NIRI Policy Statement – ESG Disclosure 2022

Purpose and Introduction

Since the NIRI Board of Directors released its first official policy statement on ESG disclosure in January 2019, the world of ESG has evolved dramatically. Today, opinions on the value and purpose of such disclosures are as varied as the topics that fall into the environmental, social, and governance domains. However, two widely agreed upon and critical theses arise:

1. **Demand for companies to publicly disclose ESG information on matters affecting their business and long-term strategy more broadly will not disappear anytime soon.**
2. **Investor relations (IR) professionals must become well-versed in ESG themes to properly advise executive teams on material ESG factors and communications strategy.**

Given the recent substantial growth in ESG and sustainably assets and fund flows, along with growing investor support for ESG proposals, it is clear an increasing proportion of investors want to know more about companies' ESG practices. As former U.S. Securities and Exchange Commission (SEC) Chair Elisse Walter shared in a 2017 NIRI *IR Update* article*, "*Disclosure isn't driven by what the company wants to disclose but by what the investors want to know."[1]

This statement is more relevant than ever before, and organizations that fail to respond face a heightened risk of investor activism, proxy no-votes, and non-compliance with new regulations. The trend toward more robust regulatory oversight in the U.S. and globally illustrates that regulators like the SEC are progressively working to ensure companies deliver ESG details—including carbon emissions data, cybersecurity information, and board and workforce diversity statistics— in reliable, consistent, and comparable ways.

NIRI recommends that IR practitioners develop an understanding of best practices for incorporating non-financial ESG disclosures, whether or not their company decides to provide voluntary disclosures. NIRI's ESG Disclosure Policy Statement outlines key criteria, best practice recommendations, and the steps IR professionals should take to support management in the evaluation and communication of ESG factors for the benefit stakeholders.

Given the growing investor interest in ESG data and the evolving list of high-profile ESG concerns, NIRI plans to revisit this policy statement on a regular basis. NIRI invites the IR community to provide input on how to update this statement. Comments may be sent to niri@niri.org.

[1] *IR Update*, "Witnessing an Evolution: Investors Driving Demand for Sustainability Disclosure" September 2017

NIRI ESG Disclosure Recommendations for Investor Relations Practitioners

The purpose of the Policy Statement is to provide guidance on the investor relations professional's role in identifying and optimizing ESG disclosures. NIRI's suggestions fall into three broad categories:

1. **Maintain the pulse of stakeholders' ESG expectations.**
2. **Provide management with well-informed recommendations.**
3. **Lead the development of meaningful and accurate ESG disclosures**.

1. **Maintain the pulse of stakeholders' ESG expectations**. NIRI encourages IR professionals to remain fully aware of the various types of ESG information that investors and other stakeholders seek as the landscape continues to evolve. ESG issues ranging from board diversity, to carbon emissions and deforestation, to the treatment of employees and respect for human rights, are increasingly being integrated into the investment process. As a growing proportion of U.S.-based institutional and retail investors utilize ESG data in investment screening factors and assessment of business risk, today's IR practitioners must develop cross-functional ESG-specific subject matter expertise. This knowledge is key to successfully identifying environmental, social, and governance risks, challenges, and opportunities that potentially impact a company's equity valuation.

   While investors represent a critical stakeholder group, they are not the only audience that matters. Employees, clients, and communities are increasingly interested in a company's sustainability profile as a measure of its societal license. A social license refers to the ongoing acceptance of a company or industry's standard business practices and operating procedures by its stakeholders and the general public. Said another way, a company's reputation underpins its ability to operate successfully. While the concept of a social license has been around for decades, the standards to which companies are expected to behave have been increasing over time, particularly in recent years.[2]

   As a result, there is now a growing list of independent entities—or key ESG stakeholder groups—seeking ESG information from companies in order to better assess a company's sustainability profile, both in terms of its impact on the planet and the potential of externalities to influence the company's performance. The differing perspectives of these groups have led to several different sets of asks that must be carefully considered by the company for relevance and materiality.

[2] McKinsey Quarterly, "Does ESG really matter—and why?" August 2022

Key ESG Stakeholders and Trends Advancing Demand

- **Investors.** Both institutional and retail investors are increasingly considering ESG in their investment screening processes. The largest institutional investors, such as Black Rock, have been vocal regarding their expectations for disclosure in public filings.

