wbcsd redefining value

Addressing business resilience

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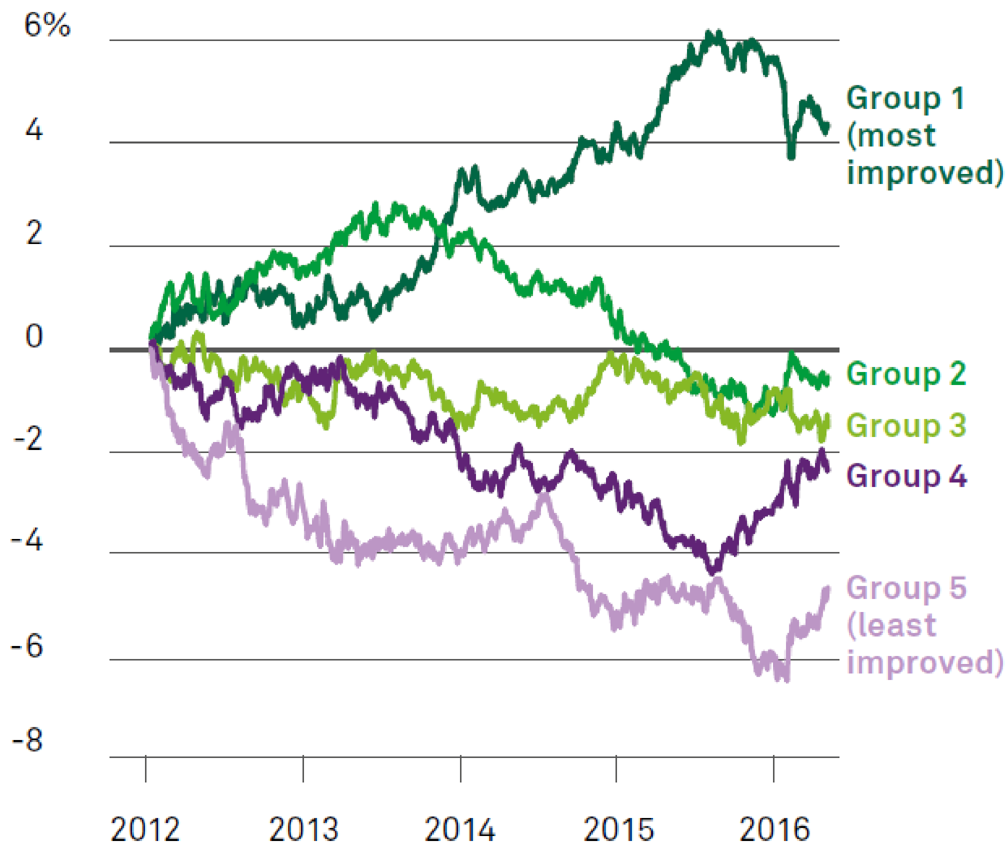
1. Introduction
Why things need to change

Why even bother? Well, BlackRock does.

Efficiency improvement race

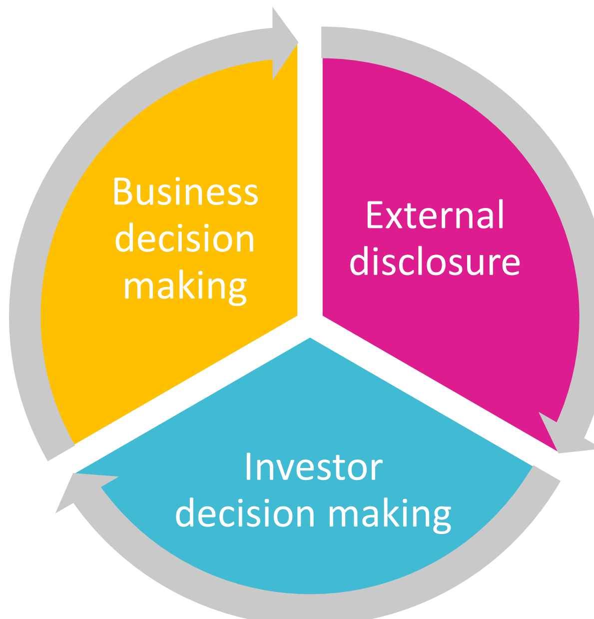
Equity performance by carbon intensity, 2012-2016



Redefining Value

Business Decision Making

- Risk Management
- Natural Capital Protocol
- Social Capital Protocol
- Integrating NCP and SCP



