Beyond the Bottom Line 2nd Edition: Sustainability Landscape in the Philippines

SGV

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Contents

About this report

This publication contains a review of how publicly-listed companies in the Philippines reported on sustainability following the Philippines SEC's implementation in 2019 of its requirements on sustainability reporting.

SyCip Gorres Velayo & Co. is a general professional partnership organized in the Philippines and is a member firm of Ernst & Young Global Limited ("EYG"), a UK company limited by guarantee.

In this report, we refer to ourselves as "SGV," "we," "us" or "our." EY refers collectively to the global organization of the member firms of EYG.

Foreword

The second edition of Beyond the Bottom Line: Sustainability Landscape in the Philippines is set against the backdrop of the ongoing COVID-19 pandemic, with publicly-listed companies (PLCs) continuing to comply with the Philippine Securities and Exchange Commission's (SEC's) mandate to submit an annual sustainability report, albeit on a "comply or explain" basis. While the first edition of this publication focused on reviewing the PLCs' response to the SEC's mandate, this second edition seeks to explore emerging global and local sustainability developments using sustainability reporting as a platform.

The pandemic had become a global turning point, and its impacts required businesses to assess, pivot and change their business model to suit the new environment. It also served as a powerful catalyst for investors to review their priorities, with more of them saying that they now attach greater importance to companies' environmental, social and governance (ESG) performance when it comes to their investment strategy and decision-making. They are now also more likely to invest based on strong ESG performance than prior to the pandemic.

In responding to the changing environment, the board and management play a vital role in incorporating sustainability in the company's strategies, policies and operations, especially when it comes to determining ESG issues that are material to the business and its stakeholders and managing related aspects and impacts. It is also their responsibility to set the tone at the top and demonstrate how the company will generate long-term value not just for the shareholders but also for the broader set of stakeholders.

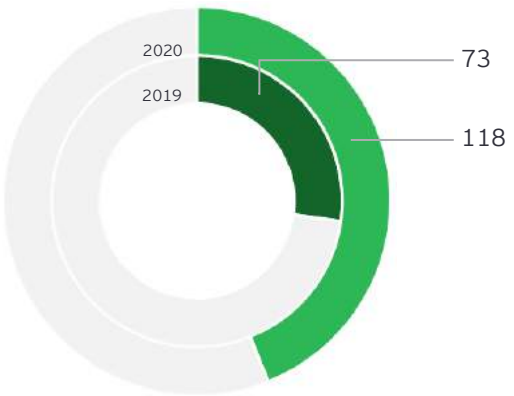
Through sustainability reporting, companies can share their story and present relevant information to engage and build trust with investors, employees, customers, suppliers, regulators and communities and partner with them in their businesses' long-term value creation. Monitoring and communicating ESG performance also promote business resilience as this exercise obliges the company to consider its material ESG issues as risks and ensure these are managed to avoid potential negative impacts on financial performance.

We, in SGV, consider ourselves as a participant and a source of advice and support for our stakeholders efforts to help achieve sustainable development in our country. We do this by embedding sustainability in our operations and service offerings, educating our people about our role in preserving our natural resources and achieving an equitable and fair society, and supporting our clients, suppliers and communities in their own sustainability journey. This publication is a manifestation of our commitment to our Purpose of nurturing leaders and enabling businesses for a better Philippines.

Executive summary

This edition of Beyond the Bottom Line: Sustainability Landscape in the Philippines contains a review of PLCs' 2020 sustainability reports, which were submitted in 2021. Compared to the first edition, this publication extends the discussion to global and local developments around ESG and the changing priorities of regulators, investors and companies. Shifting views and expectations from different stakeholders have now pushed PLCs to exert more efforts to improve their sustainability initiatives and subsequently, the disclosures in their sustainability reports. To complement these efforts, this publication expounds on what ESG risks and opportunities PLCs can expect in the foreseeable future. This report also presents findings from both global and local publications to help PLCs gain a better perspective on developments related to sustainability.

