



Environmental, social, governance disclosures

Issues, trends and considerations to combat short-termism



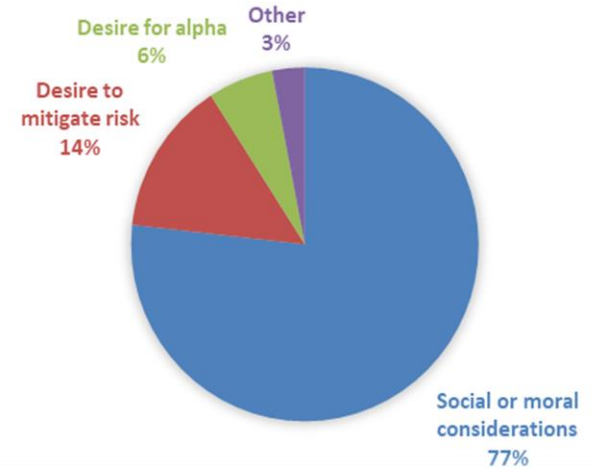


Context

ESG Investment is on the rise due to increasing expectations and demand



WHAT IS THE PRIMARY DRIVER OF CONSIDERING ESG IN YOUR OR YOUR CLIENTS' INVESTMENT DECISIONS?



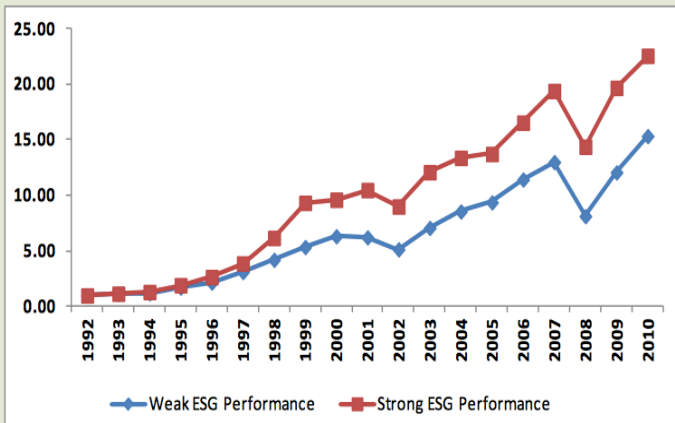
Source: Bank of America Merrill Lynch (2018), "The ABCs of ESG."



Context

ESG performance & short termism

FINANCIAL PERFORMANCE OF COMPANIES WITH WEAK VS. STRONG ESG PERFORMANCE



Source: Eccles G.R., Ioannou I. Serafeim G. "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," Harvard Business School, November, 2011.

