GDP adjusted for ESG:
No Action is Not an Option

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SUSTAINABLE BUSINESS

WSJ PRO SUSTAINABLE BUSINESS

Global Executives Say Greenwashing Remains Rife

Nearly three-quarters of corporate leaders say most organizations in their industry would be caught greenwashing if they were investigated thoroughly

By Rochelle Toplensky

Forbes
https://www.forbes.com/sites/forrester/2022/04/22/youre-probably-green...

You're Probably Greenwashing, But You Don't Know It - Forbes

Apr 22, 2022 · Sustainability communications **accounting** encompasses six key perspectives against which marketers can audit and incorporate new expertise to safeguard their sustainability communications:...

The Economist

Finance & economics | Buttonwood

The anti-ESG industry is taking investors for a ride

The never-ending news on sustainability ...

Forbes

The Carbon Credit Market Confuses The Corporate World

WORLD ECONOMIC FORUM

- Carbon offsets could be a way to channel funds to conservation and sustainable development while reducing climate emissions.
- But if done badly, they can fail on both counts, and detractors say they are a tool for 'greenwashing'.

Theglobeandmail
https://www.theglobeandmail.com/business/article-new-global-climate...

New global climate accounting standards take aim at greenwashing

Feb 19, 2023 · New global climate **accounting** standards take aim at **greenwashing**. Jeffrey Jones. Montreal. Published February 19, 2023. This content is available to globeandmail.com subscribers.

McKinsey Sustainability

< Back to Sustainability Blog

Nature risk is the next challenge that demands a global solution

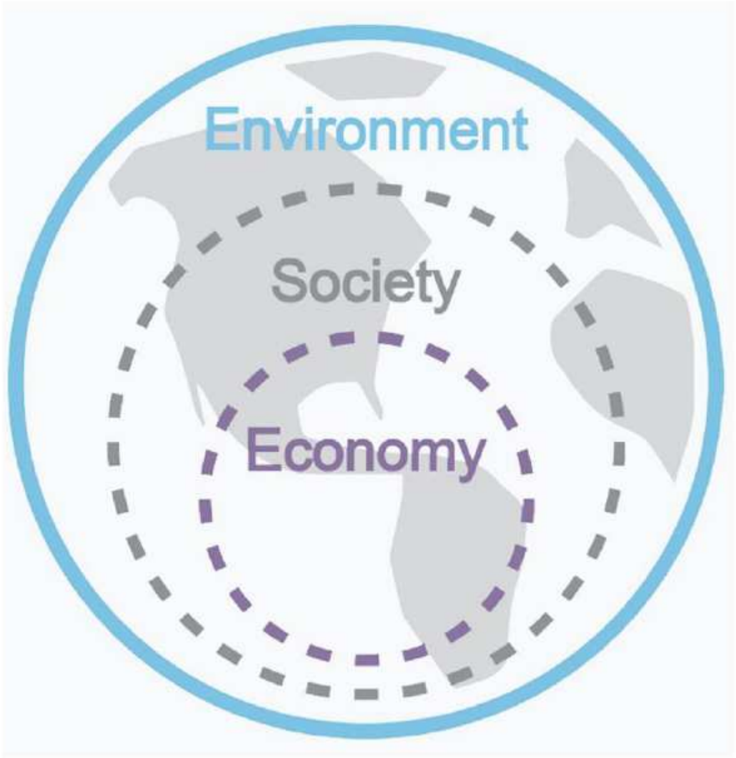
A new draft framework standardizes how businesses report and act on nature-related risks. Businesses that act fastest can help and benefit the most.

