MGC
GLOBAL RISK ADVISORY LLP

Member of Allinial GLOBAL®
An association of legally independent firms

Environmental, Social, and Governance insights

Embracing ESG: Setting your strategy

Are you satisfied with your understanding of your business' environmental, social, and governance risks and opportunities?

If not, you are not alone.

The majority of small and medium-sized business leaders have questions about how ESG issues apply to their companies. Some are feeling pressure from supply chain partners, regulators, customers, or other stakeholders to enhance or be more transparent about their ESG efforts, but they have not yet developed a satisfactory response. Others have taken some steps but lack a comprehensive plan.

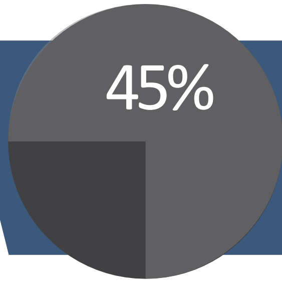
MGC Global Risk Advisory is a member of Allinial Global, an association of legally independent accounting and consulting firms whose members collaborate to bring clients best-in-class solutions. With a wealth of global expertise and experience, our firm is equipped to be your trusted advisor in helping your business map out its ESG journey.

Allinial Global connects us to an incredible community of leading firms who generously share their expertise to help each other enable better outcomes. As the demand for ESG guidance grows, our membership gives us the competitive edge we need to guide clients with confidence no matter where their ESG journeys take them.

— **Monish G Chatrath**, Managing Partner, MGC Global Risk Advisory

This report outlines the current ESG landscape and demonstrates how Allinial Global firms are advising clients.

Key Developments in the ESG Landscape



OF VALUATION EXPERTS

believe a lack of a standardized and recognized measurement system is the biggest threat to effective ESG disclosures for businesses, according to a Duff & Phelps survey.

Companies should be prepared for the impact of some significant developments on the regulatory side. Currently, there is a long list of frameworks and guidelines on ESG reporting for organizations to choose from. Some frameworks include a stakeholder engagement process that allows users to decide the materiality of different aspects. In some cases, companies attempt to manipulate that process by deliberately excluding potential problems when assessing which ESG activities to report and how extensive their reporting will be. Situations like these have led to concerns about a lack of transparency, comparability, and reliability in the available data.

Efforts to address these issues include:

- The US Securities and Exchange Commission's proposed climate-related disclosure rule. If adopted, the rule would require public companies to disclose climate-related information in their registration statements and periodic reports. Foreign private issuers would follow essentially similar requirements. Although they may be exempt from the rule, even private companies and other organizations that are not subject to the SEC rules may be affected by it if business partners require them to provide details on their own ESG-related activities. As a result, the rule is expected to have a potential impact beyond US public companies.
- The International Sustainability Standards Board. The IFRS Foundation has consolidated a number of existing sustainability-related organizations to form this new board and create accurate, globally accepted, and comparable reporting. The ISSB has already issued its first two proposed standards. Although com- pliance with ISSB standards is not mandatory, the creation of a more cohesive approach to ESG reporting may drive acceptance of one widely used framework and encourage more organizations to begin or expand their ESG reporting, raising expectations for all companies.

- International Standard on Assurance Engagements (ISAE) 3000 issued by the International Federation of Accountants (IFAC) and AccountAbility's AA1000 Series of Standards. These are used by global businesses, private enterprises, governments, and other public and private organizations to demonstrate perfor- mance in accountability, responsibility, and sustainability. However, "these are conceptual standards with ethical narrative descriptions rather than a profes- sional methodology and viable procedure," notes Hauman Yeung, Founder and Director at Allinial Global member firm Ascent Partners.

Other regulators across the world have been developing their own climate change disclosure guidance. China, for example, recently issued its own standard independently of the government through the cooperation of over 50 different institutes. This attention to ESG reporting is important because once measurement and reporting become more reliable and commonplace, stakeholders will increasingly demand more high-quality information on a company's activities.

The Impact on Private Companies

Although many companies may be facing minimal formal government regulations or none at all, many businesses are beginning to step up their ESG activities, said David Papa, Partner at Allinial Global member firm Bentleys South Australia. As a result, organizations may miss out on opportunities to position themselves as a market leader to gain or protect market share, even when not subject to specific ESG reporting requirements.

