



# Boardroom questions

## Environmental, social and governance (ESG)

### Board Leadership Center

#### Who Cares Wins<sup>1</sup>

ESG issues have become an important parameter for investors to evaluate investment opportunities. It is not just about maximising profit, but 'doing the right thing'.

#### The emergence of ESG

In this era of growing geo-political uncertainties, nationalism and populism are giving rise to economic and commercial uncertainties. Issues relating to climate change may have taken a backseat, but there are investors who are pro-actively working on this agenda to make a difference:

- In this scenario, ESG is emerging as one of the best lenses to see the organisation's resilience, adaptability and sustainability
- It is emerging as a priority for investors who are now building an ESG framework to study companies and decide their course of action.

#### Gaining popularity as an effective tool

In recent times, in India, two ESG funds have been launched to invest in listed entities. One has been launched by Quantum Advisors and the other has been launched by Aventus Capital. Other such examples include Kotak Mutual Fund and SBI Magnum Equity ESG fund.



There has been extensive research on sustainable investing, and the evidence suggests that ESG-based investing delivers superior returns.

A recent study conducted by KPMG in India states that more than one-third (36 per cent) of C-suite and board members surveyed indicated that investor pressure had increased the company's focus on ESG.



Today, ESG has become a central issue. Investors have now started demanding ESG disclosures from companies and also seeking better ESG performance.

#### Increasing investments in ESG



In 2017, ESG investments grew 25 per cent from 2015 to USD23 trillion, accounting for about one-quarter of all professionally managed investments globally<sup>2</sup>.

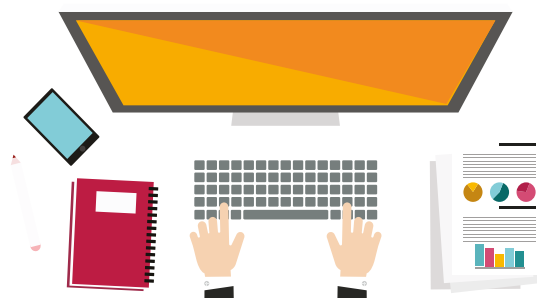


The popularity of ESG-themed Exchange-Traded Funds (ETFs) has surged since 2016, with USD11 billion in Assets under Management (AUM) across 120 funds around the world<sup>3</sup>.

#### Adapting the relevant frameworks and guidelines

There are a number of frameworks and guidance that companies can avail of in this ESG journey.

- The Sustainability Accounting Standards Board (SASB) established in 2011, develops and helps organisations' implement sustainability accounting standards. SASB offers a sector-oriented material list of ESG topics.
- The UN Principles of Responsible Investment (PRI) is an international network of investors, which has put out six principles that investors should practice.
- The Global Reporting Initiative (GRI) is a disclosure standard that helps companies disclose their ESG information in a standardised manner. Apart from these, there are a number of indexes and ratings that track ESG performance of companies.



1. Who cares wins - Connecting Financial Markets, IFC, June 2004  
 2. Global Sustainable investments grow 25-23 trillion, Bloomberg  
 3. Global research, JP Morgan

## Boardroom Questions

What processes do we have for the **identification of ESG opportunities and impending risks?**

Do we comprehensively understand the **material ESG risks and parameters?\***

Do we have the **ability to integrate** the identified ESG parameters to our vision, goals and metrics?

Does the Board have the **skills and the necessary information** to guide the management on the way forward?

Does our **ESG criteria** also cover governance matters like board diversity, board performance and ethics apart from topics like climate change, data security, labour practices, etc.?

How can we **increase our engagement** on ESG matters, both internally and externally?

How can we effectively communicate the company's **"ESG story"** to all stakeholders?

\*It is important to note that the material ESG parameters might vary between sectors, regions and even companies. The material parameters might be ones, which are material in the present context or may be material considering a future scenario.

## What actions can the Board consider?



## How can KPMG in India help?

KPMG in India has been working with banks, investors and companies in this space. We have assisted banks and investors in designing the ESG framework, and also in evaluating portfolio companies. We have collaborated with companies to frame their ESG strategy and disclosures. We are also helping them score better in various ratings and indices.



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