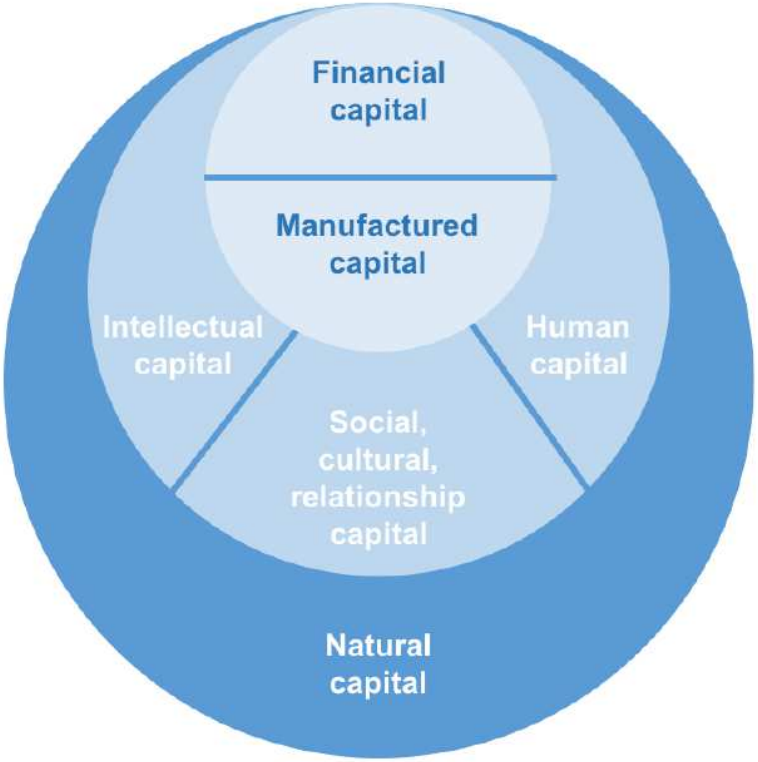
Canada's efforts to facilitate emission reductions in agriculture pale in comparison to U.S. and EU: report

Canadian agriculture has the potential to curb up to 25 per cent of emissions by 2050 but needs government support to do so.