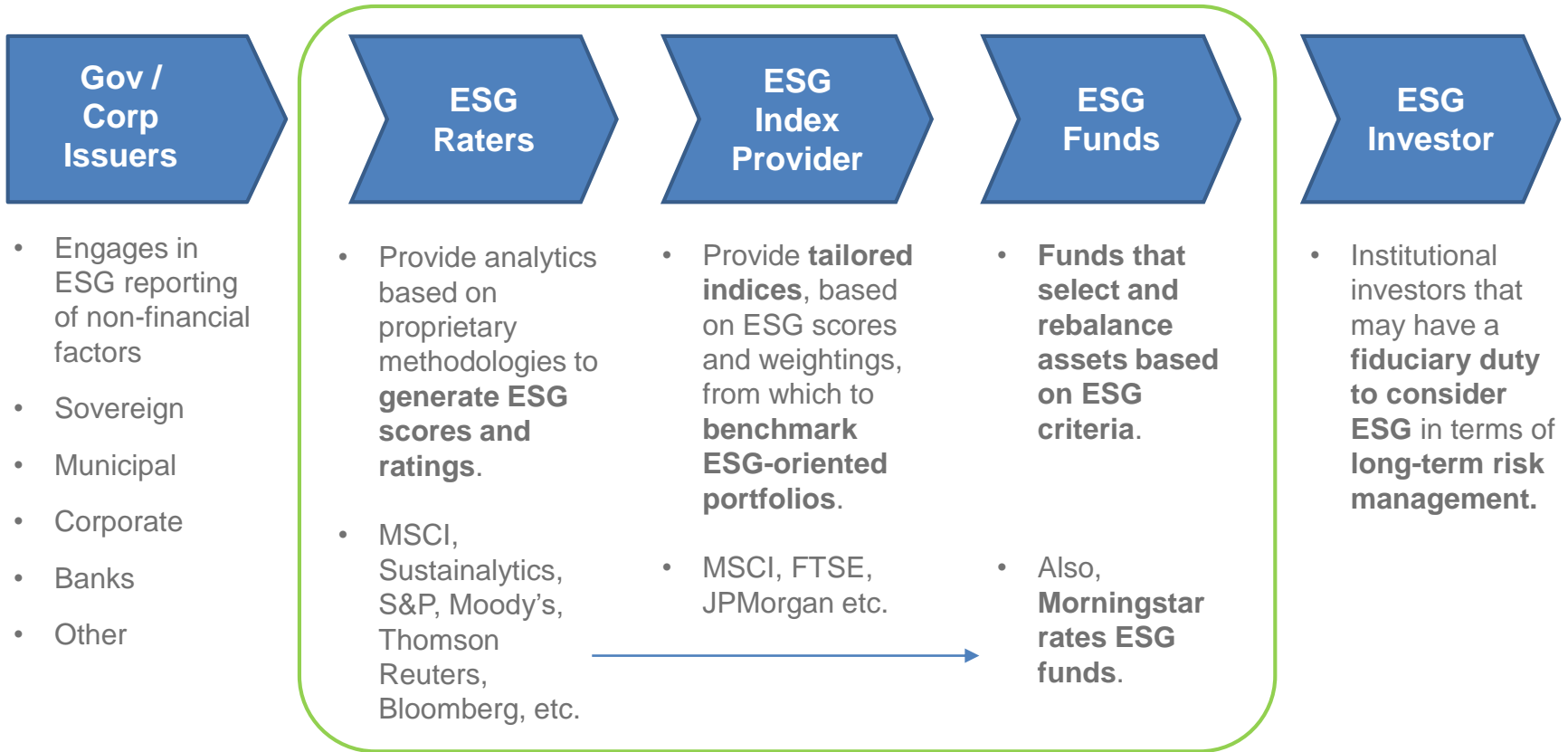


"Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders."



Analysis

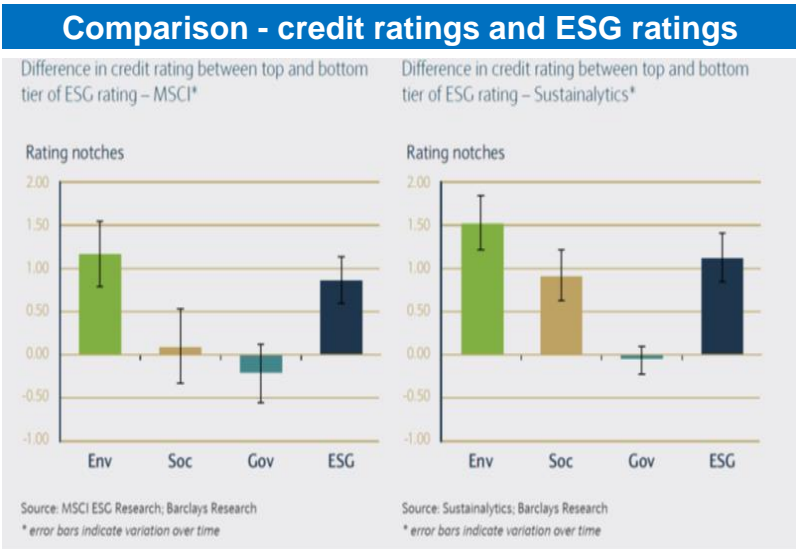
The ESG investment chain is complex & fragmented...