Figure 1: Population of the 2019 SR review vs. 2020 SR review



Of the 268 PLCs, 118 are included from eight sectors that are highly impacted by ESG risks: **Banks, Construction, Infrastructure & Allied Services, Power & Utilities, Food, Beverage & Tobacco, Holding Firms, Mining, Retail and Transportation Services.**

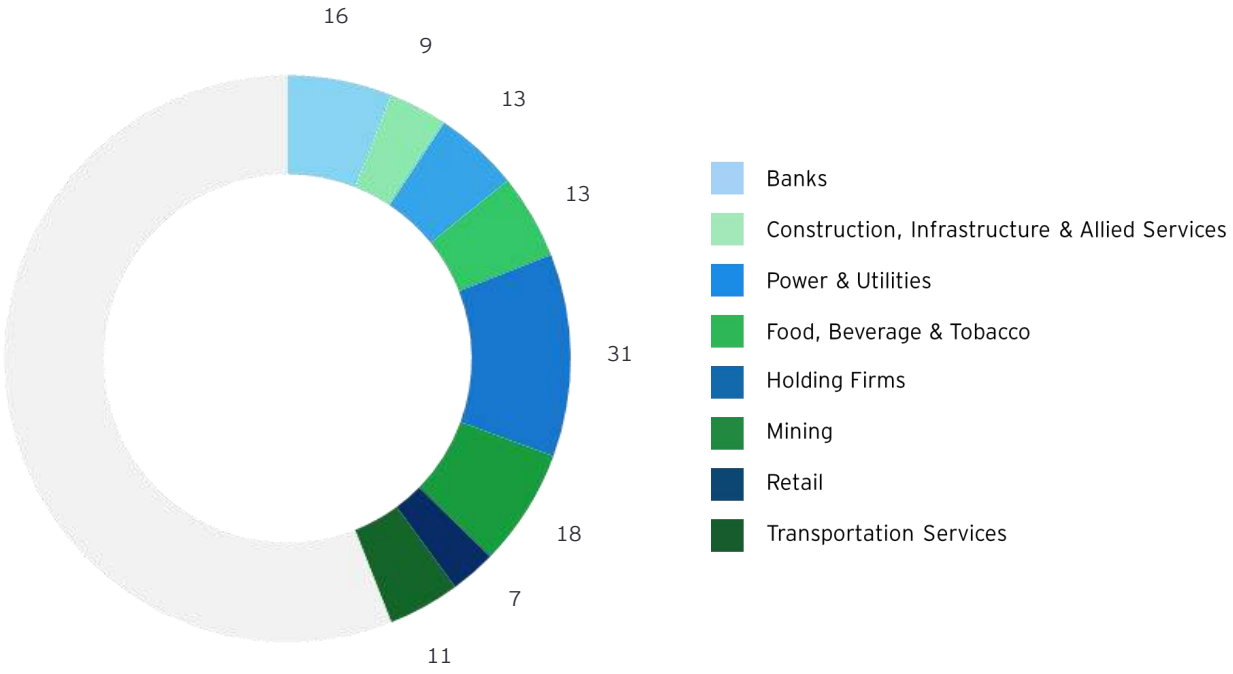
When publishing and submitting their sustainability reports, PLCs may use more than one sustainability reporting format, standard or framework. With this in mind, findings show that PLCs are still leveraging on the sustainability reporting template attached to SEC Memorandum Circular No. 4 Series of 2019, with 66% of the companies using this format. Nonetheless, many are realizing the value of sustainability reports as a communication tool, with more than 50% of the companies we reviewed choosing to publish a stand-alone, magazine-like sustainability report.

Consistent with the results of the 2019 review, most of the companies with reports that did not use the SEC's template followed the Global Reporting Initiative (GRI) Standards. What is surprising in this batch is the increased use of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, showing that **companies are slowly becoming aware of how climate change can impact their businesses and the need to respond to these impacts**. The Construction, Infrastructure & Allied Services and Power & Utilities sectors had the most companies disclosing some TCFD elements, while companies in the Food, Beverage & Tobacco industry barely reported any. Meanwhile, biodiversity -related topics such as watersheds, marine and IUCN/KBA (based on the SEC's template) remain the least-covered sustainability topics. Among the PLCs we reviewed, 10% obtained limited assurance on their non-financial disclosures.

Generally, this review reveals an improvement in the quality and coverage of sustainability reports submitted in 2020. While a regulatory requirement is a good starting point for companies to embed sustainability into their operations, it is not enough that they produce a sustainability report solely for the sake of compliance. Instead, they should also be able to identify the risks their material ESG topics pose for the business and manage these risks. With the changing regulatory environment and growing number of sustainability-related developments, complemented by the demand of investors and consumers, there is a greater call for boards and management to take the reins and lead the integration of ESG factors into their companies' long-term growth strategies.

