

# ESG Reporting & Assurance

A hand holding a glowing lightbulb in a field of tall grass at sunset. The lightbulb is illuminated, casting a warm glow. The background is a soft-focus field of tall grasses under a bright, hazy sky. The overall mood is hopeful and innovative.

ESG Presentation  
November 2022

# Agenda—ESG

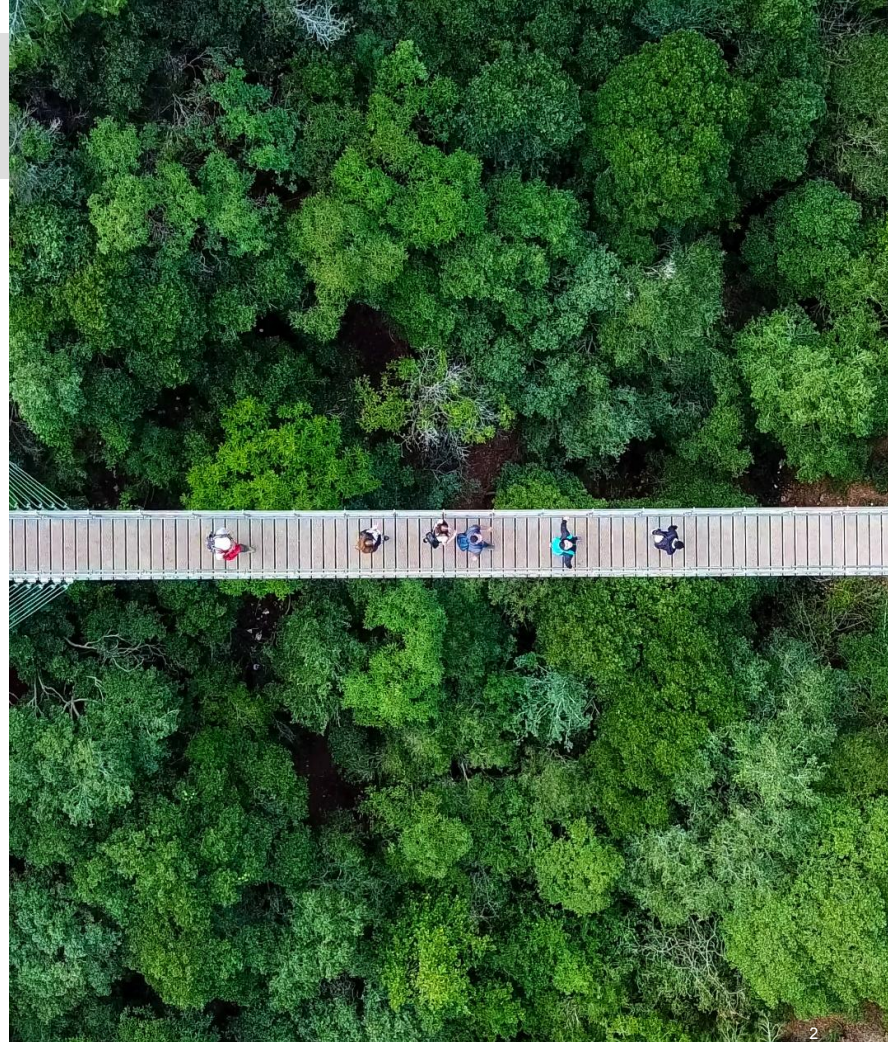
1 Introductions

2 Why ESG Reporting? Why ESG Assurance?

3 ESG Assurance - Current State

4 The Future of ESG Assurance

5 Q&A



# 1

# Introductions



# Speaker for today



**Scott Morrison**  
ESG Reporting &  
Assurance

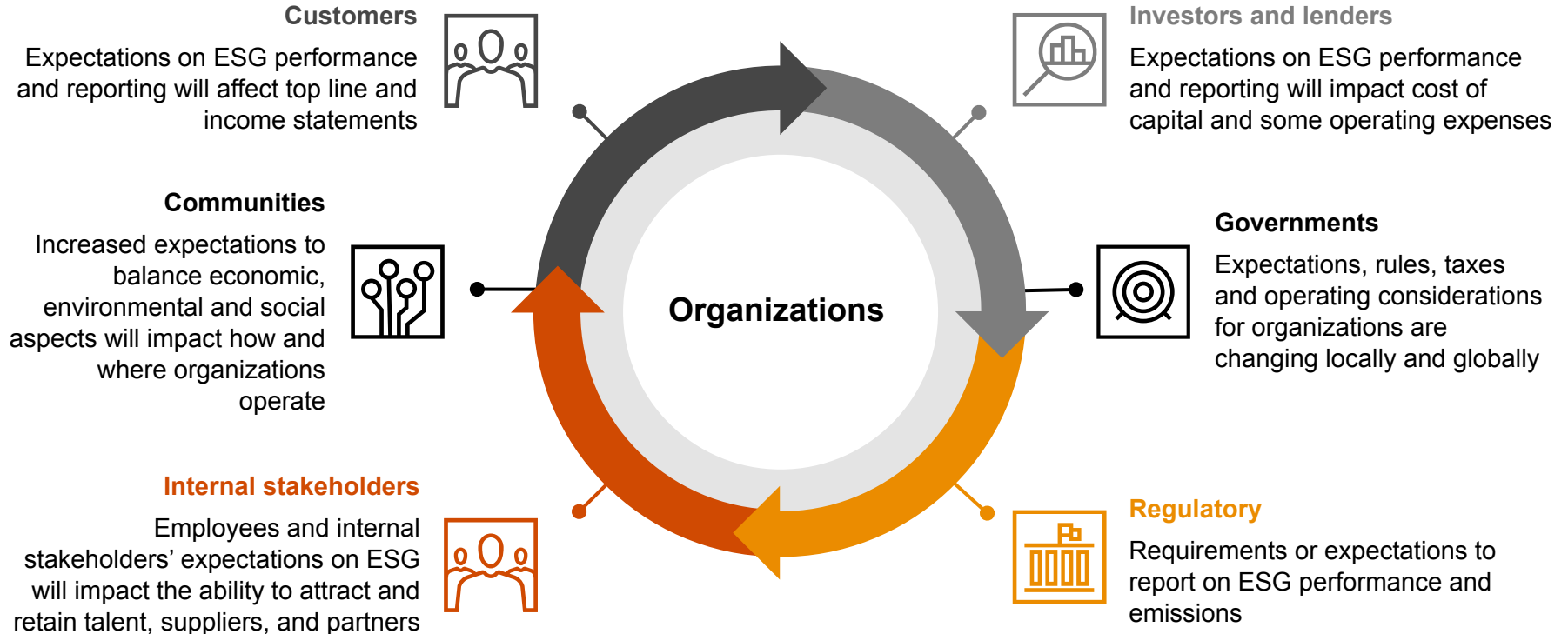


# 2

## Why ESG Reporting? Why ESG Assurance?



# ESG Reporting – Stakeholders



All organizations have risk and opportunity related to ESG

# Stakeholders are taking notice – ESG information is growing in importance for investment community and other stakeholders

**Our PwC Global Investor Survey and PwC Consumer Intelligence Survey provides insights into how investors, consumers and employees are considering ESG.**

**79%**



of investors say that ESG risks are an important factor in investment decision making

**82%**



of investors agree that companies should embed ESG directly into their corporate strategy

**83%**



of consumers think companies should be actively shaping ESG best practices.

**79%**



of investors place more trust in ESG information reported by companies if it has been assured

**68%**



of investors agree that ESG performance measures and targets should be included in executive pay arrangements.

**86%**



of employees prefer to support or work for companies that care about the same issues they do.



**Strong ESG reporting can lead to:**

- Access to debt and capital markets
- Attraction and retention of talent
- Reputation with customers, suppliers and society (e.g. social license to operate)
- Brand differentiation, competitive advantage, and long-term enterprise value

*“We’re at a tipping point where ESG has gone mainstream. You can’t walk into a financial institution now to talk about long-term themes without mentioning ESG”* —Investment Firm head of ESG

# Greenwashing claims are on the rise

## HSBC Put on Notice for Greenwashing Following 'Misleading' Sustainability Claims

A series of ads by the bank have been banned by UK regulators



BREAKING NEWS

## Innisfree Accused of 'Green Washing' and 'Misleading' with Label

Consumers disappointed to discover that the brand's bottle labelled 'Hello, I'm Paper Bottle' contains plastic.



