More than marketing: How to share your ESG story with investors

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With today’s changing business landscape, it is no longer enough to merely say your business has Environmental, Social and Governance practices —or to only meet the bare minimum of regulatory requirements. If companies claim their products are sustainable, customers want to know how.

Employees expect their employers to be socially-conscious, and a surge in ESG-related shareholder activism proves that investors want to know how companies set sustainable goals, what framework they use to evaluate them and progress on how they are being achieved.

A successful ESG program isn’t just a marketing tactic. It protects your company from regulatory risk relating to greenwashing and positions your company to take advantage of many benefits.

How to get started

Depending on your unique mix of market, stakeholders and product, companies can follow many different paths to an ESG strategy that seizes opportunities available. As for where to start? We recommend that companies:

- Analyze the impact of **how** you do business and **where** you do business;
- Determine **how** your existing policies already address ESG factors and can form the basis of a strategic framework;
- Pick a disclosure framework that **supports your regulatory environment;**
- Do a gap analysis to determine **what** next steps and tracking make sense for you; and
- Share an authentic and compelling and **evidence-based** ESG story with your stakeholders.

Growing investor pressure. Why should you invest in a strong ESG program?

Access to capital. The value of sustainable funds in Canada for Q1 2021 grew by 160 per cent - soaring to $18 billion – compared to the same period in 2020.

Shareholder activists are driving the current surge in ESG investing. This trend has been growing for a while, making front-page news in May 2019 when BP's shareholders, led by institutional investor (and the company's largest shareholder) Blackrock, voted for more disclosures around the risks of climate change. The demand has snowballed across all industries and sectors. Institutional investors, brokers and agents alike demand aligned funds they can offer to ESG-savvy investors.

This trend isn't limited to stock and bond markets. Canadian financial institutions now provide sustainability-linked loans and products that offer scaling interest rates based on ESG performance. Even the real estate market is experiencing high demand for ESG-related assets. For example, a growing number of commercial real estate tenants are looking to lease green buildings to support their ESG strategy. As a result, owners are adding sustainable features to their facilities, such as green roofs or community net metering projects.

Benefits to companies who prioritize ESG factors go beyond increased investment opportunities. Studies show that ESG-focused companies enjoy cost savings in several other areas, such as lower energy consumption, decreased supply chain risk and lower employee turnover.

The rise of green watchdogs

Authentic ESG programs aren't just about better marketing; they can also reduce regulatory risk arising from disclosures. More companies want to share their ESG story, seeking better cost of capital, lower employee turnover and higher stakeholder engagement. In addition, regulators are increasing their oversight into these very disclosures to ensure they are not just PR material. For example, stricter regulations require that companies move away from generic terms like "eco-friendly" and provide quantifiable evidence of how they reach ESG goals.

Earlier in 2021, the Ontario Securities Commission and the British Columbia Securities Commission notably performed "green sweeps" of registrants that claim to offer ESG-related services. Specifically, in the absence of a Canadian standard regulating ESG disclosure, the green sweeps were designed to ensure all targeted companies were dealing fairly, honestly and in good faith with their clients–as outlined in the National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Since then, the Canadian Securities Administrators opened the proposed National Instrument 51-107 – Disclosure of Climate-related Matters for comment. The Proposed Instrument seeks to align disclosure regulation with the Task Force on Climate Change-Related Financial Disclosure framework.

Similar disclosure requirements are already being implemented in Europe. Level 1 of the Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021. The new regulation requires certain financial market participants to provide mandatory ESG disclosure and pre-contractual information communications on their websites. They also must post their policies on integrating sustainability risks in their investment decision-making processes or advice–or, if applicable, explain their non-compliance.

Despite this heightened attention, the ESG regulatory landscape remains in flux. Uncertainty around regulations can make it difficult for investors, asset managers and companies to navigate the complex world of ESG reporting. Several global organizations seek to bridge this gap by providing guidance on picking the right disclosure framework, including:

- International Sustainability Standards Board
- UN Sustainable Development Goals

Regarding climate change specifically, the eleven recommendations (the TCFD Recommendations) published by the Task Force on Climate-related Financial Disclosure are considered the globally accepted reporting framework. The International Sustainability Standards Board (ISSB, established by the IFRS Foundation) published the Exposure Draft IFRS S2 Climate related Disclosures and the IFRS Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. The Climate Exposure Draft builds on the TCFD Recommendations and incorporates the industry-based SASB (Sustainability Accounting Standards Board) Standards.

How to tell your ESG story

Prepare your board of directors. If your company is doing good ESG work, you'll want to share this with your market. Easier said than done when you need to consider maximizing opportunities while minimizing disclosure risk. It's essential to ensure your board of directors is well-equipped to share a compelling ESG narrative with institutional investors.

As shareholder activism becomes more common, corporate directors face higher scrutiny, and organizations that only meet basic ESG compliance standards may be at higher risk of being targeted by an activist group.

To strengthen your governance efforts, start with the low-hanging fruit:

- ***Clearly define the duties of directors***, the drivers of corporate ESG adoption and the necessary frameworks and standards you aim to follow.
- Consider ***developing corporate governance best practices*** on board composition and oversight, stakeholder engagement, public disclosures and corporate ethics. This could mean constructing effective policies, compliance registers, management plans and codes of conduct around ESG factors.

Embracing ESG

ESG is not a trend and its impact is everywhere. The sustained rise in ESG factors affects all organizations in Canada - from the public to private sector and across the entire scope of stakeholder engagement. While companies with strong ESG performance should consider disclosure risk, it's important to share their story to seize the opportunities created by ESG.

For questions or support about how to start telling your company's ESG story, please reach out to any of the authors or key contacts listed below.

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