

HOW TO INCLUDE ENVIRONMENTAL, SOCIAL AND  
CORPORATE GOVERNANCE FACTORS:

# DESIGN AND CONSTRUCTION OF SUSTAINABILITY REPORTS

GUIDANCE FOR ISSUERS



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# PROLOGUE OF SANTIAGO EXCHANGE

In this day and age, investors want a broad and comprehensive understanding of how companies are doing business, going beyond financial performance to include environmental, social and governance aspects and incorporating information on these practices into their investment analysis.

Meanwhile, companies—in line with market demands and regulations—have met the challenge of providing more and better information while bolstering transparency and best practices, which are key to adding value to their performance.

As a result, sustainability and financial performance have become increasingly intertwined, demonstrated by the number

of companies that have incorporated a sustainability agenda into their business strategy.

We believe that stock exchanges play a key role in building more sustainable capital markets and developing regulations and best practices that reflect both advancements and market requirements on such topics.

This conviction inspired Santiago Exchange to develop a Sustainability Reporting Guide to help issuers prepare and publish information related to environmental, social and governance (ESG) matters.



In addition to emphasizing the importance of effectively and credibly disclosing relevant information for investors, the guide is designed to educate issuers on the benefits to them of providing ESG information. These include identifying new business opportunities; anticipating changes in standards, regulations or social issues; reducing costs; accessing capital and improving customer loyalty, among others.

This document also features recommendations for establishing a corporate sustainability program; different sustainability reporting initiatives and global sustainability principles; metrics for measuring performance (as recommended by the World Federation of Exchanges, WFE); and questions to guide preparers of sustainability reports.

Lastly, this Sustainability Reporting Guide reflects Santiago Exchange's commitment to strengthen and drive the development of sustainable matters in capital markets, demonstrating considerable progress in the market's regulatory development and thereby enhancing financial performance.



**José Antonio Martínez**  
Chief Executive Officer  
Santiago Exchange

# PROLOGUE OF SUSTAINABLE STOCK EXCHANGES

The environmental, political and economic forces which influence our lives are complex systems. There are no easy ways, no silver bullets that can ensure food, water and energy security or create a green and inclusive economy without effort. But we have to master these challenges in order to secure our future on this planet, our ability to live in peace and prosperity and in harmony with nature for generations to come. The transformations that we need to achieve require massive investments, on a scale that go well beyond what public finances can provide. Our success in resolving these challenges, therefore, will be determined as much by how well we can mobilize private capital to finance these investments, as by issues of global political governance and national social consensus. The governance, transparency and accountability of capital markets are therefore critical issues for sustainable development.

For this reason, UN Environment is pushing for more transparent capital markets that deal openly and honestly with relevant environmental, social and governance issues. Transparency on these issues in corporate reports promotes greater awareness of the risks and opportunities that companies must manage in order to succeed, and that investors will need to assess and integrate into their investment decisions. Happily, this is also one of those rare situations where there is a win-win solution. Transparency can also enhance the quality of management, as well as motivating investment--over the past decade, a growing body of empirical evidence demonstrates the material importance of effective sustainability strategies for corporate efficiency and profitability. More efficient and profitable enterprises; rational investment choices in new technologies and products; greater resource efficiency; socially



responsible business practices; and well-informed consumer choices--these all contribute in an essential way to creating a sustainable future for us all.

Stock exchanges globally list over USD 70 trillion of market capitalization. They play a central role in connecting investors, companies and regulators and can be a major driver in promoting global sustainability. Integrating sustainability into business operations is at its heart good business and good for business. Market transparency and information exchange is a cornerstone of this effort.

The 2030 Sustainable Development Agenda, with its 17 Sustainable Development Goals (SDGs), which the global community of nations adopted in September 2015 outline both the challenges our world faces, as well as the opportunities that

we can realize in working to achieve these goals. Target 6 of SDG 12 focuses on the importance of corporate reporting.

Ensuring that relevant environmental, social and governance risks and opportunities are measured and disclosed effectively requires engagement and dialogue along the investment value chain. This guide provides a compelling case and a useful roadmap for companies to help advance corporate reporting in the Chilean market. It draws on lessons learned from experience with corporate reporting in various forms from around the world, to provide guidance to corporations in preparing and conducting sustainability reports, and to help identify and communicate the value of sustainability for business and society. UN Environment, along with the other organizing partners of the UN's Sustainable Stock Exchanges initiative, is proud to be supporting the Santiago Stock Exchange in this

endeavour, and we look forward to further close collaboration in advancing the sustainability agenda.



**Elliott Harris**  
Assistant Secretary-General  
and Head of UN Environment  
UN Environment

# INTRODUCTION

When making investment decisions, it is increasingly important for investors to consider the integration of Environmental, Social and Governance (ESG) policies and practices into a company's valuation strategy. Therefore, for investors, the transparency with which a company manages ESG risks and opportunities has become part of its value proposition. As a result, the global financial community recognizes that to thoroughly assess an investment, it must also analyze relevant ESG factors.

Currently, in the Chilean market close to 44% of the securities market's most representative issuers<sup>1</sup> disclose ESG information or prepare an annual sustainability report. In order to provide guidance for issuers on ESG aspects and investors' sustainability reporting requirements, Santiago Exchange has developed this Sustainability Reporting Guide, based on the

Model Guidance on Reporting ESG Information to Investors prepared by the United Nations Sustainable Stock Exchange (SSE) Initiative in order to promote and propagate sustainability in the local market. This Guide was also prepared as part of Santiago Exchange's commitment arising from its involvement in the SSE.

This guide provides insight into the benefits of ESG reporting for issuers, as well as guidance on navigating the reporting process so that they may effectively and credibly disclose ESG information to investors.

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**1.** This 44% represents 25 of the 57 issuers on the IGPA as of year-end 2015 with a free-float adjusted market capitalization of more than USD100 million.



## *Can use this guide to understand the benefits and implications of integrating sustainability into a company's business strategy.*

The preparation and disclosure of sustainability reports is rapidly evolving. Companies practice a variety of reporting in different industries, which proves that there is no one-size-fits-all approach to sustainability reporting. However, some common international practices can be identified:

- 1** Adopting ongoing ESG reporting processes in line with investor—and potentially other stakeholder—<sup>2</sup>expectations.
- 2** Considering national securities laws, which may already require disclosure of material ESG information, and international best practices.

Companies that have not yet begun reporting on sustainability can use this guide to understand the benefits and implications of integrating sustainability into a company's business strategy, which is the first step in the ESG reporting process.

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**2.** Stakeholders can be defined as individuals or groups who are affected by, or can affect, the company's performance and long-term competitiveness. In addition to investors, stakeholders generally include employees, suppliers, governments, regulators, communities, consumers or customers and media, among others.



# WHAT IS SUSTAINABILITY OR ESG?

It is important to note that while this document primarily uses the term “ESG” because it is commonly used among investors, the term “sustainability” is used interchangeably as it is more common among companies. While subtle nuances exist, for the purpose of this guide, both terms are seen as encompassing the broad set of environmental, social and governance considerations that can impact a company’s performance. While ESG factors are at times called “non-financial” or “extra-financial”, how a company manages them undoubtedly has financial consequences. They can impact:



Access to capital



Cost savings and productivity



Risk management



Revenue growth and market access



Brand value and reputation



License to operate



Human capital



Employee retention and recruitment




Company value as an acquisition target



Ability to acquire other high-quality companies

*ESG is called the environmental, social and corporate governance issues of a company.*



*A company's relationship with the community has become a key element of both its operations and its growth.*

## 2.1 ENVIRONMENTAL ASPECTS

The main risks or opportunities are related to managing natural resources and preventing pollution or contamination. Another important aspect is the reduction of greenhouse gas emissions given the potential impact on climate change and the global nature of the challenge. Improper management of environmental risk can impact a company's financial performance because of risks of fines or penalties, creation of environmental liabilities and stoppage of operations by either regulators or the community.

In contrast, effective management of environmental variables can reduce short- and long-term costs and, as a result, increase the company's value.

## 2.2 SOCIAL ASPECTS

The social risks and opportunities that can impact a business's performance are centered around the relations and policies that each company has with three stakeholders: employees, customers and the community.

► **Employees:** The main indicators to address in this area include: diversity, occupational health, employer-employee relations, adherence to labor laws and optimum working conditions in the supply chain. Opportunities for effective human resource management are related to improved productivity, reduced turnover and absenteeism, talent retention and openness to new ideas and business innovation.

► **Customers:** If the product or service provided by the company has quality and safety standards, fair treatment and the

use of emerging technology channels<sup>3</sup>, opportunities are related to brand loyalty, increased sales, reduced risk of litigation and bad reputation.

► **Community:** A company's relationship with the community has become a key element of both its operations and its growth. Consideration of communities' rights and practices that are generally responsible and friendly are determining factors for strengthening brand loyalty, obtaining and maintaining licenses to operate and protecting a company's reputation and value.