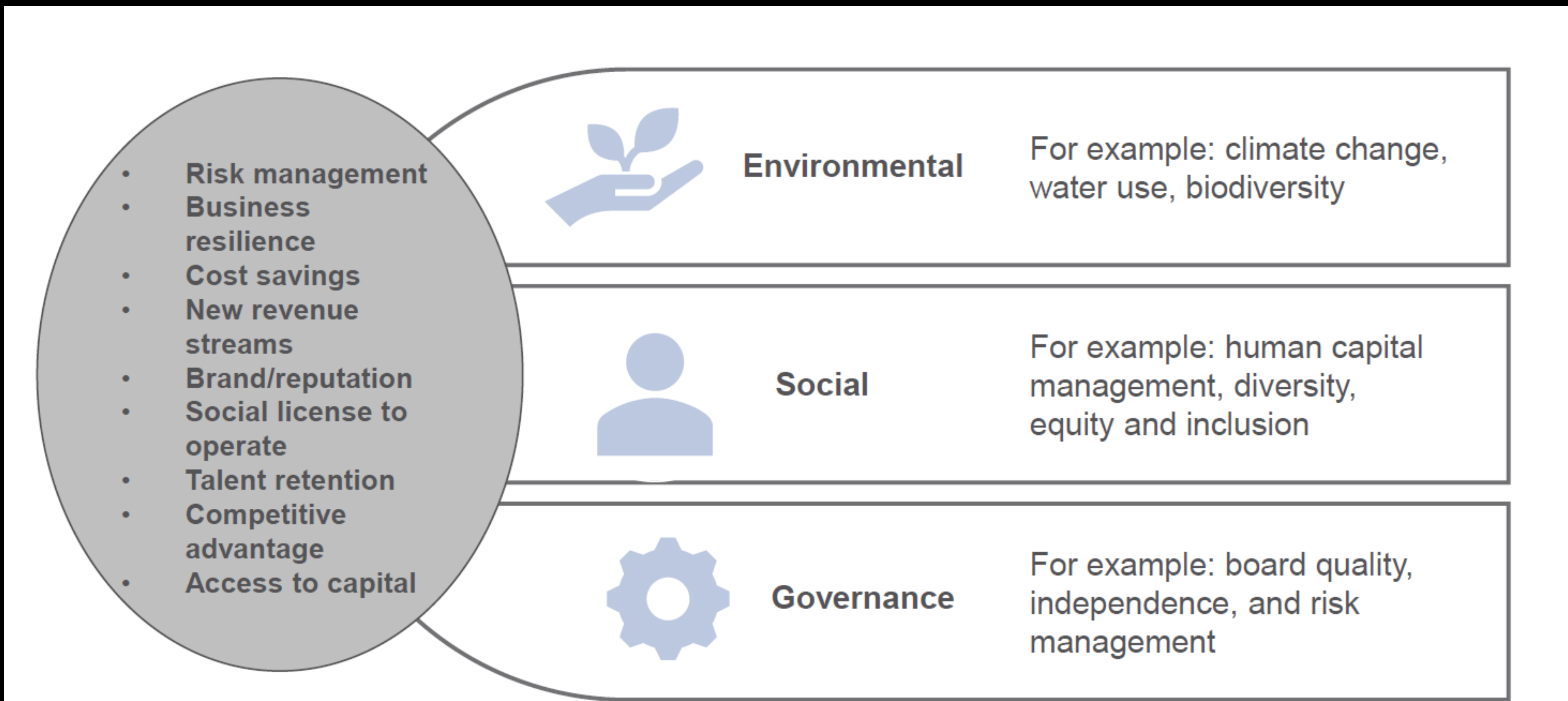
GOVERNANCE & SUSTAINABILITY GLOBAL INITIATIVE

Interdependencies of systems





Value Creation


• Risk management
• Business resilience
• Cost savings
• New revenue streams
• Brand/reputation
• Social license to operate
• Talent retention
• Competitive advantage
• Access to capital
Environmental
For example: climate change, water use, biodiversity
Social
For example: human capital management, diversity, equity and inclusion
Governance
For example: board quality, independence, and risk management

ESG Factors

Accountability a Core Part of Business

ALL STAKEHOLDERS HOLD BUSINESS ACCOUNTABLE

Percent who agree

Global 27

58%

Buy or advocate for brands based on their beliefs and values

60%

Choose a place to work based on their beliefs and values

64%

Invest based on their beliefs and values

Global 7

Source: 2021 Edelman Trust Barometer Special Report: Institutional Investors

88%

of **institutional investors** subject ESG to the same scrutiny as operational and financial considerations

Source: 2022 Edelman Trust Barometer Global Report

Are we Speaking the Same Language?

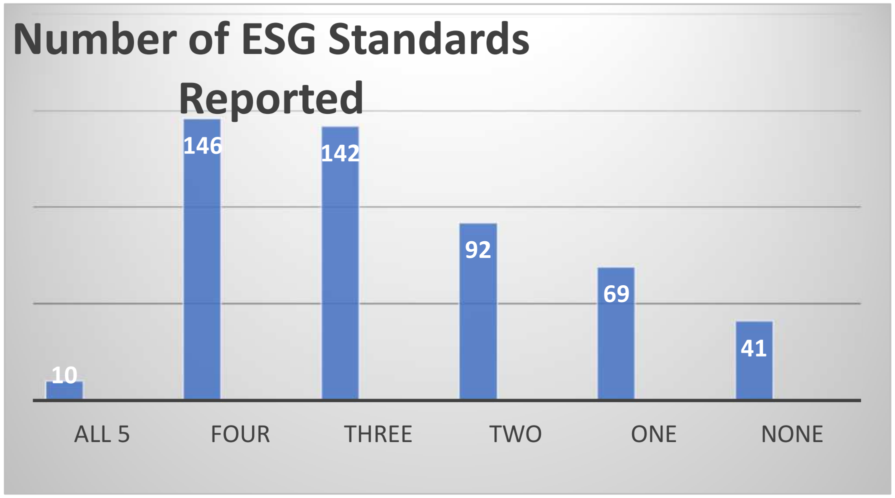
Sustainability
E= Environmental
S= Social
G= Governance
ESG Criteria
ESG Factors
ESG Metrics
ESG Screening
Responsible Investment
Sustainable Investment
Ethical Investment
Impact Investment
Climate Change
Human Rights

