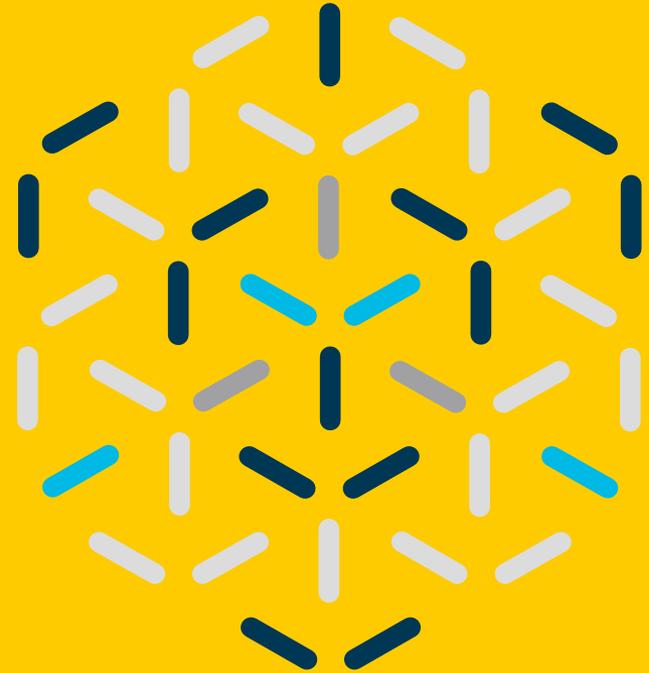


# Why ESG and business conduct risks matter for companies

CAS in CSR - SUPSI



Alessandra Oglino - Senior ESG Advisor

March 16, 2019

# What are ESG and business conduct risks and why they matter

Chapter 1: Introduction

# ESG risks can have a material impact on a company's social license to operate

## Business conduct risks



### Environmental

Pollution, waste,  
climate change



### Social

Human rights abuses,  
labor, discrimination



### Governance

Corruption, bribery,  
tax evasion, fraud

Compliance risks

Reputational risks

Financial risks

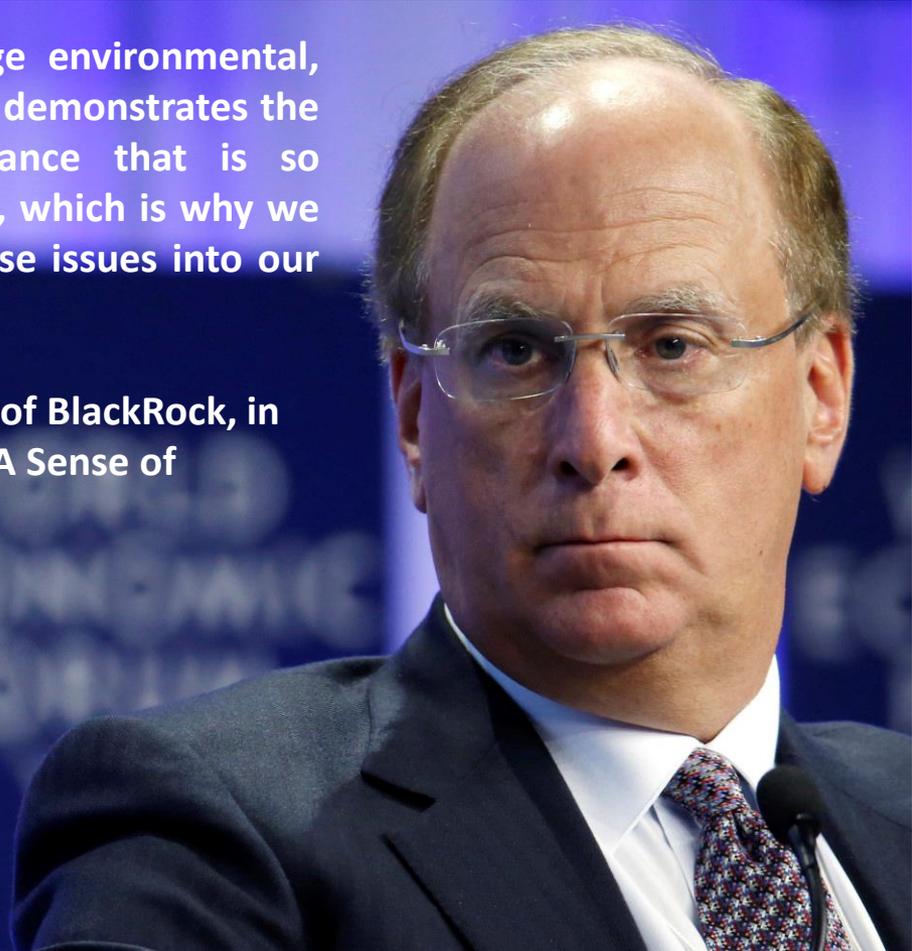
**Responsible business conduct has become a business imperative and is a recognized long-term value driver**