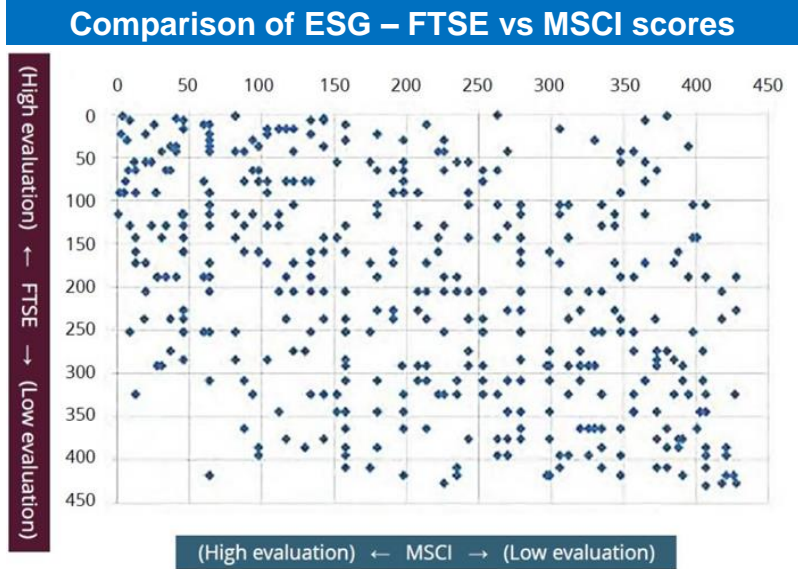


Analysis

... with huge variation in metrics, definitions, KPIs.



Source: Barclays Research (2017)