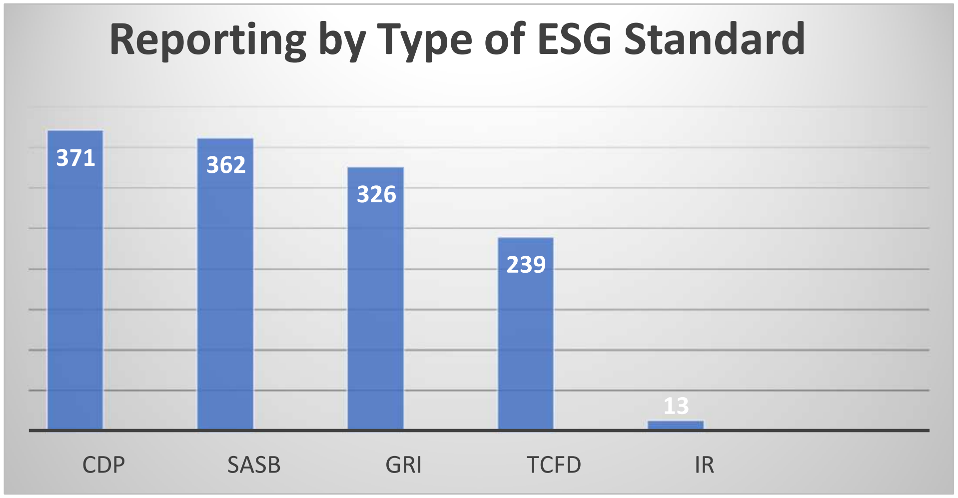
Labour Standards
SDGs
UN PRI
Renewable Energy
Carbon Emissions
GHG Emissions
Net Zero
Net Neutral
Double Materiality
Enterprise Value Creation
Plastics
Water Usage
Negative Screening
Positive Screening

CSR
Energy Transition
Risk Analysis
Sustainable Land Use
Circular Economy
Planetary Boundaries
Impact Reporting
Ethical supply chain
Stakeholder Capitalism

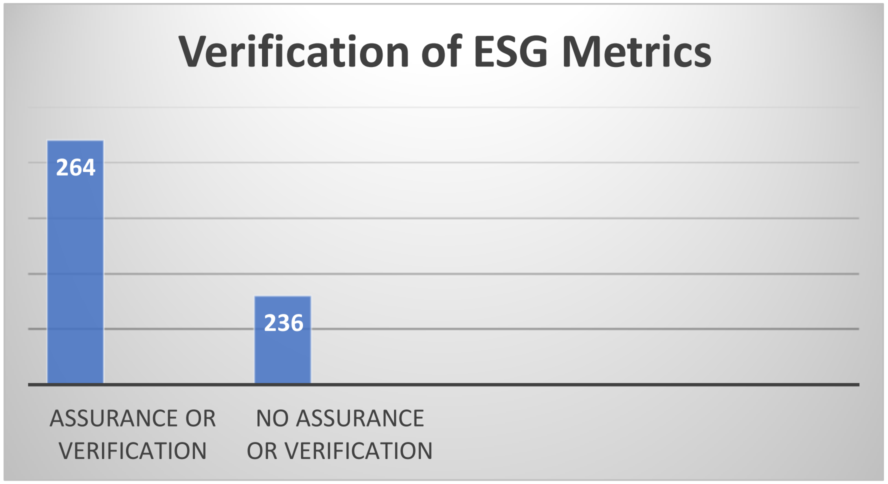
…and the list goes on!

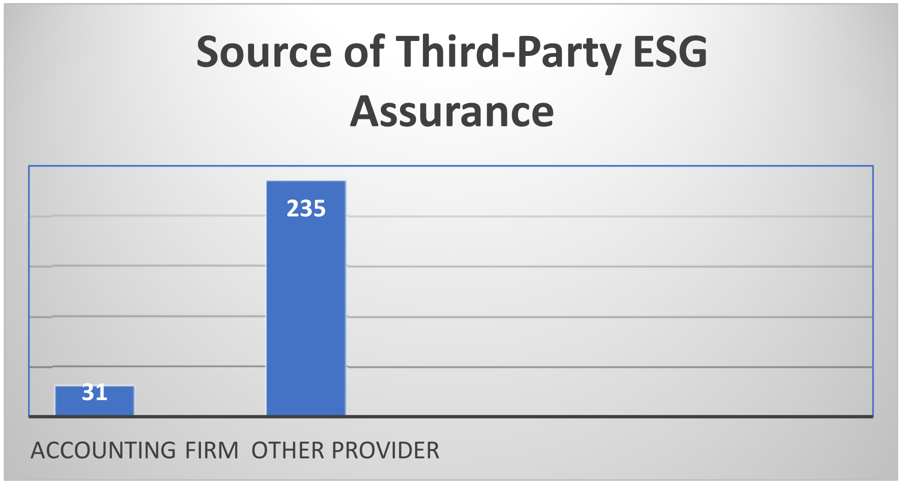
Multiple Framework/Standard Reporting is Common in 2021





More than 50% of S&P 500 Obtain Some Form of Third-Party Assurance in 2021





THE BIG PICTURE…

A coherent, comprehensive system of corporate disclosure is needed to ensure markets can understand risks and opportunities related to social and environmental issues.