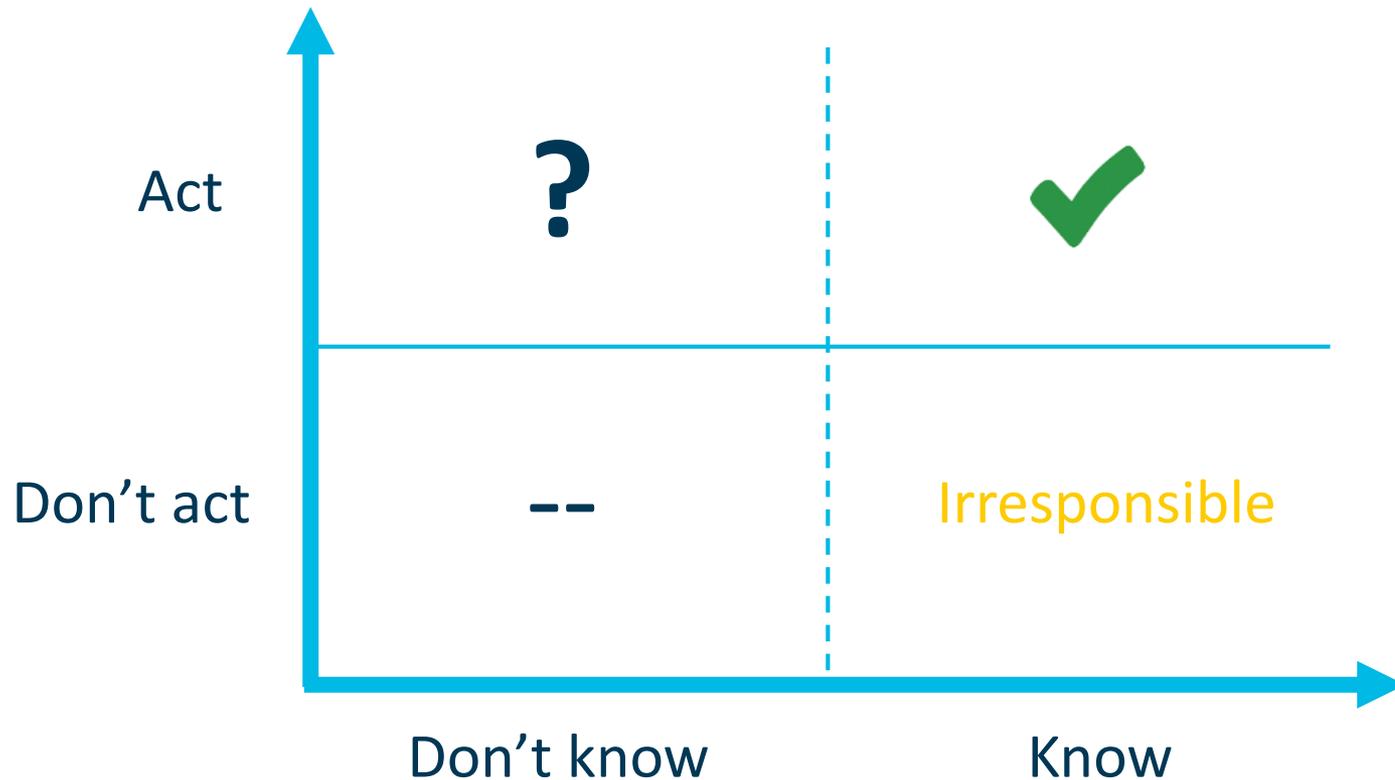
# Stakeholders: ESG as focus area of investors

A company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.

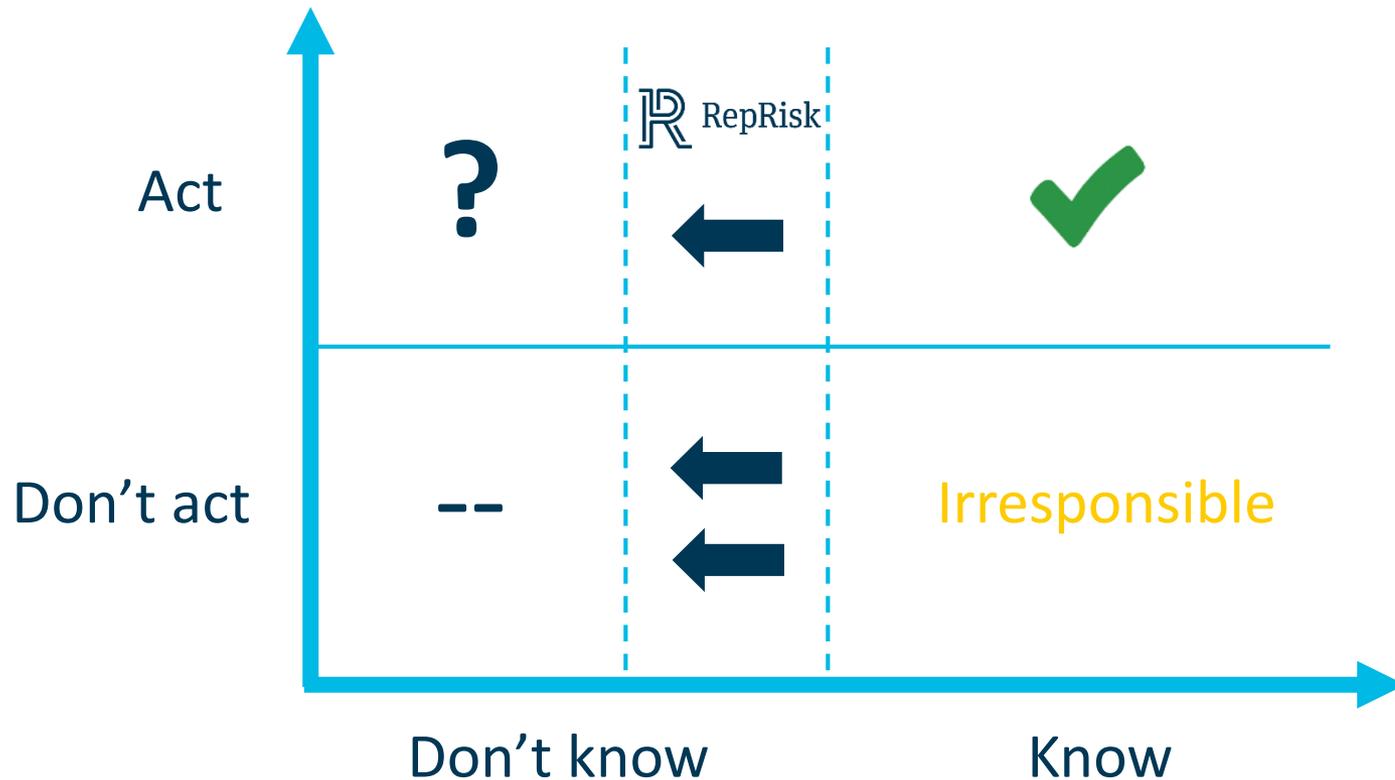
– Larry Fink, Chairman and CEO of BlackRock, in his 2018 annual letter to CEOs “A Sense of Purpose”

The BlackRock logo is displayed in a white rectangular box. It consists of the word "BLACKROCK" in a bold, black, serif font.

