IFC Disclosure and Transparency Toolkit: Beyond The Balance Sheet

June 13, 2018
Changes in Best Practices/Conclusion that E&S needs to be integrated into CG

• Standard setters > UN PRI, ICGN, WFE, UN SSE, IOSCO, OECD, EU, US SEC, TCFD,
• Reporting & Disclosure > GRI, IIRC, SASB
• Institutional Investors / Asset Managers > Aviva Investors, Cartica Capital, Bank of Montreal, Triodos
• Various Standards and Codes (S.A., Brazil, H.K., etc.) incorporated E&S/Sustainability
• Data providers > BBG, ISS, Thomson Reuters (Asset4), MSCI, Sustainalytics
• Rating agencies > S&P, Moody’s

Governance of Stakeholder Engagement
Consistent with IFC’s strategy to create capital markets ..... 

... help companies in emerging economies access global capital markets,

... help global investors better price the risk of investing in these markets, and

... help stock exchange, regulators and market authorities in developing countries improve local market infrastructure
IFC Disclosure & Transparency Toolkit

**Beyond the Balance Sheet**

IFC Toolkit for Disclosure and Transparency

**IFC Sustainability Frameworks**
- Corporate Governance Methodology
- Performance Standards for Environmental & Social Sustainability

**Global Sustainability Frameworks**

**International Accounting Standards**
## Introduction

### Why This Toolkit
- Benefits of Disclosure and Transparency
- Drivers of ESG Reporting
- Comprehensive and Integrated Approach to Reporting
- Incorporating Sustainability

## Part 1: Disclosure Framework

### Strategy
- Business Model and Environment
- Strategic Objectives
- Risk Analysis and Response
- Sustainability Opportunities & Risks
- Key Performance Indicators

### Corporate Governance
- Commitment to ESG
- Board Structure and Functioning
- Control Environment
- Minority Shareholders
- Stakeholder Engagement

## Part 2: Reporting Guidance

- Materiality
- Information Quality
- Scope of Disclosure
- Disclosure Requirements
- Reporting Formats
**Holistic and Integrated Reporting Approach**

**Governance Structure**
- Integrate E&S in corporate culture and commitment
- Governance structure to manage E&S issues
- Control environment for E&S issues (risk management, compliance, reporting)

**Stakeholder Engagement**
- Identify key stakeholders and oversee engagement process

**Performance Report**
- Management discussion and analysis of performance on key E&S opportunities and risks, including KPIs

**Sustainability Statements**
- Performance measures (or metrics) for key E&S issues, including core issues, industry- or context-specific issues and entity-specific issues

**Identify Material E&S Issues**
- Assess impact of core E&S issues based on the IFC Performance Standards and other frameworks
- Identify industry- or context-specific E&S issues based on industry or location (e.g. climate change, product footprint)

**Create an E&S Strategy**
- Develop/modify strategy and risk management based on material issues (entity-specific E&S issues)
- Develop key performance indicators (KPIs)
# Core Tool – CG Progression Matrices

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Level 1 Basic Practices</th>
<th>Level 2 Intermediate Practices</th>
<th>Level 3 Good International Practices</th>
<th>Level 4 Leadership</th>
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**Levels**

- **Level 1:** Basic Practices
- **Level 2:** Intermediate Practices
- **Level 3:** Good International Practices
- **Level 4:** Leadership

**Parameters**

- **Commitment to Good Corporate Governance**
- **Structure and Functioning of the Board of Directors**
- **Control Environment**
- **Transparency and Disclosure**
- **Treatment of Minority Shareholders**

**Progression**

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| Commitment to ESG (Leadership and Culture) | • Appropriate Documentation: Charter(s), ToRs, etc.  
• ESG integration and Stakeholder Engagement  
• Board Oversight of ESG/Board level committee to review ESG issues  
• National/Global Leader in ESG |
| Structure and Functioning of the Board of Directors | • Composition, Structure, Practices, Meetings, Committees, Independence and Skills  
• Board approves sustainability strategy and E&S policies  
• Board verifies ESMS in place and audited  
• ESG issues are a recurring Board agenda item  
• Board member with understanding of E&S risks, and if sensitive industries, then at least one E&S Expert |
| Control Environment | • IC, IA, RM and Compliance  
• ESMS integrated into the corporate Risk Management framework  
• Head of E&S/ Sustainability has unfettered access to the Board and reports to the Risk Management Committee of the Board |
| Disclosure and Transparency | • Financial Reporting (IFRS & ISA) and Annual Report  
• Annual Report includes ESG reporting  
• Annual Report uses IIRC, GRI, SASB, etc.  
• ESG data is subject to independent assurance |
| Treatment of Minority Shareholders | • AGMs, Voting Rights, Fair Treatment, Access to Information  
• Investor relations |
| Governance of Stakeholder Engagement | • Stakeholder Mapping  
• Stakeholders Engagement Policy: workers, customers, regulators, affected communities, NGOs, CSOs, supply chain workers, etc.  
• Grievance Mechanisms – Worker and Affected Communities |
## IFC Toolkit: Advancing Best Practices

<table>
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<tr>
<th>Objective</th>
<th>Sustainability reporting (GRI)</th>
<th>Financial reporting (IFRS)</th>
<th>Integrated Reporting (SASB)</th>
<th>Integrated reporting (IIRC)</th>
<th>IFC DT framework</th>
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<tr>
<td>Intent</td>
<td>Intent is to improve sustainability of organisations and support sustainable development</td>
<td>to provide financial information that is useful in making investment decisions</td>
<td>Help public corporations disclose material sustainability information in mandatory SEC filings</td>
<td>Increase holistic, long-term, integrated thinking – considering multiple capitals – and improve allocation of financial capital</td>
<td>Improve capital flows to emerging markets by reducing actual and perceived risk</td>
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| Audience | Multiple stakeholders | Current/potential capital providers, lenders | Investors | Providers of financial capital | All stakeholders are addressed, investors are prioritized |

| What is material? | Issues that • Have significant economic, environmental and social impacts • May influence stakeholder decisions | Information is material if failure to include it could have an impact on the decision making of reporting users. | Substantial likelihood that a reasonable investor would view information as significantly altering the total mix of information | Matters that substantially effect value creation over the short, medium and long-term | A combination of 1) financial materiality; and 2) sustainability material |

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**IFC**
International Finance Corporation

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<table>
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<th>Type of Company</th>
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<td><strong>Strategy</strong></td>
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<tr>
<td><strong>Small/Early Stage:</strong> Basic management &amp; ownership</td>
<td>Strategy objectives &amp; risk</td>
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<tr>
<td><strong>Medium Size:</strong> More complex management &amp; ownership</td>
<td>Add Business model &amp; environment</td>
</tr>
<tr>
<td><strong>Large but Private/National:</strong> Size, complexity, E&amp;S impact, and capital needs grow</td>
<td>Add Sustainability opportunities &amp; risks</td>
</tr>
<tr>
<td><strong>Publicly Listed/International:</strong> Public expectation, part of global value chain</td>
<td>Add KPIs</td>
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Note: “Add” indicates that the number of relevant topics for the annual report increases with the company size.
Beyond the Balance Sheet: Users

Disclosure Framework

Strategy & Sustainability
Corporate Governance
Performance
THANK YOU!