## Deutsche Bank's DWS sued by consumer group over alleged greenwashing

Reuters



## SEC fines BNY Mellon over ESG in first case of its kind

Regulator hits investment adviser with \$1.5mn penalty for allegedly misstating and omitting information



## Fast fashion giant H&M accused of greenwashing in US lawsuit



## Keurig Canada fined \$3 million for misleading claims over coffee pod recycling

K-Cups aren't widely accepted for recycling in any province except Quebec and B.C.





# Regulators are putting their stake in the ground on ESG assurance expectations

## Europe - November 2022

The EU's proposed Corporate Sustainability Reporting Directive (CSRD) which brings sustainability reporting closer to financial reporting by requiring assurance of sustainability information.

On November 10, 2022 - the EU Parliament adopted the new CSRD.



## US - March 2022

SEC proposed [Rules](#) to Enhance and Standardize Climate-Related Disclosures for Investors. Assurance requirements, including timeline to move to reasonable assurance outlined as part of proposal. SEC is currently assessing comments that came in during summer of 2022.



## Singapore - January 2022

Singapore Exchange [proposes](#) independent external assurance on selected important aspects of sustainability reports to add credibility to the information disclosed and analysis undertaken.



## Globally - September 2022

As part of a global policy maker roundtable through the International Organization of Securities Commissions (IOSCO), policy makers stressed that voluntary disclosure would not be enough and hence supported clear pathways towards mandatory reporting requirements along with robust frameworks for audit and assurance.

In September 2022, IOSCO [announced](#) next steps to support its members and other stakeholders in improving the consistency, comparability, and reliability of corporate sustainability-related reporting, including the assurance of sustainability-related information.

## United Kingdom - June 2021

Financial Conduct Authority (FCA) [published](#) a consultation paper CP21/18 on ESG integration in UK capital markets, and encouraged obtaining third-party verification or assurance on listed companies' climate-related disclosures.



# What do investors want to see?

Investors are increasingly calling for clarity about the ESG initiatives companies are undertaking and demanding more holistic, comparable and reliable decision- useful ESG reporting as well as independent assurance over these matters.

**79%**



of investors place more trust in ESG information reported by companies if it has been assured\*

**74%**



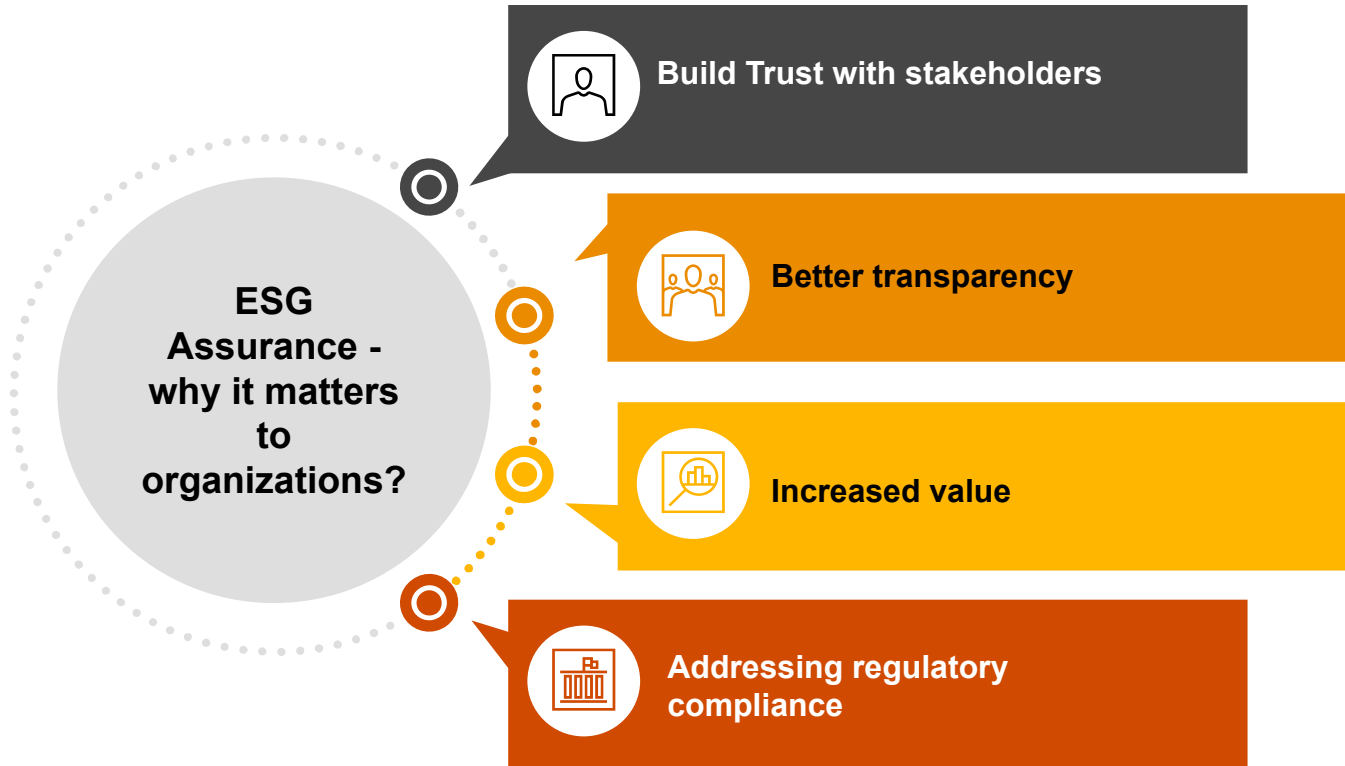
Think it's important that reported ESG-related metrics are independently assured\*