Companies are expected to manage ESG issues in a responsible way – but if you don't know, you can't act



RepRisk's daily-updated intelligence helps push the information boundary, so that you can know more and act early



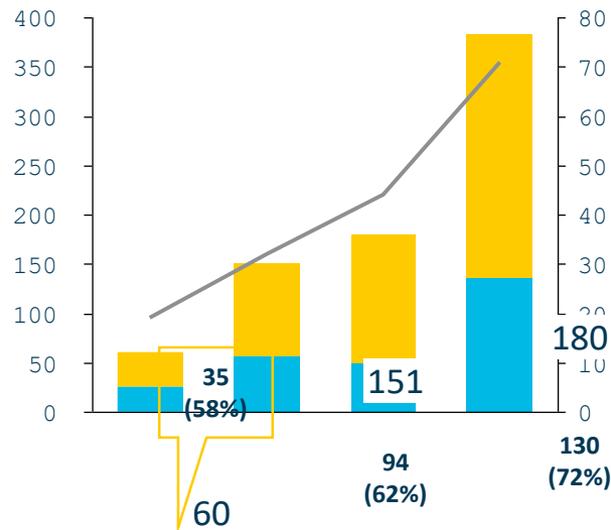
# Evolution from soft law to hard law

Chapter 2: An overview of voluntary initiatives and new regulations on ESG

According to the UN Principles for Responsible Investment (UNPRI) there are about **300 pieces of regulation covering ESG topics**

# Soft law and hard law: Surge in number of ESG-related reporting instruments\*

# instruments



# countries and regions

383

248 (65%)

- Government regulation accounts for the largest proportion of sustainability reporting instruments – 1/3 comes from stock exchanges and financial market regulators; growth in stock exchange reporting instruments has been particularly high in emerging markets
- Almost 50% reporting instruments address large listed companies – around 40% apply to all companies
- The number of reporting instruments for companies in the financial services sector has more than doubled from 2013 to 2016

— Countries & Regions    Mandatory    Voluntary

# A selection of regulations regarding ESG: Non-financial disclosure



2006

**UK Companies Act**  
Requires companies to issue both a Directors and a Strategic Report which also include considerations on environmental and social (particularly human rights) issues



2014

**EU Directive 2014/95 on Disclosure of Non-Financial and Diversity Information**  
Requires large public-interest entities with more than 500 employees (approx. 6,000 companies) to report annually on their sustainability performance as well as approaches to due diligence and risk assessment (effective 2016)



2016

**FSB Task Force on Climate-related Financial Disclosures**  
Recommends that firms assess and disclose the climate-related risks and opportunities most relevant to their operations in their annual report and other reporting mechanisms

Increasing expectations that companies disclose and report on their sustainability performance and risks

# A selection of regulations covering ESG: Supply chain



2010

**Section 1502 of Dodd Frank Wall Street Reform and Consumer Protection Act**  
Requires companies to determine whether their products contain conflict minerals via supply chain due diligence and reporting to the SEC



2010

**The California Transparency in Supply Chains Act**  
Requires retailers and manufacturers with annual revenues of USD 100m and USD 500k in California (approx. 3,200 firms) to report actions to eradicate slavery and human trafficking in supply chain



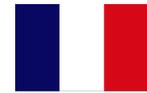
2015

**UK Modern Slavery Act**  
Requires companies operating in UK with revenues of at least GBP 36 million to disclose steps taken to ensure slavery and human trafficking are not in their supply chain



2017

**EU Conflict Minerals Regulation**  
Requires all but the smallest EU importers to conduct due diligence on their suppliers; major firms also required to disclose plans to monitor their sourcing



2017

**Law No. 2017-399 in Human and Environment Act**  
Establishes “duty of care” in supply chain for French companies (5,000+ employees) or foreign companies (10,000+ employees). Focus on supplier due diligence and monitoring

**Regulations that require supply chain due diligence and reporting on actions taken to avoid human rights abuses**

# A selection of regulations regarding ESG: Fiduciary duty



2011

## Revised Regulation 28 of the Pension Fund Act

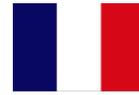
Requires South African pension funds to take into consideration ESG factors that are relevant to long-term performance and sustainability.



2016

## EU Directive 2016/2341

Requires pension funds of Member States to explicitly disclose where ESG factors are considered in investment decisions and how they form part of their risk management system (effective Jan 2017)



2016

## Article 173-VI of the LTECV (Law on Energy Transition for Green Growth)

Asset managers and institutional investors to describe methods for incorporating ESG factors into investment strategy



2017

## US Guidance for Pension Fund Fiduciaries from the Department of Labor

Clarifies how fiduciaries should consider environmental and social factors, together with financial factors, in investment decision-making

**Increasing expectations that integrating ESG issues into investment processes is part of the fiduciary duty of investors**

# And more regulations in the pipeline...



## The Netherlands

### Dutch Child Labor Due Diligence Law

Requires companies to determine whether child labor exists in their supply chains and set out a plan of action on how to combat it. As the law would not come into effect before January 1, 2020. At that point, companies would be required to file declarations within six months certifying that they have conducted the required due diligence.



## Australia

### Modern Slavery Act

As with the British Act, Australia's will require businesses and other organisations above a certain size (consolidated revenue of A\$100 million) to report annually on the risks of modern slavery in their operations and supply chains, and the action they have taken to assess and address those risks, and the effectiveness of their response. It came into effect on January 1<sup>st</sup>, 2019.



## Switzerland

### Swiss Responsible Business Initiative

Companies would be legally required to incorporate respect for human rights and the environment in all their business activities. Mandatory due diligence would also be applied to Swiss-based companies' activities abroad. Swiss based firms would be liable for human rights abuses and environmental violations caused abroad by companies under their control. Still to be approved and subject to popular vote in 2019.

