



# SFA ESG Institute

## Existing Corporate ESG Frameworks

March 31, 2022





# **STRUCTURED FINANCE ASSOCIATION**

ESG Overview

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# ESG Overview

## Corporate ESG Subcategories

The E, S, and G categories can be broken down into dozens of subcategories, including:

### Environmental



#### Conservation of the natural world:

- Climate change and emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency, consumption
- Waste management
- Water scarcity and management
- Natural resource depletion
- Hazardous materials
- Extreme weather

### Social



#### Consideration of people and relationships:

- Customer satisfaction
- Data protection and privacy
- Employee diversity and equal opportunities
- Employee engagement
- Community relations
- Worker safety
- Supply chain: human rights, labor standards, child labor
- Data protection
- Product safety, mis-selling

### Governance



#### Standards for running a company:

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying & Political contributions
- Whistleblower schemes
- Risk management processes
- Responsible tax strategy
- Data breaches and cyber security
- Account standards compliance

# ESG Overview

## Why ESG now?

### Perception is changing

#### Shareholders/Investors

Institutional investors are demanding increased transparency of a company's ESG strategy and reporting.

#### Lenders

Borrower discounts and preferential loan pricing are becoming more common amongst lenders.

#### Regulators

The Securities and Exchange Commission (SEC) published proposed recommendations for ESG disclosure standards (e.g., human capital and climate) and plans further ESG disclosure details

#### Consumers

80 percent of consumers prefer buying from brands whose actions align with their beliefs and values.<sup>1</sup>

#### Employees

Surveys show a majority of employees want to work for companies whose values align with their values.

#### Ratings agencies

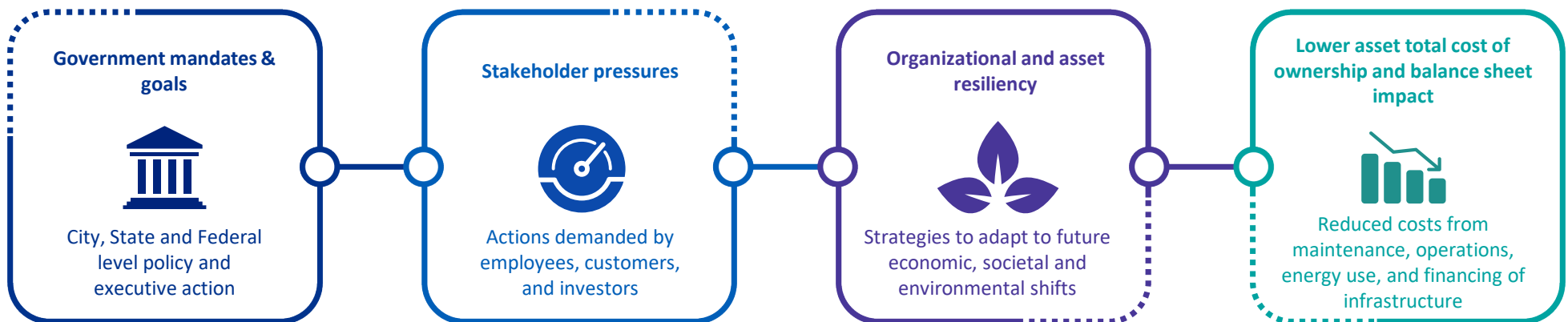
Lackluster ESG ratings can lead to stocks and assets being labeled as "unsustainable assets" increasing the cost of capital and reducing the overall access to capital

<sup>1</sup> Source: KPMG International, [Me, my life, my wallet 2020](#)

# ESG Overview

## Why ESG now?

A range of pressures and forces are increasing focus on these topics, particularly the “E” of environmental sustainability and decarbonization



Our [KPMG CEO Outlook 2020](#) revealed that in light of the pandemic, CEOs said that...their response to the pandemic has caused their focus to shift to the social component of their ESG program.



...their purpose has helped them understand what they need to do to meet the needs of the stakeholders: employees, communities, customers, partners and investors.