## Why investors want to see ESG assurance?

- More comfortable over reliability of information being used
- Better comparability between companies
- Risk management
- Helps to support their own tracking of ESG performance

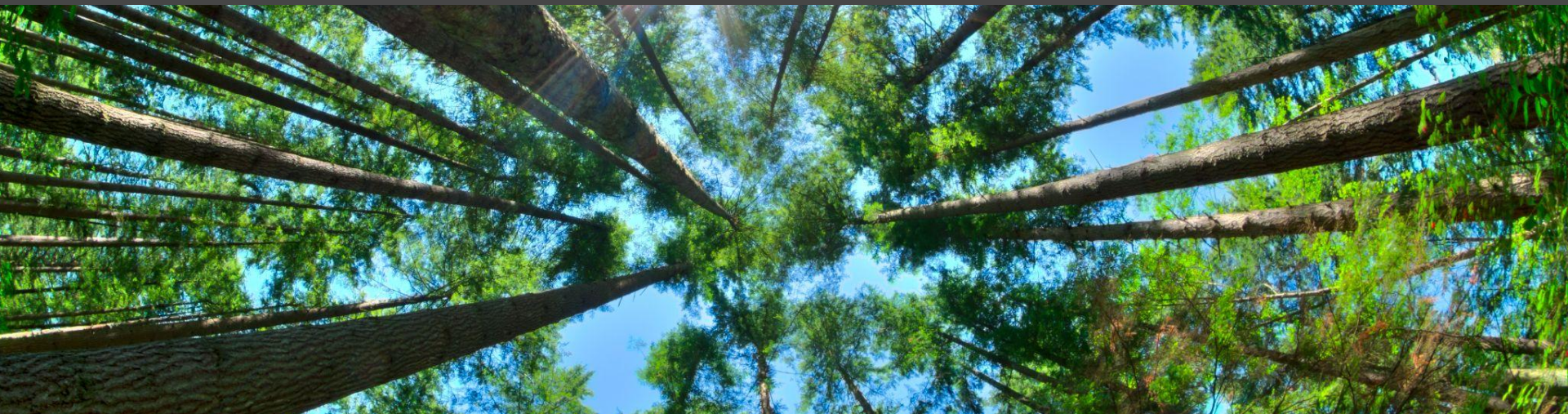
\*Source: [PwC Global Investor Survey](#)

# ESG Assurance - why it matters?



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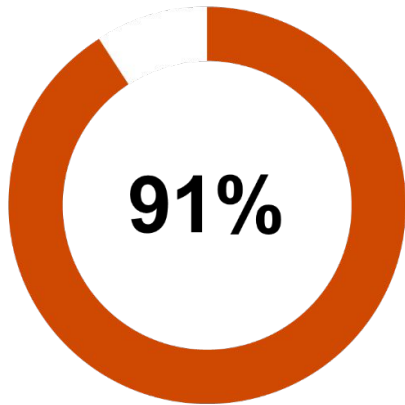
## ESG Assurance - What is the current state?