A globally-accepted system for corporate disclosure could provide important new insights into the vital interconnections between business and the world in which it operates.

Around the world, investors collectively allocate tens of trillions of dollars, aiming for that money's highest and best use. However, in the absence of consistent, and reliable sustainability information, these investors are effectively aiming with one eye closed.

1. Maha Eltobgy Head of Shaping the Future of Investing; Member of the Executive Committee, World Economic Forum
2. Janine Guillot Chief Executive Officer, Sustainability Accounting Standards Board (SASB)

KEY EFFORTS AFFECTING THE SUSTAINABILITY DISCLOSURE LANDSCAPE

Source: Sustainability Accounting Standards Board

International Financial Reporting Standards Foundation (IFRS)

- Evaluating creating International Sustainability Standards Board (ISSB)
- Focused on the investor user and how sustainability issues impact enterprise value
- Initial focus on climate, expanding to broader sustainability issues
- **Strong support from IOSCO**

Convergence among voluntary frameworks and standards-setters

- Aug. 2020 “Group of 5” paper established vision for the field and the roles of the key players
- IIRC and SASB have merged to form the Value Reporting Foundation (SASB Standards still exist!)
- CDSB, VRF (IIRC/SASB), WEF and TCFD are providing technical support to the IFRS, including development of a prototype climate standard as a “running start” for the ISSB
- Momentum to move TCFD disclosure from voluntary to mandatory in many markets

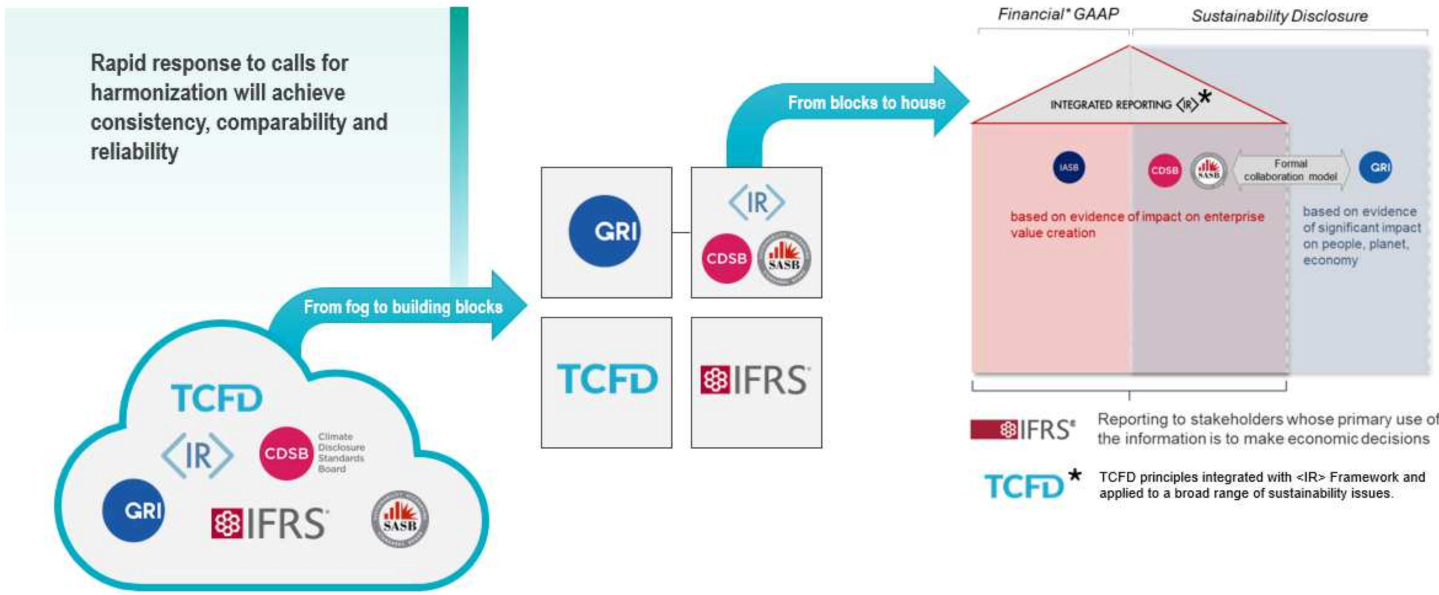
European Commission

- Significant legislation including the Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), Sustainable Finance Taxonomy, Sustainable Corporate Governance Initiative
- Beginning preparatory work on European sustainability reporting standards, covering double materiality and cross-sector and sector specific elements.