*"[Ford] is working to be carbon neutral companywide by 2050, focused on our new science-based targets for CO<sub>2</sub> emissions reductions"*

– Bill Ford,  
Ford Integrated Sustainability and Financial Report 2021

*"By 2030 Microsoft will be carbon negative, and by 2050 Microsoft will remove from the environment all the carbon the company has emitted either directly or by electrical consumption since it was founded in 1975."*

– Microsoft CEO Satya Nadella



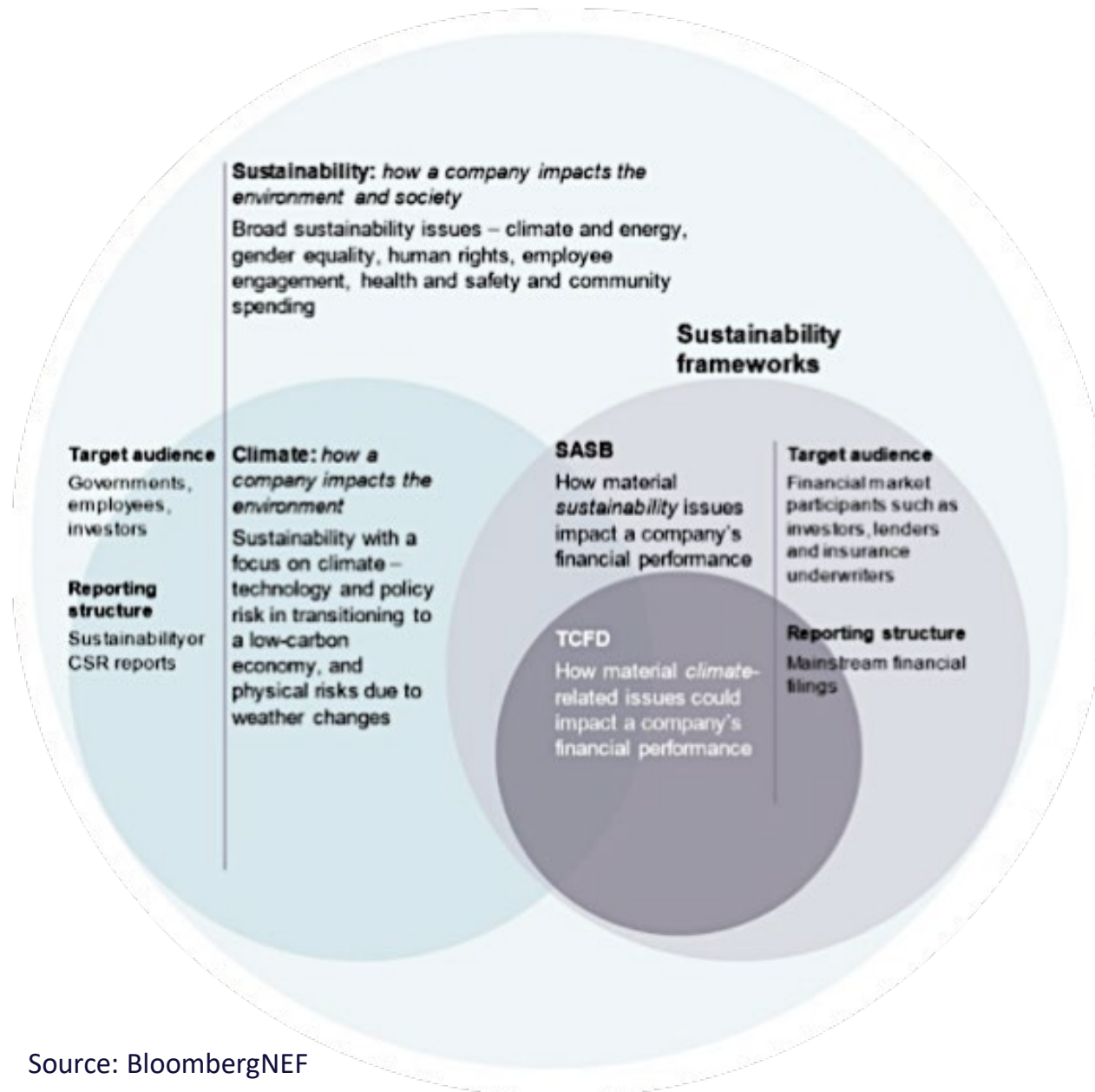
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ESG Frameworks