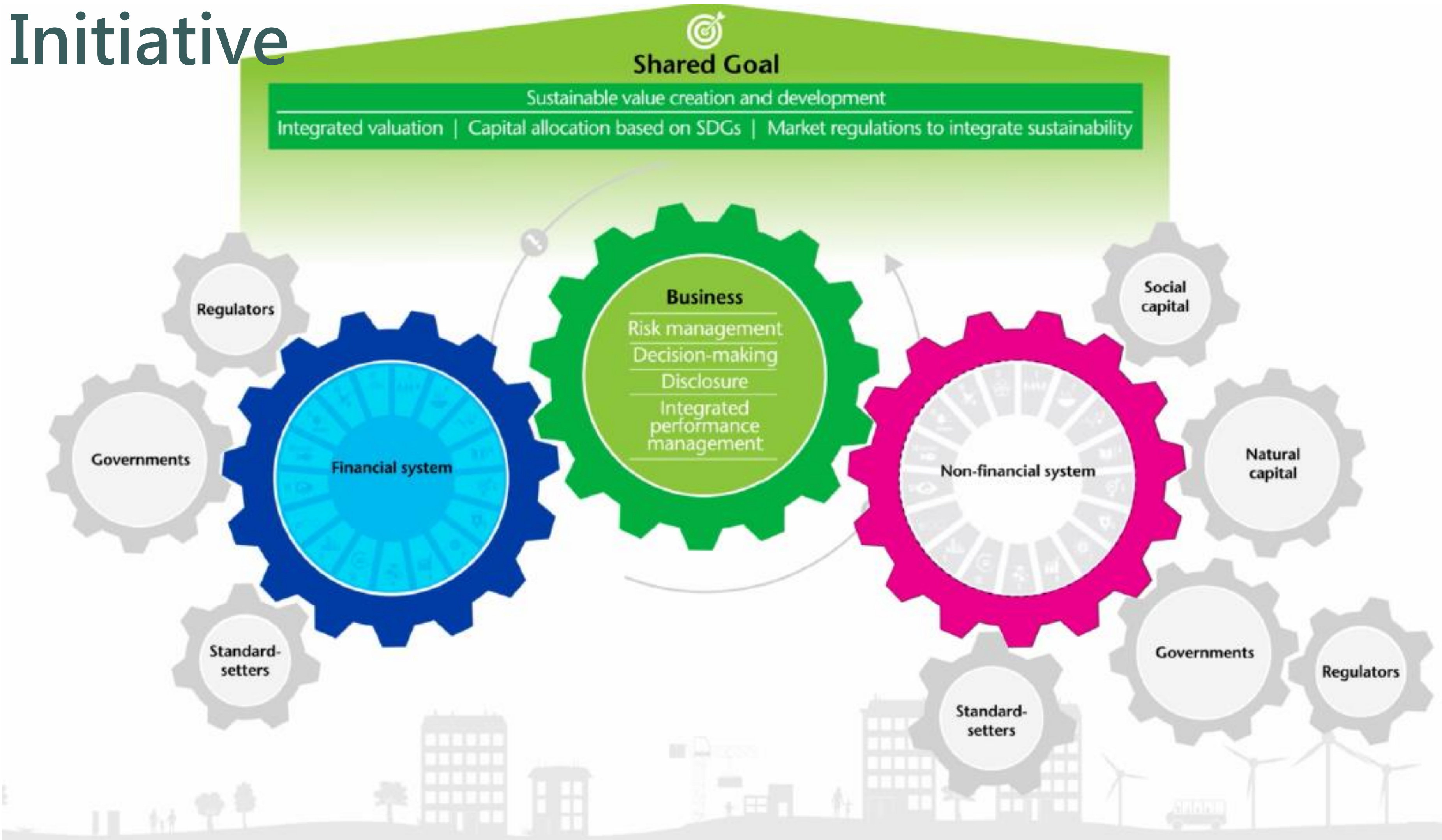
External disclosure

- Reporting matters
- The Reporting Exchange
- Purpose-driven Disclosure
- Assurance and Internal Controls
- TCFD

Investor decision making

- Ranking & Ratings
- Pensions

Conservation and Financial Markets Initiative



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What is sustainability?

2. Reframing risk management

Taking a longer term perspective

“Fiduciaries must ensure that their decision-making processes **balance allocation of capital** between **near-term needs** and **future wealth creation** and consider the potential transfer of risks between participant generations. **Intergenerational wealth maximization** requires active consideration of a range of factors beyond narrow financial criteria.