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<sup>3</sup> Emerging technology channels include Facebook, Twitter, Instagram, among others.



### 2.3 GOVERNANCE ASPECTS

Corporate governance is managed internally within organizations and the transparency of the information is relevant in being accountable to shareholders, regulators and the general public. A strategy that works actively to instill business ethics will prevent incidences of bribery and corruption and will also have an influence on the company or organization's reputation. Similarly, the integration of codes of conduct and policies that promote transparency presents opportunities for improvements in a company's performance, risk management and reputation.

# SUSTAINABILITY IN CAPITAL MARKETS

Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs. This is the general definition of sustainable development first published in *Our Common Future*, prepared by the United Nations World Commission on Environment and Development (1987). This definition helped shift companies' visions, which began to incorporate a broader perspective on economic growth into their role and future outlook.

## 3.1 THE ROLE OF ISSUERS

In a world where society has increasingly higher expectations regarding the conduct and behavior of companies, natural resources are more and more scarce and climate impacts are a lurking concern for individuals, issuers are called to promote and play a leading role in the sustainable development of the economy, striking a balance between the economic, social and environmental results of their operations.

Today, a company's role in sustainability is to continuously seek the economic viability of the business, coexisting in harmony with the environment and the neighboring community.

## 3.2 THE ROLE OF INVESTORS

A strong financial performance is no longer the only criterion that investors are considering when making investment decisions. Investors fiduciary duties require the consideration of all financial materially factors, which includes ESG factors<sup>4</sup>. In recent years there has been increased adoption of Responsible Investment, which takes into account financial criteria such as returns and risk as well as ESG considerations that affect issuers<sup>5</sup>.

The financial industry has begun recognizing the importance of risks and opportunities related to ESG performance and impact, mainly because effective research, analysis and management of

these areas have been demonstrated to be a key part of evaluating an investment's performance in the short-, medium- and long-term (for more information see the [Guide to Responsible Investment](#)<sup>6</sup>).

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<sup>4</sup>. For more information, see [Fiduciary Duty in the 21st Century](#).

<sup>5</sup>. The growth of the UN-supported Principles for Responsible Investment can be seen as a proxy for this growth. PRI has over 1500 signatories, representing more than USD \$60 trillion assets under management, in 57 countries.

<sup>6</sup>. The Guide to Responsible Investing is an initiative by Santiago Exchange, in partnership with EY, designed to explain the implications of sustainability for investors and help them integrate ESG matters into investment decisions and practices. For more information see web site of [Santiago Exchange](#).

*"Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs."*

*Our Common Future, United Nations World Commission on Environment and Development (1987).*

### 3.3 THE ROLE OF EXCHANGES

Exchanges have a fundamental role in building sustainable capital markets. As a meeting point for the diverse players that make up the market, exchanges play a leading role in setting standards and developing and promoting good practices that strengthen the capital market and society as a "whole." This is why Santiago Exchange works every day to continuously develop the organization and the capital markets through ongoing knowledge, understanding and practice of the highest standards of transparency, responsible investment and corporate governance.

Santiago Exchange began working with corporate sustainability by joining major initiatives, such as the United Nations Sustainable Stock Exchange (SSE) Initiative and the World Federation of Exchanges Sustainable Working Group (SWG). In addition, in its role as a promoter of best practices in sustainability, it has proposed

recommendations for issuers listed with Santiago Exchange<sup>7</sup>, in order to strengthen the stock market's transparency and enhance information provided by issuers to investors. In addition, it has developed tools to encourage Responsible Investment in the capital market, including the first local sustainability index, the Dow Jones Sustainability Chile Index (DJSI Chile), and the Guide to Responsible Investing. Along with this Guide, these tools are helping raise the sustainability standard in Chile and improve the transparency around how sustainability is being integrated into the business strategies of Chilean issuers.

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<sup>7</sup> Santiago Exchange identified a series of recommendations grouped into three information categories: market operations, financial reporting and investor relations. For more information see web site of [Santiago Exchange](#).



# WHY REPORT ON SUSTAINABILITY CONSIDERATIONS?

## 4.1 INVESTOR INTEREST IN ESG FACTORS

A growing number of investors are incorporating ESG aspects in the investment process<sup>8</sup>. For these investors, a company's sustainability report provides insight into the quality of corporate management and helps them forecast performance. For these reasons, more and more investors are asking companies to communicate how they are managing ESG-related risks and opportunities.

The tools most widely used by investors to assess a company's sustainability performance include:

- 1 Public information on the company: this includes financial reports that include material ESG factors, annual sustainability reports and mandatory, statutory questionnaires generally required by regulators.
- 2 ESG risk rating agencies: companies specialized in assessing corporate performance on ESG aspects. The assessment, in most cases, is performed using public information or with support from the company itself. The rating methods are based on industry-specific standards that are comparable with each other.

- 3 Sustainable performance indexes: indicators developed by securities exchanges to rate and measure the performance of listed companies that use ESG aspects as selection criteria.

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<sup>8</sup> Global Sustainable Investment Review (2015) findings show that investors who consider ESG factors in portfolio selection and management grew by 61% over the past two years, outpacing investment in conventional assets.

The Dow Jones Sustainability Index Chile (DJSI Chile), developed by Santiago Exchange in collaboration with S&P Dow Jones Indices and RobecoSAM as an independent, external assessor, presented its first results in 2015. This index is an important tool for the decision-making process of investors that consider ESG aspects when making an investment.

The DJSI Chile is the first local sustainability index and helps internationalize ESG indicators for the equities market. It is a globally standard metric that gives Chilean companies worldwide exposure.

The methodology for this index is described below:

- ▶ **Eligibility criteria:** In the index's first year, the 40 companies on the Selective Stock Price Index (IPSA) were assessed. In 2016, the assessment was broadened to include companies on the General Stock Price Index (IGPA) with a free-float adjusted market capitalization of more than

USD100 million as of year-end 2015. The assessment is expected to expand to more issuers in the future. There are currently 21 companies on the index.

- ▶ **Independent assessment:** RobecoSAM, a Swiss company that specializes in sustainability, was in charge of rating the ESG performance of the companies invited to participate in the DJSI Chile. The assessment was conducted using a voluntary, sector-specific questionnaire given to issuers. The assessment also considers public information such as financial statements, press, corporate websites, sustainability reports and information given to supervisors.

- ▶ **Analysis process:** The analysis included 24 sectors from the Global Industry Classification Standard, with 59 groups of issuers. It analyzed both generic dimensions and other factors unique to the particular industry. The

industry-specific elements were the results of the questionnaire weighted differently based on the sector or industry. For example, the banking sector was evaluated on its asset laundering prevention policies, something that is less relevant for an energy company. Thus, at the end of the evaluation the "Total Sustainability Score" (TSS) is obtained. This is used to select the companies eligible for the Index based on a minimum sustainability standard assigned per industry sector by RobecoSAM. Based on the TSS obtained by the companies, the best 40% per industry is selected using the "Best-In-Class" methodology. The weight of each company on the Index is determined by its free-float adjusted market capitalization. No company may have a weight greater than 15% on the DJSI Chile.

## 4.2 REGULATORY DEVELOPMENTS

Governments around the world are responding to demands for ESG information by taking action to drive corporate sustainability disclosures. Authorities recognize the importance of strengthening market mechanisms that will help the country achieve its objectives related to sustainable development<sup>9</sup>.

As a result, a number of capital market regulators have introduced regulatory requirements governing corporate disclosure of ESG information. In examining instruments in place in the world's 50 largest economies per GDP according the World Bank, as of November 2016, there were<sup>10</sup>:

- ▶ Over 100 regulations mandating the disclosure of environmental, social or governance information

- ▶ Over 200 measures mandating or encouraging sustainability-related disclosure instruments (a threefold increase since 2006).
- ▶ Nearly 300 instruments overall, spanning corporate disclosure, investor stewardship codes and pension fund regulation regarding sustainability factors.


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**9.** In September 2015, Chile committed to the Sustainable Development Goals (SDG), as part of the 2030 Agenda for Sustainable Development approved by the Chiefs of State of the 193 United Nations member countries, which includes 17 goals and 169 targets.

**10.** For more information see [PRI responsible investment regulation](#).







Establishing protocols for identifying, measuring and disclosing ESG factors can help companies stay ahead of such new regulatory developments.

The Chilean Superintendency of Securities and Insurance (SVS) has not fallen behind on such initiatives. In June 2015, it issued two new standards (General Rules No. 385 and No. 386) that aim to improve the disclosures made by issuers on matters of corporate governance, corporate social responsibility and sustainable development, among others.

Although adoption of these practices is not mandatory, the overall objective is to create incentives for investors to make investment decisions that favor companies in which their interests are better protected.

