Countdown to Climate Disclosures: ESG Data Management and Mandatory Reporting for Multinational Companies

A conversation with

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Background on ESG Disclosure Requirements

Sustainable finance refers to any form of financial service integrating **Environmental, Social and Governance (ESG)**, to measure the sustainability and societal impact of a business and/or investment decision.

The majority of this data is “non-financial”
Global ESG Highlights – Move from Voluntary to Mandatory Disclosures by the Regulators

OSFI Summarizes Responses to Its Climate Risk Discussion Paper in Oct, 2021

- SEC introduced Human Capital requirements in 2020
- Fed Governor said Securities and Exchange Commission (SEC) is set to make such climate disclosures mandatory in October, 2021
- The SEC in June released its spring 2021 rulemaking list brimming with proposed ESG regulations
- The SEC issued Sample Letter to Companies Regarding Climate Change Disclosures on September 2021

The Central Bank of Brazil (BCB) released mandatory ESG regulations set to come into force between October 1, 2021 and December 1, 2022

UK mandatory disclosure of climate-related risks and opportunities using Taskforce on Climate-related Financial Disclosures (TCFD) recommendations as of April 2022.

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HKMA introduced key measures on sustainable banking and green finance in May 2019

- HKMA supports the NGFS Glasgow Declaration in Nov, 2021

JFSA considering introducing mandatory ESG disclosures, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") in Nov, 2021

- MAS announced to pilot four digital platforms under Project Greenprint to address the financial sector’s needs for good data on sustainability in Nov, 2021
- APRA issued climate change financial risks (CPG 229) for banks, insurers, and superannuation trustees aligned to TCFD in Nov 2021.

- EU Commission adopted Taxonomy Climate Delegated Act in June 2021
- ECB climate risk stress test will kick-off in March 2022 and results expected to be published in July 2022
- EU Commission to adopt Sustainable Finance Disclosure Regulation (SFDR) Level 2 in Dec, 2022 and CSDR in Jan 2023

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What was the historic ESG Reporting approach?

- ESG Reporting isn’t new, most companies have already been reporting a significant amount of data in the ‘S’ocial and ‘G’overnance areas of ESG Reporting.
- ESG Reporting to date has been done on a ‘best endeavours’ basis and typically most of these numbers were not audited.

What is changing?

- The regulators globally are turning voluntary ESG reporting into mandatory ESG reporting, with a significant focus on the disclosures of ‘E’nvironmental impacts.
- With ESG reporting becoming mandatory, companies will also have to demonstrate the same level of controls that you would expect for Financial Reporting.

What is the new approach?

- Across the industry a lot of the Chief Sustainability Officers, Heads of Sustainability and like are looking to leverage lessons learnt from Financial Reporting from Chief Data Officers, Chief Risk Officers and Chief Operating Officers.
First step is to create a long list of potential ESG issues that could materially impact the organization or be of interest to its stakeholders.

Second step is to identify & prioritise key stakeholders. These may include:
- Key shareholders
- Largest suppliers/buyers
- Largest buyers
- Employees
- Regulators
- NGOs
- Community members
- General public

Third step is to get input from Key Stakeholders through surveys, interviews and focus groups on ESG issues.

Fourth step is to rank the importance of specific environmental, social and governance (ESG) issues by their importance to stakeholders and the impact on the business.

Fifth step is to Use the Materiality Assessment to Define Action Plan. This will outline the issue, goal, governance, reporting metrics, and action steps.

Sixth step is to kick off your Data Management Programme for ESG Reporting for the metrics identified and to prepare for Mandatory Disclosures. This will be the focus of our webinar today.

Focus for today

ESG Programme Mobilisation (Out of scope for today’s webinar)

1. Forming an ESG List
   - First step is to create a long list of potential ESG issues that could materially impact the organization or be of interest to its stakeholders.

2. Identify & Prioritise Key Stakeholders
   - Second step is to identify & prioritise key stakeholders. These may include:
     - Key shareholders
     - Largest suppliers/buyers
     - Largest buyers
     - Employees
     - Regulators
     - NGOs
     - Community members
     - General public

3. Get Input from Key Stakeholders
   - Third step is to get input from Key Stakeholders through surveys, interviews and focus groups on ESG issues.

4. Conduct a Materiality Assessment
   - Fourth step is to rank the importance of specific environmental, social and governance (ESG) issues by their importance to stakeholders and the impact on the business.

5. Define Action Plan
   - Fifth step is to Use the Materiality Assessment to Define Action Plan. This will outline the issue, goal, governance, reporting metrics, and action steps.