Steve Lydenberg, Initiative for Responsible Investment

Risk management – "in the eye of the beholder"

- For ESG, the investor is the most important audience
- For the ESG investor, integrated ERM, materiality assessment and IFRS 7 Reporting would be useful and show company connectivity
- It would though require most risk assessments to be more concrete and monetized
- What is the value-impact of the risk?
- When will it potentially hit the company?
- What is done to prevent it?
- It would require collaboration between financial and non-financial colleagues

Changing landscape of global risks

	2007	2012	2017
Top 5 Global Risks in terms of likelihood	Breakdown of critical information infrastructure	Severe income disparity	Extreme weather events
	Chronic disease in developed countries	Chronic fiscal imbalances	Large scale involuntary migration
	Oil price shock	Rising greenhouse gas emissions	Major natural disasters
	China economic hard landing	Cyber attacks	Large -scale terrorist attacks
	Asset price collapse	Water supply crises	Massive incident of data fraud/theft
Top 5 Global Risks in terms of impact	Asset price collapse	Major systemic financial failure	Weapons of mass destruction
	Retrenchment from globalization	Water supply crises	Extreme weather events
	Interstate and civil wars	Food shortage crises	Water crises
	Pandemics	Chronic fiscal imbalances	Major natural disasters
	Oil price shock	Extreme volatility in energy and agriculture prices	Failure of climate-change mitigation and adaptation

Economic Environmental Geopolitical Societal Technological

“ Sustainability risks are, at the end of the day, business risks. Although they can be new and emerging, complex and longer term, issues such as climate change, human rights or resource scarcity all have the ability to impact an organization’s profitability, success or even survival.

Bob Hirth, COSO

What is enterprise risk management?

Enterprise Risk Management (ERM) is defined by the Committee of Sponsoring Organizations (COSO) as:

"The culture, capabilities and practices, integrated with strategy-setting and its performance, that organizations rely on to manage risk in creating, preserving and realizing value[1].

1 - 2017 Enterprise Risk Management—Aligning Risk with Strategy and Performance

29%

average alignment between risks or aspects reported as material in the sustainability report and the risks identified in the risk disclosure section of legal filings

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Findings from updated risk research

Level of alignment from 321 companies (2015-2017)

None
31%

Partial
65%

Average
31%

Full
4%

Companies using COSO as ERM Framework

69%

of Forbes' 100 largest companies by market cap

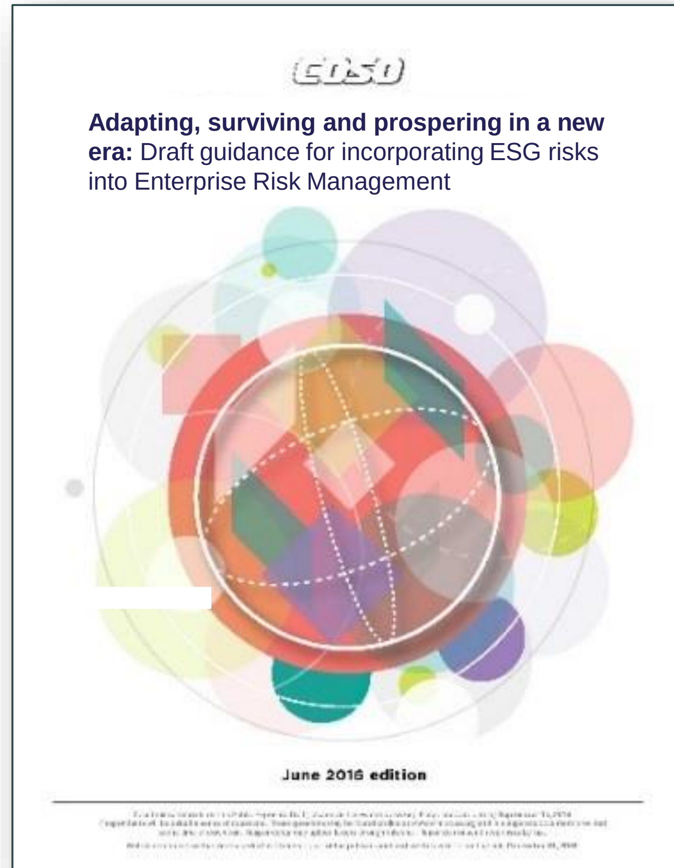
The business case for better ERM

Factors causing the sustainability ERM breakdown* | Risk management process

*Bar width refers to level of agreement of sustainability and risk professionals from interviews

The business case for better ERM

- COSO ERM Framework
- Working group members
- Case studies and company examples
- ESG frameworks (e.g., TCFD, NCP, SCP)
- Subject matter experts



Coming early 2018
(working title)

3. Importance of internal controls

(Even for non-financial information)