The main objectives of Rule No. 385 are to:

- 1** Foster the adoption of corporate social responsibility and sustainable development policies, referring particularly to the diversity of the company's board and senior executives.
- 2** Encourage the disclosure of information to shareholders and the general public regarding corporate social responsibility and sustainable development policies and practices and their effectiveness.
- 3** Improve the quality and credibility of the information contained in the board self-assessment through an external, third-party evaluation.

4 Promote the adoption of national and international principles, directives and recommendations such as, for example, those developed by The Committee of Sponsoring Organizations (COSO) or those contained in Control Objectives for Information and Related Technology (COBIT) created by ISACA or ISO 31000:2009 and ISO 31004:2013.

5 Specify measures for addressing conflicts of interest and procedures for updating the Board Code of Conduct.

Therefore, the new Rule No. 386 calls for incorporating the following information regarding corporate social responsibility and sustainable development into the company's annual report:

- ▶ Board diversity (gender, nationality, age and years in office).
- ▶ Diversity of chief executive officer and other divisions that report to the CEO or board of directors.
- ▶ Organizational diversity (gender, nationality, age and years of service).
- ▶ Salary gap by gender.

*Establishing protocols for identifying, measuring and disclosing ESG factors can help companies stay ahead of such new regulatory developments.*

*The evidence suggests that strong corporate performance on ESG factors correlates positively with improved cost of capital and financial performance.*

### **4.3 STRENGTHENING FINANCIAL PERFORMANCE**

A growing number of studies make the business case for companies to fully integrate sustainability into their business strategy. The evidence suggests that strong corporate performance on ESG factors correlates positively with improved cost of capital and financial performance<sup>11</sup>.

A 2015 study suggests that companies that perform well on material ESG factors significantly outperform peers with poor performance on these issues<sup>12</sup>. The performance of sustainability indexes reflects that companies that integrate ESG aspects into their business strategy obtain better financial

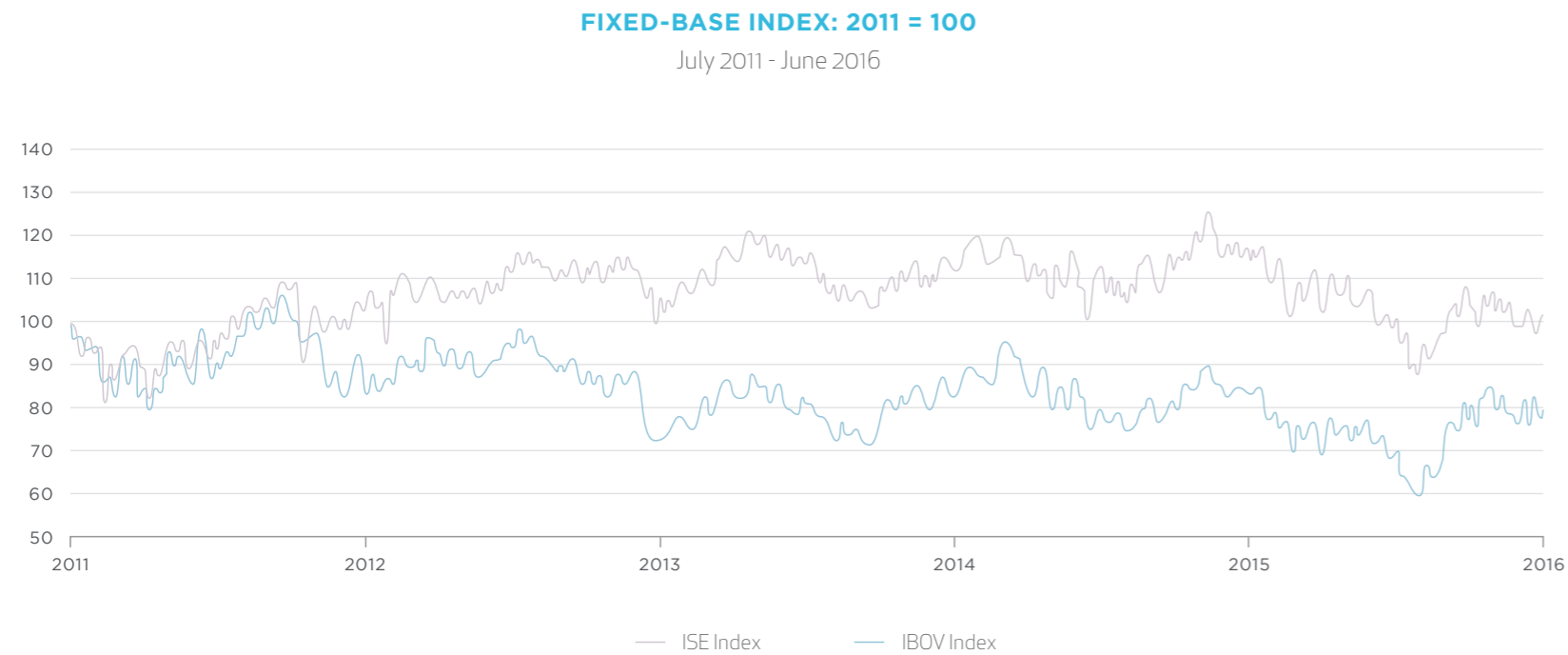
returns than their peers. This can be seen by examining the performance of sustainability indexes developed by exchanges around the world.

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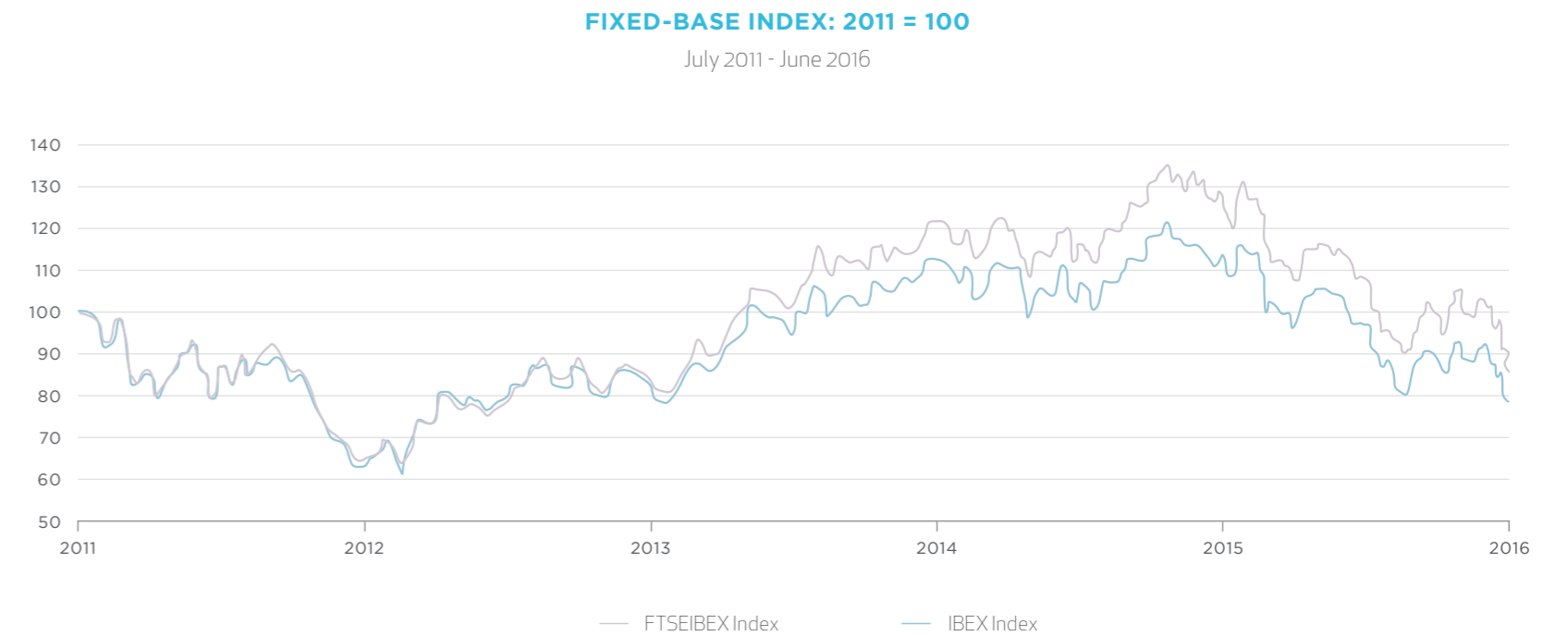
**11.** Deutsche Asset & Wealth Management (2015) ESG & Corporate Financial Performance: Mapping the global landscape.

**12.** Khan, Mozaffar, Serafeim, George, Yoon, Aaron (2015) Corporate Sustainability: First Evidence on Materiality, Working Paper 15-073, Harvard Business School.