About this review

Figure 2: Industries of the 118 listed Philippine companies covered in this review



In this edition, we added companies from the Food, Beverage & Tobacco (FBT) industry as they are inherently vulnerable to the risks of climate change due to intensive use of resources such as water and energy needed for manufacturing processes, while the Retail industry is susceptible to supply chain management issues given its reliance on third-party suppliers for its products. Additionally, companies in these industries employ a large workforce, making their business vulnerable to labor management risks that are further elevated by restrictions brought by the COVID-19 pandemic.

Figure 3: Coverage of sustainability topics in 2020 sustainability reports based on SEC's template

	Topics (following the SEC SR template)	Banks	Construction, Infrastructure & Allied Services	Power & Utilities	Food, Beverage & Tobacco	Holding Firms	Mining	Retail	Transportation Services
Economic	Direct economic value								
	Proportion of spending on								
Governance	Climate related risks and opportunities								
	Training on anti-corruption policies and procedures								
	Incidents of corruption								
Environment	Energy								
	Water								
	Materials								
	Watersheds								
	Marine								
	IUCN/ KBA								
	GHG								
	NOx, SOx, PM								
	Solid and Hazardous Waste								
	Effluents								
	Environmental Compliance								
Social	Employee Hiring and Benefits								
	Employee Training and Development								
	Labor Management Relations								
	Diversity, Equal Opportunity & Anti-Discrimination								
	Occupational Health and Safety								
	Labor Standards and Human Rights								
	Supply Chain Management								
	Relationship with Community								
	Customer Satisfaction								
	Health and Safety								
	Marketing and Labelling								
	Customer Privacy								
	Data Security								

Most of the companies in the industry barely reported on the topic

Most of the companies in the industry had some disclosures on the topic, which may include applicable figures and components of the management approach

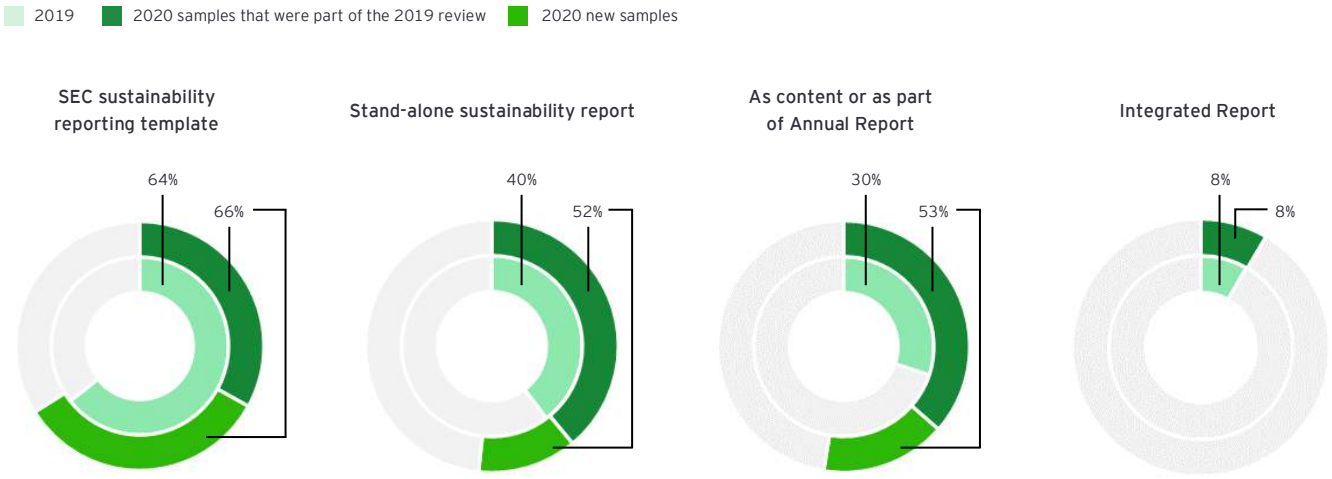
Most of the companies in the industry provided thorough disclosures on the topic, which may include identification of impacts, risks and opportunities and stakeholder mapping in addition to applicable figures and the components of management approach

Listed companies' sustainability reporting showed improved quality and coverage, but more needs to be done

2020 is the second year of implementation of the SEC's requirement on the disclosure of non-financial information for publicly-listed companies. As specified in SEC Memorandum Circular No. 4 Series of 2019, the sustainability reporting guidelines may be adopted on a "comply or explain" approach for the first three years upon its implementation. By this, the SEC requires the attachment of the accomplished sustainability reporting template appended to the memorandum to SEC Form 17-A submissions, but companies can provide explanations for items where data or disclosures are not yet available.