# RepRisk: who we are

Chapter 3: RepRisk overview and methodology

# RepRisk delivers leading research solutions to mitigate ESG and business conduct risks

- RepRisk is a **pioneer in ESG and business conduct risk research** and business intelligence
- 1998: Founded as a risk consultancy serving the financial sector
- 2006: Launch of the RepRisk Platform as a **due diligence solution** to help firms identify, assess, and monitor risks and violations of international standards in their business
- Today: Runs **the world's most comprehensive database on ESG risks**, serving 200+ clients globally – and the only provider to cover private companies and projects in developed, emerging and frontier markets.
- Headquarters in Zurich, with offices in Berlin, Manila, and Toronto

# Our research approach: It's not enough to look at policies – you must look at performance

In the ESG landscape, there are two sources of information:

## Company self-reporting

- Focuses on intention
- Takes an “inside-out” approach and is based on a company’s own self-reporting, such as:
  - Sustainability or CSR Reports
  - Company website
  - Company Code of Conduct and company policies
  - Management systems and certifications (e.g. ISO 14001)

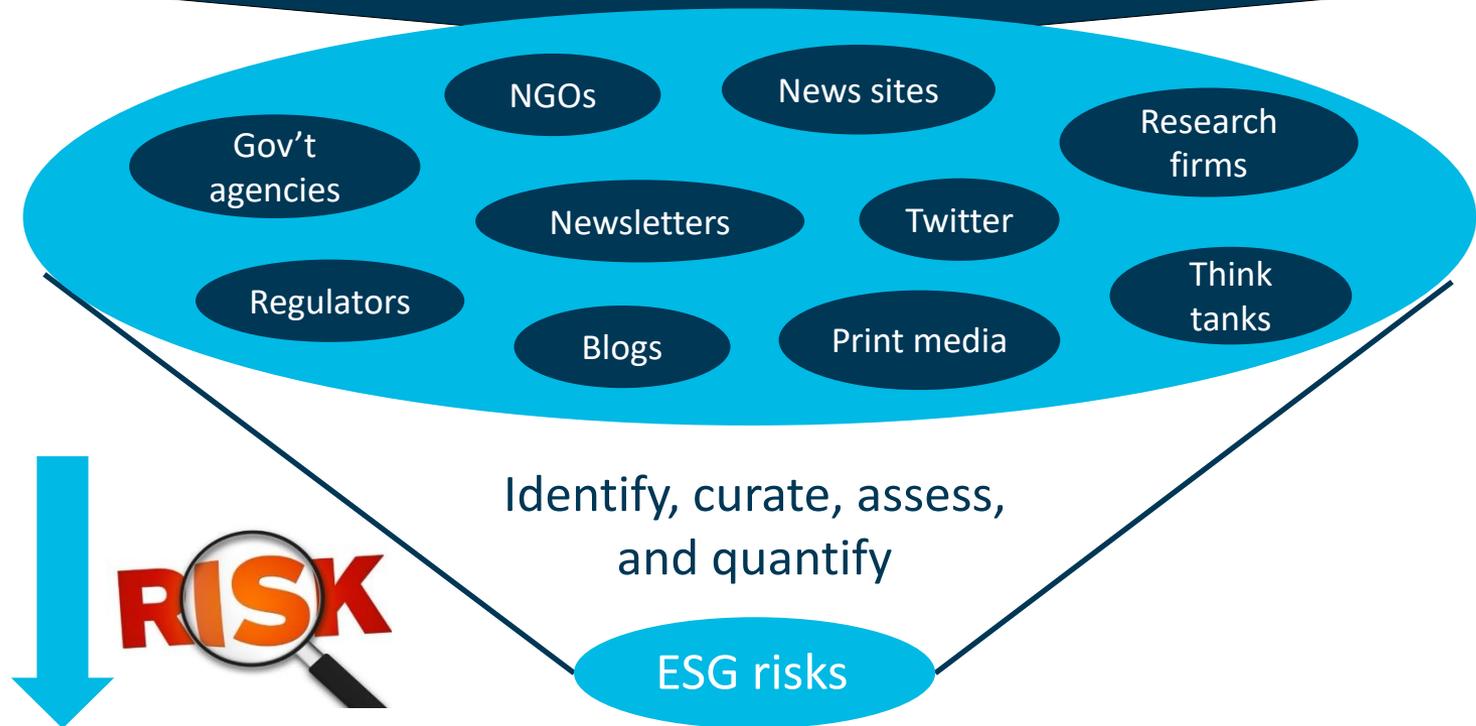
## Information *external* to a company

- Focuses on **performance**
- Takes an “outside-in” approach to assessing a company and is based on media, stakeholders, and public sources external to a company
- Provides a timely and effective “reality check” about what is happening on-the-ground, i.e. how a company conducts its business wherever it operates in the world



# Our research input: A daily screening of big data to identify and assess ESG risks

Big data: Daily screening of +80,000 sources and stakeholders



# Our language coverage: Research in 20 languages supports the early identification of risks

- Risks often appear earlier at the local level in local languages
- Research in 20 major business languages supports the early identification of risks

Arabic	Filipino	Indonesian	Norwegian
Chinese	Finnish	Italian	Portuguese
Danish	French	Japanese	Russian
Dutch	German	Korean	Spanish
English	Hindi	Malaysian	Swedish