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# ESG Corporate Frameworks

## Overview



Source: BloombergNEF

# ESG Corporate Frameworks

## Principle Frameworks




	Purpose	E	S	G	Reporting Entities	Stakeholder Purpose	Structure	# of Metrics	Metric Type	Global	Industry Specific	Collaborators/Sponsors
<b>PRI</b>	Principles: Investing	✓	✓	✓	Financial Institutions	Investors use, commitment to UN-approved principles	6 guiding principles	N/A	None	✓	No	UNEP FI, UN Global Compact
<b>OPIM</b>	Principles: Investing	✓	✓	✓	Financial Institutions	Investor use to design and implement impact management strategy	9 principles	N/A	None	✓	No	IFC (World Bank Group)
<b>ICMA</b>	Principles: Bonds	✓	✓	✓	Bond Issuers	Guidelines: Social, Sustainable, and Green Bonds. Boosts credentials for investors evaluating ESG	SBP/GBP share 4 core components SLBP has 5. Suggests metrics	Varies	Quant + Qual	✓	No	None
<b>UN SDGs</b>	World development goals	✓	✓	✓	All: companies, governments, and NGOs	Establishes <b>Sustainable Development Goals</b> , call to action for governments to target/track progress	17 goals, each with a set of targets and indicators	231 indicators some N/A	Quant + Qual	✓	No	PCAF, SBTi, PRI, CDP

(Key: ✓ = Yes; ■ = Partial)



# ESG Corporate Frameworks

## Guidance Frameworks with Reporting Standards



	Purpose	E	S	G	Reporting Entities	Stakeholder Purpose	Structure	# of Metrics	Metric Type	Global	Industry Specific	Collaborators/ Sponsors
<b>SASB</b>	Reporting Standards	✓	✓	✓	Companies	Sets <b>financially material sustainability standards</b> for investors to evaluate company on ESG factors	Specific metrics by topic for each industry	Avg 13 per industry	Quant + Qual	✓	✓	GRI, CDP (will be included into ISSB)
<b>GRI</b>	Reporting Standards	✓	✓	✓	Companies, governments, NGOs	Provides <b>ESG impact-material reporting standards</b> for stakeholders	3 universal standards; then sector-specific topic standards	~150-300	Quant + Qual	✓	■	SASB, CDP (will be included into ISSB)
<b>SFDR</b>	Reporting Standards	✓	✓	✓	Financial market participants	<b>Sets sustainability-related requirements</b> to report ESG information to investor, customers, regulators and public	3 categories: corporate, real estate, sovereign/ supranatural	18 mandatory 46 optional	Quant + Qual			None
<b>TCFD</b>	Principles and Risk Reporting Standards	✓		✓	Companies	Establishes <b>Climate Change Impact Reporting</b> standards: governance, strategy for investors and regulators	4 core themes, each with 2-3 disclosures	11	Quant + Qual	✓	No	CDSB (will be included into ISSB)

(Key: ✓ = Yes; ■ = Partial)

# ESG Corporate Frameworks

## Emission-focused Frameworks



	Purpose	E	S	G	Reporting Entities	Stakeholder Purpose	Structure	# of Metrics	Metric Type	Global	Industry Specific	Collaborators/Sponsors
<b>CDP</b>	Emissions Reporting	✓		✓	Companies, governments	Reports <b>emissions data</b> for use by investors and supply chain	3 questionnaires climate change, forests, water security. Each has categories, specific metrics	~100-150 for climate change	Quant + Qual	✓	■	UN SDGs, SASB, CDSB (included in ISSB)
<b>PCAF</b>	Emissions Calculation	✓			Financial Institutions	Standardizes <b>emissions calculations</b> and disclosures for investor and supply chain. Used for setting SBTi	Methodology for calculating emissions for each asset class	1-varies based on portfolio	Quant	✓	✓	CDP, SBTi, UN, GHG Protocol
<b>SBTi</b>	Emissions Target Setting	✓			Companies	Verified <b>emissions targets</b> in line with Paris Climate Commitment for investor and supply chain use disclosures	Principles, methodology, and reporting recommendations for target validation	1-3 based on targets	Quant + Qual	✓	✓	UNGC, PCAF, GHG Protocol

(Key: ✓ = Yes; ■ = Partial)

# Building Structured Finance ESG Disclosure Framework

## Framework Convergence

**TCFD** contributes ‘a framework to help public companies and other organizations disclose climate-related risks and opportunities’

