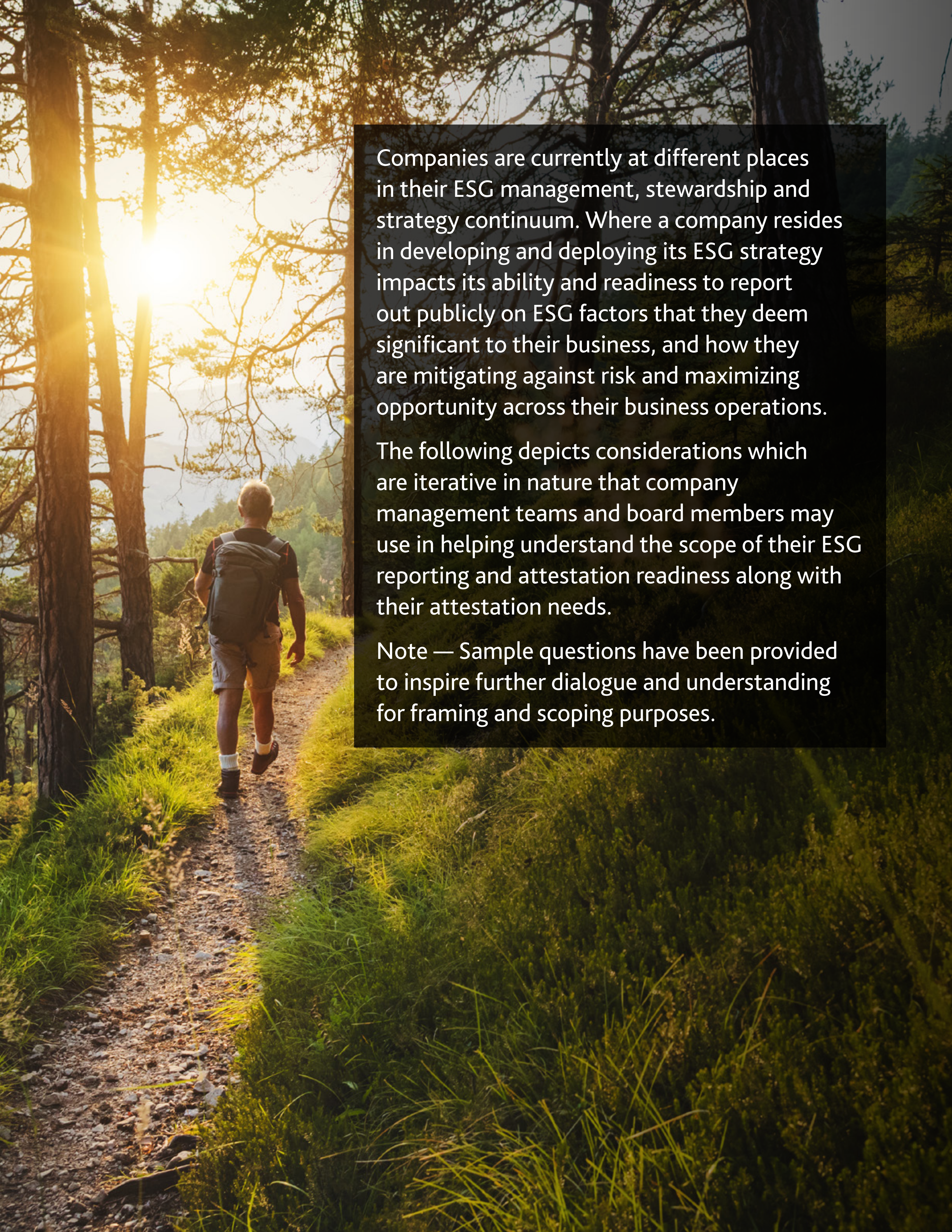
THE PATH TO ESG REPORTING AND ATTESTATION READINESS



Companies are currently at different places in their ESG management, stewardship and strategy continuum. Where a company resides in developing and deploying its ESG strategy impacts its ability and readiness to report out publicly on ESG factors that they deem significant to their business, and how they are mitigating against risk and maximizing opportunity across their business operations.

