

The Black Box Institute

Corporate Sustainability
Part 3: Governance for ESG
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What is ESG Governance?

“ The governance related to a company's ESG activities, opportunities, controls and risks ”

Who's Responsible?

A company's Board of Directors, assisted by standing committees, have ultimate responsibility for oversight of significant risks.

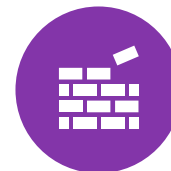
The Importance Of ESG Governance



ESG Governance establishes a framework of accountability and transparency, ensuring ESG factors are integrated into all levels of an organization.



Stakeholders are increasingly seeking companies that demonstrate sound and sustainable financial decision-making and business performance.



It's a method of preventing and controlling downside risks, as well as a source of opportunity and competitive advantage.

ESG governance is the framework and support structure that ensures accountability of a company's ESG strategy.

Companies take constructive steps in these areas to improve the governance of their ESG strategy



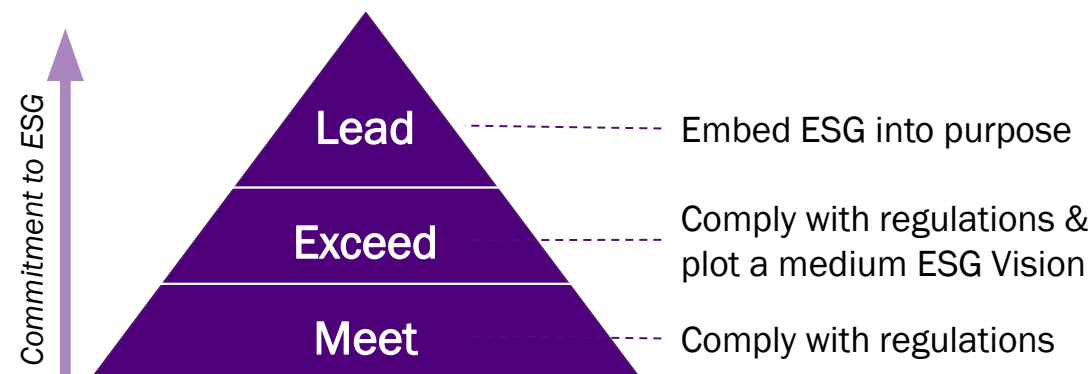
ESG Governance

- Governance starts with a strong board, leadership team, and accountability structure.
- Appropriate teams should regularly review accounting statements and tax policies to make sure they're in line with local and national regulations.
- Internal and external audits should be conducted, and audit findings should be available for review.
- Business initiatives should be linked to appropriate policies, procedures, and record-keeping.
- ESG documents and data should be up-to-date and discoverable by stakeholders.

ESG Governance Model

An ESG governance model can chart an organization's current and future approach to enhancing ESG performance, managing ESG risk, and communicating ESG goals in a cohesive, mission-driven way.