6. Prepare for ESG Reporting & Disclosures
   - Sixth step is to kick off your Data Management Programme for ESG Reporting for the metrics identified and to prepare for Mandatory Disclosures. This will be focus of our webinar today.
About TCFD Reporting

- UK Government, EU and many other countries are aligned to TCFD Reporting Standard
- The TCFD framework recommends 11 disclosures across the four pillars of governance, strategy, risk management and metrics and targets

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose the organization’s governance around climate-related risks and opportunities</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material</td>
<td>Disclose how the organization identifies, assess, and manages climate-related risks</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</td>
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Relevant Disclosures:

- Describe the board’s oversight of climate-related risks and opportunities
- Describe management’s role in assessing and managing climate-related risks and opportunities
- Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term
- Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning
- Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario
- Describe the organization’s processes for identifying and assessing climate-related risks
- Describe the organization’s processes for managing climate-related risks
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management
- Disclose the used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
- Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets
The leading approach for carbon accounting is the Greenhouse Gas Protocol, a joint initiative of the non-profits WRI (World Resources Institute) and WBCSD (World Business Council for Sustainable Development). The GHG Protocol defines three “Scopes” of emissions for GHG accounting and reporting purposes (also see Figure 1):

- **SCOPE 1**: Direct emissions that result from an organization’s activities, such as fuel combustion from facilities (e.g., burning natural gas for space heating) and vehicles that your company owns or controls (e.g., burning gasoline or diesel for company automobiles or trucks).
- **SCOPE 2**: Indirect emissions associated with an organization’s activities, often from the generation of purchased electricity consumed by your company (e.g., emissions from natural gas power plants that supply electricity to your local power grid).
- **SCOPE 3**: Other indirect emissions from an organization’s supply chain, rather that its primary operations (e.g., embodied emissions in purchased raw goods, distribution and transportation, employee commuting, use of sold products, and end-of-life treatment).
### Challenges with Scope 3 Data in your Supply Chain

**CATEGORIES**

1: Purchased Goods and Services
2: Capital Goods
3: Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2
4: Upstream Transportation and Distribution
5: Waste Generated in Operations
6: Business Travel
7: Employee Commuting
8: Upstream Leased Assets
9: Downstream Transportation and Distribution
10: Processing of Sold Products
11: Use of Sold Products
12: End-of-Life Treatment of Sold Products
13: Downstream Leased Assets
14: Franchises
15: Investments

<table>
<thead>
<tr>
<th>Category</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Goods and Services</td>
<td>20</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>36</td>
</tr>
<tr>
<td>Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2</td>
<td>38</td>
</tr>
<tr>
<td>Upstream Transportation and Distribution</td>
<td>49</td>
</tr>
<tr>
<td>Waste Generated in Operations</td>
<td>72</td>
</tr>
<tr>
<td>Business Travel</td>
<td>81</td>
</tr>
<tr>
<td>Employee Commuting</td>
<td>87</td>
</tr>
<tr>
<td>Upstream Leased Assets</td>
<td>94</td>
</tr>
<tr>
<td>Downstream Transportation and Distribution</td>
<td>102</td>
</tr>
<tr>
<td>Processing of Sold Products</td>
<td>106</td>
</tr>
<tr>
<td>Use of Sold Products</td>
<td>113</td>
</tr>
<tr>
<td>End-of-Life Treatment of Sold Products</td>
<td>125</td>
</tr>
<tr>
<td>Downstream Leased Assets</td>
<td>128</td>
</tr>
<tr>
<td>Franchises</td>
<td>130</td>
</tr>
<tr>
<td>Investments</td>
<td>136</td>
</tr>
</tbody>
</table>
ESG Data Providers for 3rd Party Data – M&A Activities on the Rise
What are the ESG Data Challenges?

1. ESG strategies / frameworks evolve during data journeys
2. Unknown ESG data quality with data quality metrics not currently captured
3. Majority of new ESG data is not subject to existing controls
4. Disaggregation of ESG data across internal systems
5. Huge number of data vendors/suppliers offering different ESG data variations
6. Large scale of change required to support ESG requirements
7. Complex reporting requirements with varying standards
How to get started on your ESG Data Management Journey
ESG Data How To Get Started

1. Understand Current ESG Data Challenges
2. Confirm Business/ESG Data Strategy Objectives
3. EDM Council Data Management / Cloud Data Frameworks
4. Current State ESG Maturity Assessment
5. Map ESG Requirements to Data Management Capabilities
6. Develop the Strategic ESG Data Management Roadmap
7. Develop the Target Operating Model
8. Prepare a Detailed ESG Plan
# ESG Data Reporting Lifecycle