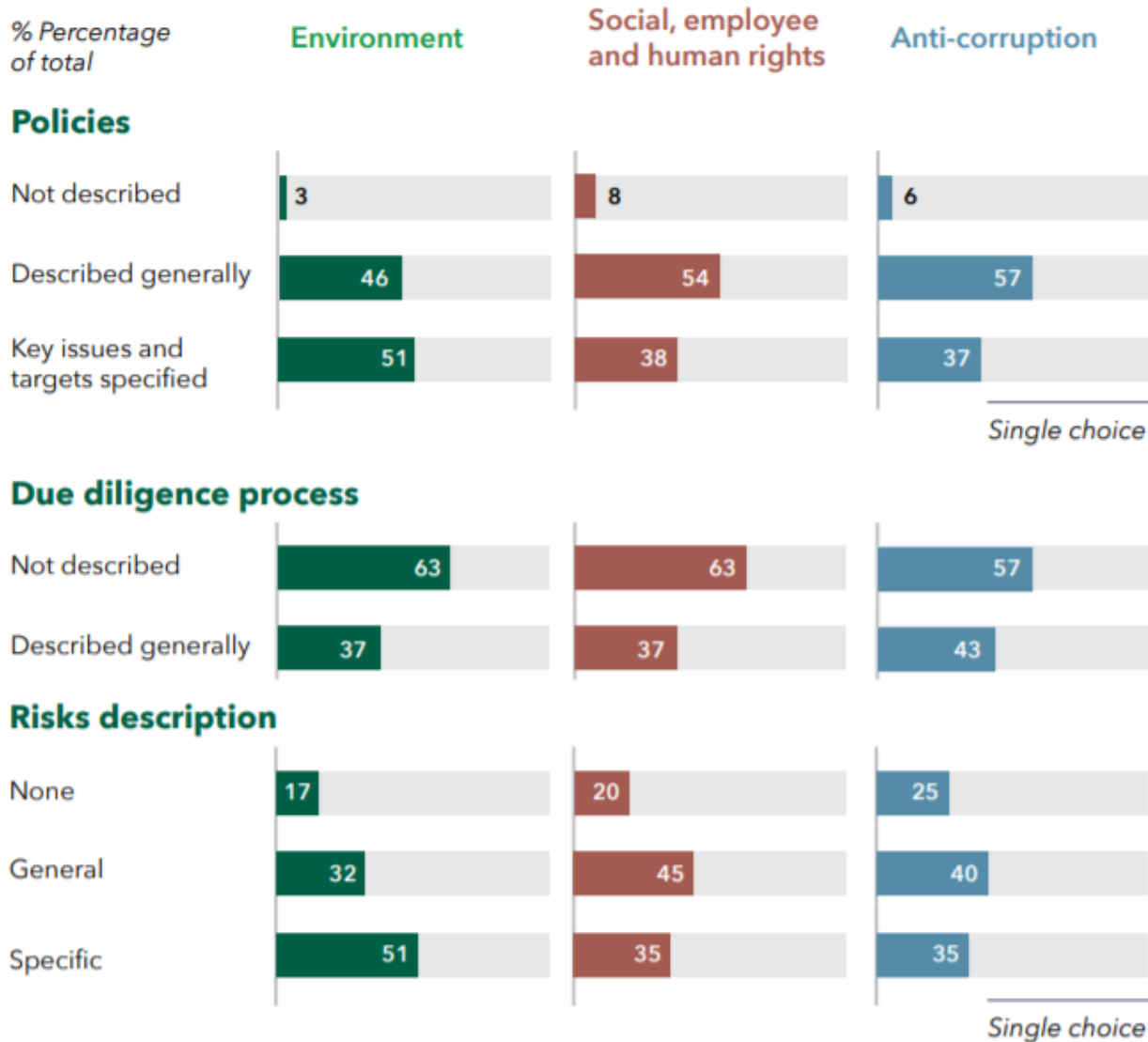


Source: CLSA, GPIF



Analysis

Corporate reporting under EU Non-Financial Reporting Directive





Analysis

Frameworks used by large companies

- **Analysis of 4,900 companies (2017):**

- 74% use or adapt some kind of guidance and framework for their reporting
 - GRI Frameworks most common (63%)
 - Only 13% using stock exchange guidance

- **Analysis of S&P 500 (2018)**

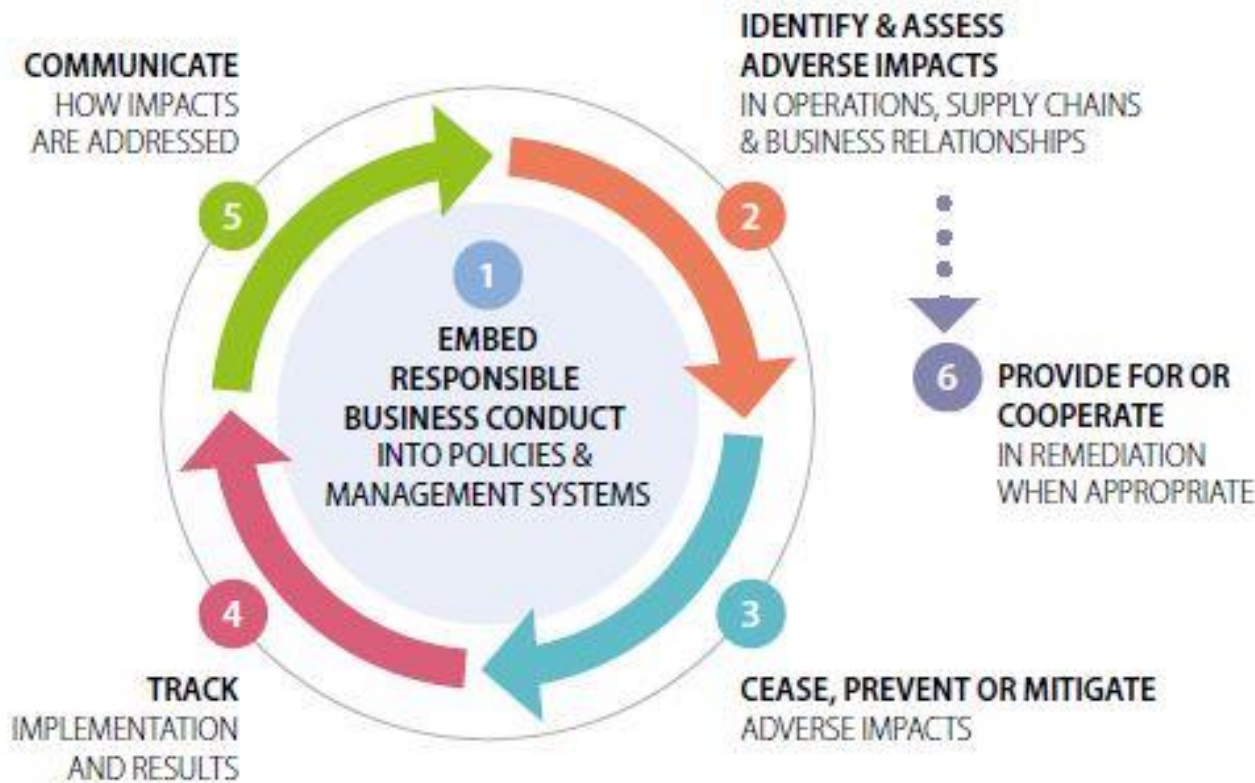
- 78% issue sustainability reports, in either a discrete, downloadable format (68%) or only on the web with unclear boundaries (9%).
- 36% include external assurance (mostly for climate or environmental data)
- 97% chose to customize extant sustainability reporting models instead of closely following any one framework.
 - Only 10 reporting companies issue sustainability reports that follow only one reporting framework *closely*, using either the GRI or an industry-specific model.
 - 106 companies (27 percent) reference and *loosely* follow just one framework, while 46 percent reference *two or more* reporting models.
 - 97 companies (25 percent) *do not reference* any reporting models.
- A minority of the S&P 500 references a recognized integrated reporting framework. SASB is cited as an influence by 35 companies (9 percent), while four companies reference the IIRC