Potential ESG Governance Models

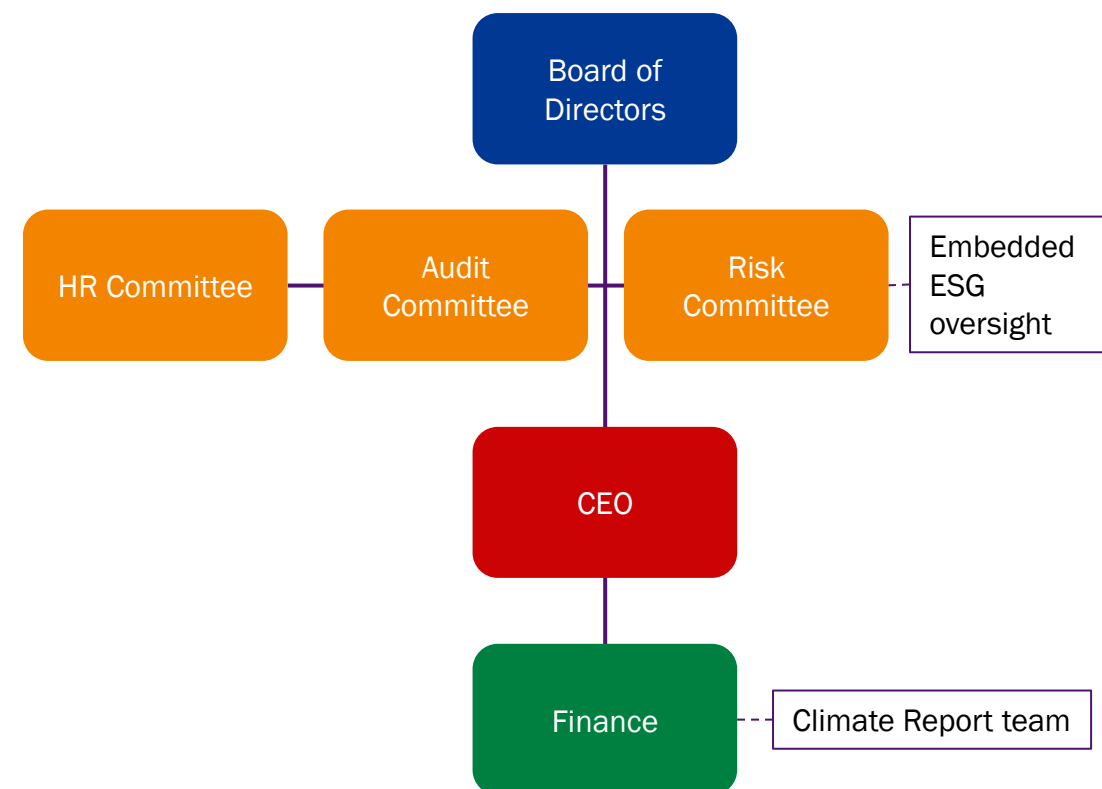


ESG governance models enable the implementation and monitoring of ESG strategy at all levels of an organization.

Level 1 of 3 - The Meet Model

- ✓
 Enlists the bare minimum to satisfy regulatory requirements.
- ✓
 Draws on a firms' existing leaders and committees instead of a new cohort specially dedicated to ESG.
- ✓
 ESG oversight is embedded into roles and responsibilities of existing committees.
- ✓
 Viable ESG model for companies that are confident in their committees' existing ESG expertise.