**Task Force on Climate-related Financial Disclosures**

**SASB** contributes ‘a complete set of globally applicable industry standards’

**Sustainability Accounting Standards Board**

**IR** aims to ‘improve the quality of information to enable a more efficient and productive allocation of capital’

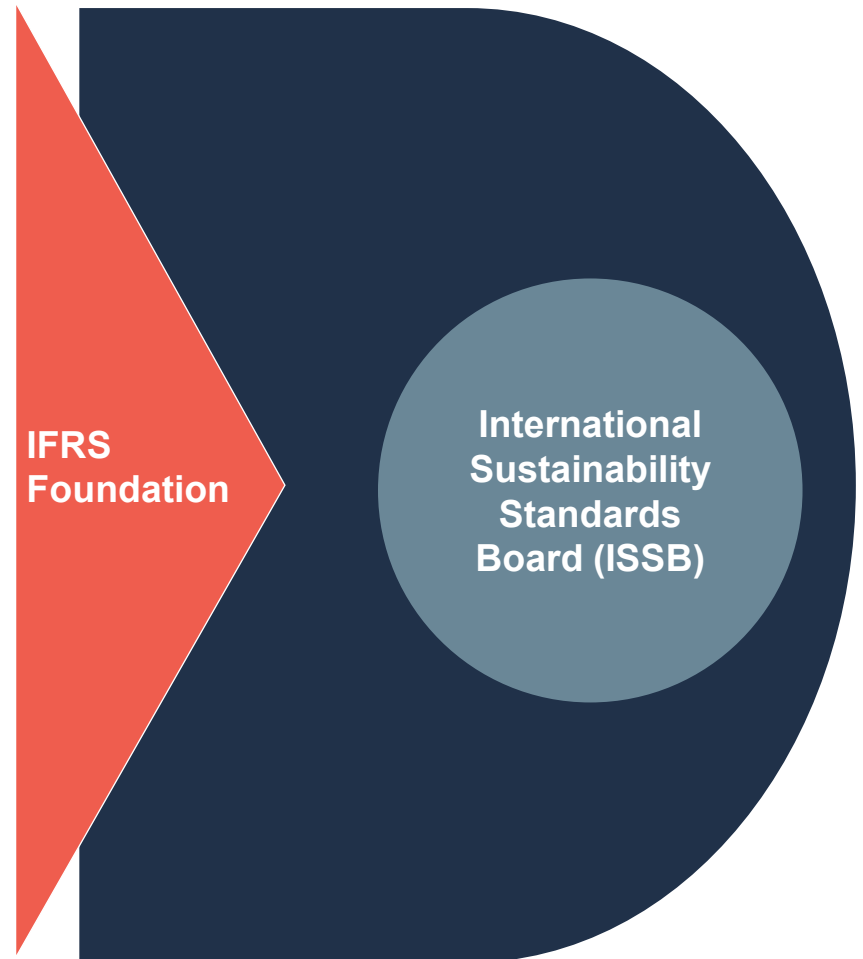
**Integrated Reporting Framework**

**Value Reporting Foundation**

Formed by the merger of the **SASB** and **IR**

**CDSB** contributes ‘climate change related information of value to investors in mainstream financial reports’

**Climate Disclosure Standards Board**



**GRI:** Signed Statement of Intent to work with ISSB members towards a comprehensive approach to corporate reporting



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**Guiding Principles**

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# Building Structured Finance ESG Disclosure Framework

## Common Guiding Principles Themes Summary



### Objectivity

Criteria are free from bias



### Measurability

Criteria permit reasonably consistent measurements, qualitative and quantitative, of the metrics or subject matter



### Completeness

Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter



### Relevance

Criteria are significant to the subject matter



### Availability

Criteria need to be available to intended users to allow them to understand how the subject matter has been measured and evaluated



### Replicability

Obtaining consistent results from the criteria

# Building Structured Finance ESG Disclosure Framework

## Common Guiding Principles Themes Summary

To complement our industry-level principle setting exercise, we looked at each framework plus AICPA to see the guiding principles of each framework and note any trends and commonalities

Five most common guiding principle themes among the 11 frameworks (plus AICPA)													
	PRI	OPIM	ICMA	UN SDGs	SASB	GRI	SFDR	TCFD	CDP	PCAF	SBTi	AICPA	Total
Objectivity					✓	✓		✓		✓		✓	5
Relevancy			✓		✓			✓		✓		✓	5
Verifiability		✓	✓		✓	✓		✓					5
Completeness					✓	✓		✓		✓		✓	5
Timeliness			✓			✓		✓		✓			4

- **Objectivity** (AICPA, GRI, PCAF, SASB, TCFD)
  - Disclosures must be objective, unbiased, transparent
- **Relevancy** (AICPA, ICMA, PCAF, SASB, TCFD)
  - Criteria cover issues relevant to the reporting entity and/or industry to allow for users' best decision-making
- **Verifiability** (GRI, ICMA, OPIM, SASB, TCFD)
  - Disclosures must be verifiable by an independent third party and/or replicated by others using the same methodology
- **Completeness** (AICPA, GRI, PCAF, SASB)
  - Disclosures must provide enough data and information to facilitate a complete analysis or assessment, and don't omit relevant factors that may affect decision-making
- **Timeliness** (GRI, ICMA, PCAF, TCFD)
  - Disclosures should be made on a timely, consistent basis over time to allow for timely decision-making and comparability



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Questions?