For example, companies may be asked about their ESG policies by business partners, investors, or other stakeholders. A large international company may select its vendors based on the maturity of their ESG efforts, and those vendors may in turn demand the same level of ESG effort and reporting from their own suppliers, on down the line to the smallest companies in the supply chain. As a result, in the near future, small private companies should at least be prepared to implement ESG policies as robust as those followed by much larger organizations, said Lourenco Miranda, Managing Director, ESG and Sustainability Solutions at Allinial Global member firm Eisner Advisory Group LLC.

Australia's Modern Slavery Act is one example of how a requirement aimed at larger organizations can have a significant impact on smaller ones. The law applies to companies with over $100 million in turnover on a consolidated basis. Companies subject to the law then ask their suppliers to demonstrate their own compliance. "It's being pushed down from the top," Papa said. Those smaller suppliers must use the same rigor in their systems and processes to ensure they are not directly or indirectly engaging in slavery. If they fail to do so, they may lose a large customer. Accounting firms can help clients build procurement processes that sufficiently assess the risk of slavery or other threats in their supply chain. They can also offer objective, independent feedback or assurance that their systems and processes are sufficiently reliable and working on ongoing basis.

Company stakeholders who say their beliefs and values influence how they -

80%	60%	58%
Decide where to invest	Choose a place to work	Buy or advocate for a brand

Source: 2022 Edelman Trust Barometer

What is the best way to get started?

The first step in creating your ESG roadmap is gaining a full understanding of where your company stands today. It may be a complicated process. "ESG is a broad topic and organizations may have a variety of related efforts underway in different areas," said Miranda.

At a minimum, companies should begin by identifying which issues are relevant to them, what person or group is in charge of the departments involved, and what ESG-related activities are underway. It may be helpful to organize an ESG work group that includes representatives from different departments. With the right information and guidance, it is easier to set targets, develop the basic ESG policy, collect ESG data, and review the progress of ESG implementation.

Companies may also want to create an ESG mission or vision statement to serve as a touch point for future plans. Allinial Global member firms guide companies through this process, helping them set priorities on where best to spend their time and money, and then working with them to develop key initiatives.

An organization's initial ESG focus may include or lead to more targeted evaluations, depending on the organization's stakeholders' interests. For example, a climate vulnerability assessment can help identify climate-related financial threats that management may not have considered or been able to evaluate thoroughly—and identify the controls needed to mitigate those climate-related threats, said Jared Kelly, Principal of Allinial Global member firm Wolf & Company P.C.

While data collection will be an important component of ESG efforts, a comprehensive evaluation should come first. When they do begin to gather data, many companies find they have more ESG information than they realized, said Bob Cedergren, Partner in Charge, Risk Advisory Services at Allinial Global member firm Wipfli LLP. Many questions on energy consumption can easily be found in utility bills, for example. In addition, human resources departments have data that can be used to report on efforts relevant to the social category, such as DEI, fair and equitable pay practices, and company volunteerism and community involvement.

Companies may also find they are already addressing many ESG concerns that are important to investors, shareholders, and the public, said Danielle Barrs, Director, ESG & Sustainability Solutions at Allinial Global member firm Eisner Advisory Group LLC. Manufacturing or real estate companies, for example, are likely tackling a number of environmental concerns because of a variety of federal, state, or local regulations, or because doing so is a good business practice. Most companies, too, probably follow numerous good governance practices. “These steps are so ingrained in their mission that they’re taking them without realizing it,” she said.

Beyond their deep knowledge of clients and financial considerations, Allinial Global member firms can offer additional wide-reaching in-house ESG competencies, such as risk management, engineering, sustainability, and project management, to name a few. The firms may also partner with third-party specialists in areas such as carbon emissions, sustainable finance, decarbonization, and achieving net zero, among many others. “It’s a one-stop shop,” Barrs said. The goal is a holistic view, taken at the financial enterprise level, of a company’s ESG situation.