## PERFORMANCE OF ISE<sup>13</sup> VERSUS THE BRAZILIAN MARKET INDEX (BM&FBOVESPA)



## PERFORMANCE OF FTSE4GOOD IBEX<sup>14</sup> VERSUS IBEX35 ON THE SPANISH STOCK EXCHANGE (BME).



**13.** ISE is an indicator of average stock price performance of a maximum of 40 companies with a recognized commitment to corporate sustainability in the BM&FBovespa.

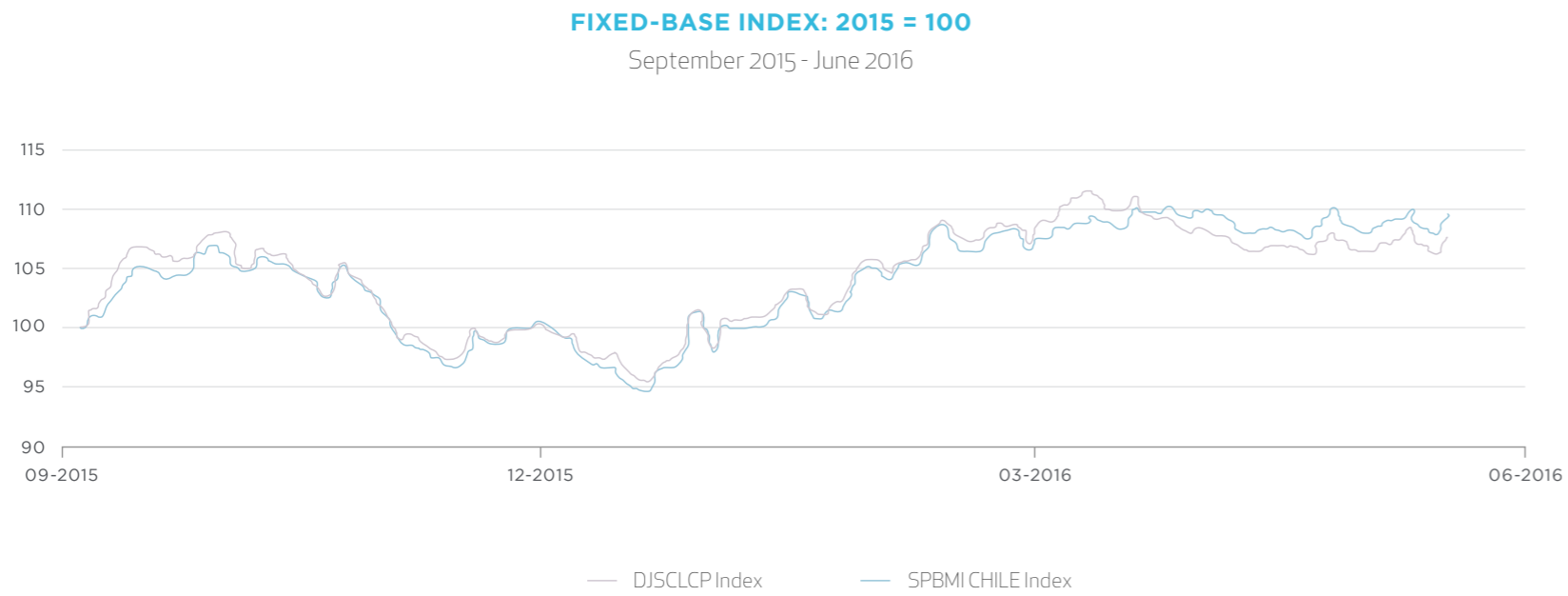
**14.** FTSE4Good IBEX is comprised of companies on the Spanish Stock Exchange (BME) that comply with sustainability eligibility criteria and belong to the IBEX 35 and FTSE Spain All Cap.

Source: Bloomberg 2016.

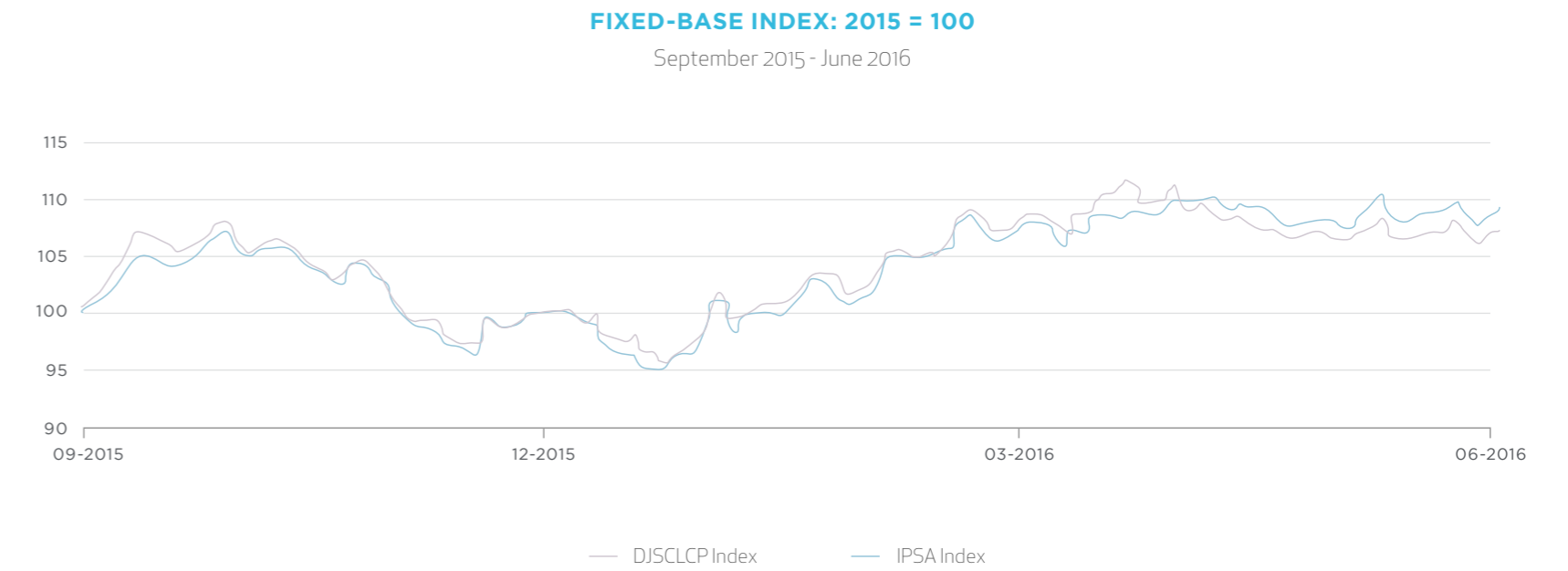


## PERFORMANCE OF DJSI CHILE VERSUS SPBMI CHILE

THE S&P CHILE BMI (BROAD MARKET INDEX) IS A SUBSET OF THE S&P LATIN AMERICA BMI. THE INDEX IS DESIGNED TO SERVE AS A CHILEAN MARKET BENCHMARK.



## PERFORMANCE OF DJSI CHILE VERSUS IPSA



Source: Bloomberg 2016.



Reporting on how sustainability initiatives are linked to strategy, financial performance and valuation provides important benefits. The figures above demonstrate that in the Brazilian and Spanish markets sustainability indexes perform better in the long term than the market indexes on which they are based. While the trend in the Chilean market is not as clear, this could be because the DJSI Chile is a relatively new sustainability index and these processes need time to take root in the economy, similar to what happened in Spain.

Integrating sustainability into company valuation will assist in communicating how a company is addressing the world's most pressing challenges: poverty, education, climate change, biodiversity, transparency and competition, etc. Addressing these challenges promotes more prosperous economic systems and more stable and resilient markets that benefit all participants.

#### 4.4 CUSTOMERS AND CONSUMERS WITH INTEREST IN ESG FACTORS

Customers and consumers around the world are increasingly concerned about purchasing products that satisfy environmental requirements, using renewable materials, recyclable packaging and environmentally friendly waste.

This is supported by a global survey applied by Tetra Pak in 2015<sup>15</sup>, where some 6,000 consumers across 12 different countries were surveyed, including consumers from United States, Brazil, France, China, India and others. Of the results, regarding their recent purchasing habits, 70% of consumers said they had purchased an environmental product, even if it costs more, while 66% confessed to having avoided a particular product or brand for environmental reasons.

Customers and consumers concerned about ESG factors is a growing trend, which expands beyond the food industry. This is why companies have included taking care of the environment and other sustainable factors as part of their business strategy. Focusing on the use of materials of responsible and renewable origin is considered like a key factor in product differentiation.

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<sup>15</sup>. Millward Bromn (2015) Environment research.

# PRIMARY BENEFITS OF REPORTING ON SUSTAINABILITY

The primary benefits expected from preparing sustainability reports include:

## **ACCESS TO CAPITAL**

- ▶ Demonstrate transparency and effective management and enhance the company's ability to attract long-term capital and favorable long-term financing conditions.
- ▶ Enhance the company's ability to attract longer-term investors, including major institutional investors.