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# **STRUCTURED FINANCE ASSOCIATION**

## 2. Appendix

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# Principles for Responsible Investing (PRI)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
Provides general principles to guide investors' decision-making, with intent to achieve a sustainable global financial system, foster good governance, integrity, and accountability, and to address obstacles in market practices, structures, and regulations towards a sustainable financial system	Consists of six principles that incorporate ESG into: investment analysis, ownership policies and practices, disclosure on investments, promoting acceptance and implementation of the principles, enhance their effectiveness, and report on implementation progress	<b>No.</b> The principles are broad statements describing what investors should strive for, requiring no disclosures	No metrics; however, for each principle there is a non-exhaustive or non-exclusive list of possible supporting actions	Not Applicable
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E, S, and G.</b> Principles can be broadly applied to E, S, and G factors	Principles were formulated by investors for investors of any type to follow when assessing E, S, or G factors	Globally applicable	<b>No</b>	Signals to investors a commitment to agreed upon principles established by the UN. Investors use the principles to better manage risks

Collaborators/Partners: UNEP FI, UN Global Compact

# International Capital Market Association (ICMA)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To set standards for three types of bond programs commonly linked with E, S, and G factors. Provides frameworks for: green bond principles (GBP), social bond principles (SBP), and sustainability-linked bond principles (SLBP)	SBP and GBP: 4 core components for alignment: use of proceeds, process for project evaluation and selection, management of proceeds and reporting. SLBP has 5 core components: selection of KPIs, calibration of sustainability performance targets, bond characteristics, reporting, and verification	<b>No.</b> Provides guidelines that do not require disclosures. Recommends tracking quantitative performance measures where feasible and relevant to the nature of bonds. SLBP provide guidance on what type of quantitative data may be most useful and what it should look like	Not Applicable	<b>Quantitative and qualitative.</b> SLBP's KPIs and SPTs (sustainability performance targets) can be quantitative with guidelines for choosing KPIs and SPTs but no specific data requirements. All other metrics are qualitative. For GBP and SBP, data are basic performance measures typical of bonds
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E, S, and G.</b> Determined by the bonds specified in the principles.	Bond issuers. Used as guidance on the key components of credible/ambitious bonds	Globally applicable	<b>No</b>	Investors—for evaluation. Underwriters—structuring and disclosures that facilitate credible transactions. Banks, arrangers, placement agents—to understand bond characteristics

Collaborators/Partners: None

# United Nations' Sustainable Development Goals (UN SDGs)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To set aspirational, call-to-action framework to tackle poverty, improve health and education, reduce inequality, spur economic growth, and tackle climate change, preserving oceans and forests. Part of UN's 2030 Agenda	There are 17 goals, every goal has a set of targets; targets then have indicators (often a data point) that adoptees can use to measure their progress in meeting goals	<b>No.</b> These are voluntary goals that require no disclosures	231 unique indicators across 17 goals, though some indicators are not applicable at company or industry level	<b>Quantitative and qualitative.</b> Indicators can be qualitative but are often data driven and vary by goal/target. An example of a quantitative indicator: the proportion of an urban population living in urban slums, informal settlements, or inadequate housing
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
E, S, and G.	Used primarily for governments and other entities to track progress towards SDGs	Globally applicable	<b>No.</b> Open to any entity to follow, though some goals/targets/indicators are oriented more towards countries than businesses	Companies use for setting strategy, priorities, goals, identifying opportunities, enhancing corporate sustainability, to strengthen stakeholder relations, keep pace with policy developments, and to help stabilize societies and markets

