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.
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

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.