

# ESG: Board Competency, Reporting, Oversight and the role of Internal Audit

October 19 2023

# What we'll cover and questions to consider

Topic	Time
ESG Update	10 mins
ESG Competency	10 mins
ESG Reporting	10 mins
ESG Oversight	10 mins
Internal Audit	5 mins
Q&A	10 mins

## Considerations



What are your company's **material ESG topics**?



Who manages and is **accountable for ESG** at your company?



How is ESG **integrated within ERM and IA** at your company?



When is **ESG info shared** with the Board and how?

# ESG: Where are we now?

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## ESG TOPICS

 ENVIRONMENT**How nature is impacted**

- Climate Change / Carbon Emissions
- Air / Water Pollution
- Biodiversity and land management
- Water Use and Protection
- Waste Management
- Energy Use and Efficiency

 SOCIAL**How people and communities are affected**

- Indigenous Rights & Community Relations
- Labour & Employment Standards, Health and Safety, Diversity & Inclusion, Employee Engagement
- Customer Satisfaction, Data Protection and Privacy
- Ethical Supply Chain, Human Rights



## GOVERNANCE

**How well your company is managed**

- Board Composition, Executive Compensation,
- Anti-Bribery / Anti-Corruption / Whistleblower Policies
- Risk Management, audit, and assurance
- Lobbying / Political Contributions

# Shift from Voluntary to Mandatory ESG Reporting

## VOLUNTARY ESG REPORTING (PROMOTIONAL)

2005

- “Cherry picking” of voluntary frameworks and metrics
- No link to financial or securities reporting controls
- Focus mainly on the “good news” stories
- Limited or no assurance (audit/legal)
- Internal filters
- Lack of credible & reliable data
- Internal filters

2023

## MANDATORY ESG REPORTING (LIABILITY & ENFORCEMENT)

- Mandatory reporting requirements (e.g., CSA, OSFI)
- Mirror rigor of financial or securities reporting
- Specific targets and milestones
- Comprehensive assurance (audit/legal)
- 1.5 degree aligned transition plans
- Scenario analysis and risk quantification
- Exec and Board Accountability

# REGULATORY INVESTIGATIONS & ENFORCEMENT

## US SEC

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- DWS Investment Management Americas
- BNY Mellon
- Vale
- Goldman Sachs Asset Management
- The Boeing Company
- Fiat/Chrysler

## UK ASA and CMA

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- HSBC
- Ryanair
- Lufthansa
- ASDA
- H&M
- Walmart
- Unilever

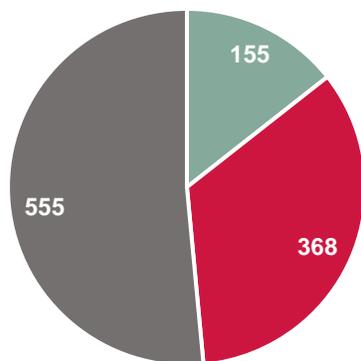
## Canadian Competition Bureau

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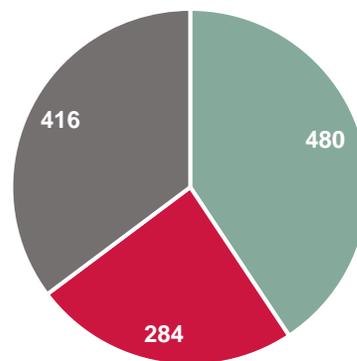
- Keurig
- RBC
- Canadian Gas Association
- Pathways Alliance
- Shell
- Sustainable Forestry Initiative