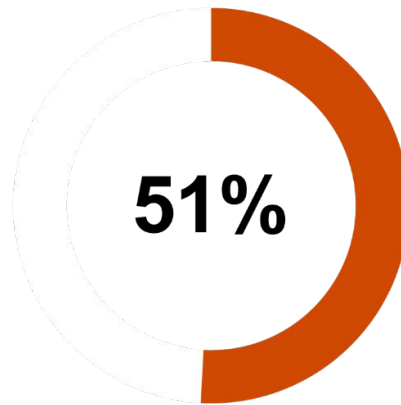
# The state of play in sustainability assurance

IFAC study of 1,400 largest companies in 22 jurisdictions

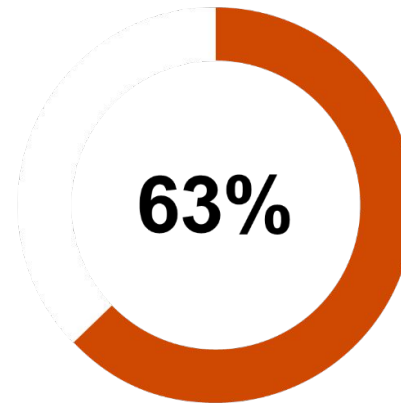
More companies are seeking assurance



Companies reporting some level of sustainability information



Companies reporting sustainability information with some level of assurance



Companies with sustainability assurance conducted by audit or audit-affiliated firms

Source: The state of play in sustainability assurance - IFAC June 2021

# Types of ESG assurance

The maturity of reporting varies depending on factors such as reporting frameworks, controls and processes, and the availability and quality of data—options include assurance readiness through to reasonable assurance public opinion covering governance, strategy, risk management, and metric and targets.



## Assurance readiness

## Limited assurance

## Reasonable assurance

**‘We’re helping you get ready for public assurance’**

**‘Nothing has come to our attention...’**

**‘In our opinion, correctly stated...’**

Reporting to the board and management on the maturity and quality of ESG disclosures—getting you ready for external assurance

Building stakeholder confidence in ESG disclosures

Providing the same level of assurance as in a financial statement audit to help build trust and credibility

Private assurance

Typically referred to as public assurance

# What is being assurance? Examples:

## Environmental examples:

- GHG Emissions (Scope 1, 2, and 3)
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

## Social examples:

- Labor Practices
- Employee Health & Safety
- Employee Diversity, Equity & Inclusion
- Human Rights & Indigenous Relations
- Community Investments
- Customer Privacy
- Data Security
- Customer Satisfactory results

## Governance examples:

- Business Ethics
- Tax Transparency
- Board Composition, Ownership and Control
- Board / Executive Remuneration

## Sustainable Finance examples:

- Green or Social Bond Allocations
- Investment in Green Assets
- Sustainability-Linked KPIs

## Business Model & Stewardship examples:

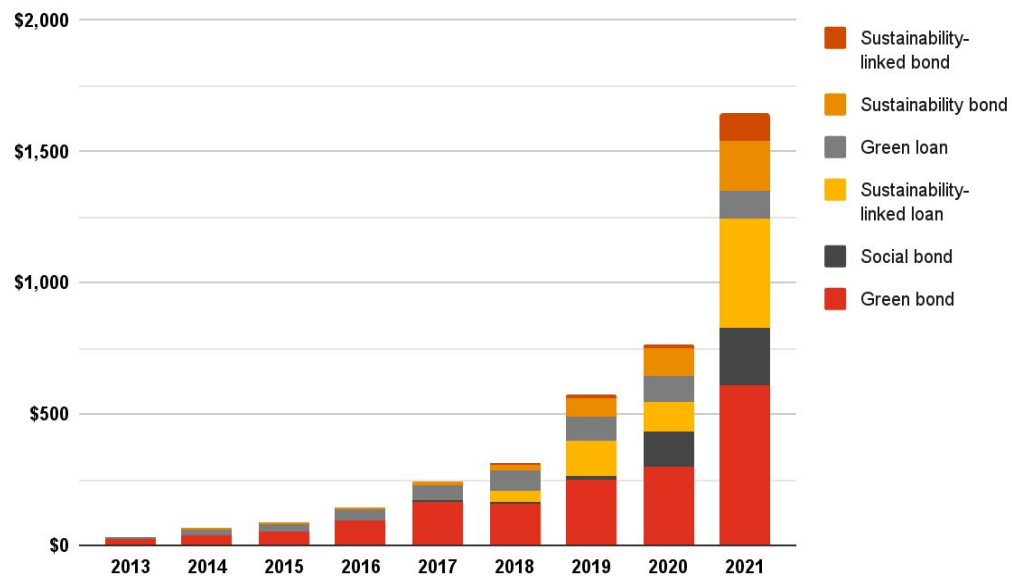
- Product Design & Lifecycle Management
- Product Quality & Safety
- Selling Practices & Product Labeling
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Will go into more details on proceeding slides