Alternatively, companies that are already publishing sustainability reports that follow globally accepted sustainability reporting standards may append the whole report to their Annual Report submission or add a statement providing a link to their sustainability report—this can serve as the listed companies' compliance with the SEC's requirement. Essentially, although sustainability reporting is a regulatory requirement for listed companies, its overall content development and format are largely left for the companies to determine.

Figure 4: Sustainability reporting formats companies used



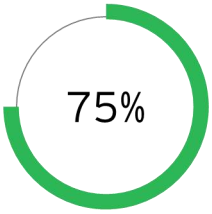
In our review of 2019 sustainability reports, we found that listed companies adopted multiple sustainability reporting formats; our review of 2020 sustainability reports yielded the same results. **More than half of the review population used the SEC sustainability reporting template, yet we observed an increased number of companies who published stand-alone, glossy sustainability reports or included sustainability content in their Annual Reports.** It seems that some companies are starting to realize the value of sustainability reporting as a tool for them to communicate their ESG performance to stakeholders, most especially to investors and rating agencies. In fact, 44 out of the 118 we reviewed published a sustainability report using another format in addition to their regulatory submission using the sustainability reporting template.

The principle of materiality

Investors are concerned that the lack of focus on material issues that really matter compromises the usefulness of ESG disclosures, according to EY's 6th Global Institutional Investor Survey. Per the SEC's sustainability reporting guidelines, companies should observe the principle of materiality to determine which relevant sustainability topics or ESG issues are sufficiently important that it is essential to report on these. Although there may be varied and sometimes conflicting definitions of materiality—notwithstanding the concept of double materiality, for local companies, guidance on how to carry out the materiality assessment process is also provided in the SEC guidelines.

Despite this requirement, we found that only **62% of the companies we reviewed disclosed their materiality assessment process, a slight increase from the 52% in 2019**, showing that some may not be observing the materiality principle in their sustainability reporting. Conducting a periodic materiality assessment process is a generally recognized leading practice, as this exercise will aid the organization in determining which relevant issues may have a direct or indirect impact on its value creation for different stakeholders. The results of the materiality assessment process can also inform enterprise risk management and corporate strategic planning to ensure that issues that may impact the company's long-term performance are identified and managed.

Broad reference to the SDGs



referenced the SDGs in their 2020 sustainability reports

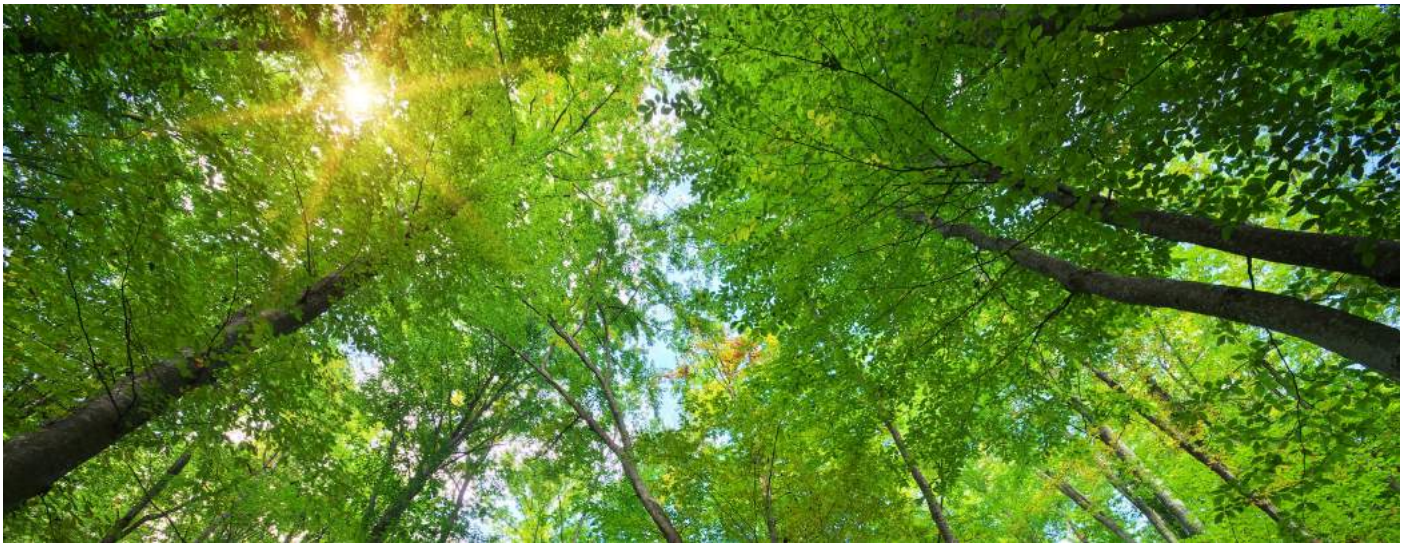
The United Nations Sustainable Development Goals 2030 (UN SDGs) present global objectives that governments, businesses and society-at-large should strive to achieve by the end of this decade. The SEC's sustainability reporting guidelines require companies to disclose how their products and services contribute to the achievement of the SDGs. Many of the listed companies we reviewed met this requirement, and some went further and said they are aligning their corporate strategy to the SDGs. However, we found that linkages to the SDGs were incidental and too broad, and usually lacked specific strategies, goals, targets, metrics or key performance indicators (KPIs) that would illustrate strategic alignment.