## **PROFITABILITY AND GROWTH**

- ▶ Generate financial value for the company by identifying opportunities for cost savings, new revenue generation and risk mitigation.
- ▶ Drive continuous improvement by creating accountability and fostering collaboration with stakeholders.
- ▶ Create a deeper understanding of stakeholder needs, which could drive innovation and enhance market differentiation and competitiveness.

- ▶ Enable management and board scrutiny of ESG opportunities and risks, and promote company-wide alignment on goals.

- ▶ Protect the company's license to operate by demonstrating corporate transparency and responsiveness to stakeholder needs.



## COMPLIANCE AND RISK MANAGEMENT

- ▶ Address mandatory reporting requirements on financially material factors and mitigate compliance risks related to financial disclosure obligations.
- ▶ Establish measurements for ESG aspects that are material for the company.
- ▶ Help the company stay ahead of emerging sustainability and disclosure regulations.



## CORPORATE REPUTATION AND BRANDING

- ▶ Demonstrate corporate commitments to responsibly managing environmental, social, and economic impacts.
- ▶ Exhibit corporate adherence to ethical standards, ESG regulatory frameworks, sustainable development goals, etc.



*Sustainability reporting generates financial value for the company by identifying opportunities for cost savings, new revenue generation and risk mitigation.*

- ▶ Enhance corporate reputation by improving stakeholders' perception of a company through reporting-related stakeholder engagement.
- ▶ Improve employee perception of the company, helping to attract, retain, motivate and align new and existing employees.



### **INFORMATION FLOW**

- ▶ Ensure that the key stakeholder(s) has the relevant information that is needed to make informed decisions about the company's ability to create value in the short, medium and longer term.



### **ENHANCED INVESTOR RELATIONS AND ENGAGEMENT**

- ▶ Improve relationships and understanding with investors by engaging with stakeholders throughout the process of identifying relevant indicators for sustainability reporting.



### **MEASURABLE ACHIEVEMENTS**

- ▶ Measure the impact of ESG factors on the business strategy. Sustainability reporting enables the measurement of success or progress of ESG issues in key corporate strategies as well as impacts of corporate practices, providing an annual basis of comparison and promoting improvement strategies.

## RECOMMENDATIONS FOR INTEGRATING SUSTAINABILITY

Thirteen steps for integrating and moving forward on corporate sustainability, established by BM&FBovespa:

- 1 Start by involving senior management and the board:** In order to be effective and generate value for the company, the decision to get involved with sustainability must come from the senior management and benefits from board involvement.
- 2 Identify what needs to change:** A diagnostic is key in identifying a company's existing gaps and implementing a short-, medium- and long-term action plan. This process will also help identify the organization's alignment needs and whether its existing infrastructure, processes and systems are suitable for the new challenges.
- 3 Set priorities:** After performing the diagnostic, the next step is to define priorities. Priorities must be set based on

the concept of materiality, which is broadly used in legal and accounting matters, and can also be used to define sustainability strategies. An issue is material when it is important and a priority for stakeholders, corporate viability and/or the company's internal management.

- 4 Commit publicly:** There are several collaborative initiatives that require public commitments to sustainable development that can help the company formulate its strategy and integrate ESG aspects through a learning network and stakeholder engagement. The United Nations Global Compact, launched in 2000, is one example.

- 5 Establish sustainable corporate governance:** In order to guide the company on ESG aspects, short- and long-term decisions must be made by creating a corporate governance

structure that is focused on sustainability and incorporates directors' committees, working groups or sustainability areas into the company. Depending on the size of the company, the person in charge of corporate sustainability should be a professional with access to senior management. While this person does not necessarily need to report directly to the chairman, CFO or CEO, the board and senior management should be involved in setting sustainability objectives and oversight. Depending on the industry and maturity of the company's sustainability strategy, the sustainability area might be part of the:

- Finance/Risk Area
- Corporate Affairs Area
- Communications Area
- Human Resources Area
- Operations Area

**6 Confirm the corporate identity:** Performing the above steps might have led to some changes in the organization that affect the company's identity. As a result, the mission, vision and values need to be reviewed in order to reflect the new commitments adopted.

**7 Engage with stakeholders:** Dialoging formally with stakeholders enables the company to better understand how its activities impact the environment and society in order to create mitigation or compensation plans. It also helps identify its investors' information needs and any business opportunities or improvements required by customers.

**8 Draw up a sustainability policy:** This is a key step to translate sustainable strategies and commitments into objectives and management guidelines. It must contain the basic guidelines


for managing sustainability within the company, facilitating planning and execution of actions in the different business areas. A good policy should be short, objective and distributed to all company stakeholders, starting with the organization's internal groups.

**9 Involve internal stakeholders:** To ensure a successful corporate strategy, the entire organization must be aligned. This logic also applies when implementing a sustainability strategy. Embedding the company's commitment to sustainability into its corporate culture can include training programs, codes of ethics and internal communications campaigns, among other activities.

**10 Adjust management systems:** As a company integrates sustainability into its business strategy and organizational

culture, it might need to adapt its corporate commitments, management systems and performance evaluation processes. One necessary step is to draft and distribute new corporate policies on topics such as sustainability, the environment, labor matters, social issues and risk. These policies require management systems to monitor execution by establishing processes and procedures and selecting and calculating key indicators.

**11 Identify and monitor indicators:** Indicators must be defined based on the organization's desired objectives, its industry and the maturity of its sustainability strategy. They must be communicated to the entire organization and reviewed periodically (at least once a year). There are several ESG reporting initiatives that are a major source of information and can help companies identify the key indicators per industry. (See Chapter 7: "Considerations in Preparing a Sustainability Report").



**12 Set goals:** If the organization wishes to demonstrate its commitment to sustainability, it must set clear goals for the key indicators identified. They must ideally be public information in order to facilitate internal and external monitoring of compliance.

**13 Report achievements and challenges:** Transparency is a must for a company to win its stakeholders' trust. The best way to achieve this is by disclosing its ESG information, either in the form of supplementary sustainability reports or an integrated report that includes information on a company's economic, social and environmental aspects as a result of a unified strategy.

# RECOMMENDATIONS FOR PREPARING A SUSTAINABILITY REPORT

In the following section, Santiago Exchange provides Chilean issuers recommendations for preparing to report on ESG consideration.

## 6.1 RESPONSIBILITY AND OVERSIGHT

The initial stages of report preparation provide an opportunity to determine who within a company is best placed to be involved in creating the report. Regardless of the amount of resources allocated, the group should be multidisciplinary as reports benefit from the knowledge and expertise of those who come together to prepare them.

As a practical first measure, it is useful to determine within a company the roles, responsibilities and capabilities that are relevant for sustainability reporting, including identifying appropriate personnel and coordinating among them. It is recommended that senior management lead the ESG reporting process, demonstrating commitment to high-quality reporting and providing strategic input into, and oversight over, the process, in order to guarantee

proper execution. Different departments (such as finance, investor relations, communications, legal, sustainability and each business unit) make valuable contributions to the outcome of a report. Any team working on sustainability reporting should have access to input from across the functional divisions of a company, as different functions within the company may be engaging with different stakeholders and managing material issues.

*By embedding sustainability into their core duties, directors can position themselves to ensure the mainstreaming of ESG factors into business strategy, organizational culture and operational practices.*

A company's board of directors plays an essential role in relation to organization-wide integration and oversight of the reporting process. As the board of directors has responsibility for oversight of the strategic direction of a company, integrating sustainability considerations into the company's strategy is an appropriate aspect of the board's role. It is thus worthwhile for companies to define their sustainability rationales and objectives with their boards of directors, and provide governance mechanisms for addressing these factors at all levels of the organization. By embedding sustainability into their core duties, directors can position themselves to ensure the mainstreaming of ESG factors into business strategy, organizational culture and operational practices in a way that supports the long-term profitability and viability of the company.

Boards may find it beneficial to issue a statement that clarifies how the board determined:

- 1 The importance of different stakeholders.
- 2 Which ESG factors are material and how were they selected.
- 3 Within what time frame it made these judgments, as they change over time.

While these statements are not currently commonplace, they are an emerging best practice. Developing such a statement is also an opportunity for the board to reflect on the company's role in society and contribution to sustainable development. It

can provide transparency regarding the board's position on and oversight of the company's ESG risks and opportunities, and strengthen the company's credibility when communicating on sustainability measures.

A board leadership commitment to reporting on sustainability lends credibility to a company's claims and publications about its ESG commitments and performance. In order to evaluate quality of management, many investors examine not only ESG performance and the quality of disclosures, but also the management of risks and opportunities by executive teams and boards.

