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ESG reporting: Risk assessment

Strategy and risk assessment go hand in hand. As you solidify your strategy, consider that the risks to your company include the impact of ESG: how your company is impacted by its environment and community, and in turn how the company impacts its environment and community. Are you ready for questions about your company's response to ESG risks and opportunities?

Stakeholder focus on the impact of and a company's response to ESG matters has been growing even as the field of risks and opportunities keeps broadening. The impact also may vary based on industry and company-specific strategy. However, failure to respond to the current risk landscape may ultimately impact consumer perception, access to capital, stock valuation, access to talent, and more. In addition, as companies respond to the risks and make public ESG commitments (e.g., net zero, board diversity, supply chain), these voluntary actions create expectations that also must be considered in a company's risk profile.

An effective risk assessment—which also may identify opportunity—starts with a survey of E, S, and G factors in the context of the company's current and possible future strategy. Depending on the nature of the risks, management may identify risk mitigation factors; however, in other circumstances, this assessment may lead to fundamental changes in business practices. Both speed and care will be important to allow a company to identify these risks timely and respond effectively.

Sample questions to consider:

- **Geographic location** - will extreme weather such as flooding, fire, or drought impact operations or profitability?
- **Regulatory and policy developments** - do new or expected laws around ESG-factors, such as emissions, labor laws, or diversity, directly or indirectly require strategic adjustment?
- **Changing consumer demands** - how do your current products and services stack up with evolving consumer "green" expectations?
- **Reputational factors** - are you protected against negative perception due to factors such as environmental management, labor practices, and diversity?
- **Commitments** - do you have a catalog of all of your public commitments around ESG and do you have a specific and realistic plan to demonstrate progress against them?

Another key element of a broad ESG risk assessment is an assessment of materiality. ESG information that is material to users of the financial statements (per the SAB 99 guidance[1]) or SEC filings (per the Supreme Court definition) should be included as applicable. ESG information that is significant to other stakeholders would be included in other ESG reporting.

[1] SAB 99 is the SEC's Staff Accounting Bulletin 99, *Materiality*. It provides guidance on how to assess financial statement materiality.

58%

of US investors say that how a company manages ESG risks and opportunities is an important factor in their investment decision making.

Source: PwC US ESG investor survey, October 2021

"The intensifying impacts of climate change present physical risk to assets, publicly traded securities, private investments, and companies — such as increased extreme weather risk leading to supply chain disruptions."

- Executive Order on Climate-Related Financial Risk, May 20, 2021

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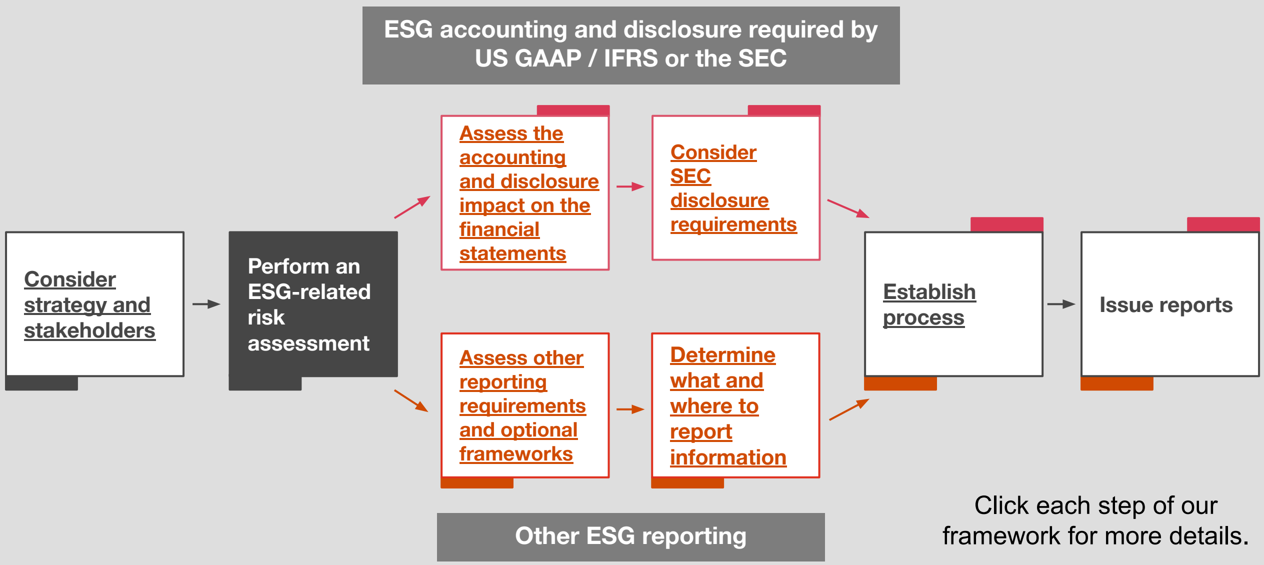
Board oversight is of course part of any good risk assessment. Your board may be recalibrating its processes to understand the company's response to ESG risks as part of its responsibility for overseeing material risks and ensuring the company's strategy is appropriate and will deliver results. Being conversant on the company's ESG strategy also prepares the Board to respond to increasing investor activism related to ESG.

Risk assessment is not static: the environment, the trends, the market, the perceptions, the exposures; they all are evolving rapidly. The corporate victors in the ESG revolution will be those who embraced ESG opportunities while acting to mitigate or avoid the inherent risk. Step one is to establish your risk assessment processes. How are you inventorying your risks today and how are you monitoring changes? Better yet, do your stakeholders know how your company is responding and who is driving risk mitigation and strategic decisions?

The path to effective ESG disclosure



Click each step of our framework for more details.

On the horizon

Mandatory ESG disclosures from any number of quadrants are likely in the near term. But disclosing risks isn't the same as responding to them. With enhanced disclosure will come enhanced expectations. Investors and other stakeholders definitely want to know about risks, but will jump quickly to what you're doing about them. Leading practice would be to have a story ready to tell.

Technical guidance

Identification and mitigation of ESG risks is new for many management teams. However, help is available. As a starting point, COSO and the World Business Council for Sustainable Development issued guidance designed to help companies apply enterprise risk management principles and practices to ESG-related risks.

PwC resources

- The ESG movement: Are you ready for the ESG revolution?
- ESG oversight: The corporate director's guide

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