Model Structure



Level 2 of 3 - The Exceed Model

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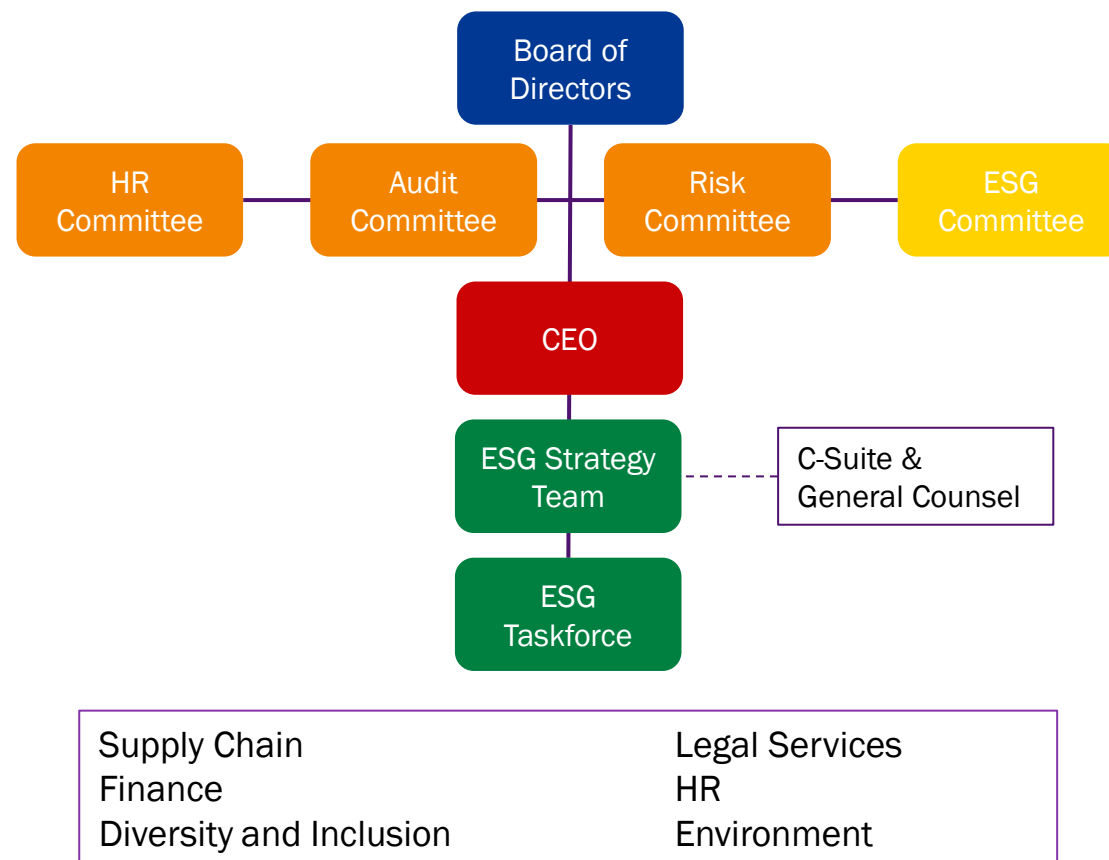
Adhering to baseline regulatory requirements and plot out a medium-term vision of where the organization plans to be.
- 

Establishes a board committee specific to ESG as well as a dedicated ESG strategy team supported by an ESG taskforce.
- 

Integrate and help consolidate initiatives across all business areas.
- 

Leadership's responsibility to integrate ESG across their respective business units.

Model Structure



Level 3 of 3 - The Lead Model



Weaves sustainability into all future strategic goals of the organization in addition to complying with regulations.



Delegates ESG responsibilities by establishing subcommittees with a defined focus on two key ESG components: initiatives and metrics.