Existing financial reporting and risk management frameworks were not designed to support the capturing of climate and ESG information, including greenhouse gas emissions data, Kelly noted. However, Allinial Global member firms have a long track record of adapting quickly to new risk management and reporting requirements and advising clients on practical compliance considerations. Allinial Global member firms can help companies in preparing reliable and accurate climate and ESG reporting.
And when assurance requirements phase in, Allinial Global firms actively working on ESG matters will be well positioned to provide that assurance.

Risk Considerations

Many ESG risks, especially those related to climate, are well known. However, some organizations may find overlooked threats in areas they thought they understood. Manufacturers, for example, may equate climate risks with greenhouse gas emissions. Among other things, companies should consider the impact of extreme weather events, such as flood risks or drought and water shortages, Barrs said.

In addition, media, entertainment, and technology companies that essentially do business online often don't think about their own potentially significant carbon footprint, Miranda said. Digital advertising, for example, can require a great deal of computational power using energy that is not necessarily coming from a renewable source. This would also be a consideration for any company with an energy-powered building, and particularly one with a data center or other heavy user of electricity.

Companies may also find they need to pay more attention to transition threats on the horizon. That can include changes in consumer sentiment and preferences, such as greater concern among younger stakeholders about climate issues.

There are also risks to the bottom line if ESG concerns are ignored, since a greater awareness of ESG factors can help cut costs. Mitigation and cost efficiencies gained in ESG efforts may lower expenses that companies had been writing off as a cost of doing business, Barrs said. Businesses may be able to reduce their consumption of energy, water, or other resources, qualify for government subsidies, and enhance their ability to recruit and retain qualified workers, among other advantages. In addition, one study also found that, on average, companies with high ESG scores had lower costs of capital than those with poor scores.

By gaining an accurate assessment of their situation and levels of risk, companies can confidently formalize their approach to ESG. That will include incorporating ESG concerns into their enterprise risk management processes, as they address environmental, social, and external risks from stakeholders in order to avoid risk exposure. "As companies learn more, ESG becomes a part of their strategic plan and decision making," Cedergren said.

A total of

63 %

OF DECISION MAKERS

feel unprepared to achieve their ESG goals and meet government and regulatory reporting mandates, according to a Workiva survey.

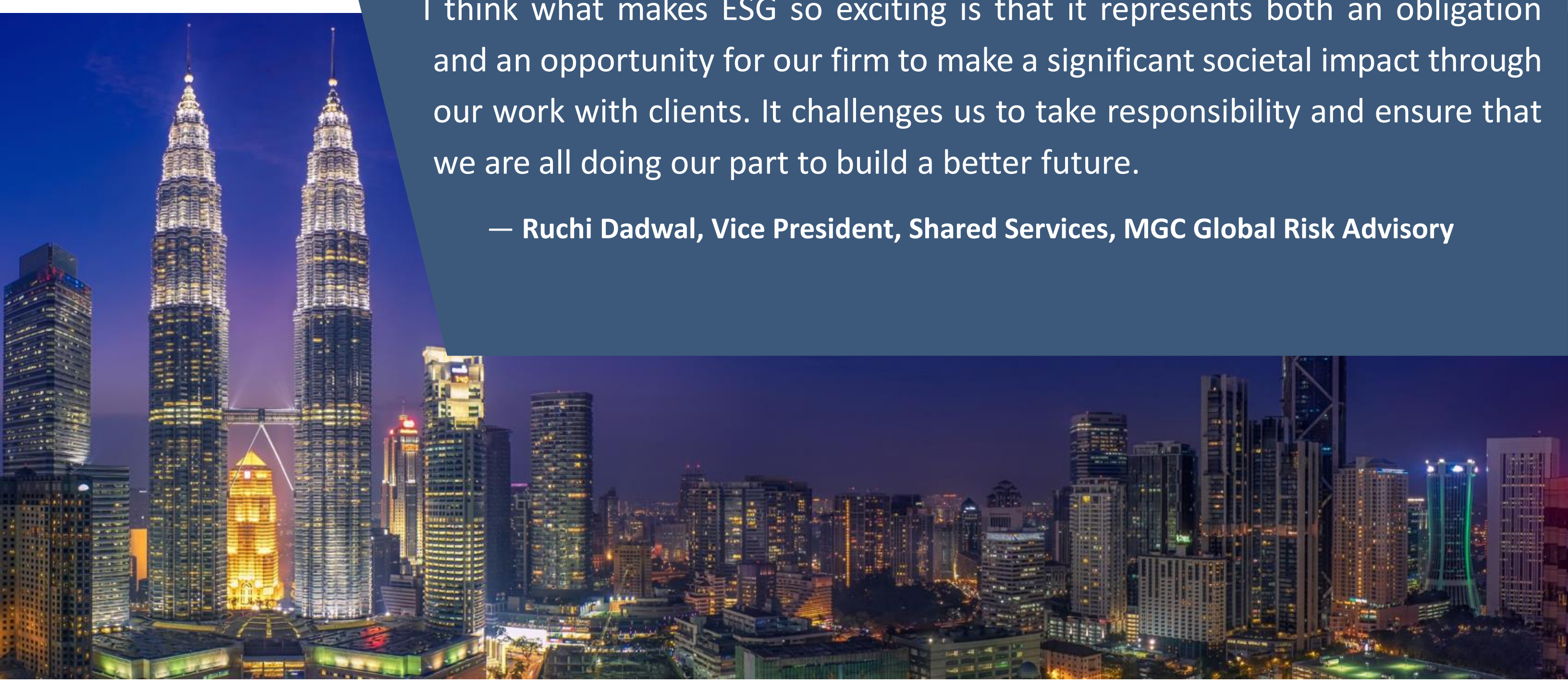
What's the competitive advantage?