- **Third-party ESG ratings firms.** Demand for ESG investment research has given rise to third-party ESG rating firms such as Bloomberg**,** ISS, MSCI, and Sustainalytics, which provide investors with ratings that better enable peer comparisons and assessments of ESG-specific risk. Ratings providers typically use publicly available company information to assess risk factors and management strategy, then assign performance ratings relative to the industry peer group. The ratings of different firms can vary widely based on risks identified and factor weightings.

- **Stock exchange listings requirements.** For example, the Nasdaq Board Diversity Rule[3] requires companies listed on the Nasdaq U.S. exchange to publicly disclose board-level diversity statistics using a standardized template.

- **Regulators and courts.** Federal rules and mandates increasingly shape what ESG information is disclosed, when, how, and to whom. In the U.S., the SEC has issued recent proposals related to climate change, cybersecurity, and human capital disclosure as well as rules addressing discrepancies between SEC filings and other public documents. For companies with global operations, the regulatory subset includes mandated disclosures such as the U.K. Modern Slavery Act, EU Corporate Sustainability Reporting Directive, EU Women on Boards Directive, and the U.K. Gender Pay Gap reporting guidelines.

- **Customers**. Consumers and businesses often show preferences for sustainable products and services and increasingly prefer to work with companies with good sustainability track records. Companies committing to vendor/supplier code of conduct alignment is furthering this trend.

- **Employees and potential new hires**. Many people, particularly younger generations, want to work for companies that prioritize ESG. In a tight labor market, a good ESG profile can be an advantage for organizations competing for top talent.

- **Business partners and suppliers.** Companies often undertake due diligence regarding the culture and code of conduct of the organizations with which they do business, including how those practices may influence their own ratings. Companies

[3] NASDAQ'S Board Diversity Rule, February 2022

with high or medium controversies reported may risk reduced access to new opportunities.

- **News media and local communities.** The public and media in particular champion the idea that companies should "*do well by doing good"*. They also serve as watchdogs, reporting when companies fail to make responsible decisions, products, or investments.

Reporting Frameworks

Many key ESG stakeholders, including a growing cohort of institutional investors representing more than $100 trillion in assets under management[4], expect public companies to provide information in accordance with one or more voluntary disclosure frameworks. IR practitioners should be familiar with the well-established ESG reporting frameworks including Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosure (TCFD), Global Reporting Initiative (GRI), and CDP.

It is also important to stay abreast of developments from the International Financial Reporting Standards Foundation (IFRS). IFRS is leading several initiatives to develop high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards developed by the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB).

2. **Provide management with well-informed recommendations.** The more familiar an IR professional is with the latest ESG developments, reporting styles, and stakeholder sentiments, the better able they will be to identify relevant ESG trends and counsel management on to how to strategically respond to various requests for information. A key first step is to keep management informed of new developments and provide education at the board level as appropriate. Additionally, IR professionals should evaluate the need for relevant ESG policies and practices including those related to board oversight of ESG issues, materiality assessments, and the incorporation of ESG into long-term strategy.

Board Oversight

As expectations for board oversight on key environmental and social issues continue to increase, the IR team will be instrumental in conveying heightened investor demand for ESG disclosures with detailed responsibility and accountability. IR professionals should also be prepared to advise management and board members on the potential repercussions of not defining and disclosing the board's role in overseeing ESG issues. Such repercussions include proxy voting against or withheld in director elections.

[4] UN PRI Annual Report 2020

Materiality

Beyond disclosures a company is required to make, there is a vast array of voluntary disclosures a company may choose to make to better inform stakeholders. IR professionals can be particularly insightful in navigating this territory. It is NIRI's position that not every company should provide ESG disclosures in the same manner. The concept of materiality has been a hot button in recent comment letters regarding SEC proposed amendments to regulate ESG disclosures. In these letters, it is not always clear whether the threshold should be enterprise value, revenue, or another quantitative metric. NIRI contends that the scope and nature of ESG disclosures should be based on company-specific considerations and industry/sector practices. The IR team must help define these parameters for their organizations and provide disclosures that are meaningful, auditable, and repeatable.