US SEC

- Request for input on climate disclosure
- Has included in OMB’s rulemaking agenda proposals on climate disclosure, board diversity disclosure, and human capital disclosure, all listed as coming in October 2021

TOWARDS A GLOBAL ESG REPORTING BASELINE



Source: © SASB

GREENWASHING

Biden administration faces increasing calls to stop companies from 'greenwashing'

"Greenwashing" refers to exaggerating a company's commitment to the environment.

By Stephanie Ebbs and Elizabeth Schulze
8 April 2021, 05:02 • 10 min read

Mar 23, 2021, 04:24am EDT | 1,927 views

It's Time To Bring Greenwashing Under Control

Enrique Dans Senior Contributor
Leadership Strategy
Teaching and consulting in the innovation field since 1990

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Coronawashing: for big, bad businesses, it's the new greenwashing

Oscar Rickett

Campaigners say ExxonMobil spent $30 million a year developing biofuels and $56 million on green marketing

Oil giants' biofuel claims are just 'greenwash', claim activists

Ben Webster
Monday April 19 2021, 12.01am BST, The Times

Former BlackRock Executive Blows the Whistle on Greenwashing

Fear of missing out on fund flows gives asset managers a strong incentive to pretend all their offerings are green.

By Mark Gilbert
March 23, 2021, 2:00 AM EDT

Greenwashing Mentions, Last 12 Months

110 TOTAL DOCUMENTS

\- 90D CHANGE

LEGEND	# OF DOCUMENTS
Trend	-
Transcripts	5
Company Docs	19
News	86

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Greenwashing: More Talk than Actual Actions

- What is "**greenwashing**"?
  - Greenwashing can generally be described as 'the practice of only paying lip service to environmental, social and governance (ESG) factors with token gestures.
- For instance, in the financial investment sector, greenwashing has become an issue and is being called-out across financial companies with sustainable investment products that may be misleading to actual ESG portfolio investments.
- A study by Deloitte found that 80 percent of ESG disclosures are immaterial.
- The International Consumer Protection Enforcement Network (ICPEN) find that 40% of companies engage in Greenwashing.

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Examples of Greenwashing

Marketing: spending more money, time and efforts on marketing its products as ‘green’, rather than actually minimizing its adverse impact on the environment

Unproven Claim
A company claims to have implemented a new manufacturing process to increase its product's recycled content

Corporate donations to charities affiliated with the board’s independent directors (affiliated donations) may impair independent directors’ monitoring incentives (Cai et al. 2020, RFS)

What Do We Find?

- Using a sample of 5,148 US firms, we find that firms engaging in greenwashing exhibit higher equity financing.
- A one-standard deviation increase in greenwashing leads to the firms' equity premium to increase, on average, by 20 basis points.
- We show that investors see through greenwashing and that deceptive disclosure is costly.

Chalwati, Amna and Cheng, C.S. Agnes and El Ghoul, Sadok and Trabelsi, Samir, The Level of Greenwashing and Cost of Equity Capital (February 23, 2021). Available at SSRN: https://ssrn.com/abstract=3791513

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GOVERNANCE & SUSTAINABILITY GLOBAL INITIATIVE

Time to Factor ESG into Growth Calculus

- Economics has not factored ESG risks change into its growth calculus.
- To move the needle on climate action, mainstream economics needs to get into step with the ESG issues
- Valuation centered on GDP does not adjust for society well being, ESG and biodiversity damages.
- Making no adjustment for ESG risks a signal to maximize GDP growth regardless of the damages.
- The “East Asia miracle” implicitly celebrated fast GDP growth at the expense of ecological destruction. Rapid growth in China and India, as in advanced economies earlier, has worsened the environment. Southeast Asia has the highest rate of increases in emissions, despite being the most climate vulnerable.

Time to Factor ESG into Growth Calculus

- Adjusting a country's GDP (Gross Domestic Product) for ESG (Environmental, Social, and Governance) risk involves incorporating sustainability and responsible business practices into the measurement and evaluation of a nation's economic performance.
- While GDP is a traditional economic indicator that primarily focuses on economic output, incorporating ESG factors provides a more comprehensive view of a country's long-term economic sustainability.