# Overall sustainable finance market growth

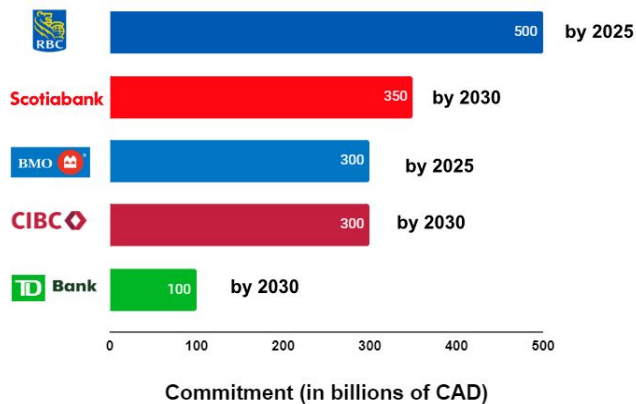
The sustainable finance market has been growing significantly over the last several years

Figure 1: Annual sustainable debt issuance, 2013 - 2021



Source: BloombergNEF, Bloomberg L.P.

Canadian banks have committed over \$1.4 trillion to sustainable financing





# Sustainable finance - Assurance over Green Bonds

	Green Bond
<b>Example</b>	Company ABC raises \$500M and will use that capital and allocate it to <b>green categories</b> based on a <b>green bond framework</b> .
<b>At the end of the year</b>	Company ABC has allocated \$150M of the \$500M in the following way: <ul style="list-style-type: none"><li>• \$75M to electrify their vehicle fleet</li><li>• \$50M to make buildings more energy efficient</li><li>• \$25M to renewable energy projects</li></ul>
<b>What we assure?</b>	<p><b>Subject Matter:</b> Allocation of proceeds to green categories at the end of the period (i.e. \$150M).</p> <p><b>Criteria:</b> Company ABC's Green Bond Framework</p> <p><b>Result:</b> Gives comfort to investors that the \$150M has actually been spent towards green categories that are outlined in the green bond framework when they invested into the green bond.</p>

## Guidance for Green Bond frameworks:



## Guidance for Green Eligible categories:



# Sustainable Finance - Sustainability linked instrument

	Sustainability-linked Bond or Loan
<b>Example*</b>	Telus raised \$750M through a Sustainability Linked Bond offering that links their borrowing costs to the performance of reducing their absolute Scope 1 and 2 GHG emissions by 46%. If Telus fails to achieve this reduction target, their interest will increase by 1% (100 basis points) per annum.
<b>What we assure?</b>	<p><b>Subject Matter:</b> GHG Scope 1 &amp; 2 emissions</p> <p><b>Criteria:</b> GHG Protocol</p> <p><b>Result:</b> Gives comfort to investors over Telus's reporting of their GHG Scope 1 &amp; 2 emissions as this would have an impact on the total interests that is required to be paid within the bond.</p>

## Guidance for sustainability linked frameworks:



## Criteria for measuring Telus's GHG Emissions:



\*Source: <https://www.telus.com/en/about/news-and-events/media-releases/telus-closes-its-inaugural-sustainability-linked-bond-offering>

