently released Recommendations of FSB's Taskforce on Climate-related Financial Disclosure (TCFD), which has been adopted as the standard for climate-related disclosure. However, this could also be introduced in a subsequent version of the Guidance if that facilitate an easier transition for reporting organizations.
- In some section, we had included comparison between GRI and IR Framework for more clarity.

Reporting Principles

- Simplified the reporting principles for those that are common to IIRC and GRI. And specified which ones are relevant for GRI and which ones for IIRC.
- Changed definition of materiality to take the common elements of IIRC and GRI.
- Added the Annex on Materiality with further guidance on materiality determination from IIRC, GRI and SASB.

SPECIFIC COMMENTS:

Management Approach

- Added a new subsection on identifying material issues using a hybrid definition of materiality (between GRI and IIRC) with two aspects: impact on stakeholders, impact on the company.
- Also added a simple rendition of a Materiality Matrix.
- Added footnote to reference IFC Performance Standard 1 on Environmental and Social Management System
- Added a new subsection on Assessing Performance, using KPIs. Also added reference to most common E&S KPIs (Section 5).

Topics

- For optics of a more equal treatment of different issues, we move the technical GHG guidance to the Appendixes.
- Added subsection on sector-specific GHG emissions, focusing on Agro and Financial Institutions. *We introduced a subsection on sector-specific GHG emissions, focusing on Agro and Financial Institutions, based on the fact these are two prominent industries in the Philippines and many listed companies and a unique exposure to climate change that may requires specific guidance.*
- We added the sector specific GHG emissions as a first step to better disclosure.

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Thank You!

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