## 6.2 CLARITY OF PURPOSE

### 6.2.1 Supporting Corporate Strategy

In addition to the benefits of the report itself, a company also derives value from the process of creating it. High-quality corporate reporting can help a company define guidelines for achieving various goals in relation to internal and external stakeholders and inform decision-making (particularly that of investors). While reporting provides decision-useful information for stakeholders, the process of compiling this information can also strengthen internal reporting systems beneficial to the management of a company. As such, there is a need for clear links between reporting needs and strategic goals, the business model, risks, opportunities, operational indicators and financial performance. With strong connections between these areas, a company becomes better able to identify and



manage risk, evaluate and measure success, as well as identify future challenges and opportunities.

### 6.2.2 Identifying and Understanding the Audience

When reporting information to investors, it is important to remember that while all investors can benefit from ESG information, different investors can have distinct information needs. Companies can therefore benefit from asking themselves the following questions:

- 1 Who are the company's top investors?
- 2 What kind of investors would the company like to have?
- 3 How has the company engaged with relevant investors to find out what they are interested in?

For instance, investors with a long-term investment horizon, such as pension funds, may be particularly interested in information regarding risks, such as how climate change may affect the company in the medium or long term. While some investors may only be interested in material information that is being disclosed within a financial or integrated report, others may want supplemental, detailed sustainability information in a stand-alone report. These considerations are important to clarify early in the reporting process, as they will help define the content, scope and format of reporting, as well as engagement efforts.

While this guide focuses on facilitating transparency between investors and issuers, investors' information needs go beyond investors themselves. Investors are interested in how a company communicates with other key stakeholders, which can have a material impact on company operations (e.g., workers, consumers or customers, communities, governments). Investors recognize that

*Investors recognize that a company's ability to create value in the long term depends on its interactions with its stakeholders and use of resources.*





a company's ability to create value in the long term depends on its interactions with its stakeholders and use of resources.

### 6.3 RELEVANCE AND MATERIALITY

While companies have a number of sustainability reporting objectives, the materiality of information and its relevance for investors is a key consideration in determining the scope and content of a company's reporting. With a range of potential ESG factors to disclose, companies should focus efforts on material factors that are relevant to the company. Auditors and attorneys use the concept of "materiality" in corporate social responsibility (CSR), defining it to include those issues that are especially relevant for an organization's sustainability as they reflect their most significant economic, environmental and social effects and/or substantially influence the evaluations, decisions and perceptions of stakeholders.

Different organizations have different interpretations and recommendations on how the concept of materiality could be applied to sustainability reporting<sup>16</sup>. As an example, the US Supreme Court defined material information as the one that has "substantial likelihood that the omission in disclosure of the fact could be viewed by the reasonable investor as having significantly altered the 'total mix' of information made available", recognizing that it is important information for investor's decisions.

Likewise, different stakeholder groups have distinct views on which ESG factors are material for a company. The company must adopt the definition most used by its stakeholders, market regulators or industry sector.

Identifying relevant issues is a starting point for identifying material factors. Information is "relevant" when it influences the opinion or decision of users by helping them to evaluate past,

present or future events, or by confirming or correcting their past evaluations. As such, understanding the reporting audience is critical to determining what information should be included in a sustainability report. For determining material factors, it can be useful to gage how much an issue might potentially affect the company's ability to create value over time.

In addition to material information, a company may decide to report on other factors that do not meet the threshold for materiality, but may still be relevant to the company's operational and/or reputational performance. For example, a company's perspective

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**16.** For more information see Chapter 7: "Considerations in preparing a sustainability report"





on what is material to investors may diverge from what, in its view, is significant to society. Therefore, one company may decide to report only on material information, whereas another may report all information it deems significant to its stakeholders

Whether a company decides to apply a strict interpretation of materiality when considering which ESG information to report, or it takes a wider view, companies will strengthen their reports by clearly articulating how the concept of materiality has been applied.

### 6.3.1 Identifying Themes

Whether a company reports on a smaller number of only the most material themes or a more comprehensive range, an effective report covers ESG considerations that are re-

levant to business strategy and illustrates the link to both long-term and, when possible, short-term value.

Thinking through each piece of a company's value chain can help develop a comprehensive understanding of the ESG themes that could be relevant for disclosure. Additionally, it is often helpful to reflect on the risks discussed in the company's annual management reports, as well as themes reported by peers. A company can also use a variety of national and international resources to develop an initial list of ESG themes, be they generic or sector-specific. For example, the UN Global Compact's 10 Principles<sup>17</sup> or the UN's 17 Sustainable Development Goals<sup>18</sup>.

One area a company may benefit from further exploring is that of intangible assets. One of the foremost of these intangibles

for many firms is human capital, and good ESG practices are recognized as key drivers of employee attraction, motivation

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**17.** Global Compact is based on four broad concepts (Human Rights, Labor, Environment and Anti-Corruption) and 10 main principles on sustainability matters. The objective is to facilitate a basic understanding of what the principles represent, how they relate to the business sector and how they contribute as an essential part of the organizational philosophy of the participating companies. For more information, see the [10 Principles](#).

**18.** 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development, adopted by world leaders in September 2015 at an historic UN Summit officially came into force on 1 January 2016. Over the next fifteen years, with these new Goals that universally apply to all, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. For more information, see the [17 Goals](#).



and retention. Another intangible is brand image, and again good ESG practices affect consumer or customer interest in products and services and the company's license to operate in the eyes of governments and local communities.

Another relevant element of company value is tied to "natural capital", which relates to the raw material inputs and environmental processes. Companies are increasingly challenged by risks, such as resource depletion, species loss and climate change impacts. As a result, better management of natural capital is believed to have an impact on companies' long-term viability.

### 6.3.2 Adopting Relevant Performance Indicators

Once a company has established which ESG themes to report on, it can begin to disclose specific performance indicators to demonstrate progress in a sustainability report. These indicators may be generic, industry-specific or company-specific. It is recommended that companies use widely accepted indicators developed via a credible, recognized international process. The Sustainability Reporting Guidelines of Global Reporting Initiative (GRI), for example, produces the most widely used set of indicators for corporate sustainability reporting.

When reporting ESG indicators, investors appreciate information that appears in the appropriate context, including comparisons to:

- ▶ Historical company and industry trends.
- ▶ Related corporate goals.
- ▶ Relevant ratios.
- ▶ Industry averages.
- ▶ Financial results/performance.

As investors seek to understand how ESG information is linked to the company's business strategy and financial performance, quantitative data is in high demand because it can be more easily compared across time within the same company or with

similar data from other companies. Such data is also useful for enhancing investment valuation and credit rating models.

To effectively use indicators, companies can:

- ▶ Consult nationally or internationally recognized reporting guidelines and protocols for measuring, preparing and presenting ESG metrics to improve the quality of a company's disclosure.
- ▶ Explain why indicators increased or decreased year-to-year. Investors also appreciate knowing the company's perception of this, and how this might change in the future.
- ▶ Explain methodologies for data collection in the report, along with why these were used.

- ▶ Supplement qualitative narratives with quantitative data, benchmarks and targets, and vice versa.
- ▶ Explain the link between ESG metrics and financial performance, by demonstrating how ESG initiatives drive growth, productivity and risk management in monetary terms, where possible.
- ▶ Report on challenges and mistakes as well as accomplishments. Moreover, in many jurisdictions, information on regulatory infractions or penalties is available independently through the regulator's information channel. If stakeholders have access to this information and do not see it in corporate reporting, this diminishes the credibility of the corporate report. Investors understand that no company has a perfect record on every ESG issue; an honest discussion builds rapport with shareholders and other stakeholders alike, and often wards against more aggressive engagement.




## 6.4 ACCESSIBILITY

The right disclosure channels ensure investors receive relevant, easily accessible, comparable and timely information. It is advantageous for companies to be familiar with their targeted audiences' preferred ESG information sources, and to update these with timely and accurate news about their performance.

To accommodate variable information needs and interests, it may be relevant to use different communication channels, including websites, voluntary or mandatory regulatory filings, annual reports, sustainability reports and other company reports. Using more than one communication channel can be an effective way to ensure that a company's complete target audience gets the necessary information. To make the infor-

mation more accessible to international investors, companies may also wish to disseminate their ESG information in English, in addition to the Spanish version.

The appropriate channels for ESG disclosure also depend on a company's regulatory context and business and communication strategy. Securities regulations or listing rules may require a company to integrate financially material ESG information into its financial disclosures and other mandatory investor communications and regulatory filings. Similarly, given a company's own analysis of information needs and expectations, it may decide to include certain ESG information in the company's financial disclosure even if not required.



*Using more than one communication channel can be an effective way to ensure that a company's complete target audience gets the necessary information.*

Illustrated below are three examples of communication channels a company may consider for disclosing ESG information to stakeholders. As mentioned above, many companies pursue a suite of complementary reporting channels and the processes to compile one can feed into the other.