# Increasing focus on organizations reporting credible GHG emissions



## Why are companies obtaining assurance over their GHG Emissions?

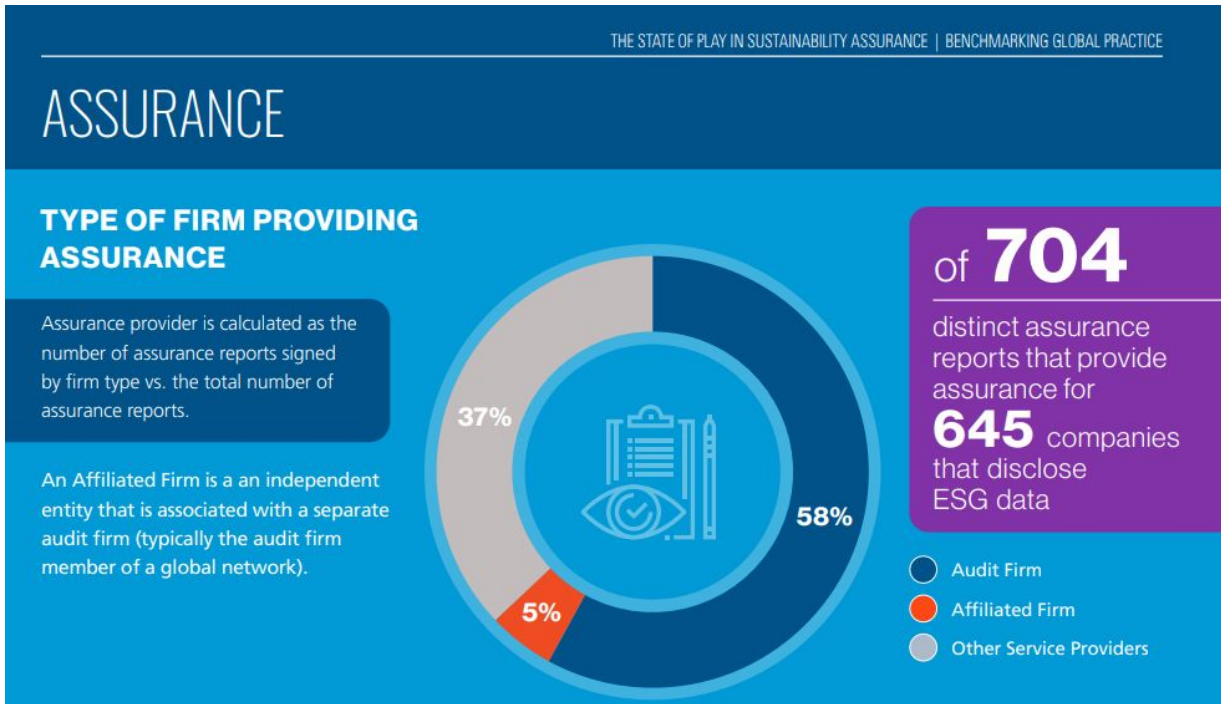
- Building credibility on GHG emissions performance against net-zero or reduction targets
- Obtain an A rating with the CDP
- Preparing for inbound regulation
- Needed for capital markets (i.e. sustainable finance)
- Investors pressure
- Supply chain needs
- Align with leading market practices practices



## Example of procedures we do to get comfortable with companies GHG Emissions?

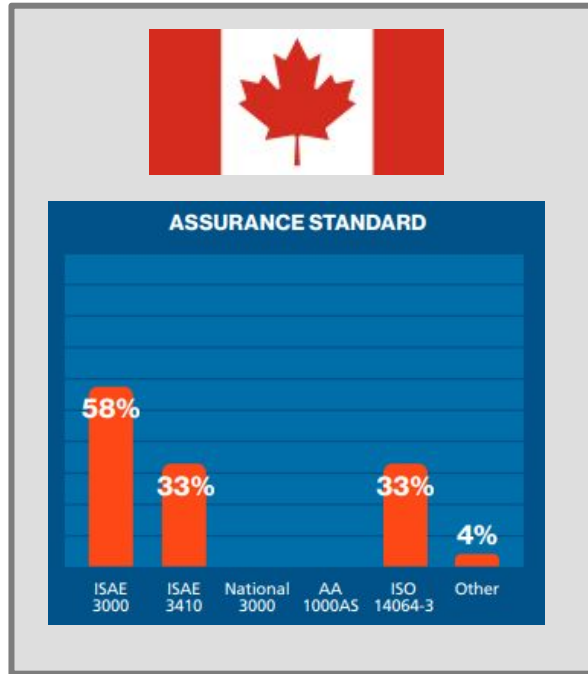
- Review company's GHG methodology document to ensure alignment with criteria (i.e. GHG Protocol)
- Understand and evaluate processes and controls to support GHG emissions calculations
- Evaluate the completeness of companies emission sources outlined in their GHG inventory
- Review underlying sources that support consumption and emissions data
- Assess emission factors used
- Evaluate appropriateness of key estimation assumptions and methodologies
- Perform recalculations
- Review disclosures