Being familiar with the types of disclosures that peer firms are providing already, as well as evolving investor sentiment, allows IR practitioners to advise on when and how to communicate on key ESG issues. The IR team should be proactive in consulting with the disclosure committee and the company's largest investors, conducting materiality mapping exercises to determine what matters most to the individual company and its stakeholders. While the issues may not align exactly, understanding the priorities of the various stakeholders will help identify issues that should be disclosed, whether or not they are mandated. In certain instances, the company may not have significant quantities of data to report on material topics. In this situation, voluntary disclosures of the company's views on the issue, and, where relevant, communicating progress toward future plans are important steps in addressing stakeholders' views and potential areas of risk.

Long-Term Strategy

IR professionals should recognize the growing importance of ESG considerations in communicating a company's long-term strategy. In November 2018, the Chief Executives for Corporate Purpose (CECP) Strategic Investor Initiative released a white paper on communicating long-term plans and noted the importance of ESG: "These topics are widely acknowledged as core to business success over the long-term and should be a part of an integrated discussion — not a silo or presented as a list of awards."[5]

In other words, it is no longer satisfactory for companies to talk about ESG in a box or to simply discuss the current and immediate benefits of ESG policies. Investors and other stakeholders expect to see alignment between ESG programs and long-term corporate strategy, purpose, and mission.

NIRI has long advocated for IR practitioners to have a seat at the table with full access to senior management and familiarity with the company's strategic direction. As ESG issues gain prominence among various stakeholder groups, IR professionals who have knowledge in both areas—overall strategy and ESG policy—are uniquely positioned to recognize and articulate the connections between the two. This can provide an opening for IR professionals and corporate executives to shift the focus away from quarterly earnings

[5] CECP New Study Outlines What Institutional Investors Say Should be in a CEO's Long-Term Plan, November 2018

toward more thoughtful discussions about the plan for long-term value creation. Long-term investors and passively managed index funds may be particularly receptive to such discussions including building trust in the management team and providing support during instances when the company may be targeted by activist funds with short-term objectives.

3. **Lead the development of meaningful and accurate ESG disclosures**. As the "gatekeeper" of public disclosures, the IR practitioner must champion a consistent approach for ESG information that will be disclosed and how that data should be verified before release.

Data Collection

NIRI encourages IR professionals to work closely with their company's legal counsel, finance team and internal business partners, including the company's sustainability/ESG team, operations, government affairs, marketing and sales, public relations, supply chain management, human resources, and other business partners to fully understand how ESG data is best collected and reported. With growing concerns around greenwashing, or the overstating of operational sustainability, IR teams need to proactively conduct due diligence and verify the data prior to release.

Disclosure Statements

IR professionals must also help guide how that information should be communicated to investors and other stakeholders, discouraging "boilerplate" ESG disclosures and instead seeking to craft company-specific narratives that include performance metrics that investors can evaluate over time. As with all disclosures, NIRI recommends referencing Standards of Practice for Investor Relations, Vol. III – Disclosure for additional guidance. While there is a need for companies to provide disclosures that enable investors to easily draw comparisons between different organizations, disclosures need to be tailored to the company and what is material to its specific investors. IR professionals can help identify metrics that are meaningful in delivering progress or durability.

Disclosure Tracking

The IR practitioner is responsible for knowing what information has been disclosed to the public and what information remains non-public. IR professionals should be aware of their company's past ESG disclosure record and be prepared to explain to investors if the company changes the methodology in which it discloses specific ESG data.

Background and Appendix

Every organization is at a different place in its ESG journey. The information in this section provides definitions, history on the topic, and additional resources to assist IR professionals in building their ESG awareness and aptitude.

ESG Timeline

ESG's role as a critical component in the investment process and a lens for assessing risk has been percolating for decades. While U.S. companies have historically lagged their European counterparts in the prioritization of ESG, the issues have recently accelerated as the asset management industry has coalesced around significant externalities such as climate change. Historically, governance issues were the biggest component in the ESG trifecta. However, environmental and, most recently, social issues have since taken center stage for both intuitional and retail investors leading to a rising number of E&S shareholder proposals, rulemaking petitions, letters to CEOs and Boards of Directors raising concerns, and updated ESG-related accounting guidelines. Here are some of the highlights in the evolution of ESG.

- **1800s:** The first form of SRI investing emerges with the Methodist Church urging its members to restrict investments in controversial companies, particularly alcohol, tobacco, weapons, and gambling companies.