Collaborators/Partners: PCAF, SBTi, PRI, CDP

# Task Force on Climate-Related Disclosures (TCFD)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To solicit decision-useful, forward-looking information for financial filings; promote transparency, to incorporate climate-related risks and opportunities into risk management and strategic planning processes	Consists of 4 core themes of disclosure recommendations: governance, strategy, risk management, and 'metrics and targets'. Each theme has a set of 2-3 recommended disclosures	<b>No.</b> Recommends that companies report descriptive information about the 4 core themes.	11 total (2-3 each for the 4 themes)	<b>Quantitative and qualitative.</b> The fourth core theme called 'metrics and targets' includes both types of metrics
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E and G.</b> Requires scope emissions data, target setting methodologies, and risk management practices. Centered on the climate's impact on the company instead of the company's impact on the environment	Intended for companies of all types to incorporate climate-related risks and opportunities into their risk management and strategic planning processes	Globally applicable	<b>No.</b> Applicable across sectors	Investors—to assess financial implications of climate change, sustainable/resilient solutions, opportunities, and business models. Stakeholders, lenders, insurers, and underwriters—assess carbon-related assets in financial sector, financial system's exposures to climate related risks

Collaborators/Partners: CDSB (will be included into ISSB)

# Sustainability Accounting Standards Board (SASB)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To provide a complete set of globally applicable industry-specific standards identifying the minimal set of <b>financially material sustainability</b> topics and their associated metrics	Arranged by industry, and sets of specific standards with specific metrics to be disclosed (i.e. hard data) for each of the 77 industries	<b>Yes.</b> SASB recommends annual disclosures of the relevant metrics.	On average, each standard has 6 disclosure topics and 13 accounting metrics. As of September 2021, more than half of S&P Global 1200 Index (608 of 1201 companies) were using SASB standards in communications with investors	<b>Quantitative and qualitative.</b> Examples include employee diversity statistics, and anti-corruption practices metrics
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E, S, &amp; G.</b> Types of data required varies by industry but covers all three dimensions	Primarily intended for use of investor assessments. Standards are also meant to help companies in any of the 77 industries identified, measure and manage ESG factors with direct long-term impact on enterprise value	Globally applicable	<b>Yes.</b> Applies to 77 industries from 11 different categories: consumer goods, extractives & minerals processing, financials, food and beverage, health care, infrastructure, renewable resources and alt energy, resource transformation, services, tech and comms, transportation	Tailored to investors seeking to evaluate how companies are managing ESG factors that impact financial performance. Also used to integrate ESG considerations into investment decisions

Collaborators/Partners: GRI, CDP (will be included into ISSB)

# Global Reporting Initiative (GRI)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
Provides standards that guide organizations to be transparent, more responsible for their impacts regarding a sustainable future. Provides a common global reporting language to facilitate an open dialog about impacts	There are three tiers of standards; universal standards applicable to any organization; sector standards set for 40 individual sectors, topic standards, where organizations choose topics that are material to them	<b>Yes.</b> GRI requires reporting of specific metrics by its members	There are around 150-300 metrics across the three tiers	<b>Quantitative and qualitative.</b> Both metrics are required, which vary depending on the sector and the topic standards that are material to the reporting organization
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E, S, and G.</b> The types of data required depend on the sector and topic(s) that are material to a reporting organization, but all three dimensions are considered	All types of organizations use to report on their impacts in a credible way, in relation to other organizations. Also used to assess internal policies and strategies, and to guide goal and target setting	Globally applicable	<b>Yes.</b> Both specific and general, due to different tiers of standards. Topic standards are industry-specific	Stakeholders use standards to understand reporting expectations; investors use to assess the integration of sustainable development into strategy and to identify risks and evaluate long term success

Collaborators/Partners: SASB, CDP (will be included into ISSB)

# EU Sustainable Finance Disclosure Regulations (SFDR)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To create legal requirements in the EU that are designed to harmonize ESG disclosure standards, and require financial market participants to report metrics	Metrics are categorized as environmental or social and further divided into 3 categories: corporate investments, real estate investments, sovereign and supranational investments	<b>Yes.</b> Requires specific metric and data disclosures, it is prescriptive, specifically to report on adverse impact indicators	18 mandatory KPIs that cover principal adverse impacts and 46 optional E & S KPIs	<b>Quantitative and qualitative.</b> Of the 18 mandatory KPIs, 14 are quantitative and 4 are qualitative. Metrics include emissions, energy, water, waste, gender pay-gap, board gender diversity, violations of principles
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E and S.</b>	Financial market participants are required to disclose at the legal entity level and the product level for product info for ESG-related products and non-ESG products	Globally applicable	<b>No.</b> Financial investment metrics are not industry specific beyond the 3 categories: corporate investments, real estate investments, sovereign and supranational investments	To meet EU regulatory requirements. Reporting used by regulators, investors, customers, and the general public to evaluate E, S, and G factors

