

# ESG and What It Might Mean for Me

VT/NH Bankers Association 2022 Spring  
Executive Management Meeting

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Vermont Bankers Association, Inc.



Thank you for hosting today!

# Here with you today

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# What you'll hear today

- 1 Fundamental Concepts
- 2 Board Considerations
- 3 Stages of ESG Maturity
- 4 Why Might a Community Bank Care
- 5 ESG Regulator Proposals, Frameworks & Standards

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# Fundamental Concepts



# What is ESG?

## Environmental

- Encompasses how a company is exposed to and manages risks and opportunities related to climate, natural resource scarcity, pollution, waste, and other environmental factors.

## Social

- Includes information about the company's values and business relationships.
- For example, social topics include labor and supply-chain standards, employee health and safety, product quality and safety, privacy and data security, and diversity and inclusion policies and efforts.

## Governance

- Information about a company's corporate governance.
- This could include information on the structure and diversity of the board of directors; executive compensation; critical event responsiveness; corporate resiliency; and policies on lobbying, political contributions, and bribery and corruption.



# What is ESG reporting?

- **Qualitative** discussions of topics as well as **quantitative** metrics used to measure a company's performance against ESG risks, opportunities, and related strategies.
- Companies report ESG information for many reasons. The terms ESG, sustainability, and corporate social responsibility (CSR) often are used interchangeably to describe nonfinancial reporting.

# ESG reporting enables companies to:

- Communicate key ESG risks and opportunities and how these issues are managed.
- Organize business dependencies and impacts on the environment and society.
- Communicate their resiliency to shifts in the environment and society.



# Why is ESG reported?

Some SEC requirements

Some industry regulatory requirements

More and more companies are voluntarily reporting...

Currently no requirements for mutual banks

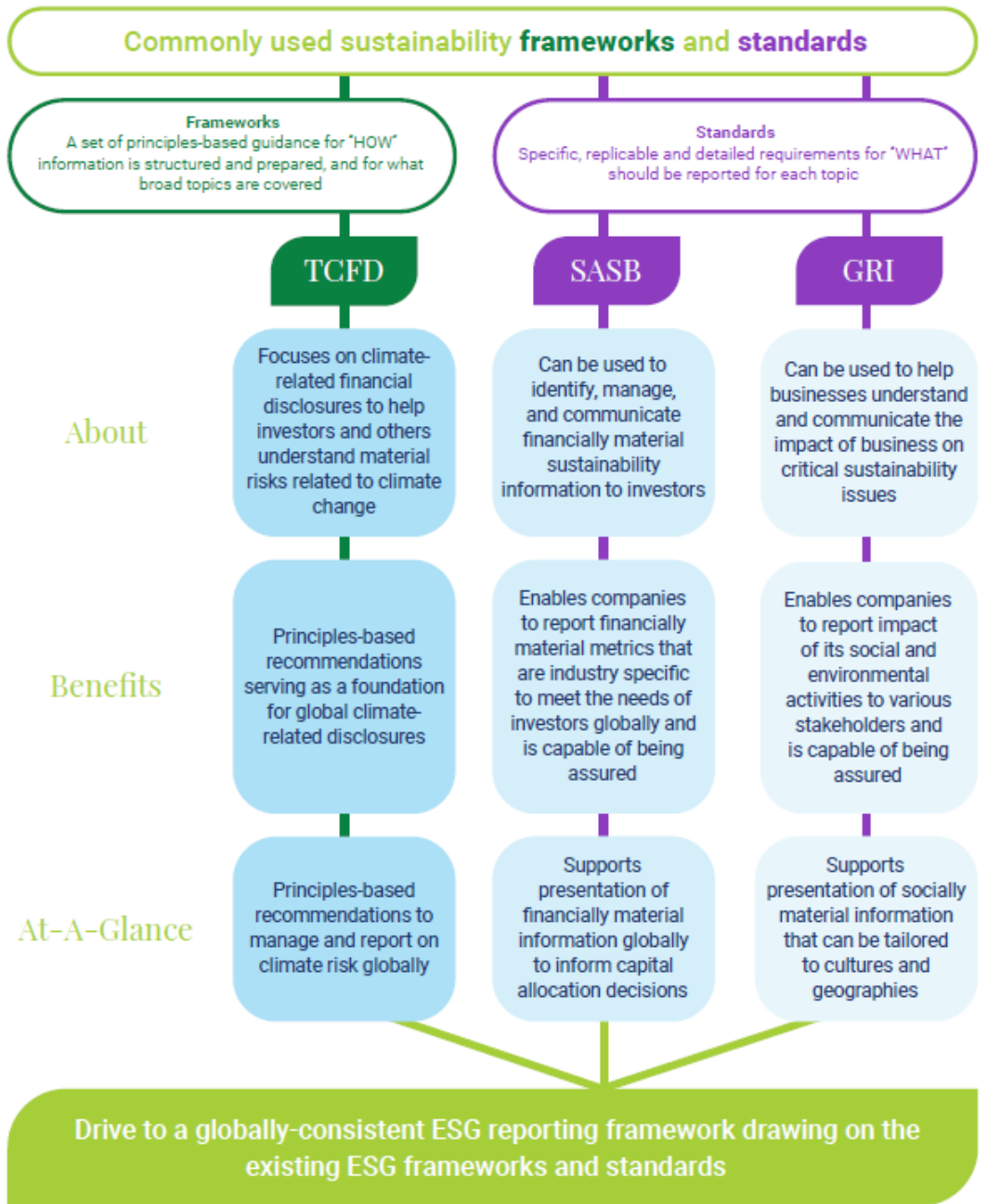
For example, the EPA requires major fuel and industrial gas suppliers to report greenhouse gas emissions.