# Our research input: Big Data helps identify and assess ESG risks using an outside-in perspective

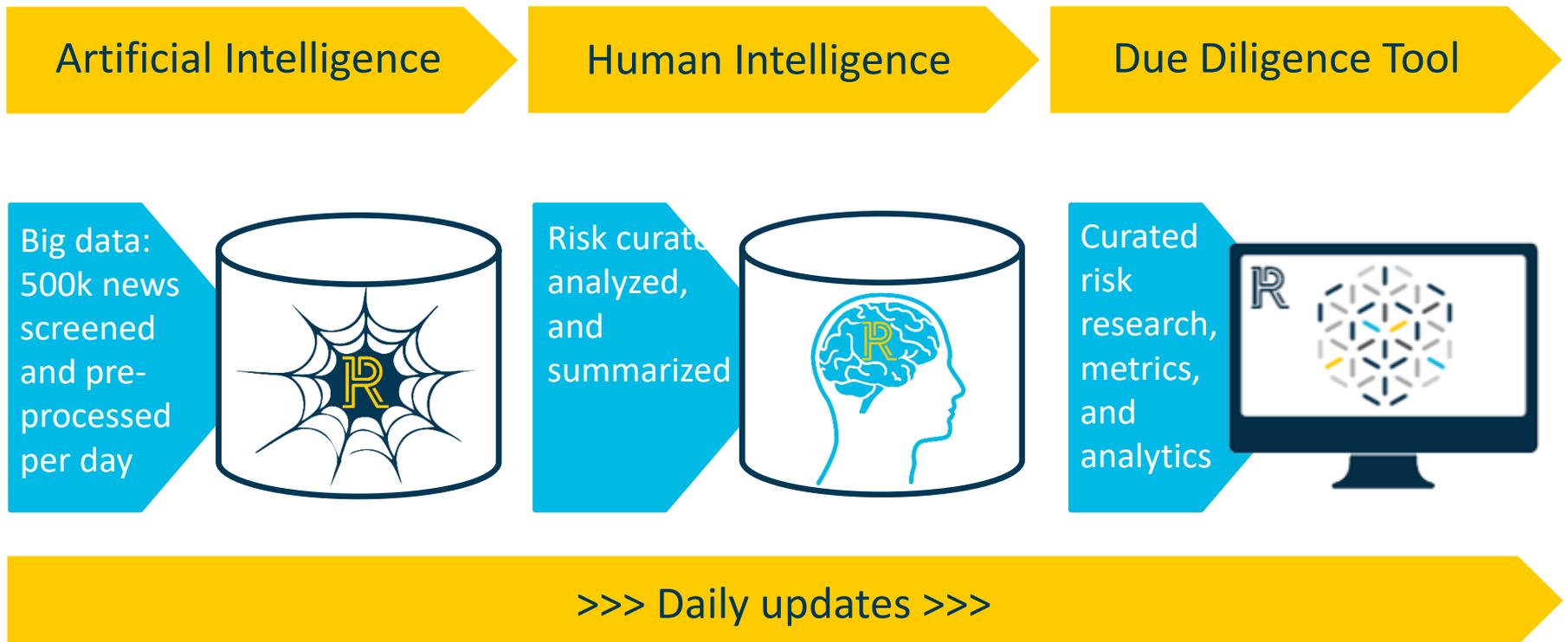
- Daily screening +80,000 media, stakeholders, and public sources *external to a company*
- Research in 20 languages for early identification of risks
- 28 ESG Issues and 57 ESG “hot topics” in line with international standards
- Provides a timely and effective “reality check” about what is happening on-the-ground

 RepRisk

Company



# Our approach: Artificial and human intelligence translates big data into a due diligence tool



# Our research output: RepRisk runs the world's most comprehensive database on ESG risks



Listed, non-listed,  
state-owned

Factories, mines, pipelines,  
plantations, dams, ports, etc.