# SHAREHOLDER ACTIVISM – ESG DEMANDS SINCE 2013 BY SECTOR

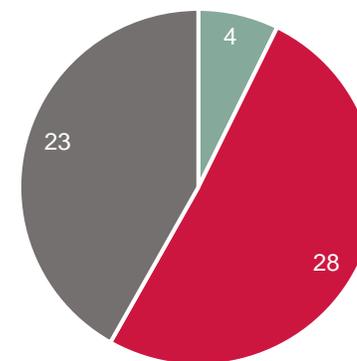
Financial Services



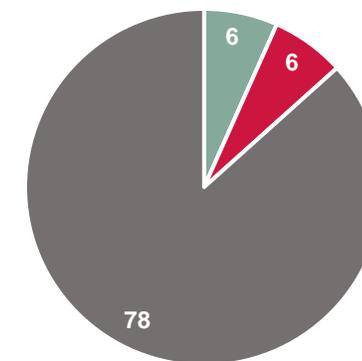
Energy & Utilities



Agriculture



Mining



Top 4 Demands

- ✓ Amend Company Policy
- ✓ Political Activities
- ✓ Climate Change & GHG Emissions
- ✓ Diversity & Equality

- ✓ Climate Change & GHG Emissions
- ✓ Political Activities
- ✓ Amend Company Policy
- ✓ Board Independence

- ✓ Amend Company Policy
- ✓ Human Rights
- ✓ Political Activities
- ✓ GMO

- ✓ Amend Company Policy
- ✓ Change Board Composition
- ✓ Disclose Information
- ✓ Waste & Pollution

Environment Social Governance

# 5 TYPES OF GREENWASHING

## 1

### **Exaggerated or empty claims**

Overstating ambition and misleading readers on the ability to execute on a strategic objective related to ESG.

## 2

### **Selective disclosure or hidden trade-offs**

Claims of ESG or sustainability leadership based on narrow factors and intentional exclusion of lacking performance.

## 3

### **Data omissions, outdated info, or lack of limitations**

Publication of data and performance without clearly stated scope limitations, analysis type, or methodologies.

## 4

### **Irrelevant or misleading graphics or visuals**

Use of visuals and imagery to convey misleading or suggestive message or evoke emotion.

## 5

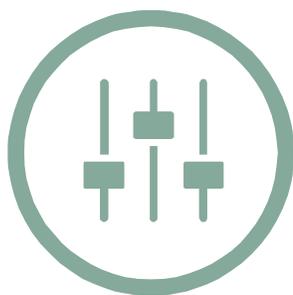
### **Vague wording or unspecific goals or targets**

Simplified messages and commitments that undermine tracking of - and accountability for - performance.



# ESG: Board Competency, Reporting, and Oversight

# ESG COMPETENCY



**Evaluate director skills and update skills matrix**, and detail how evaluation is completed annually



Customize **ESG training** for board committees and directors

## Key questions:

- 1) To what extent are the most material topics reflected in the skills matrix?
- 2) Which directors have experience in ESG and specific material factors?
- 3) How does the board determine what areas require educational updates?
- 4) What training sessions or educational information has already been shared?
- 5) What formats are most effective for sharing information with the board?

# ESG COMPETENCY: To-do List

Impact of Nestlé on people and the environment	Major		Water management Ecological impacts GHG emissions	Health and nutrition Environmental & social impacts of ingredient supply chain Product quality & safety	
	Significant	Employee health & safety Physical impacts of climate change Access & affordability Product labeling & marketing	Circular economy Customer satisfaction Human rights & labor practices Employee acquisition, talent management & retention Employee engagement, diversity & inclusion	Packaging lifecycle management	
	Moderate	Animal welfare Air emissions	Business ethics Community relations	Systemic risk management Critical risk management Management of the legal & regulatory environment	
	Negligible	Governance structures & mechanisms	Organizational set-up and efficiency Data privacy management	Changing consumption patterns Business models & innovation & technology Cybersecurity & information security	
		Negligible	Moderate	Significant	Major

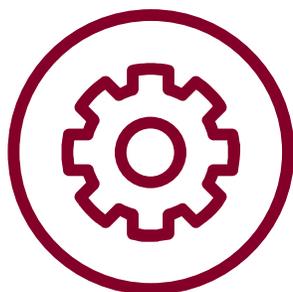
Importance and impact on Nestlé's business success

The matrix below illustrates the mix of experience, knowledge and understanding possessed by the nominees to the Board in categories that are relevant to the Corporation that enable the Board to better carry out its fiduciary responsibilities.