The following depicts considerations which are iterative in nature that company management teams and board members may use in helping understand the scope of their ESG reporting and attestation readiness along with their attestation needs.

Note — Sample questions have been provided to inspire further dialogue and understanding for framing and scoping purposes.

TAKING INVENTORY OF ESG FACTORS TO CONSIDER AND CURRENT ACTIVITY

Has an assessment of ESG factors that may be material to the business been performed?

- Materiality considerations:
  - Material ESG issues are those "decision-useful" governance, sustainability or societal factors likely to affect the financial condition or operating performance of businesses within a specific sector — which follows a security law construct.
  - Double Materiality: Depending on the reporting framework being utilized and reporting jurisdiction, there is increasing focus on "double materiality" which focuses both on the financial impacts to the company as well as the company's impact on stakeholders, society and the environment.
  - Dynamic Materiality: Information that may not be financially material today but that can become financially material in the near, medium and long term.
- This assessment should take into account the prioritization of ESG risk and opportunity in relation to the company's enterprise risk management (ERM) system as well as stakeholder expectations: shareholders, customers, employees, vendors, regulators, lenders, etc.

Have the reporting landscape and stakeholder expectations been considered?

- Benchmarking factors, metrics and types of quantitative and qualitative disclosures of competitors.
- Engage with shareholders and key stakeholders to understand expectations.
- ESG rating agencies along with proxy advisory voting guidelines are further data points that companies should be monitoring.

Based on the ESG factors identified, has the company determined the information it wants to communicate?

- Determine ESG objectives, goals and metrics to frame the story.
- Recognize that this will likely be a progression and the company must be agile in its thinking and action.
- The phasing of ESG as part of business operations may be viewed as a progression from how a company is managing ESG, to how it is serving as a steward of ESG to, ultimately, how ESG becomes a component of the business strategy.

Has the company considered the various reporting standards and frameworks available along with current regulatory required reporting?

- While there are similarities among the currently available major global standards/frameworks, no single one is necessarily better than another.
- Without a single, globally accepted reporting standard, companies may choose elements of multiple standards based on their reporting goals/objectives.
- Recognize that there may be industry-specific rules/regulations as well as specific country/local laws to consider, in addition to other evolving regulatory requirements.

What data collection and analysis are already being done within the company?

- Determine whether information is readily available.
- Determine whether the company has a framework to ensure systems/processes/procedures are in place and support data collection and analysis.
- Assess the maturity of management's ability to forecast and make estimates related to potential financial impacts to the business.
- Identify how information is currently being distributed internally and externally and in what format.
- Assess what gaps may exist and resources and changes to policy and procedures may be needed to address those gaps.

ESTABLISHING GOVERNANCE OVERSIGHT, ACCOUNTABILITY AND STEWARDSHIP

Has the board defined its ESG oversight role?

- This includes allocation of ESG risk/opportunity oversight among the full board, various standing committees and formation of special or advisory committees, as necessary.
- Assess whether members of the board along with the designated management team have appropriate knowledge, experience and skillsets to make decisions regarding material ESG factors impactful to the business.
- Consider how and where to disclose the board's oversight (e.g., governance charters, proxy statements, standalone reports, integrated within the financial statements, etc.).

Does the organization (including the board) have access to third party resources that may be necessary to assist in ESG readiness through reporting?

These may be:

- Generalists to help in all phases of ESG readiness — scoping, assessments, benchmarking, etc., and/or
- Specialists needed to assist in highly complex computations of required metrics and measures, detailed analysis on tax implications, etc.

How will the company incentivize progress and hold management and the board accountable to achieve ESG goals and objectives?