*Figures  
grow  
daily*

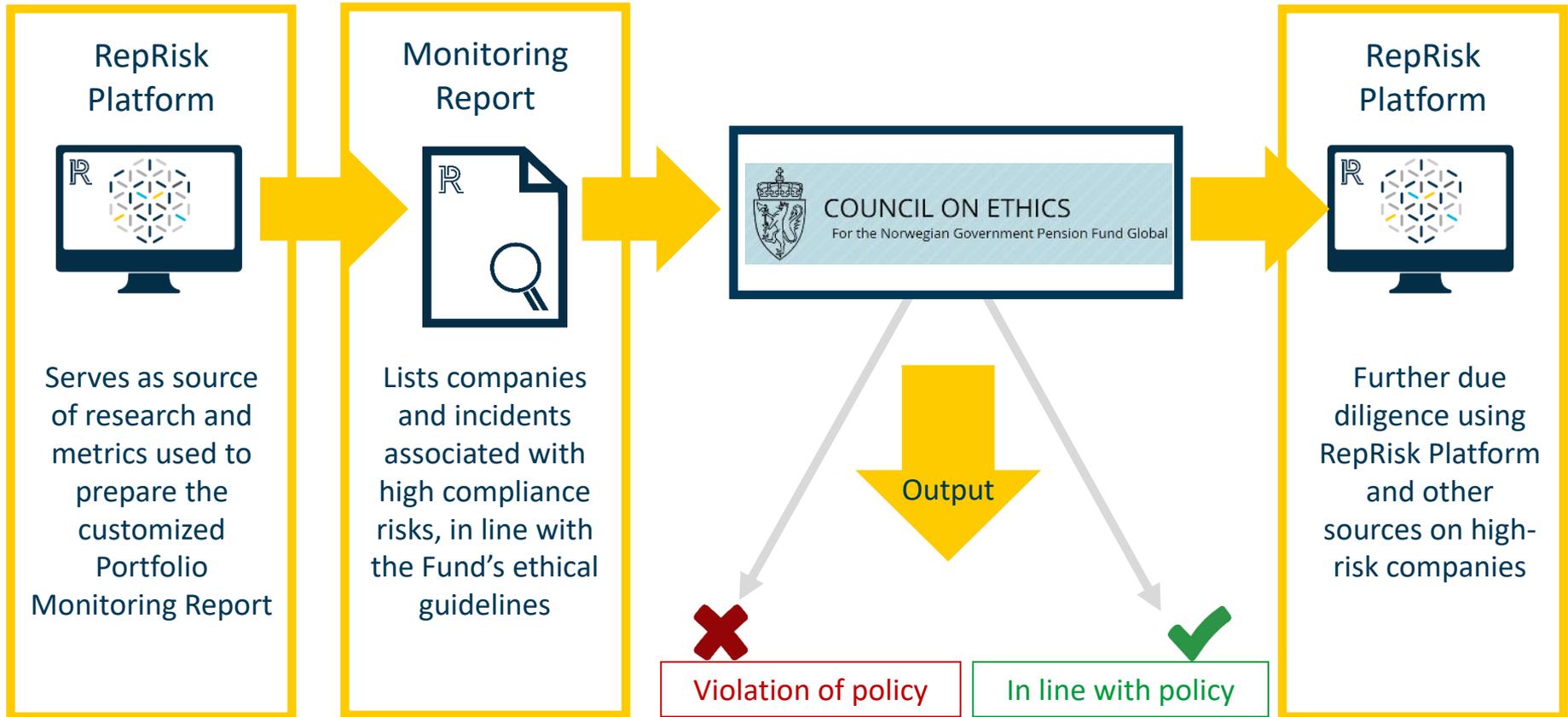
# RepRisk use cases

Chapter 4: use cases in Investment Management, CSR and Supply Chain

# RepRisk for Investment Management: Integrating ESG risks in investment analyses

- Apply RepRisk in your investment **analysis across all asset classes** to meet the PRI requirement for ESG integration
- **Understand and engage with companies** about their ESG and business conduct risk exposure
- Screen and monitor **any investment universe, short list, or portfolio** to check compliance with internal policies and international standards such as the UN Global Compact
- **Conduct negative and norms-based screening** of an investment universe, portfolio, or fund

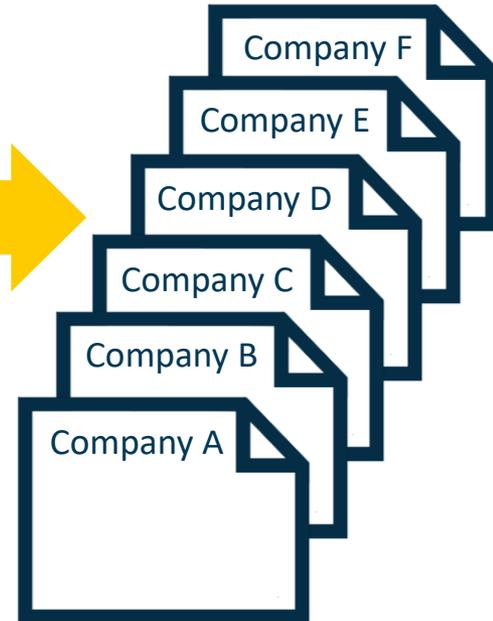
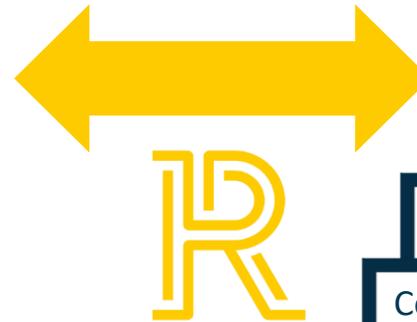
# Case study – Norwegian Government Pension Fund: Applies norms-based exclusions



# Investor Relations, CSR and Sustainability: Support CSR activities and reputational risk management

- Monitor your **own company's ESG and reputational risk exposure** and conduct peer benchmarking
- Research ESG issues and trends for **policy development, internal communications, and management reporting**
- Conduct **country and sector research and analysis**
- Support **stakeholder management such as NGO monitoring and engagement**
- Support relationships with **sustainability index providers** including the DJSI, FTSE4Good, and CDP, which use RepRisk data in their corporate assessments

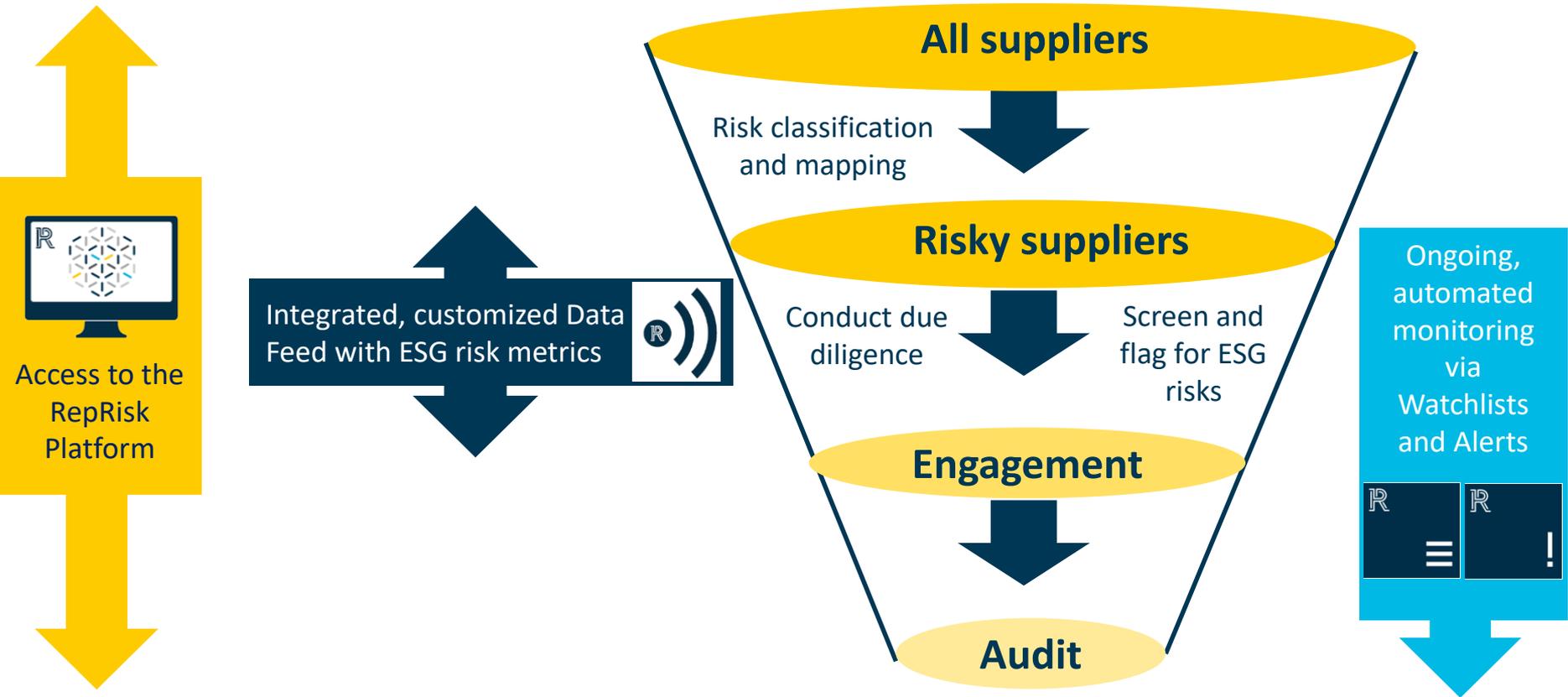
# Case study: Companies use RepRisk to manage relationships with sustainability ratings firms



