



Environmental, Social, and Governance: The Path Forward

Atlantic Union Bank

Elisabeth A. Wilson

ESG: Definitions & Criteria



Environmental, Social, and Governance (ESG)

- **Environmental, Social, and Governance (ESG)**
criteria and subsequent reporting are leveraged to gauge a company's sustainable, environmental, ethical, and socially conscious investment and business practices

Environmental, Social, and Governance (ESG)

- **E(nvironmental):**
 - Climate change vulnerability
 - Physical Risk (Acute/Chronic)
 - Transition Risk
 - Financing environmental impact



Environmental, Social, and Governance (ESG)

- **E(nvironmental)**—contd.:



- Energy efficiency

- Greenhouse Gas (GHG) emissions
 - Scope 1, 2, 3 emissions



Environmental, Social, and Governance (ESG)

- **S(ocial):**
 - Diversity, Equity, and Inclusion (DEI)
 - Human capital
 - Talent Strategy
 - Employee Health and Wellbeing



Environmental, Social, and Governance (ESG)

- **S(ocial)**– contd.:



- Data Protection, Security, and Privacy
- Diverse Suppliers (Third Parties/Fourth Parties)
- Community Relations
- Customer Engagement
- Responsible Investment

Environmental, Social, and Governance (ESG)

- **G(overnance):**
 - Board Governance
 - Board Diversity
 - Business Ethics
 - Executive Compensation
 - Litigation Risks
 - Financial and Accounting Transparency
 - Full and Honest Financial Reporting/Disclosures



ESG: Why Now?



Environmental, Social, and Governance (ESG)

- In 2021, ESG came to the forefront as an emerging risk across the financial industry due to:



- The ongoing **COVID-19 Pandemic**
- Unprecedented **social change** in 2020

Environmental, Social, and Governance (ESG)

- The Biden Administration's focus on advancing **climate change-related policies and disclosures**



- **The Great Wealth Transfer**
- Increased **environmental and socially conscious** shareholder, investor, and consumer awareness

ESG: Evolving Regulatory & Investor Expectations



Environmental, Social, and Governance (ESG)

- **ESG Rating Agencies** are leveraged by investors to gauge a business's ESG practices:



- **Moody's**
- **Sustainalytics**
- **MSCI**
- **ISS** (Institutional Shareholder Services)
- **S&P Global**
- **FTSE Russell**
- **Bloomberg**

- **Challenge**: Lack of standardization across multiple rating agencies' criteria

Environmental, Social, and Governance (ESG)

- Development of proposed **climate change-related regulatory guidance** is being prioritized by various agencies:

November 2021

International Sustainability Standards Board/Technical Readiness Working Group introduce Climate-related Disclosures Prototype

November 2021

Basel Committee on Banking Supervision issues proposed Principles for the Effective Management and Supervision of Climate-Related Financial Risks

December 2021

The OCC issues draft Principles for Climate-Related Financial Risk Management for Large Banks

December 2021

Jerome Powell states the Federal Reserve may align future climate change guidance with the OCC and other banking agencies

Environmental, Social, and Governance (ESG)

- **Climate change-related regulatory guidance** continues to be proposed at the outset of 2022:

February 2022

FDIC announces addressing Financial Risks Posed by Climate Change as a key 2022 priority

March 2022

SEC proposes standardized Climate-Related Disclosure rules

March 2022

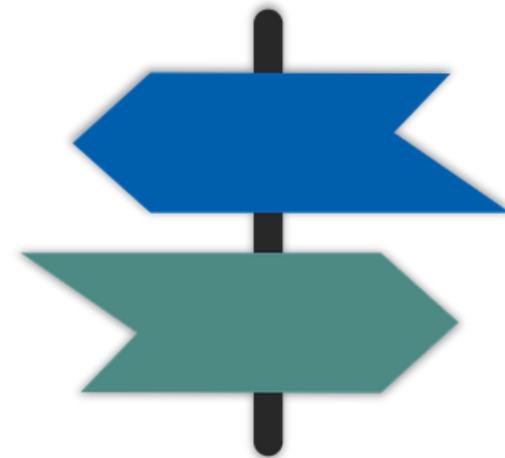
FDIC issues proposed Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