	Best	Cannon	Edwards	Fong	Giffin	Gobert	Laut	McKay	McKenna	Tuer	Verschuren	Total
Accounting/ Finance	•		•	•		•			•		•	6
Carbon Policy & Emissions		•	•	•	•		•		•		•	7
Exec Leadership/ Compensation	•	•	•	•	•	•	•	•	•	•	•	11
Economics/ Business	•	•	•	•	•	•	•	•	•	•	•	11
Engineering/ Technical		•		•			•	•		•		5
Governance	•	•	•		•	•			•	•	•	8
Government/ Regulatory	•	•	•		•	•	•	•	•	•	•	10
Health, Safety & Environment	•	•	•	•		•	•	•		•	•	9
International Business			•	•	•	•	•	•	•		•	8
Law			•		•				•			3
Oil & Gas	•		•	•		•	•	•		•		7
Risk Management	•	•	•	•	•	•	•	•	•	•	•	11

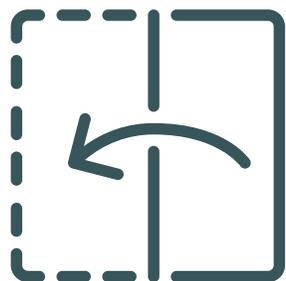
- 1) Review the materiality matrix and skills matrix to identify key gaps
- 2) Update the skills matrix to identify specialists in ESG and material topics
- 3) Identify 2-3 key topics where more knowledge is needed
- 4) Provide educational information specific to your company and sector

# ESG REPORTING



## **Align ERM and ESG**

Reporting to enable timely consistently structured information for decision-making

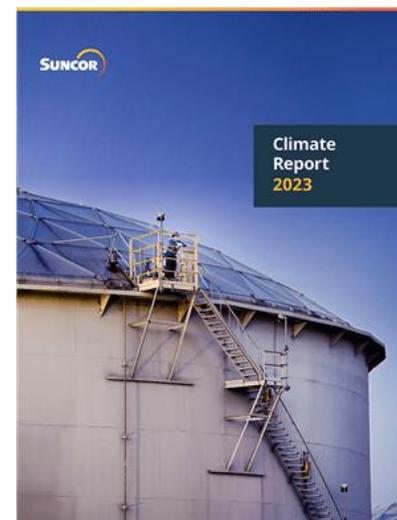


Establish processes for **Board review and approval of ESG disclosures**

### **Key questions:**

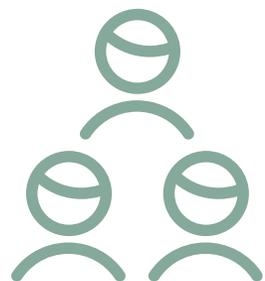
- 1) To what extent are your most material topics reflected in the risk universe and risk register?
- 2) Does the Internal Audit Plan reflect ESG topics and risks?
- 3) What ESG disclosure content is shared with the board?
- 4) Is the board equipped to challenge management on climate risk?
- 5) What is the process for board review and approval of ESG content and reports?

# ESG REPORTING: To-do List



- 1) Review risk reporting and internal audit plan to identify coverage of ESG
- 2) Review risk universe and update to incorporate material topics, as needed
- 3) Understand Board approach for review and approval of ESG disclosure
- 4) Formalize schedule and format for board review and approval of ESG disclosure to meet reporting timelines (e.g., Bill S-211 in May 2024)

# ESG OVERSIGHT



**Understand investor and stakeholder expectations** of the Board and specific committees



**Set clear responsibilities** for Board Committee(s) regarding ESG

## Key questions:

- 1) How are specific board committees kept up-to-date on ESG strategy, performance, and disclosure?
- 2) To what extent is ESG integrated into enterprise risk management and internal audit functions?
- 3) What do investors expect for ESG oversight, especially climate risk?
- 4) How is oversight shared across Committees, and is it effective?
- 5) How do Directors & Officers insurance policies address ESG?

