

# ESG

## ENVIRONMENTAL, SOCIAL, GOVERNANCE

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# What is ESG?

## ESG: Environmental, Social & Governance

- Environmental, Social & Governance (ESG) is a term used to describe the three broad areas used to assess a company's sustainability.
- ESG is becoming an increasing focus for investors as they acknowledge the material and financial impacts that ESG has on a company's short-medium-, and long-term value.
- Growing investor demand has created greater opportunity for companies to consider their sustainability and impacts, and the role of ESG reporting in presenting information to the market.
- Regulators and policy makers are also gaining interest in ESG, as they recognise the role of ESG in the greater systemic risk environment.

*"... ESG is the new lens through which companies will be evaluated, and those that not only embrace the principles, but positively demonstrate their commitment through action, will be the clear winners going forward."*

– KPMG Frontiers in Finance, June 2020

### Why is ESG important?

- ✓ Reduce costs – reduce employee turnover,
- ✓ Manage investor risk
- ✓ Manage risk
- ✓ Protect and improve reputation



# ESG Components

## Environmental

- Climate change
- Greenhouse gas emissions (GHG)
- Water management
- Biodiversity
- Air quality
- Waste management

## Social

- Health and safety
- Diversity & inclusion
- Human rights
- Impact on communities
- Impact on Indigenous
- Modern slavery

## Governance

- Board composition
- Anti-bribery and corruption
- Stakeholder engagement
- Business integrity
- Corporate structure
- Audit / Risk assessment

# Reporting ESG

## The Frameworks

There are a variety of global ESG frameworks available in the market to help guide companies on how to disclose their exposure to ESG related risks and report on their ESG performance.

However, the abundance of frameworks available and requests for information from investors, creates confusion for industry on this already complex issue.

Each framework has its own disclosure requirements, recommendations or metrics. Although these may overlap in some cases, the amount of varying information creates difficulty for companies to understand which framework provides the best reporting guidance for their organisation and their industry.

## The Rating Agencies

In addition to the frameworks that provide guidance on reporting ESG disclosures, there are several third-party rating agencies that provide ratings that measure and score companies based on their ESG risk or ESG performance. ESG scores are commonly calculated using publicly available data.

The use of ESG ratings also creates confusion for industry. Research indicates that there are a number of issues around the use of ESG ratings.

1. Majority of these rating agencies operate on an administration fee basis;
2. The ratings agencies do not have a common methodology. Often companies can be rated differently by different agencies, creating confusion for investors and creating an opportunity for forum shopping in the market;
3. The rating agencies are not regulated.

# The Frameworks

TCFD	WEF	SDG	GRI	SASB	TSM
<p>Task Force on Climate-related Financial Disclosures (TCFD) was developed in 2015.</p> <p>The recommendations cover 4 primary areas that represent the operations of an organisation – Governance, Strategy, Risk Management, and Metrics and Targets.</p> <p>All UK premium listed companies are required to state in their Annual Report whether their disclosures are consistent with TCFD disclosures, or why not.</p>	<p>World Economic Forum (WEF) developed Stakeholder Capitalism Metrics in 2020.</p> <p>Metrics prepared in collaboration with Deloitte, EY, KPMG and PwC.</p> <p>Core metrics are summarized into 4 pillars:</p> <ol style="list-style-type: none"> <li>1. Principles of Governance</li> <li>2. Planet</li> <li>3. People</li> <li>4. Prosperity</li> </ol>	<p>17 Sustainable Development Goals (SDG) were developed by the United Nations.</p> <p>The goals are at the heart of the 2030 Agenda for Sustainable Development. They are globally adopted and have been endorsed by Australia Government.</p> <p>The 17 SDG's provide valuable indicators and metrics for tracking performance against the goals.</p>	<p>Global Reporting Initiative (GRI) standards, developed in 2020, are topic specific standards.</p> <p>Topic specific standards can be selected based on the organisation's material topics – Economic, Social, &amp; Environmental. Each topic standard includes relevant disclosures.</p> <p>GRI can be used as a consolidated set or through selecting specific content.</p>	<p>Sustainability Accounting Standards Board (SASB) includes full set of 77 industry specific standards.</p> <p>Aim to identify minimal set of financially material sustainability topics and association metrics for a typical company within an industry.</p> <p>The standards designed to identify the issues that are most likely to affect the operating or financial performance of the typical company in an industry.</p>	<p>Towards Sustainable Mining (TSM) was developed by the Mining Association of Canada.</p> <p>These standards are industry specific. TSM provides a rating system for companies to rate their compliance against a variety of principles.</p>