# Type of firms doing the assurance?



Source: <https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/state-play-sustainability-assurance>

# Assurance Standards for ESG Reporting



Source: <https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/state-play-sustainability-assurance>

**Current State:**  
Majority performed under ISAE 3000/3410 assurance standards



**Potential North Star:**  
International Standards for Sustainability Assurance (ISSA 5000)

# 4

## The future and opportunity for ESG assurance



# The future of ESG reporting - what does it mean for assurance?

Companies are migrating to more standardized/automated ESG reporting capabilities versus traditional manual reporting in order to answer the questions “what data do we report?”, “where do we source this data from?”, and “how do we source this data?”

Today

Future



Current State



Trending



Future State



## Limited

- Little-to-no guidance on disclosure format or ESG metrics
- Manual reporting—No reporting tools
- Disparate data sources & offline spreadsheets
- Highly manual processes/information flow
- No controls or established governance framework



## Manual & ad-hoc

- Limited guidance on disclosure formats & metrics
- Disparate data sources & offline spreadsheets—data issues addressed ad-hoc
- Data visualization and transformation tools starting to be utilized (i.e. Tableau, Alteryx)
- Limited policies, procedures, and governance controls/certifications
- Investors start to receive more consistent metrics



## Manual with governance

- Clear guidance provided on disclosure formats & metrics
- Most data is defined but not in a central repository
- Data visualization and transformation tools are used to report key metrics—move towards utilizing enterprise reporting architecture
- More mature policies, procedures, and governance controls/certifications
- Investors have access to clear and consistent metrics



## Integrated

- Reporting and sourcing data through the enterprise reporting system architecture and process
- Central “source of truth” of key ESG data and metrics
- Real time reporting and analytics to inform decision making
- Matured and enforced policies, procedures, and governance controls/certifications
- Investors have a coherent narrative & metrics around value-creation

Investor's interest in ESG metrics

# The opportunity for accountants in ESG reporting & assurance

Finance plays a key role in this collective effort by engaging with, understanding and connecting the requirements of stakeholders and translating those into relevant, material metrics and disclosures. The finance function can help support in the following areas:



## ESG Reporting Policies and framework

Designing policies and procedures to ensure that ESG reporting is relevant to stakeholders and makes a clear link between financial and non-financial information.



## Data management

Help build trust and credibility in reporting through robust data by digging into data and establishing a process of collection, quality, access and organization—focusing on completeness and accuracy.



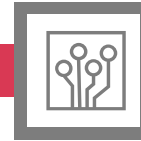
## Calculations & estimations

Measure performance through deep experience in understanding and assessing performance against standards and principles.



## Control design & review

Instill discipline into non financial reporting processes and controls, based on experience and knowledge of leading practices to support sustainability and ESG reporting.



## ESG Assurance

Similar to financial statement audits, accountants can help to provide third party assurance over ESG reporting information and build that same level of trust.



# PwC's 2022 ESG reporting insights



250

Top public companies  
in Canada



15

Industries



1000+

Person-hours

## Project Background

PwC has undertaken the second iteration of a detailed analysis on the Environmental, Social and Governance (ESG) reporting landscape in Canada. The project has expanded to include the country's **top 250 publicly listed companies**.

The methodology used in this analysis is internally developed by PwC; it has given consideration to existing reporting standards including the Global Reporting Initiative (GRI), Task Force on climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), and the United Nations' Sustainable Development Goals and is informed by expected future regulation.

We see Canadian organizations talking about ESG more seriously. But actual progress is failing to keep pace with rising stakeholder expectations in many cases

59% don't mention the principles of the TCFD in their reporting,



of Canadian companies are not obtaining external assurance

71%



59% of businesses only talk about their positive performance



5

Q&A



Thank you