- **1980s/1990s**: Alongside the growth of the mutual fund industry, interest in sustainable investing begins to gain traction, mainly as impact or socially responsible investing (SRI) driven by the investment decisions of churches, universities, and endowments focused on value-based investing.

- **2000**: United Nations forms the Global Compact Initiative for investors to focus on human rights, labor, environmental, and anti-corruption principles.[6]

- **2005:** United Nations Environment Programme (UNEP) landmark report states that considering ESG factors does not go against fiduciary duty and could arguably be required in many aspects, opening doors for ESG to become mainstream.[7]

- **2006**: 63 investment companies with $6.5 trillion in assets under management (AUM) sign the United Nation's Principles for Responsible Investment. As of June 2022, the principles have 5,020 signatories representing $121 trillion in AUM.

- **2010:** Following the Supreme Court's *Citizens United* decision, shareholder proposals surge, asking companies to provide more disclosure on political campaign contributions and lobbying expenses.

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[6] UN Global Compact
[7] ESL: ESG Investments - Part One: An Introduction to and History of ESG Investing

- **2010:** The Dodd-Frank Act introduces several specific disclosure mandates, such as rules relating to the use of gold, tin, and other African "conflict" minerals in company products as well as resource extraction payments to foreign governments.

- **2012:** The Thirty-Percent Coalition begins sending letters to public companies with no women on their board. The shareholder campaign, focused on increasing gender diversity on boards, inspires a 2018 California state law requiring all public companies headquartered in the state to have a minimum number of female board members.

- **2014**: The European Union Non-Financial Reporting Directive requires large public interest companies to publish information related to environmental matters, social matters and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards.

- **2015**: Only 30 percent of U.S.-based IR professionals say sustainability is "very important" to their company's business model, while 67 percent of IR professionals outside the U.S. say sustainability is very important to their companies.[8]

- **2016**: The Paris Agreement, signed in 2015, becomes legally binding upon signatories, aiming to limit global warming to well below 2°C above pre-industrial levels through the widespread adoption of Sustainable Development Goals (SDGs).[9]

- **2017**: Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for environmental disclosure in four thematic areas – governance, strategy, risk management, and metrics and target – designed to better inform how companies incorporate climate-related risks and opportunities in their strategy.[10]

- **October 2018**: A coalition of law professors and public pension funds (with more than $5 trillion in assets under management) asks the SEC to initiate a rulemaking process to require companies to provide ESG disclosure.[11]

- **November 2018**: SASB publishes ESG accounting guidelines for 77 industry sectors.[12] The industry-focused approach resonates more effectively with U.S. companies as it provides a simplified framework to report ESG disclosures tailored to specific business risks.

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[8] NIRI-MIT Sloan School, "Corporate Sustainability Communications Practices Report" 2015
[9] UN Climate Change: The Paris Agreement
[10] Task Force on Climate-related Financial Disclosures
[11] File No. 4-370, Cynthia Williams et al., Request for Rulemaking on Environmental, Social, and Governance (ESG) Disclosure, October 2018
[12] SASB, Press Release: SASB Codifies First-Ever Industry-Specific Sustainability Accounting Standards, November 2018

- **August 2019:** Business Roundtable releases revised Statement on the Purpose of a Corporation emphasizing a commitment to all stakeholders rather than simply shareholders.[13]

- **November 2020**: ISS introduces a new voting policy for the 2020 proxy season, under which it may recommend against nominating committee chairs at companies that don't have any female directors.[14]

- **November 2020**: The SEC issues amendments to Regulation S-K to include human capital strategy disclosures as part of this reporting (most commonly arising in Form S-1, Form 10-K, or Form 8-K).[15]

- **December 2021**: ISS[16] and Glass Lewis[17] update proxy voting guidelines to address the topics of board diversity, multi-class stock structures, and climate-related shareholder proposals

- **September 2021**: SEC releases a Sample Letter of requests for additional disclosure[18] that may be issued to companies that disclose insufficient information related to climate change, aligning with the 2010 Interpretive Guidance on Climate Change Disclosures.[19]

- **March 2022:** The SEC proposes a rule on Cybersecurity Risk Management, Strategy, Governance, and Incident disclosure requiring companies to disclose material cybersecurity incidents within four days.[20]

- **March 2022**: The SEC proposes rule amendments to enhance and standardize climate-related disclosures for investors. The proposed rules would require companies to provide climate-related financial impacts and greenhouse gas emission metrics. [21]