# ESG OVERSIGHT: To-do List

## Board of Directors and Board-Level Committees

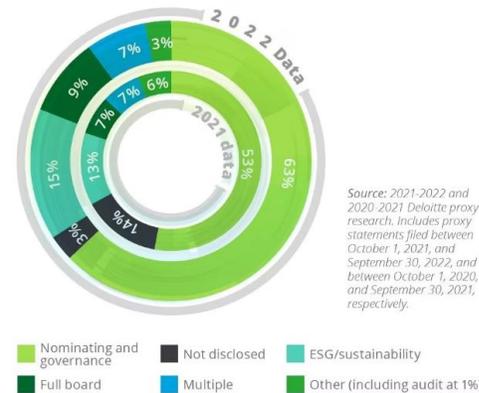
Air Canada is governed by a 12-member Board of Directors. The Board has four standing committees, each composed of independent directors: the Governance and Nominating Committee, the Audit, Finance and Risk Committee, the Safety, Health, Environment and Security Committee and the Human Resources and Compensation Committee. The roles and responsibilities of each committee are set out in formal written charters which are reviewed annually to ensure they continue to align with the evolution of each committee, to reflect best practices, and applicable regulatory requirements. The committees meet at a minimum on a quarterly basis. The President and CEO is invited to and attends Committee meetings regularly. Four committees provide supervisory oversight on specific climate-related topics:

- The Governance and Nominating Committee's responsibilities include monitoring and evaluating progress on Air Canada's overall efforts with respect to sustainability including environmental, social and governance (ESG) matters and receiving periodic updates on key ESG performance targets, issues and opportunities, as well as key sustainability developments. The committee facilitates information sharing with other committees regarding sustainability matters, reviews and recommends to the Board the annual Corporate Sustainability Report, the Board diversity policy, the modern slavery and human trafficking statement, and any updates to the Air Canada Code of Conduct.

- The Audit, Finance and Risk Committee assists the Board with Air Canada's financial reporting and audit process, including in monitoring the performance of the internal controls, and performs such other functions as may be delegated from time to time by the Board. The committee is overseeing the development of ESG disclosures, processes and controls. It regularly provides insights to the Board and has oversight responsibility regarding Air Canada's Enterprise Risk Management (ERM) Program, while other committees also play a role in the oversight of specific risks within their mandates.

- The Safety, Health, Environment and Security Committee assists the Board in the discharge of its oversight responsibilities concerning safety, health, environment, and security matters, including the strategies, policies, systems and processes of the Company and its subsidiaries. This committee is also responsible for climate-related matters at Air Canada and has oversight over key areas such as climate strategy, climate mitigation and climate resilience. It reviews the effectiveness of the Company's risk management framework in relation to safety, health, environment (including climate change), security matters and compliance with statutory and regulatory obligations. In addition, this committee reviews and makes recommendations on the five-year plans of Air Canada's Climate Action Plan to the Board.

Figure 1. Primary committee responsible for ESG governance\*

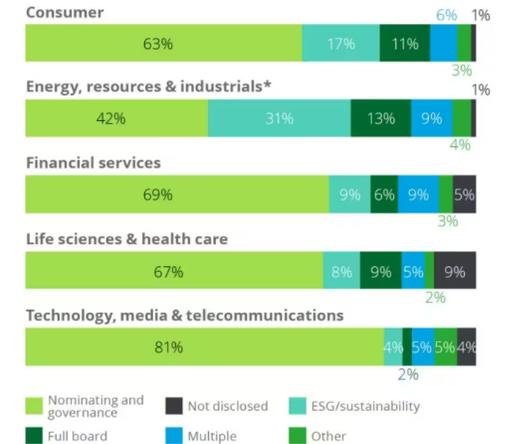


Source: 2021-2022 and 2020-2021 Deloitte proxy research. Includes proxy statements filed between October 1, 2021, and September 30, 2022, and between October 1, 2020, and September 30, 2021, respectively.