To describe their long-term value creation strategies

To meet the demands of investors and other stakeholders

# If you're going to report...

- The building blocks of reliable, comparable, and relevant ESG information begin with a foundation of quality reporting by company management.
- Landscape of multiple frameworks and standards, the challenge for companies to determine how to communicate relevant information and what specific ESG information to report to stakeholders is real.
- There are various frameworks and standards that management can use to determine which ESG information to disclose.



Source: Center for Audit Quality, *The Role of Auditors in Company-Prepared ESG Information: Present and Future* (June 2020)

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# Board Considerations



# Understand key ESG risks and opportunities

# Provide governance and oversight

# Provide governance and oversight





**Where is the company currently?**

# Where is the company currently?



# Where is the company currently?

**5**

Do one or more board committees have explicit oversight responsibility for ESG, and what role do other committees and the full board play in ESG oversight (e.g., governance committee involvement in overseeing related factors, audit committee involvement in assessing the appropriateness of management's risk assessment of this information)?

**6**

Where and how is the information currently being reported?

**7**

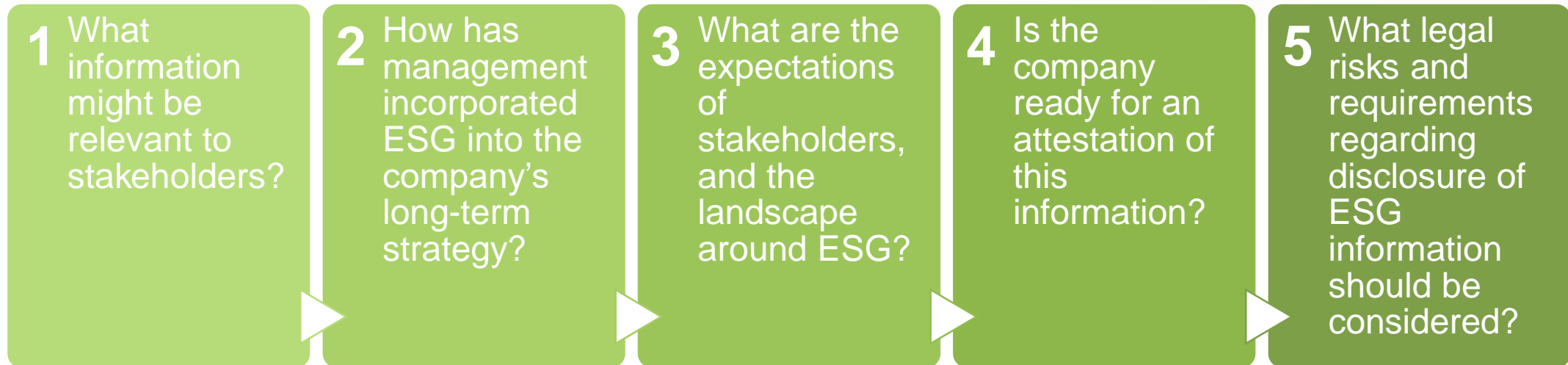
Is the company currently following a framework or a standard for disclosing this information? If so, is it the appropriate framework or standard for the company?

**8**

How does the company compare to its peers? If evaluating its own progress, what quantitative and qualitative performance improvements have been made? Which key performance indicators will the board use?