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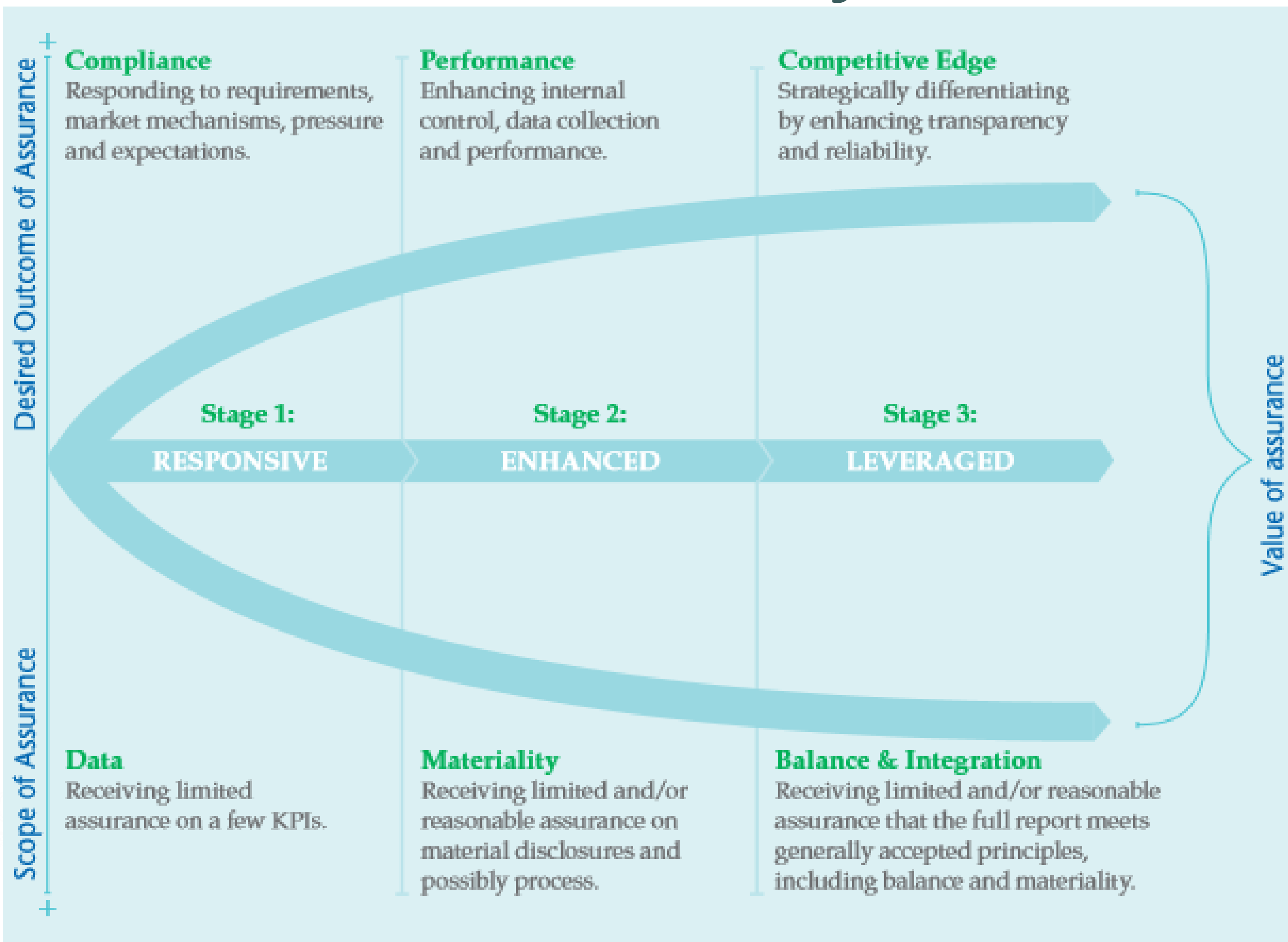
WBCSD: Assurance Maturity Model



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ISA 500

Evidence has the following attributes:

- Sufficient – deals with the amount of evidence;
- Suitable - deals with the quality of evidence; and
- Reliable - affected by the source and nature of the evidence.

Strong evidence is typically:

- Written;
- From external sources;
- Controlled effectively;
- Direct and not inferences drawn from other material;
- Original or in a form in which the audit trail will show any alterations.

The Controlling Toolkit – Light Pathway

1. Define Chart of Accounts (1)
2. Company GAAP incl. consolidation rules (3)
3. Risk Assessment of wrong data reporting (5)
4. Control Catalogue and SOPs for HQ (7.2)
5. Year End data and explanation collection (8)
6. Year End HQ Controlling (use 7.2)
7. Feedback from/to BUs and Best Practice Sharing sessions (11)

The Controlling Toolkit – Best Practice Pathway

Define Chart of Accounts (1) → Expand/extend financial Consolidation System (2) → Company GAAP incl. consolidation rules, evidence demands, etc. (3)

↓

Best Practice Sharing sessions (6) ← Risk Assessment of wrong data reporting (5) ← Training – and meet & greet (4)

↓

Control Catalogues and SOPs (7) → Interim data and explanation collection (8 + use 7.1) → HQ Controlling (use 7.2)

↓

Feedback from/to BUs and Best Practice Sharing sessions (11) ← Year End (repeat use 7 + 8) ← Monitoring – feedback to BUs and reporting to Audit Committee (9+10)

Thank you

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