# The Ratings Agencies / Indices

MSCI	DJSI	ISS	RepRisk	CDP
<p>MSCI provides decision support tools and services for global investors. Solutions include analytics, climate investing, ESG investing and indexes.</p> <p>ESG Rating measures resilience to long-term, industry material ESG risks. MSCI offers ESG Fund Ratings, ESG Ratings, and ESG Indexes.</p> <p>Services are offered on an annual subscription fee basis.</p> <p>Ratings use rules-based methodology to identify industry leaders &amp; laggards according to ESG risk exposure.</p>	<p>Dow Jones Sustainability Indices (DJSI) are float-adjusted market cap weighted indices that measure performance of companies selected with ESG criteria.</p> <p>Indices composed of sustainability leaders as identified by S&amp;P Global through the Corporate Sustainability Assessment (CSA).</p> <p>S&amp;P Global invites 10,000+ global companies to participate in the CSA free of charge.</p> <p>CSA focuses on criteria that are both industry-specific and financially material.</p>	<p>Institutional Shareholders Service (ISS) provides ESG ratings &amp; rankings, advisory services, ESG index solutions, climate solutions, and governance data.</p> <p>Public information is gathered to assess a company's management of ESG issues. Assessed based on a standard set of universal ESG topics, and industry-specific topics. Different weighting scenarios are applied to the topics.</p> <p>A fee is paid to access ISS's ESG data.</p>	<p>RepRisk ESG Risk Platform is a database on ESG and business conduct risks.</p> <p>RepRisk Solutions include RepRisk Rating (RRR) and RepRisk Index (RRI).</p> <p>RepRisk analyses public sources and stakeholder information to assess material ESG risks. RepRisk does <u>not</u> include company self-disclosures in its assessment. RepRisk offers the ESG Risk Platform database as well as complementary reporting and monitoring solutions.</p> <p>Access to database and reports is offered on an annual subscription fee basis</p>	<p>Carbon Disclosure Project (CDP) is a not-for-profit that run global disclosure systems for companies and investors to manage environmental impacts. Climate questionnaires are fully aligned with TCFD recommendations.</p> <p>CDP scores companies based on their disclosure, awareness and management of environmental risks</p> <p>Companies responding to CDP questionnaire are asked to pay an annual administrative fee. Corporate data can also be purchased.</p>



# The Regulation

## The EU's Regulation on ESG

- The European Union is leading the way in standardizing ESG reporting by adopting disclosure as regulation.
- In March 2018, the European Commission released its Action Plan for Financing Sustainable Growth a policy objective that the EU aims will promote sustainable investment.
- The Action Plan is backed by a broad set of new ESG regulations:

### **Sustainable Finance Disclosure Regulation (SFDR)**

SFDR applies to financial services sector firms. It sets specific rules for how and what sustainability-related information they need to disclose. Aim is to ensure that investors have the disclosures needed to make investment decisions in line with their sustainability goals.

### **Non-Financial Reporting Directive (NFRD)**

NFRD applies to European listed and large public-interest companies and financials. Companies are required to report on their policies in relation to ESG related topics including environmental protection, social responsibility, human right, anti-corruption and bribery, and diversity.

### **EU Taxonomy for Sustainable Activities (the Taxonomy)**

The Taxonomy is a classification system for sustainable economic activities. Its current focus is environment, with social and governance to be included by end of 2021. The Taxonomy aims to replace voluntary standards and frameworks as the single EU classification system.



# What does it mean for Industry?

## ESG and Mining & Mineral Exploration Industry

- The mining and mineral exploration industry recognise their role towards a sustainable future. Industry understands that reporting their ESG compliance is the way of the future.
- There is confusion for industry surrounding what and how to disclose, given the number of ESG frameworks, rating agencies and indices.
- There is no uniform requirement for disclosing ESG, many of the ESG components can be difficult to measure, and unlike financial data which is required to be reported in a standardised form and is subject to third party audits, there requirements do not exist for ESG data.

## AMEC

- AMEC has developed a matrix of ESG Frameworks. This matrix compares characteristics of a number of the global ESG Frameworks in the market.
- The matrix compares the Frameworks by addressing some of the following questions: Does it cover environment? Does it cover social? Does it cover governance? Does it provide metrics? It is global or regional specific? Can it be adopted by metals/mining industry? Is it specific for metals/mining industry?
- AMEC can aim to build an environment through industry and corporate relationships that will assist to build more sustainable organisations and hopes to provide greater direction to members who are struggling to understand the complex topic of ESG disclosure.