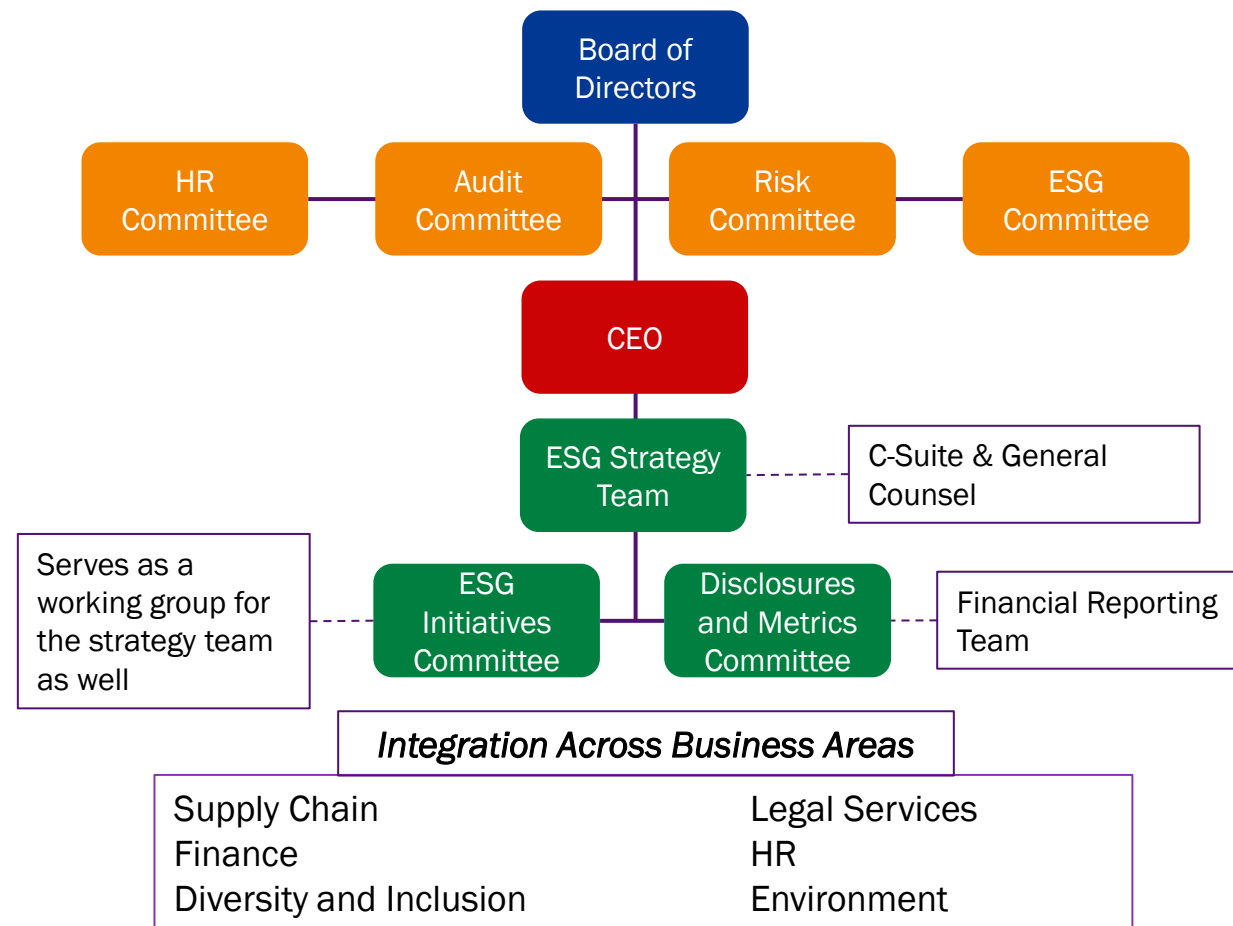


Develops lines of connection to embed ESG consciousness within the organization with key leaders from relevant divisions.



Leaders across business areas to take an active role in ESG strategy conversations.

Model Structure





TD Bank’s ESG Governance Model



Aligned their ESG priorities to their purpose, vision and strategy.



Ensured their ESG strategy is guided by their purpose.