Regardless of the format, there are a few overarching practices to keep in mind:

- 1 If sustainability disclosure is separate from financial disclosure, it is recommended that the two types of disclosure are published for the same reporting period. This will allow investors to consider financial information within the context of ESG information. Cross-references within these documents ensure connectivity and accessibility of information.

#### Stand-alone sustainability reporting


Sustainability reports address the relevant ESG information needs of investors and sometimes other stakeholders, such as consumers or customers and the community.

#### Financial reporting with material ESG factors

After a company determines certain ESG factors are material to its business over a specific time horizon, it may decide to include this information in its financial reports. These likely cover a smaller set of ESG factors than the other options listed.

#### Integrated reporting

An integrated report is a concise communication about how an organization's strategy, management, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.



2 It is important to ensure consistency among the information reported in different communication channels. For example, a company would not want to have one channel emphasizing the critical nature of an issue to its business and then not discuss that issue in another communication channel.

3 It is critical that the information is easy to find, for example by producing an online content index with hyperlinks to boost digital accessibility indicating where all existing ESG information can be found.

4 Overall, reporting is most effective when the language used and the way the information is presented is clear and relevant for investors and connects to a company's ability to create value in the short, medium and long term.

## 6.5 CREDIBILITY AND RESPONSIVENESS

### 6.5.1 Robust Internal ESG Data Collection and Management Processes

Better data leads to better decision-making and performance. First, it is useful to assess the capabilities of existing internal systems to collect concise, reliable and complete ESG data. Rather than creating completely new channels, companies can make use of existing internal audit, risk and data control verification systems. If internal systems are not currently sufficient for the task, a company may decide it is in its long-term best interest to invest in building capacity in this area. If data collection gaps are identified, companies can identify and explain them in their report.

### 6.5.2 Engaging for Continuous Improvement

Engaging stakeholders on ESG factors is best conducted as a preventative rather than reactionary activity, as stakeholders can help a company identify, mitigate, and manage ESG risks and opportunities before problems emerge. Stakeholder engagement can also be a source of innovation, future opportunities and new partnerships that fuel strategic growth. Disclosing a company's sustainability integration process can help investors understand if and how well a company is integrating ESG risks and opportunities into planning and operations, as well as lend credibility to company claims about leadership in ESG performance.

Systematic stakeholder engagement enhances receptivity and the usefulness of corporate ESG information. Executed properly, stakeholder engagement is likely to result in improved unders-

tanding by the company of its strategic partners and resources, strengthen relationships with stakeholders and foster higher levels of trust among external parties regarding the company's actions and reporting.

### 6.5.3 Assessment and Control

ESG reports are made more credible by strong internal assessment processes and/or external assurance, if resources permit. With respect to the former, an internal audit committee or group of individuals, independent of the division tasked with measuring and gathering the ESG information or indicators, can review disclosure. An internal audit can also further ensure that internal data collection systems are robust and organized.

Interest in externally assured sustainability reports, along with the development of disclosure standards, has been driven by investor

requests for companies to bring ESG information up to financial grade reporting for investment decision-making. If resources allow, external assurance of sustainability reports can lend an added degree of trust, credibility and recognition, just as financial auditing does. Auditing/accounting firms and sustainability risk rating agencies are the most common third-party assurance providers. In order to decide the type and level of assurance needed for ESG information, it is important for companies to consider recommended standards for assurance within their sector, as well as stakeholder expectations.





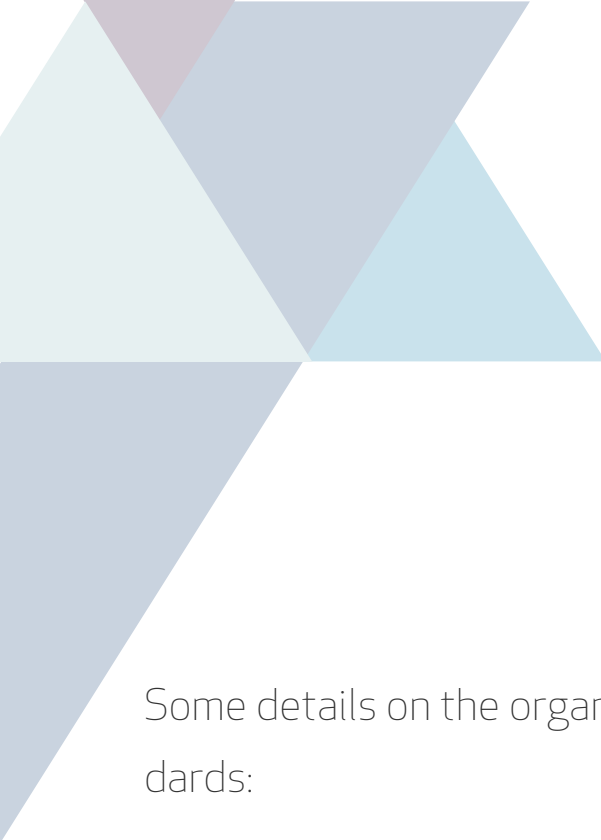
# CONSIDERATIONS IN PREPARING A SUSTAINABILITY REPORT

## 7.1 SUSTAINABILITY REPORTING INITIATIVES

In preparing sustainability reports, it is recommended to use a nationally or internationally recognized reporting initiative or ESG indicator identification tool, since they also lend comparability.

The following tools can be used to identify relevant ESG factors for the company and its stakeholders:

- ▶ The Sustainability Reporting Guidelines of Global Reporting Initiative (GRI), with over 140 indicators that address ESG issues across all sectors, defined by their relevance to stakeholders.
- ▶ UN Global Compact's best practices related to the GC Advanced Communication on Progress in the areas of human rights, labor, environment and anti-corruption.
- ▶ Indicators from the Carbon Disclosure Project (CDP) regarding climate change, water consumption and deforestation.
- ▶ Climate Disclosure Standards Board's (CDSB) Framework for reporting environmental information and natural capital in mainstream financial reports.
- ▶ The International Integrated Reporting Framework (IIRC).
- ▶ The Sustainability Accounting Standards Board's (SASB) standards identify relevant factors by industry sector that are comparable with each other.
- ▶ UN Guiding Principles Reporting Framework addresses reporting on human rights according to the UN Guiding Principles on Business and Human Rights



Some details on the organizations that promote these standards:

▶ **[Global Reporting Initiative \(GRI\)](#)**: The GRI initiative, created in 1995 as a joint project between the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies, is an independent, international organization that helps companies, governments and other organizations communicate their businesses' impact on critical sustainability issues such as: climate change, human rights, corruption, etc. It includes more than 140 performance indicators, separated into its Sustainability Reporting Standards.

▶ **[United Nations Global Compact](#)**: The United Nations Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and

anti-corruption, and to take action in support of UN goals and issues. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with over 8,000 companies and 4,000 non-business signatories based in 160 countries, and over 85 local networks. Business participants are expected to publicly report on their progress in an annual "Communication on Progress" (CoP).

▶ **[Carbon Disclosure Project \(CDP\)](#)**: CDP is a global not-for-profit organization, founded in 2000 and headquartered in London. The CDP standard defines ESG indicators on climate change, sustainable water consumption and deforestation. Companies report ESG information through annual questionnaires sent on behalf of institutional investors that endorse

them as "CDP signatories". These shareholder requests for information encourage companies to publicly share information on their greenhouse gas emissions and mitigation measures.

▶ **[Climate Disclosure Standards Board \(CDSB\)](#)**: The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs founded in 2007 in London. They are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. As of late 2015, 341 companies in 32 countries used the CDSB framework for reporting environmental information to stakeholders.

▶ **[International Integrated Reporting Council \(IIRC\)](#)**: Integrated reporting is an evolution of corporate reporting, with a focus on conciseness, strategic relevance and future orientation. It aims to improve accountability, management and

trust as well as information flows and transparency entailed with technology, providing investors with critical information to make more effective capital allocation decisions, which will facilitate better long-term profitability of their investments. The first discussion paper was issued in 2011 in the United Kingdom and the final version was published in 2013.

► **Sustainability Accounting Standards Board (SASB):** SASB, an independent, non-profit US-based organization, was created in July 2011. Its mission is to develop and disseminate industry-specific sustainability standards and indicators that enable corporate performance to be compared. The indicator matrices are constructed through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation.

► **UN Guiding Principles Reporting Framework:** The United Nations Guiding Principles Reporting Framework is the first comprehensive guidance for companies to report on human rights issues in line with their responsibility to respect human rights as set out in the UN Guiding Principles. It provides a concise set of questions for a company to consider and report on in order to know and show that it is meeting its responsibility to respect human rights in practice. It offers clear and straightforward guidance on how to answer these questions with relevant and meaningful information about human rights policies, processes and performance.