If your company has not yet turned its focus to ESG concerns, now is definitely the time to do so. Developing strategies, implementing and executing ESG-related internal controls, and taking other key steps often take longer than anticipated.
That's why it's best to be prepared before stakeholder pressure or regulatory mandates become factors.

Getting a handle on an organization's ESG concerns can address compliance requirements, but it offers much more. Being an early adopter of solid ESG policies is a differentiating factor that organizations can actively promote in the marketplace. While ESG is a multifaceted area, a company's ESG journey can be taken one step at a time. Companies can begin with top priority projects, then launch more comprehensive efforts that are more fully incorporated into their strategic plans. ESG dovetails nicely with many other aspects of a company's strategy, such as managing risks, retaining talent, and saving on costs in the long run.

"This is an area that can't be ignored," Cedergren said. Identifying, assessing, and monitoring ESG considerations is an ongoing process, not a one-time activity.
Begin your effort today by engaging in a conversation with us.

> I think what makes ESG so exciting is that it represents both an obligation and an opportunity for our firm to make a significant societal impact through our work with clients. It challenges us to take responsibility and ensure that we are all doing our part to build a better future.
>
> **— Ruchi Dadwal, Vice President, Shared Services, MGC Global Risk Advisory**



ESG: Spelling it out

What considerations fall under each category of ESG?

Here are a few examples.

Environmental
The company's impact on the natural world. Factors include climate-related considerations, such as greenhouse gas emissions and compliance with environmental regulations, energy use, waste management, pollution, natural resource conservation, and depletion of natural resources.

Social
How the company treats people and communities. Issues include employee health and safety (including within a company's supply chain), working conditions, social justice engagement, community involvement and support, ethical business practices, labor relations, fair wages, and
diversity, equity, and inclusion, children's wellbeing, and animal welfare.

Governance
The standards the company follows in its decision making. Issues include leadership diversity, compliance with applicable laws and regulations, ethical and accurate reporting and business practices, and accountability to shareholders and stakeholders.

New Delhi

323, 324 & 327,
Square One Building, Saket,
New Delhi 110 017

Bengaluru

Novel Office - MG Road
No. 8, Ulsoor Rd, Yellappa
Chetty Layout, Halasuru,
Bengaluru,
Karnataka 560 042

We have arrangements with associate firms to service our clients in all other major cities in India.

MGC
GLOBAL RISK ADVISORY LLP

Member of Allinial GLOBAL®
An association of legally independent firms