Analysis

ESG reporting without “due diligence” standards doesn’t mean much...

FIGURE 1. DUE DILIGENCE PROCESS & SUPPORTING MEASURES



- ✓ How is ESG risk identified?
- ✓ What ESG issues are prioritised and why?
- ✓ How will ESG risks be managed in short, medium, and long term?
- ✓ How is ESG reporting verified?



Considerations

Definitions, metrics for understanding ESG risk

- Various terms, metrics and definitions are used.
- GRI most widely used framework but companies still adapt to their
- Difficult to know what actions/decisions are associated with various terms, and implication for risks and returns.

Due diligence measures by issuer to identify, mitigate & report on ESG risk

- Lack of reporting on due diligence has numerous implications for ESG investing & short termism, affecting consistency of reports, clarity & comparability and, most importantly, long term risk management!

Investment value chain

- Rating agencies, metrics & ESG funds also need to be involved
- Range of fund styles and index benchmarks makes it difficult to understand (a) performance on a relative basis, and (b) the extent to which goals other than financial risk-adjusted returns are pursued by the funds.

Promising developments → but need for policy engagement to ensure efficiency, transparency, and integrity.



Recommendations for Policy Makers

- ✓ Require issuer to use internationally-agreed standards of due diligence in ESG reporting
- ✓ Promoting use of common & widespread reporting frameworks (e.g. GRI) & their alignment with international standards
- ✓ Improving disclosure and data quality by investment value chain





Use OECD Due Diligence Guidance for Responsible Business Conduct!

A common global framework for all sectors



- General Due Diligence Guidance for all launched in May 2018
- Provides practical due diligence definitions & approaches across all sectors
- Complements existing sector-specific guidance
- Developed in consultation with and endorsed by a multi-stakeholder advisory group of government, business, trade unions and civil society.
- Backed by 48 governments who have committed to monitoring uptake across enterprises, open to all governments



OECD due diligence standards

Promotes common approaches & a level playing field

Sector standards

Extractive sector stakeholder engagement



This guidance for practitioners in the mining, oil and gas industries addresses the challenges raised when engaging with stakeholders.

Mineral supply chains



This due diligence guidance helps companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions.

Garment supply chains



The OECD is developing guidance to support a common understanding of due diligence and responsible supply chain management in the garment and footwear sector.

Financial sector



The OECD is developing guidance for application of due diligence in the financial sector.

Agricultural supply chains



OECD/UN FAO guidance to help enterprises observe standards of responsible business conduct in the agricultural supply chain and contribute to sustainable development.

Implementation



Boost **capacity** to meet due diligence standards



Support **alignment** with OECD recommendations



Conduct **research** to drive implementation and better practices



Convene & engage stakeholders to address challenges



Thank you/ Merci!