March 2022

ISSB introduces two proposed standards for general sustainability and climate-specific disclosure requirements

Environmental, Social, and Governance (ESG)

- Widely accepted and adopted best practices:
 - Task Force on Climate-related Financial Disclosures **(TCFD)**
- Sustainability Accounting Standards Board **(SASB)**
 - Network for Greening the Financial System **(NGFS)**

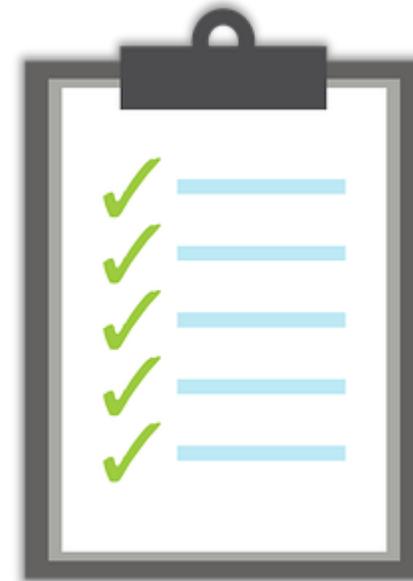


ESG: How?



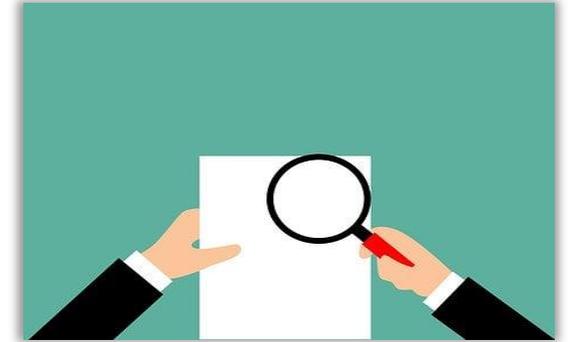
Environmental, Social, and Governance (ESG)

- **TCFD** and **proposed regulatory guidance** are stressing similar factors for **climate change-related** guidelines:
 - Governance
 - Policies/Procedures
 - Strategic Planning
 - Risk Management
 - Metrics, Targets, Reporting
 - Scenario Analysis



Environmental, Social, and Governance (ESG)

- **Step 1:** Identify applicable ESG criteria
- **Step 2:** Take stock of current ESG practices
- **Step 3:** Identify gaps requiring additional assessment



Environmental, Social, and Governance (ESG)

- Execute baseline, top-down risk analysis to identify ESG-related **exposures** and **opportunities**
- Expand **risk programs** to include ESG facets



Environmental, Social, and Governance (ESG)



- Identify and build out **metrics**

Environmental, Social, and Governance (ESG)

- Incorporate ESG into **existing policies**



- Develop **new policies** where beneficial

Environmental, Social, and Governance (ESG)

- Include ESG definitions in **taxonomies** to drive socialization of risks across the organization



- **Empower and educate** key stakeholders to foster risk identification from a bottom-up perspective

ESG: Going Forward



*Roberto Mafra
Photo*

Environmental, Social, and Governance (ESG)

- Building, honing, and refining ESG strategy and risk analysis should encompass:
 - A **multi-phased** approach
 - **Deliberate** and **manageable** pieces
 - Balancing **Risk**
 - Seizing **Opportunities**



Environmental, Social, and Governance (ESG)

- Strong ESG strategy will:
 - Drive **shareholder** value and **stakeholder** value



- Ensure financial institutions remain **competitive** and **attractive** to investors and consumers

Environmental, Social, and Governance (ESG)

- ESG has become a key facet to safeguarding the **safety** and **soundness** of the financial industry and the broader economy



Financial institutions are the **path forward**



ESG: Questions