- Encourage strategic discussion that align the purpose of the company with significant ESG factors.
- Establish formal and regular reporting structures within the organization.
- Make ESG a recurring board agenda item that drives board and management engagement.
- Review compensation and benefits plans against strategy and define ESG-related metrics aligned with ESG goals/objectives that can be monitored.
- Establish companywide communication plan to ensure that all employees understand ESG factors, and how they fit into the business strategy and operations.

How will the board and management team remain current on rapidly evolving developments?

- Identify continuing education needs and opportunities.
- Engage external topical experts to present at board meetings.

ESG REPORTING READINESS

Has management, with the board's oversight, determined what specific reporting requirements the company may need to comply with?

- Current SEC rules governing MD&A and Regulation S-K with respect to material risk factors — e.g., climate and human capital management.
- Listing exchange disclosures — e.g., Nasdaq board diversity rules.
- Legislative requirements — e.g., California board diversity rules.
- Industry regulations.
- International jurisdictional reporting requirements.[1]

*Not an all-inclusive list.

Have specific ESG quantitative measurements been performed and are they supported by data governed by appropriate processes, policies and procedures?

- Assess appropriateness of documentation.
- Consider the underlying assumptions and estimates involved.
- Ensure consistency in measurement and justification in changes to assumptions/estimates in subsequent reporting periods.

Does the existing control environment that supports financial reporting also support nonfinancial information related to ESG?

- Assess the rigor of the environment and whether additional controls and testing may be necessary.
- Consider whether newer systems and controls are fully functional and have been properly documented and tested.

How has management approached documenting qualitative ESG information?

- Qualitative information should have the following attributes:
  - Reliable
  - Relevant
  - Understandable
  - Timely
  - Comparable
  - Verifiable
- Qualitative information should have similar rigor applied to it as quantitative information and would be expected to evolve over time to be supported by quantitative data, where applicable.

Is the company able to draft disclosures reflective of the guidance contained in chosen standards, frameworks and metrics to report?

- Ensure standards/frameworks/metrics are identified within reporting.
- Consider management biases that may be present in selection of standards/frameworks/metrics to avoid "greenwashing" — the practice by companies to focus on metrics that portray them in a positive light.
- Consider actions taken by the company that might be consider "brown washing" or "brown spinning" – the practice of public companies selling off their highest-emitting assets to private equity or other market participants.

Have disclosures been viewed through the lens of what may be decision-useful to a 'reasonable shareholder'?

- Investor and regulatory scrutiny and demand for comparability, consistency and transparency with respect to ESG should not be discounted.
- Other information about ESG found outside financial statements needs to be consistent with related disclosures found within the financial statements.
- If already reporting, ensure reporting reflects progress (or lack of progress) and/or changes in approaches/results from prior periods and the reasons why.

What is the value in having attestation of ESG reporting and disclosures performed by a qualified third party?

- Consider the objectives of intended users of ESG information.
- Exercise of independence and skepticism in considering the validity of information prepared and shared by management.
- Understand the qualifications and experience requirements needed in using third parties to provide attestation services — e.g., knowledge, skillset, rigor of commonly used attest standards, etc.
- Consider quality of management reporting and ability of third parties' readiness to provide "limited assurance" (narrow scope) or scale-up to "reasonable assurance" (not absolute assurance).

1 Refer to **BDO Global Sustainability Reporting Microsite** for the latest on international reporting developments.

Contacts

PHILLIP AUSTIN
National Managing Partner - Professional Practice and Auditing
312-730-1273 / paustin@bdo.com

DAN HARRIS
Partner - Assurance Commercial Practice Leader, ESG Strategy and Services Leader
415-490-3188 / dharris@bdo.com

TIM KVIZ
National Managing Partner - SEC Services
703-245-8685 / tkviz@bdo.com

AMY ROJIK
National Managing Partner - Governance, Emerging Issues and External Communications
617-239-7005 / arojik@bdo.com

CHRISTOPHER TOWER
ESG Strategy and Services Leader
714-668-7320 / ctower@bdo.com

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