Collaborators/Partners: None

# CDP—Disclosure Impact Action (formerly Carbon Disclosure Project)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
To measure emissions and environmental impact with a focus on carbon emissions, water security, and deforestation. The motto is you “Can’t manage what you don’t measure”	Three separate questionnaires: Climate change, forests, water security, each with categories (governance, risk and strategy, targets, emissions, etc.) and each category with various specific metrics requesting data	<b>Yes.</b> Requires specific metric and data disclosures for both quantitative and qualitative metrics	~100-150 metrics within the climate change questionnaire. Additional metrics in the forests and water security questionnaire	<b>Quantitative and qualitative.</b> Quantitative emissions and usage metrics such as energy usage in kWh, fuel usage, emissions calculations, revenue intensities and qualitative metrics such as strategy, targets, and governance
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<b>E only.</b> Includes climate change, forests, and water security	Companies, cities, governments, states and regions report their carbon emissions through CDP	Globally applicable	<b>No.</b> But does have specific disclosures for financial services industry	Customers and members-- used along the supply chain to calculate their own supply chain emissions. Investors, customers, and city stakeholders—evaluate ESG performance. CDP provides a letter grade which is used for public/general audience

Collaborators/Partners: UN SDGs, SASB, CDSB (will be included in ISSB)



# Principles for Carbon Accounting Financials (PCAF)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
<p>To enable financial institutions to assess and disclose GHG emissions of loans and investments. To calculate financed emissions, based on the GHG protocol to facilitate financial industry alignment with the Paris Climate Agreement</p>	<p>There are principles and requirements of GHG accounting for financials and a methodology to measure financed emissions for each asset class. It also includes reporting recommendations and requirements</p>	<p><b>No.</b> It is a calculation methodology, it does not require disclosures but provides methods for calculating emissions metrics</p>	<p>~100-150 metrics within the climate change questionnaire. Additional metrics in the forests and water security questionnaires</p>	<p><b>Quantitative and qualitative.</b> Provides methodology for quantitative metrics. Recommends qualitative metrics to describe methodology</p>
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<p><b>E only.</b> Quantitative emissions data for assets and portfolios</p>	<p>Financial institutions</p>	<p>Globally applicable</p>	<p><b>Yes.</b> Finance industry specific. Covers the following asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, mortgages, commercial real estate, and motor vehicle loans</p>	<p>Companies—use to calculate emissions and for setting SBTi targets. Investors and supply chain members—use company disclosures to calculate their financed supply chain emissions</p>

Collaborators/Partners: CDP, SBTi, UN, GHG Protocol

# Science Based Targets (SBTi)

Purpose	Structure	Prescriptive?	Number of Metrics	Type of Metrics
<p>To define and promote best practices in setting emissions reductions and net-zero targets that are in line with climate science. To provide technical assistance and expert resources to set targets and provide independent assessment and verification of targets</p>	<p>Principles and requirements of GHG accounting for financials are used to calculate emissions. There are criteria and recommendations to setting SBTi targets and guidance to the sets for getting the target validated</p>	<p><b>Yes.</b> Data is only required to be disclosed to SBTi for the assessment (not publicly). After verification of targets companies must disclose company-wide emissions data and track progress against targets</p>	<p>Companies can set 1-3 targets and there are various metrics that support each target</p>	<p><b>Quantitative and qualitative.</b> Quantitative emissions metrics are required, qualitative descriptions are also required for target verification</p>
E, S, or G	Reporting Entities	Global	Industry Specific	Stakeholder Use
<p><b>E only.</b> Firm-wide emissions and reduction plans' alignment with climate science</p>	<p>Companies, especially encourages companies in highest-emitting sectors. Does not currently assess for local governments, public sector institutions, non-profits, etc.</p>	<p>Globally applicable</p>	<p><b>Yes.</b> There are sector specific requirements and guidance. Not all sector guidance is complete as some sectors are still in development</p>	<p>Investors, customers/supply chain members, and general public—to measure that company's ESG value is aligned with Paris Climate accord. Suppliers often expected to have SBTi verified targets</p>

Collaborators/Partners: UNGC, PCAF, GHG Protocol