<table>
<thead>
<tr>
<th>Data Management Foundations</th>
<th>Understand Requirement</th>
<th>Identify Internal Data Source</th>
<th>Acquire Data</th>
<th>Conform Data</th>
<th>Consolidate Data</th>
<th>Report Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Governance</td>
<td>Assign data ownership of reporting data elements</td>
<td>Obtain data owner approval of data sources</td>
<td>Govern approval of Data Quality exemptions</td>
<td>Obtain data owner sign-off of reporting data</td>
<td>Obtain external assurance of reporting data</td>
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</tr>
<tr>
<td>Data Quality</td>
<td>Define data quality requirements / rules</td>
<td>• Assess Data Quality of data sources • Manage DQ issues. Root Cause Analysis and remediation</td>
<td>• Execute DQ rules on reporting data • Manage DQ issues Root Cause Analysis and remediation</td>
<td></td>
<td>Support external assurance of reporting data</td>
<td></td>
</tr>
<tr>
<td>Data Architecture</td>
<td>Confirm and capture data element definitions</td>
<td>• Identify data sources • Capture metadata</td>
<td>• Specify data transformations • Capture metadata</td>
<td></td>
<td>• Map data to reporting format • Capture metadata</td>
<td></td>
</tr>
<tr>
<td>Technology Architecture</td>
<td></td>
<td></td>
<td>Approve implementation of data acquisition</td>
<td>Approve implementation of data transformations</td>
<td>Approve implementation of data consolidation</td>
<td>Approve implementation of report</td>
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Data Management Foundations used in a Global Bank’s ESG Reporting Lifecycle Journey
Reporting Lifecycle ESG Use Case for Global Bank

Capture ESG Reporting Requirements

Assign ESG Data Ownership & Define Critical Data Elements

Define Data Quality Requirements & Rules

Generate Data Lineage for ESG CDEs

Define & Capture ESG Data Policies

Data Modelling of ESG Data Requirements

Prepare for Mandatory Internal/External ESG Disclosures

Democratise Data Internally via Data Marketplace
Data Management Foundations for ESG Reporting Lifecycle

- Critical ESG Data Domains
- ESG Critical / Key Data Elements (CDEs / KDEs)
- ESG Data Quality Rules
- ESG Data Policies
- ESG Data Security & Protection Compliance
- ESG Data Governance Requirements Example

Data Lake(s)

- Discover
  - Data Catalog
- Understand
  - Data Governance
- Trust
  - Data Quality
- Single View
  - Master Data Management
- Consume / Disclose
  - Data Marketplace

Structured / Unstructured Data Sources / Third Party ESG Data

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Democratising Data Axon Data Marketplace
Capture ESG Data Lineage & Data Quality
Capture of ESG Policies and ESG Stakeholders
Integrating ESG into Financial Risk

**Environmental Risk**
- Physical
  - Sea level rise
  - Heat waves
  - Floods
  - Storms
- Transition
  - Gov. Policies
  - Tech. changes
  - Investor sentiment
  - Consumer behaviour

**Social Risk**
- Human Rights
- Labour standards
- Pandemics
- Ethnic Discrimination / conflicts
- Terrorism

**Governance Risk**
- Policy and legal
- Reputation
- Strategy

**ESG Factors**
- Policy and legal
- Reputation
- Strategy

**Physical**
- Sea level rise
- Heat waves
- Floods
- Storms

**Transition**
- Gov. Policies
- Tech. changes
- Investor sentiment
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**Human Rights**

**Labour standards**

**Pandemics**

**Ethnic Discrimination / conflicts**

**Terrorism**

**Modelling**

**Input**
- Risk values

**Action**
- Financial event
- Scenario modelling

**Output**
- Internal
  - Economic reporting
- External
  - Regulatory reporting / disclosures

**ESG Reporting**
- CRR Pillar 3
- TCFD
- MIFD
- NFRD
- SFDR

Traditional financial risk modelling
Additional ESG risk factors for integration
We are aligned to EDM Council’s ESG Framework

Free license – download at: www.edmcouncil.org
Go to Groups > ESG Data
Register for our Upcoming Roundtable
ESG Reporting in 2022 – Are you ready?
on Thursday, 12th of May

https://tinyurl.com/DT2INFA
or
https://www.dtsquared.co.uk/roundtable-esg-reporting-in-2022-are-you-ready/

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Thank You!