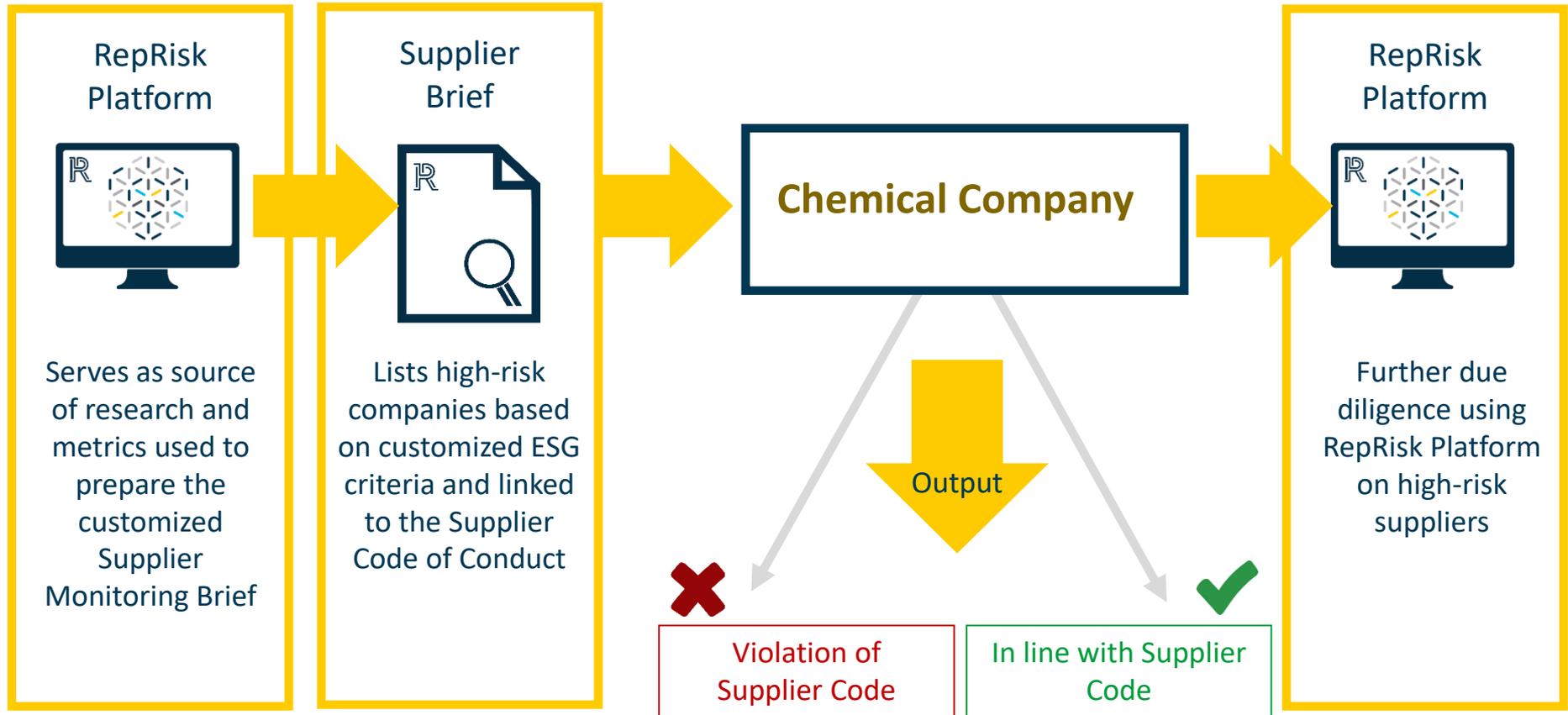
# RepRisk in Supply Chains: Integrate ESG into supplier onboarding and monitoring

- Assess the ESG and business conduct risks of suppliers **to support supplier selection and onboarding procedures**, and better deploy audit resources
- Monitor your suppliers on a daily basis **to** check supplier compliance with internal policies, your Supplier Code of Conduct, and international standards such as the UN Global Compact and the UN Guiding Principles for Human Rights
- **Classify and map your supplier portfolio** based on country and sector ESG risk metrics
- Evaluate the ESG risks related to supplier facilities (“projects”) such as ships, ports, factories, and plantations