## **7.2 PERFORMANCE MEASUREMENT METRICS**

The following list of material sustainability indicators can serve as a reference for issuers when preparing their sustainability reporting. These material ESG reporting indicators are the result of an analysis of different sustainability standards and tools conducted by the Sustainability Working Group of the World Federation of Exchanges, of which Santiago Exchange has been a member since 2015. Note that the list is not exhaustive, and companies are free to choose the most applicable indicators according to their business.

ESG aspect	Metric	Annual measurement or specification
Environmental	Direct and indirect greenhouse gas (GHG) emissions	Total amount, metric tons.
Environmental	Carbon intensity	Total emissions relative to revenue.
Environmental	Direct and indirect energy consumption	Total amount, metric MWh.
Environmental	Energy intensity	Amount of direct energy used per M3 of space and FTE.
Environmental	Primary energy source	Cite specific energy type in majority of direct usage
Environmental	Renewable energy intensity	Percentage of direct energy consumption from renewable sources
Environmental	Water management	Total amount of water consumed, recycled or reclaimed, M3
Environmental	Waste management	Total amount of waste generated, recycled or reclaimed (by type and weight)
Environmental	Environmental policy	Does your company publish and follow an environmental policy? Yes / No
Environmental	Environmental impacts	Did your company bear any legal/regulatory responsibility for an environmental impact? Yes / No
Social	CEO pay ratio	Ratio: CEO salary and bonus to median FTE salary
Social	Gender pay ratio	Ratio: Median male salary to median female salary

ESG aspect	Metric	Annual measurement or specification
<b>Social</b>	Employee turnover rate	Percentage of change for FTEs, contractors, consultants.
<b>Social</b>	Gender diversity	Percentage of FTE, contractor and consultant positions held by women.
<b>Social</b>	Temporary worker rate	Percentage of FT positions held by part-time/contract/temp workers.
<b>Social</b>	Non-discrimination	Does your company publish and follow a non-discrimination policy? Yes / No
<b>Social</b>	Injury rate	Total number of injuries and fatalities relative to workforce
<b>Social</b>	Global health	Does your company publish and follow a policy for occupational and global health issues? Yes / No
<b>Social</b>	Child and forced labor	Does your company prohibit the use of child or forced labor throughout the supply chain? Yes / No
<b>Social</b>	Human rights policy	Does your company publish and follow a human rights policy or statement? Yes / No
<b>Social</b>	Human rights violations	Number of grievances about human rights impacts filed, addressed or resolved.
<b>Social</b>	Board - diversity	Percentage of board seats filled by independents and women.
<b>Governance</b>	Board - separation of powers	Does your company allow the CEO to sit on the board, act as chairman or lead committees?
<b>Governance</b>	Board - confidential voting	Are your board votes (individually or collectively) made public? Yes / No

ESG aspect	Metric	Annual measurement or specification
Governance	Incentivized pay	Are company executives formally incentivized to perform on ESG? Yes / No
Governance	Fair labor practices	Does your company (or supply chain) inhibit workers from organizing? Yes / No
Governance	Supplier code of conduct	Does your company publish and follow a supplier code of conduct? Yes / No
Governance	Ethics code of conduct	Does your company publish and follow an ethical code of conduct? Yes / No
Governance	Anti-corruption code	Does your company publish and follow an anti-corruption code? Yes / No
Governance	Tax transparency	Does your company publish and follow a tax policy that is overseen by the board? Yes / No
Other	Sustainability report	Does your company publish a sustainability report? Yes / No
Other	Framework disclosures	Does your company publish a GRI, CDP, SASB, IIRC or UN GC disclosure?
Other	External assurance	Are your company's ESG disclosures assured or validated by a third party? Yes / No

# APPENDICES

## 8.1 QUESTIONS TO GUIDE REPORT PREPARERS

The following questions may be useful to corporate issuers as they prepare their ESG reports. Intended for those who do not consider themselves advanced reporting experts, the questions are arranged according to the reporting recommendations detailed in Chapter 6 of this document.

### Overview

- 1 How is the company moving towards a sustainable business strategy?
- 2 How can ESG aspects support the achievement of business goals?

- 3 What are the existing reporting requirements imposed by the market regulator?

### Responsibility and Oversight

- 4 How can the company use ESG disclosure to engage and align board members, senior executives and employees?
- 5 What are the key issues and future goals that relate to ESG from the point of view of the CEO and/or Chairman?
- 6 How are board members, senior executives, and employees involved in ESG-related decision-making, planning, monitoring and activities?



### Clarity of Purpose and Responsiveness

- 7 What is the company's main reporting objective(s)?
- 8 What are the key ESG factors that impact the company strategy in terms of the risks and opportunities they present?
- 9 What are the company's public commitments towards sustainable development and corporate responsibility?
- 10 Who are the company's priority stakeholders? What is the process for identifying them and how often is that determination refreshed or updated? How does the company know what ESG matters are relevant for these stakeholders?
- 11 Which ESG factors are most relevant for the company's current and potential investors?

- 12 What does the company know about its existing investor base and its information needs?
- 13 How would the company like to evolve its investor roster in the next five years?
- 14 What does the company know about the information needs of its future investor roster?

### Relevance and Materiality

- 15 What is the company's materiality determination process related to ESG matters?
- 16 How do ESG factors fit within the company's existing materiality determination process?

- 17 Which ESG factors have the most impact on the company's long-term value creation?
  - 18 Which ESG factors directly impact the company's short-term financial performance?
  - 19 Has the company identified what information investors need?
  - 20 How does the company maintain and enhance its relationship with investors?
  - 21 How does the company compare with respect to ESG management among its benchmarked peers?
  - 22 What ESG factors are linked to current and potential regulations?
- 



### Accessibility, Credibility and Usability

- 23 How are investors, and potentially other stakeholders, using the company's disclosure?
- 24 How can the company leverage ESG disclosure to deepen relationships with investors?
- 25 How can the company use their feedback to improve performance?
- 26 How has the company effectively engaged investors in the ESG disclosure process?
- 27 What alternative methods does the company need to explore to engage investors?

- 28 How does the company use feedback from investors in its decision-making processes?
- 29 How do financial disclosure controls and obligations apply to the company's ESG disclosure?
- 30 What level(s) of assurance is meaningful and feasible?
- 31 What level(s) of assurance do investors expect?
- 32 How does the company determine which third party is the most effective and relevant to assure the company's disclosure?

## 8.2 COMMUNICATING THE VALUE OF SUSTAINABILITY

The value driver model offers companies a simple, direct approach for assessing and communicating the financial impact of their sustainability strategies.

The objective of the value driver model is to provide key indicators for companies to use to illustrate how their sustainable business strategy contributes to the company's general performance. The financial and market performance of any company is the product of a complex array of factors. The following table shows the possible ways that ESG aspects can affect the determining factors in companies' financial and market performance. The model enables firms to construct their own metrics to describe the connection between their

top financial objectives (e.g. return on capital or return on equity) and the following:

- ▶ Revenue growth from sustainability-advantaged products, services and/or strategies (S / G).
- ▶ Total annual cost savings (and cost avoidance) from sustainability-driven productivity initiatives (S / P).
- ▶ Reduced sustainability-related risk exposure that could materially impair a company's performance (S / R).

**FIGURE 1: THE VALUE DRIVER MODEL**



Source: UN Global Compact and Principles of Responsible Investment (PRI)

### 8.3 GLOBAL SUSTAINABILITY STANDARDS AND PRINCIPLES

The following internationally accepted sustainability standards have been developed by institutions that promote standards, best practices and corporate transparency.

▶ **AA1000 Stakeholder Engagement Standard:** Developed by AccountAbility, a U.K.-based global organization, AA1000 is a series of standards designed to help organizations become more accountable and sustainable. They address priorities, performance and targets in governance, sustainability assurance, and inclusive stakeholder engagement, among others, and complement standards such as ISO9001 and ISO14001.

▶ **ISO26000 Guidance on Social Responsibility:** ISO26000 is an international guidance standard on social responsibility for organizations of all types in the public and private sectors, and includes specific guidance on communication on social responsibility. The standard was issued in November 2010 after five years of work that included contributions from some 450 experts from 99 countries, plus 200 observers, and 42 regional or global liaison organizations such as the Consumers International, the International Labor Organization, United Nations Conference on Trade and Development (UNCTAD), the UN Global Compact and the World Health Organization.

► **OECD Guidelines for Multinational Enterprises**<sup>19</sup>: The guidelines are far-reaching recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Chapter III covers disclosure and calls on enterprises to be transparent in their operations and responsive to the public's increasingly sophisticated demands for information.

► **International Labour Organization, Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy**: The MNE Declaration provides guidelines to companies, governments, and employee and labor organizations in such areas as employment, training, conditions of work and life, and industrial relations. Companies can use these guidelines to enhance the positive social and labor effects of their operations.

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**19.** Organization for Economic Cooperation and Development (OECD)



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