**Where does the company want to  
go?**

# Where does the company want to go?



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# Stages of ESG maturity



# Stages of ESG maturity



ESG Integration Maturity



## Stages of ESG Maturity

### Integrated

#### *Value enhancing*

through established governance, risk management, strategic allocation of resources, data management processes, controls, reporting, and assurance

### Enhanced

#### *Performance driven*

to enhance internal controls, ESG data collection, and performance management

### Responsive

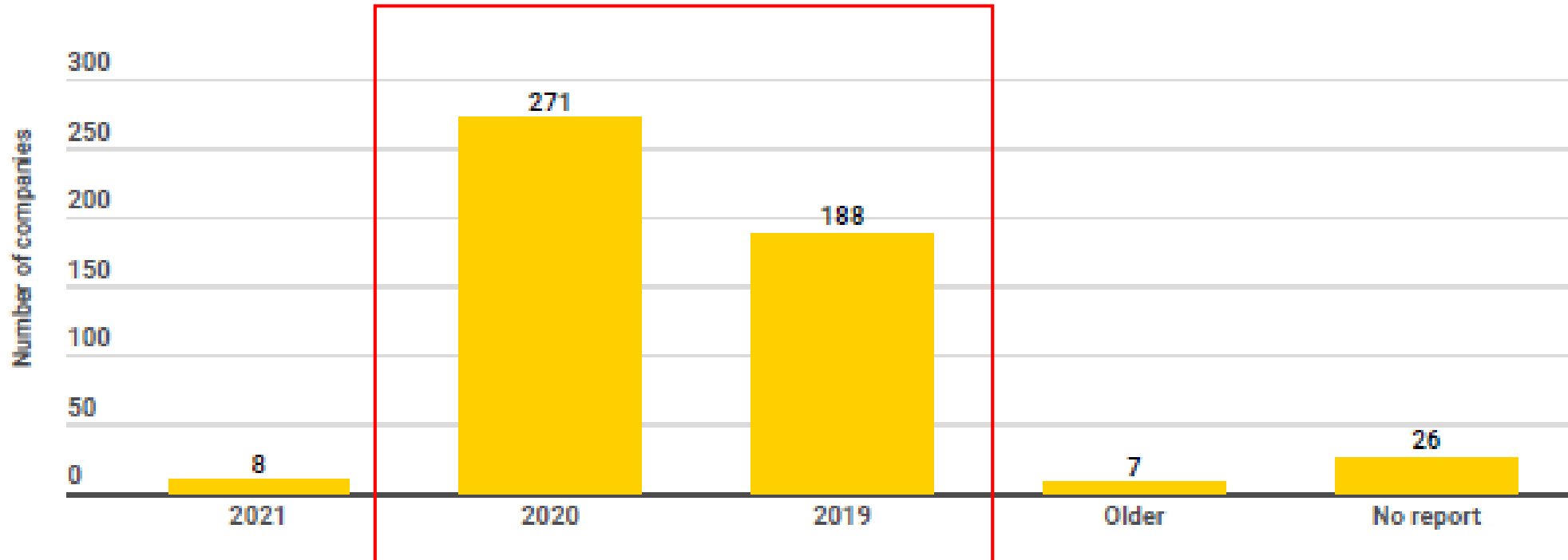
#### *Compliance driven*

to respond to ESG requirements and changing expectations



# Stages of ESG maturity (cont.)

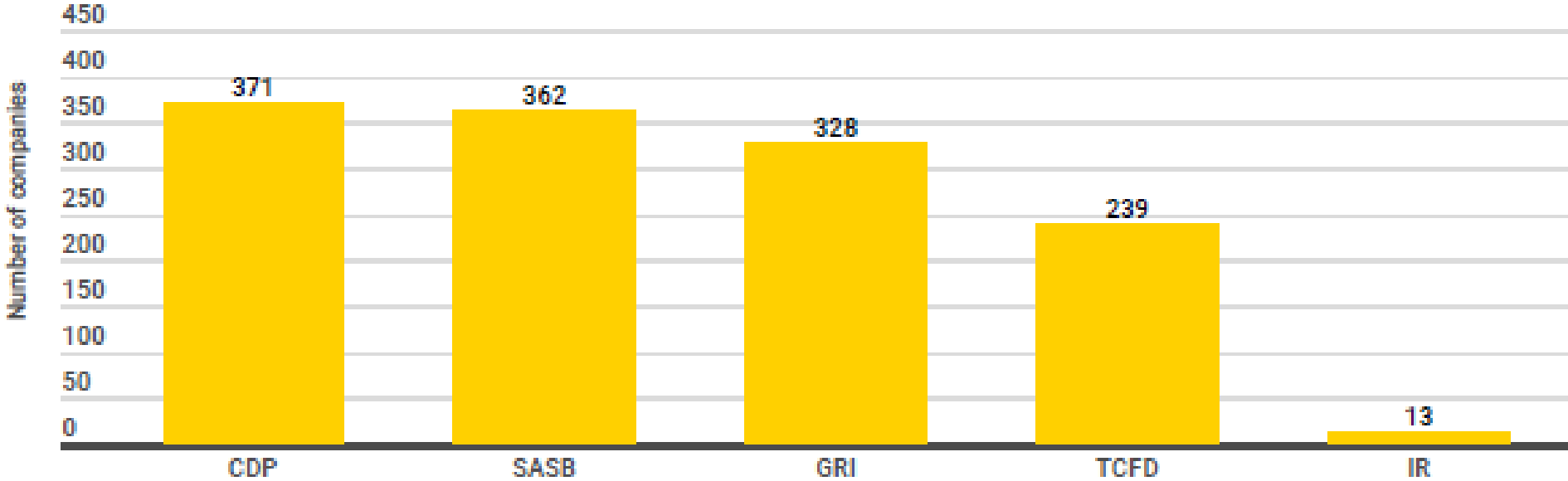
Period Covered by Report (most recent report)



Source: Center for Audit Quality, *S&P 500 and ESG Reporting* (August 9, 2021)