- **2022:** The U.K. becomes the first G20 country to provide legislation that makes it mandatory for Britain's largest businesses to report in line with recommendations from the TCFD.[22]

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[13] Corporate Governance: Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'.
[14] Proxy Voting Guidelines Benchmark Policy Recommendations
[15] SEC Adopts Amendments to Modernize and Enhance Management's Discussion and Analysis and other Financial Disclosures, November 2020
[16] ISS Americas Proxy Voting Guidelines Updates for 2022
[17] Glass Lewis Proxy Voting Policies for 2022
[18] SEC Sample Letter to Companies Regarding Climate Change Disclosures
[19] SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change, January 2010
[20] SEC Proposed Rule: Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure 2022
[21] SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors
[22] UK to Enshrine Mandatory Climate Disclosures for Largest Companies in Law, October 2021

Important Terms and Acronyms

- Definition of Sustainability: Environmental, social, and governance (ESG) issues are synonymous with the concept of corporate sustainability. NIRI defines sustainability as long-term drivers of performance, risk mitigation, and opportunities to evolve the organization within the context of the changing business, economic, and social landscape.
- CDP: Not-for-profit charity offering a global disclosure system for environmental impacts that helps organizations and governments measure and act on environmental issues to create a more sustainable economy.
- Global Reporting Initiative (GRI): Independent international organization providing the GRI Standards, the world's most widely used standards for sustainability reporting.
- International Accounting Standards Board (IASB): Independent group of accounting and financial experts responsible for the development and publication of the IFRS Accounting Standards and the approval of Interpretations of IFRS Accounting Standards as developed by the IFRS Interpretations Committee.
- International Financial Reporting Standards (IFRS): High-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards developed by the not-for-profit public interest organization, the IFRS Foundation.
- International Sustainability Standards Board (ISSB): A standard-setting board created by the IFRS Foundation Trustees to meet the demand for high quality, transparent, reliable, and comparable reporting on climate and other ESG matters through a comprehensive global baseline of sustainability-related disclosure standards for determining companies' sustainability-related risks and opportunities.
- Paris Agreement: An international treaty on climate change adopted by 196 parties at the Paris Climate Conference (COP 21) on December 12, 2015. The Paris Agreement became legally binding upon signatories on November 4, 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
- Sustainability Accounting Standards Board (SASB): Now part of the IFRS Foundation, a non-profit organization developing sustainability accounting standards for 77 industries that identify the subset of sustainability issues most relevant to financial performance in each of the industries.
- Task Force on Climate-related Financial Disclosure (TCFD): Created by the Financial Stability Board (FSB) to develop climate-related financial disclosure recommendations. The TCFD recommendations and framework support informed capital allocations and are designed to help companies provide better information to stakeholders for appropriately assessing and pricing risks related to climate change.
- United Nations Principles for Responsible Investment (UN PRI): An internationally recognized public commitment to responsible investment that outlines six principles for incorporating ESG into investment practices. Developed by investors for investors, UN PRI has 5,020 signatories representing $121 trillion in AUM as of June 2022.

- United Nations Sustainable Development Goals (UN SDGs): A set of 17 global goals that create "a shared blueprint for peace and prosperity for people and the planet, now and into the future," adopted by UN members in 2015 to be achieved by 2030.
- US SIF: The Forum for Sustainable and Responsible Investment: A membership of investment management and advisory firms, mutual fund companies, asset owners, data and research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development financial institutions, and non-profit associations collectively representing $5 trillion in assets under management or advisement. US SIF is committed to advancing sustainable investing across all asset classes to generate positive social and environmental impacts.
- World Economic Forum (WEF): An independent non-profit international organization established in 1971 to improve the state of the world by engaging industry, government, and civil society leaders in partnerships to shape global, regional, and industry agendas.

NIRI ESG Resources

NIRI is committed to providing IR professionals with the latest information on the continually evolving topic of ESG. Below are helpful links to our various ESG resource libraries and additional documents and guidance that provide insight on NIRI's views and best practices.

- Corporate Governance Resource Library
- Diversity & Inclusion Resources Library
- Regulations Library
- Sustainability Resources Library
- NIRI's Comment Letter on SEC Climate Disclosure Rule (June 2022)
- Standards of Practice for Investor Relations Vol. III Disclosure

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