Considerations for adjusting GDP for ESG risk

- **Environmental Factors:**
  - *Carbon Footprint:* Assessing a country's greenhouse gas emissions and energy consumption can help quantify its environmental impact. Adjusting GDP for these factors provides a clearer picture of a nation's contribution to climate change and environmental degradation.
  - *Natural Resource Management:* Evaluating a country's approach to resource management, including sustainable practices, conservation efforts, and circular economy initiatives, can provide insights into its long-term economic viability.
- **Social Factors:**
  - Income Inequality: Considering the level of income inequality within a country helps assess the social impact of economic growth. Adjusting GDP to reflect the distribution of income and wealth provides a more inclusive representation of societal well-being.
  - *Labor Practices:* Evaluating a country's labor rights, worker safety, and employment conditions helps determine the social sustainability of its economic activities. Adjusting GDP to reflect these factors provides a more accurate reflection of social well-being.

Considerations for adjusting GDP for ESG risk

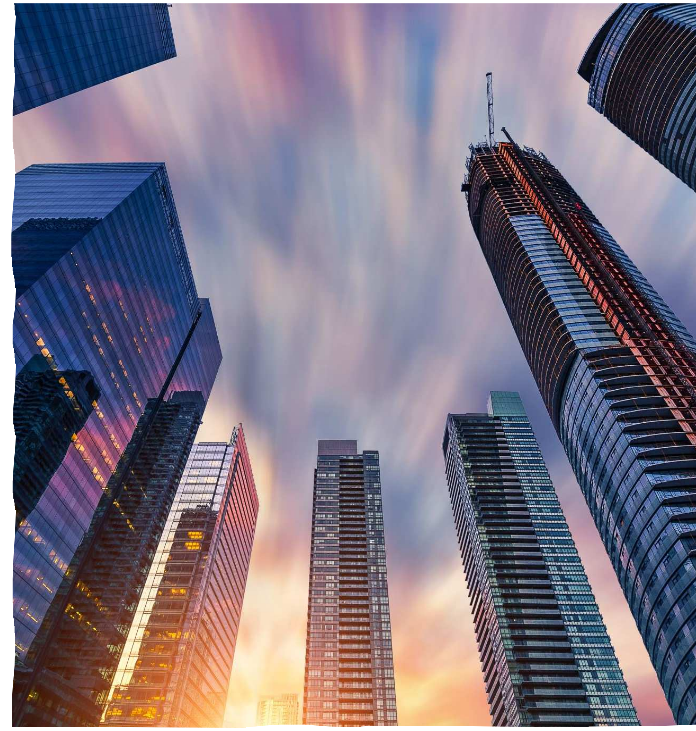
- **Governance Factors:**
  - Corruption and Transparency: Assessing a country's governance framework, including its level of corruption, transparency, and rule of law, provides insights into the risks and stability of its economic activities. Adjusting GDP to reflect these factors can provide a more realistic assessment of a country's economic performance.
  - Corporate Governance: Considering the quality of a country's corporate governance practices, such as board independence, executive compensation, and shareholder rights, helps evaluate the long-term sustainability and resilience of its economy.

GDP Net of ESG Damages

- Growth analysis rightly emphasizes productivity in addition to physical and human capital accumulation as well as worker participation but ignores environmental sustainability.
- The UN, World Bank and the International Monetary Fund, which have produced reports on climate change, must integrate ESG impacts into growth projections.
- The World Bank has a new Climate Change Action Plan that, among other things, aims to align operations of the International Finance Corporation to the Paris Climate goals by 2025.
- Time to complement GDP with a measure of quality growth that is net of ESG damages.

Key Takeaways

- A globally accepted high-quality sustainable reporting standards along with national and international institutional enforcements are the most cost-effective ways to curb greenwashing;
- GDP adjusted for ESG: no action is not an option.
- It's important to note that adjusting GDP for ESG risk is a complex task and requires the development of robust methodologies, data collection frameworks, and international consensus on ESG metrics.
- Several organizations and initiatives are working towards developing ESG-adjusted economic indicators, such as the United Nations Sustainable Development Goals (SDGs), the Global Reporting Initiative (GRI), and the Sustainability Accounting Standards Board (SASB).
- Academics (CAAA), the accounting profession, statisticians are poised to assist Canada and the world achieve this.



- **Thank You Very much**

- **Please send your comment to:**
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