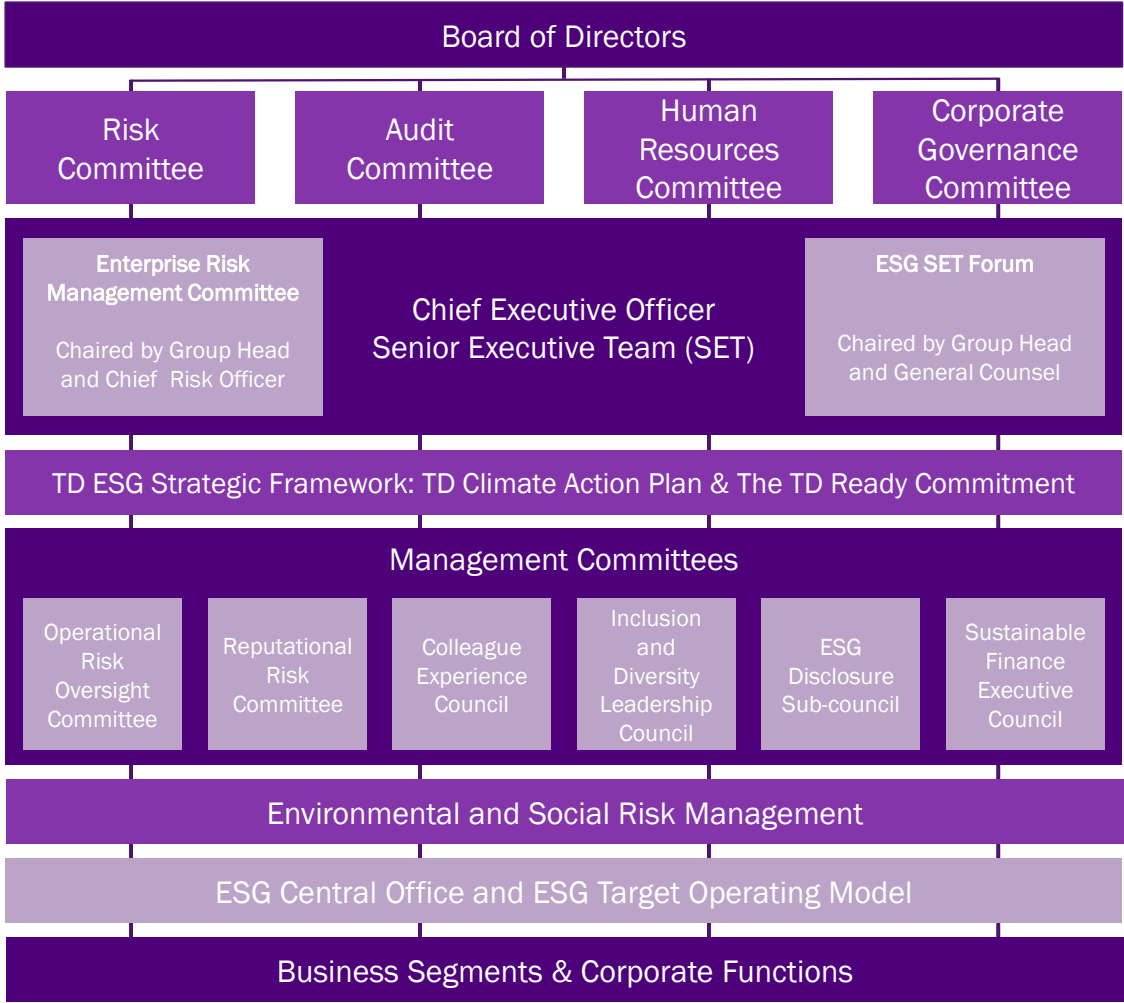
Enabled the proactive identification and mitigation of ESG risks to the business.



Facilitated ESG structure enables the pursuit of further ESG & business opportunities.



Aligned ESG positions and priorities across the enterprise.



ESG Governance Benefits



Helps To Achieve:

- Stronger financial performance
- Lower cost of capital
- More operational efficiency



Helps To Avoid:

- Regulatory and reputational risk
- Corruption
- Higher cost of capital
- Reduced shareholder returns
- Ineffective decision-making

What Does ESG Governance Look Like In Practice?



Using third-party auditors



Cultivating a diverse board of directors



Implementing data protection measures



Improving executive accountability



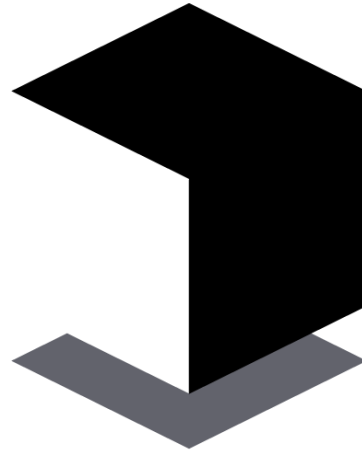
Drafting, updating, communicating, and training employees on important ESG policies

Strong ESG governance and controls help regulate companies' financial exposure to a variety of ESG regulatory, investor, procurement, and process risks.

Common ESG Governance Categories & Metrics



ESG governance categories & metrics should reflect a company's strategy, goals, business model, value chain, and purpose.



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