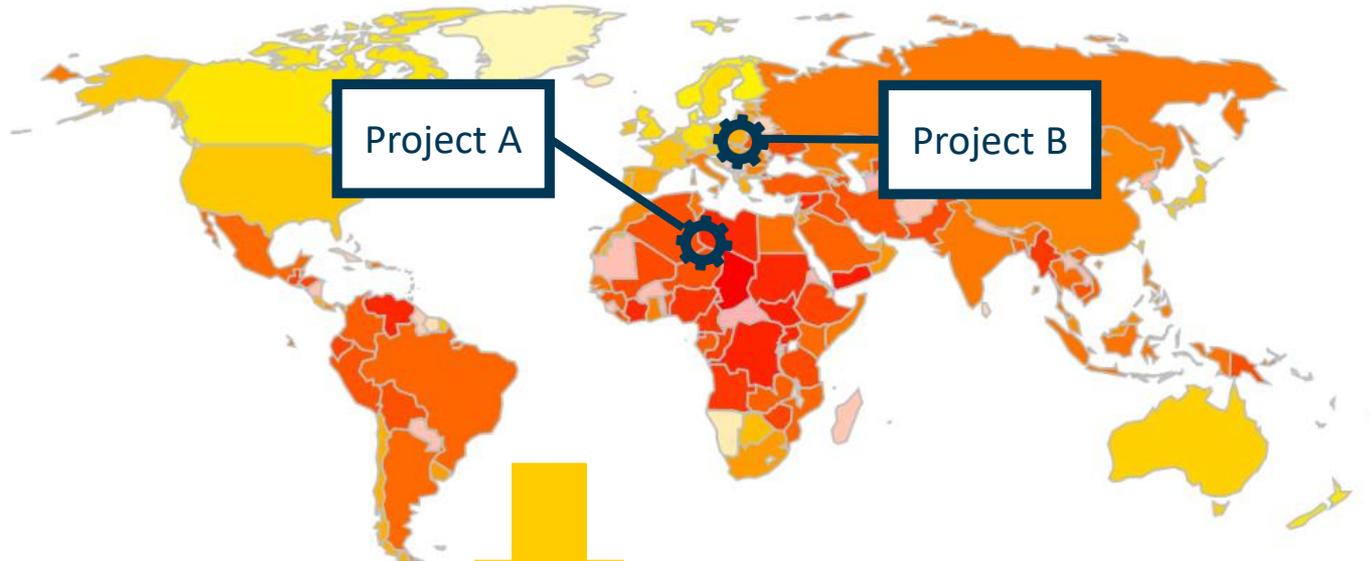
# RepRisk in Supply Chains: Save resources by focusing on risky suppliers



# Case study – Large Chemical Company: Embed ESG risk monitoring across large supplier network



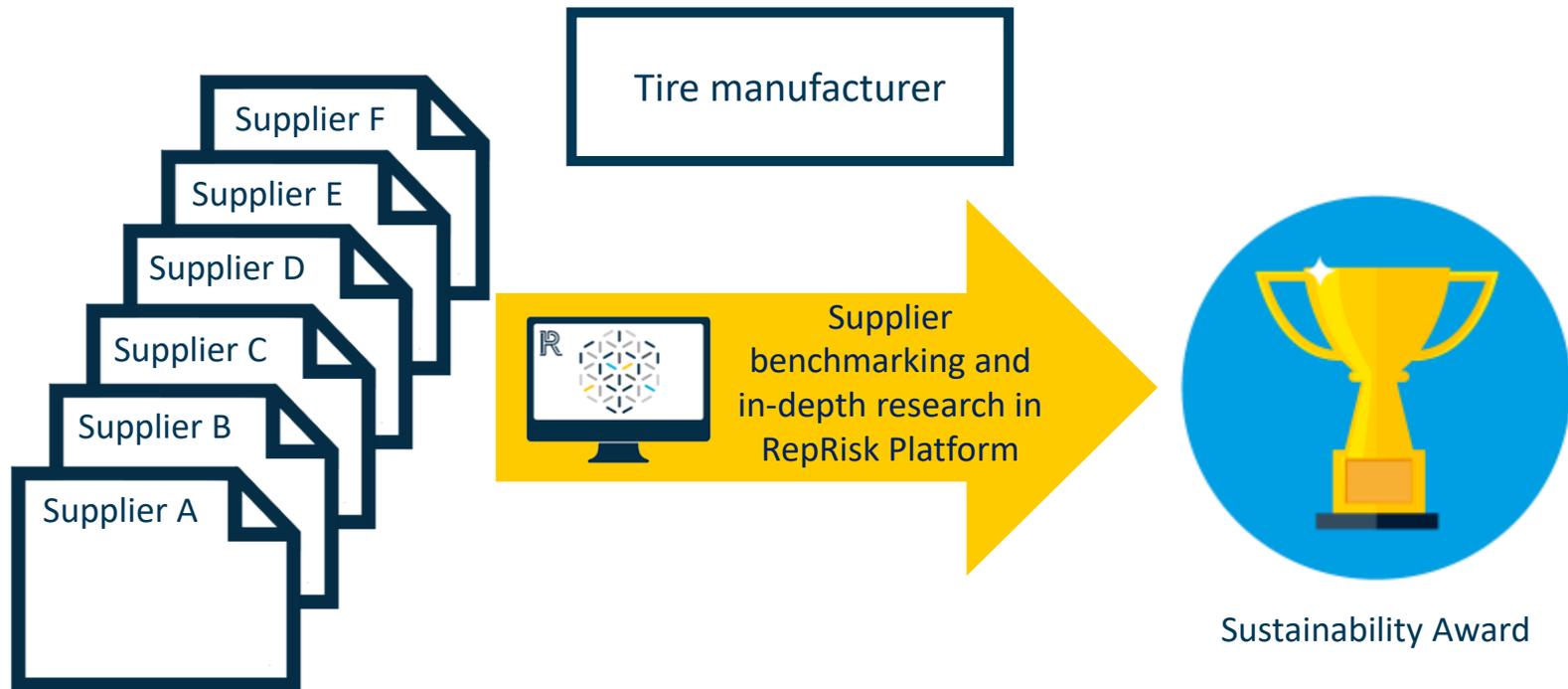
# Case study – Multinational oil and gas company: Risk management processes include country risk assessment for projects



In-depth research  
at the country and  
sector level using  
RepRisk Platform



# Case study – Large tire manufacturer: Awards their suppliers for outstanding sustainability achievements



Zurich Headquarters	RepRisk AG Stampfenbachstrasse 42 8006 Zurich Switzerland	Phone +41 43 300 54 40 Fax +41 43 300 54 46
EMEA Hub	RepRisk Germany GmbH Rosenthaler Strasse 23 10119 Berlin Germany	
Americas Hub	RepRisk North America Inc. 2 Berkeley Street, Suite 310 Toronto ON M5A 4J5 Canada	
Asia Pacific Hub	RepRisk Philippines Inc. Unit 15-02B, 15th Floor Accralaw Tower 30th Street corner 2nd Avenue, Bonifacio Global City Taguig City, Philippines 1630	
Email	<a href="mailto:contact@reprisk.com">contact@reprisk.com</a>	
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