# Stages of ESG maturity (cont.)

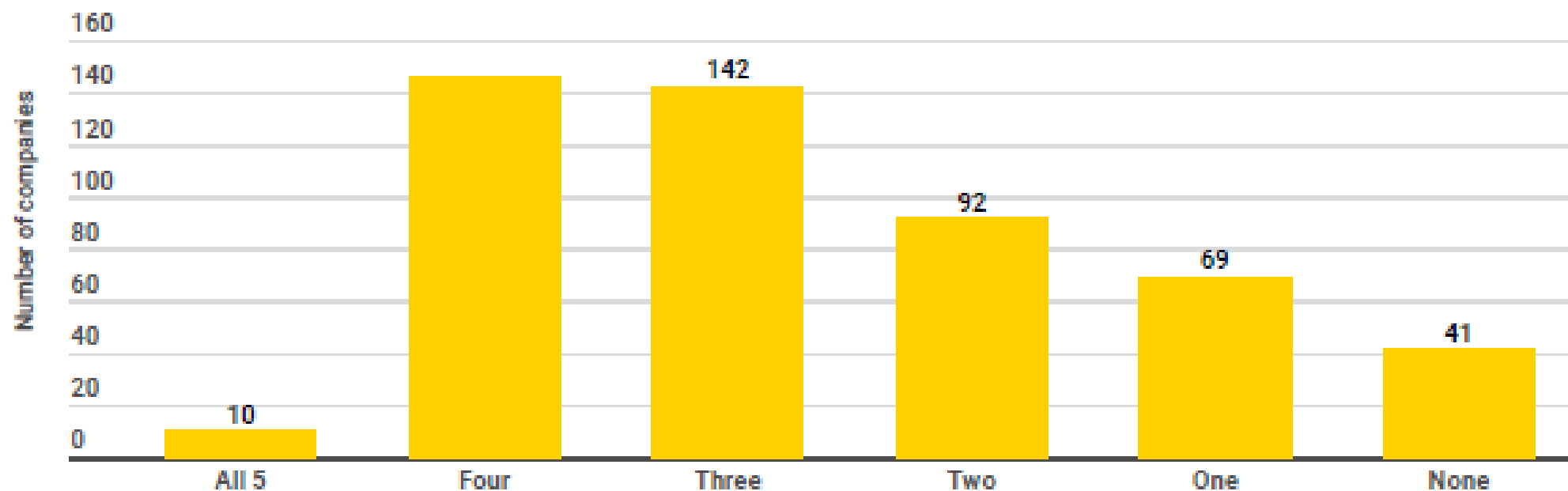
Reporting Standards and Frameworks (GRI, SASB, TCFD, CDP, IR)



Source: Center for Audit Quality, S&P 500 and ESG Reporting (August 9, 2021)

# Stages of ESG maturity (cont.)

## Reporting Standards and Frameworks (GRI, SASB, TCFD, CDP, IR) Breakdown



Source: Center for Audit Quality, *S&P 500 and ESG Reporting* (August 9, 2021)

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# Why Might a Community Bank Care



# Why might a community bank care?

Corporate  
citizenship

Stewards of your  
community

Credit risk  
management

Holistic risk  
assessment process

Follow many of the  
trends of larger  
banks

- Recently, big banks have notably been stepping up their ESG efforts.
- JP Morgan, Wells Fargo, Bank of America, and Fifth Third all have instituted measures to strengthen their commitments to ESG initiatives.