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Drivers & trends in responsible finance

Drivers: Financial crisis; Paris Climate Agreement, Sustainable Development Goals; ESG materiality for long term investments; high-profile projects (DAPL)

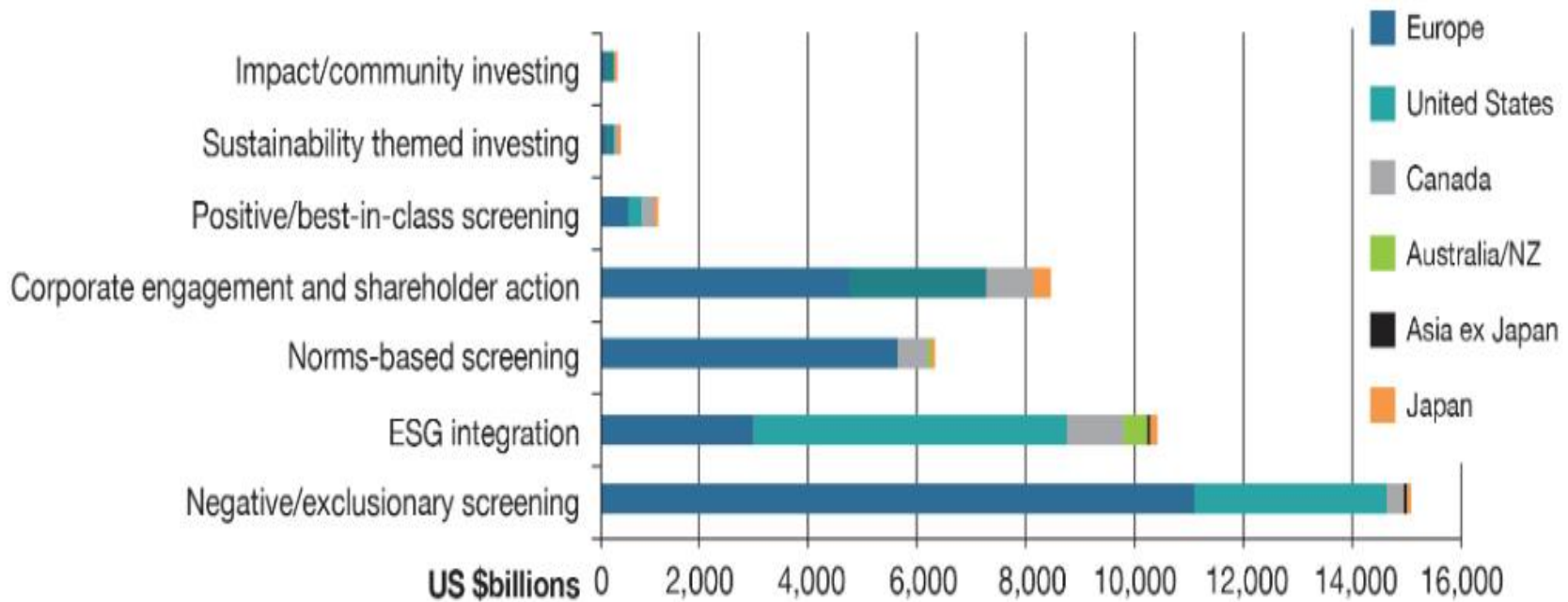
Trends:

- **Increasing disclosure obligations:** Article 173-VI of France's Law on Energy Transition for Green Growth; Task Force on Climate-related Financial Disclosures (TCFD) Recommendations; new EU Regulation on investor ESG disclosures
- **Expanding understanding of fiduciary duty:** EU Sustainable Finance Initiative; domestic legislation
- **New collaborative initiatives pushing** (Dutch Banking Sector Agreement, OHCHR, Thun Group of Banks)
- **Expanding scope of responsibility:** Update of the Equator Principles, consideration of responsibility of Export Credit Agencies, OECD work on corporate lending and underwriting



Analysis

Large variation in scale and scope due to lack of standards and quality data



Source: Global Sustainable Investment Alliance