ESG reporting disclosure is evolving rapidly; as such, our methodology has been updated slightly since last year to most effectively capture ESG oversight delegation. If the 2021 data were recast for the updated methodology used in 2022, the Nom/gov category would have decreased by 1% and the Multiple category would have increased by 2%.

\* Includes primary committee noted from companies with a multicommittee/board ESG framework (see figure 2)

Figure 4. ESG primary committee oversight by industry



Source: 2021-2022 Deloitte S&P 500 proxy research

\*Constellation Energy Corp was new to the S&P500 this year but did not have a proxy.

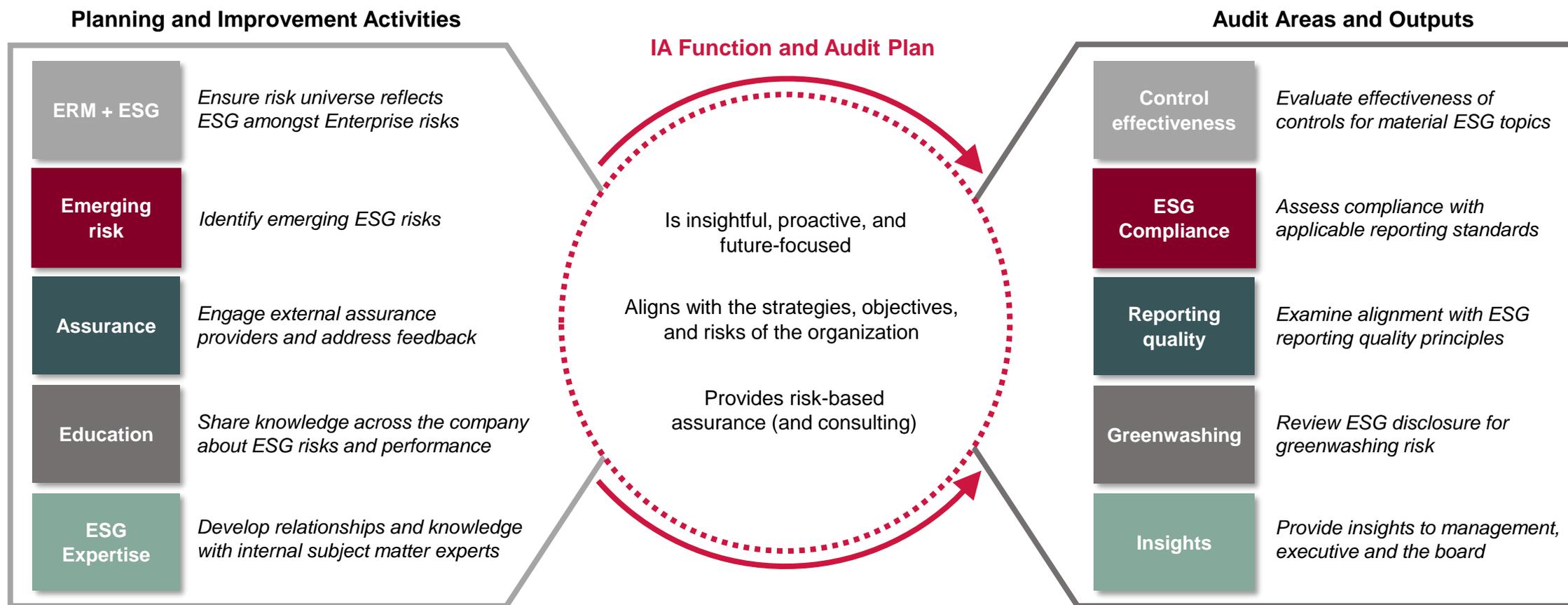
Note: Due to rounding, percentages may not total to 100%

- 1) Establish process to continuously improve board oversight for ESG and climate-risk to meet investor expectations
- 2) Develop a clear narrative and visual of ESG oversight and accountabilities
- 3) Update Board Committee mandates to reflect specific responsibilities and interactions when it comes to ESG



# ESG: What about IA?

# ESG AND INTERNAL AUDIT



# Questions



# THANK YOU



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