# Examples

1

<https://www.cpb.bank/about-us>

2

<https://www.servisfirstbank.com/esg-policy>

3

<https://www.amerantbank.com/esg/>

4

<https://www.congressionalbank.com/esg/>

# 3 Steps to Planning for Climate Risk

1. Conduct a Risk Assessment
2. Level Up the Board
3. Develop a Climate-Aware Strategy

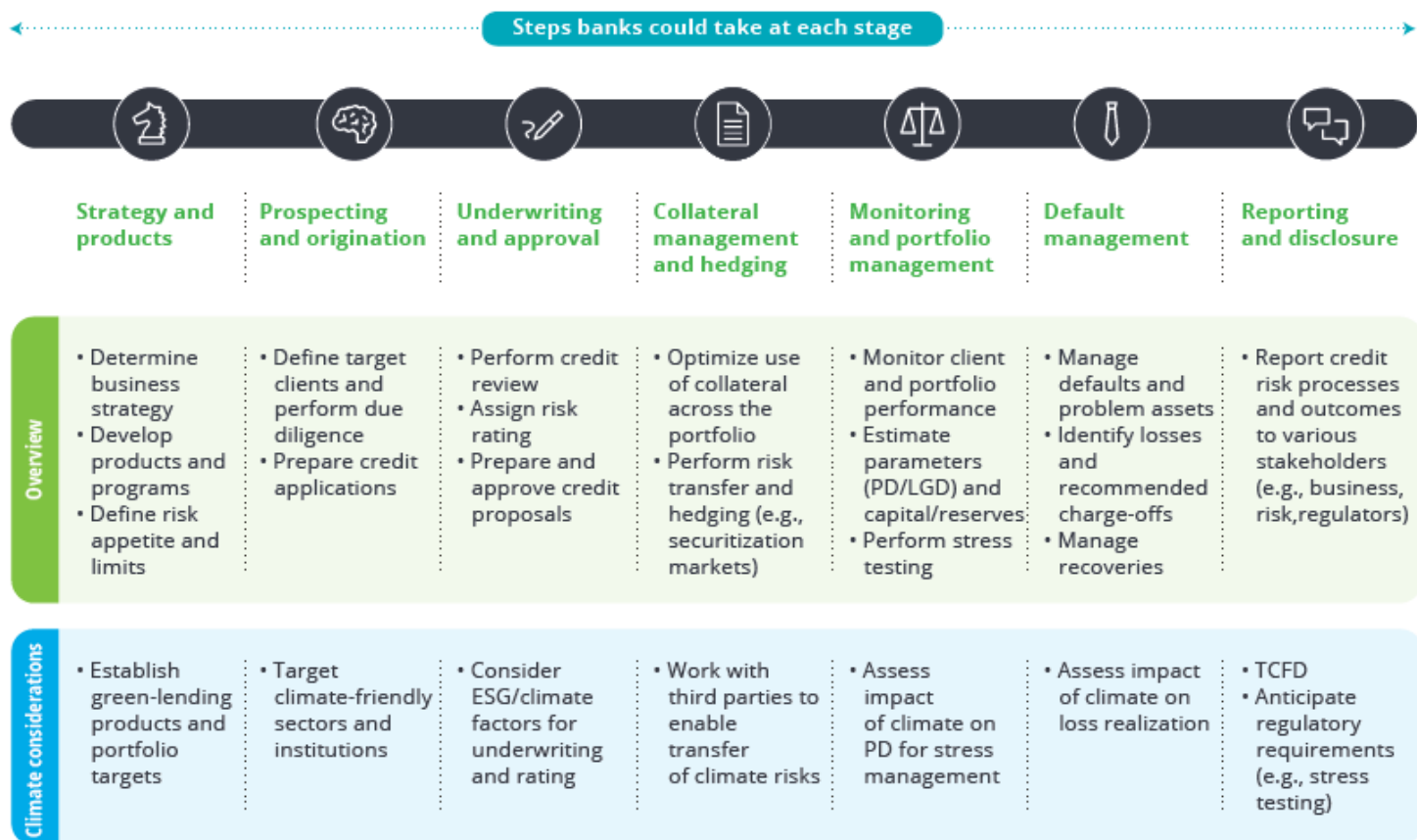


# Credit Risk Management

- Banks are facing increasing pressure to manage financial risks related to climate change
- Addressing climate risk as part of credit risk management is becoming an increasingly important risk factor

# Credit Risk Management (cont.)

## Infusing climate risk considerations throughout the credit risk lifecycle



Source: Deloitte Center for Financial Services, 2022 *Embedding climate risk into banks' credit risk management: Practical considerations*

# Audit Committee preparedness

- 42% - AC members believe their Company's responses too slow and lack strength
- 50% - don't have enough information, capabilities, mandate to fulfill climate related responsibilities
- 65% - top obstacle is lack of a clear and agreed upon plan

# Thoughts on importance

# FDIC 2021 Risk Review Report

1. Energy transition could have **implications for lenders**. Banks are taking climate change and environmental, social, and governmental (ESG) risk mitigation into consideration. Understanding changes in policy, technology, and investor sentiment as they relate to ESG risk have become increasingly important as **lenders adapt policy guidance and risk identification**, especially for those with geographic or financial exposure to traditional energy resources.
2. There is nowhere to hide in the digital age. In the past consumers had little to no idea **how businesses were being operated and resources consumed**. Now, customers, employees, suppliers, business partners, members of the community are **participants in a dialogue** with your company about what they **expect from your business**.

# Lara Abrash, chair and CEO of Deloitte & Touche LLP

*“When I speak with leaders at our clients, I hear a **wide range of ways organizations** are dealing with environmental sustainability and, more broadly, with ESG issues such as diversity, equity and inclusion (DEI).*

*What is more consistent across organizations is the **increase in frequency that C-suites and boards discuss ESG**, especially as the private sector takes a leading role in **matters impacting our society**.*

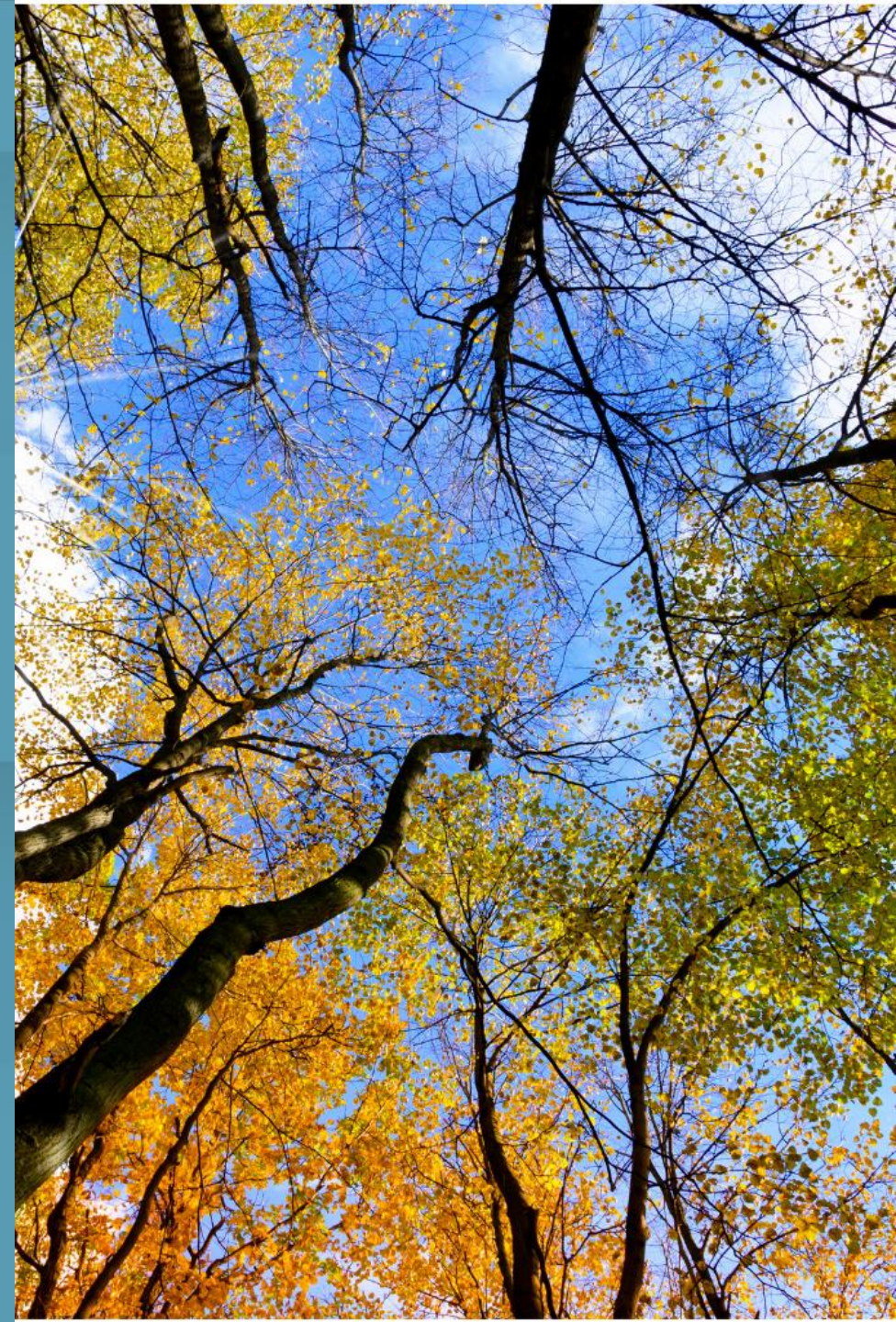
*It has evolved for many in the form of environmental sustainability and other ESG commitments, from **net-zero carbon emissions** to increased **economic support** of minority-owned companies.*

*Leaders increasingly recognize that more **proactively addressing these challenges** can create strategic advantage and drive trust with shareholders, employees, and customers.”*



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# ESG Regulator Proposals, Frameworks & Standards





# Proposed SEC Climate Disclosure Rules

A proposal was made on March 21, 2022, suggesting additional updates to regulations to require domestic and foreign registrants to include more detailed climate disclosures.

SEC is accepting public comments on the proposed rules through May 20th. The target final adoption of the rules is expected for December 2022, with compliance dates that start in fiscal year 2023.

The proposal expects public companies to report on the following climate related details:

- Climate risks and material impacts to the business
- Governance processes for climate risks, including risk management processes
- Greenhouse Gas (GHG) emissions, particularly Scope 1 and Scope 2 emissions types under the GHG Protocol
- Climate related financial metrics and disclosures in audited financial statements, using a framework aligned with the Task Force on Carbon Related Financial Disclosure (TCFD)
- Any other climate-related targets and goals as publically communicated by the company

Source: <https://www.sec.gov/files/33-11042-fact-sheet.pdf>

# FDIC Draft Principles on Climate Risk Management

- Guidance from FDIC is fairly broad, with no specific recommendations referencing existing climate frameworks or standards.
- The FDIC proposal is targeted at the largest financial institutions with over \$100B in total assets, but also note that all FIs may benefit from an enhanced climate risk management plan. The principle categories that include guidance are Governance; Policies, Procedures, and Limits; Strategic Planning; Risk Management; Data, Risk Measurement, and Reporting; and Scenario Analysis
- After the current comment period, FDIC expects to elaborate on the general guidance, including providing more clarity on the roles and responsibilities of boards of directors and management.

Source: <https://www.fdic.gov/news/board-matters/2022/2022-03-29-notational-fr.pdf>

“ Weaknesses in how institutions identify, measure, monitor, and control the physical and transition risks associated with a changing climate could adversely affect a financial institution's safety and soundness, as well as the overall financial system.”

--FDIC, Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

# How ESG May Impact Community Banks

Though current expectations make mandatory regulatory guidance for small to medium FIs unlikely, given the ever evolving ESG landscape, Community Banks are likely to still experience pressure from both internal and external stakeholders on these topics.



# ESG Frameworks & Standards

- **Framework** - a guideline giving a broad set of concepts for how information should be structured and prepared, with what topics should be covered, aka “How to Disclose”
- **Standards** - specific guidance and detailed metrics, aka “What to Disclose”

Topic	Framework(s)	Standard(s)
Financial Reporting	GAAP	FASB Codification
ESG	TCFD, CDSB	SASB, GRI

# ESG Frameworks & Standards (examples)

Framework		Standards
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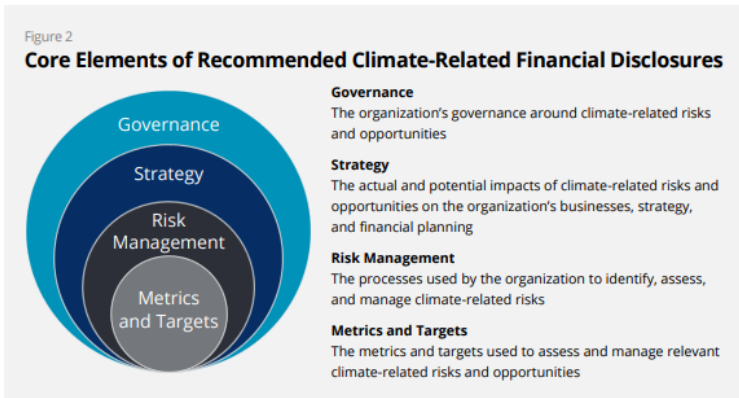
**Taskforce on Climate Related Financial Disclosure**



**Sustainability Accounting Standards Board**



**Global Reporting Initiative**



- ESG Standards and topics targeted to those most relevant for investors and enterprise value creation
- SASB standards are being incorporated into IFRS' International Sustainability Standards Board

- More comprehensive ESG standards covering topics across all stakeholders
- Relate more closely to the broader UN Sustainable Development Goals

# ESG Frameworks & Standards (example)

- Sample SASB standards for the Commercial Banking Industry

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Data Security	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected <sup>2</sup>	Quantitative	Number, Percentage (%)	FN-CB-230a.1
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	FN-CB-230a.2
Financial Inclusion & Capacity Building	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development <sup>3</sup>	Quantitative	Number, Reporting currency	FN-CB-240a.1
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.2
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	Number	FN-CB-240a.3
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers <sup>4</sup>	Quantitative	Number	FN-CB-240a.4
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial and industrial credit exposure, by industry	Quantitative	Reporting currency	FN-CB-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations <sup>5</sup>	Quantitative	Reporting currency	FN-CB-510a.1
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2

# ESG Frameworks & Standards (example)

- Sample SASB standards for the Containers & Packaging manufacturing industry

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage covered under emissions-limiting regulations	Quantitative	Metric tons (t) CO <sub>2</sub> -e, Percentage (%)	RT-CP-110a.1
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	Discussion and Analysis	n/a	RT-CP-110a.2
Air Quality	Air emissions of the following pollutants: (1) NO <sub>x</sub> (excluding N <sub>2</sub> O), (2) SO <sub>x</sub> , (3) volatile organic compounds (VOCs), and (4) particulate matter (PM)	Quantitative	Metric tons (t)	RT-CP-120a.1
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable, (4) total self-generated energy	Quantitative	Gigajoules (GJ), Percentage (%)	RT-CP-130a.1
Water Management	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Quantitative	Thousand cubic meters (m <sup>3</sup> ), Percentage (%)	RT-CP-140a.1
	Description of water management risks and discussion of strategies and practices to mitigate those risks	Quantitative	Number	RT-CP-140a.2
	Number of incidents of non-compliance associated with water quality permits, standards, and regulations	Quantitative	Number	RT-CP-140a.3
Waste Management	Amount of hazardous waste generated, percentage recycled <sup>2</sup>	Quantitative	Metric tons (t), Percentage (%)	RT-CP-150a.1
Product Safety	Number of recalls issued, total units recalled <sup>3</sup>	Quantitative	Number	RT-CP-250a.1
	Discussion of process to identify and manage emerging materials and chemicals of concern	Discussion and Analysis	n/a	RT-CP-250a.2

Source: <https://www.sasb.org/>

# Why Community Banks Should Care

- In a Rockbridge Associates survey, 68% of consumers agreed that they “like to do business with companies that are environmentally responsible.”
- In the same survey, 72% of respondents said they “resent companies that say they care about the environment but don’t mean it.”
- Deploying an effective and meaningful ESG strategy, utilizing the relevant frameworks and standards, can help banks retain customers and attract new ones eager to do business with authentically sustainable practices.



# Questions?

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# Get in touch



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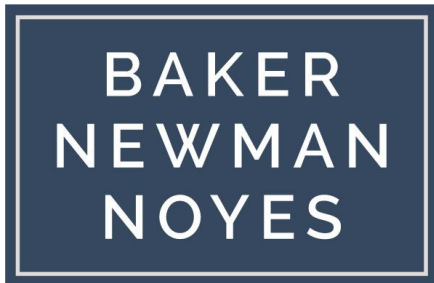
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