The SDGs should ideally inform the business' long-term goals and targets, clearly specifying how the company directly contributes to the SDGs. To improve this disclosure in their next sustainability report submission, companies can specify their commitments relating to the achievement of the global goals, including targets and KPIs to monitor progress. Assessment of business impacts is also critical, as this exercise will help the company determine where its actions are most effective in amplifying positive impacts or mitigating negative ones. Corporate policies and programs can be designed and implemented following SDG-related goals and targets.

Commonly referenced UN SDGs by industry

Across the industries we reviewed, the most commonly referenced UN SDGs were SDG 8, SDG 9, SDG 12 and SDG 13, while the least common were SDG 16 and SDG 17.

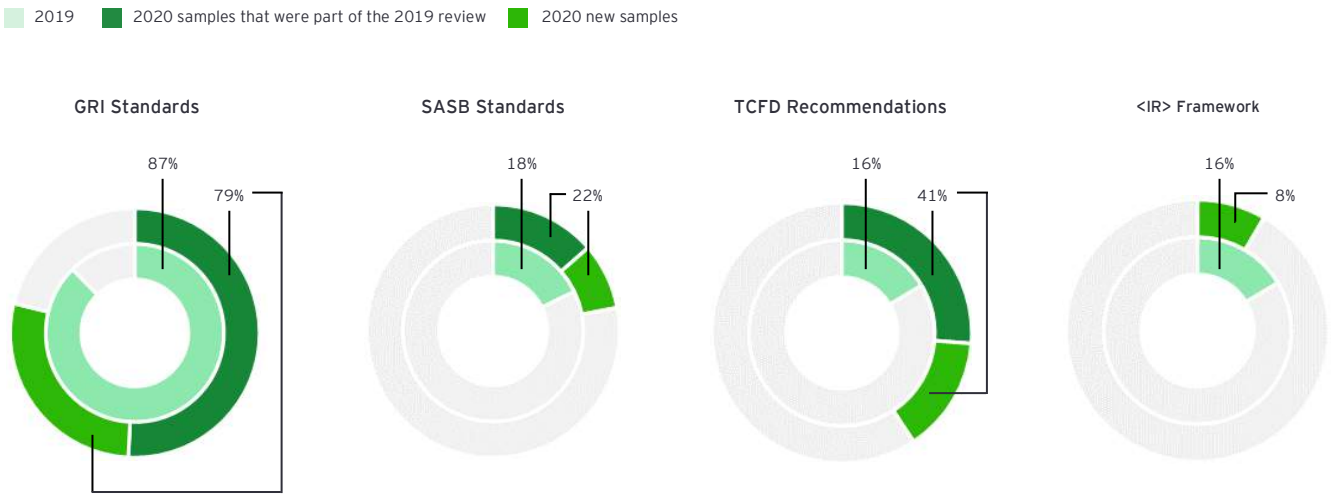
Industry	UN SDGs
Holding Firms	1, 3, 4, 6, 7, 8, 9, 11, 12, 13
Banks	1, 2, 3, 7, 8, 9, 10, 11, 12, 13
Mining	8, 9
Food, Beverage & Tobacco	2, 3, 4, 8, 12
Retail	8, 12
Construction, Infrastructure & Allied Services	8, 9, 11, 12, 13, 14, 15
Power & Utilities	7, 8, 9, 13, 15
Transportation Services	3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14



The alphabet soup of ESG standards

Four sustainability reporting standards and frameworks dominate what we call a global "alphabet soup" of ESG standards: the Global Reporting Initiative (GRI) standards, the Sustainability Accounting Standards Board (SASB) standards, the Task Force for Climate-related Financial Disclosures (TCFD) and the International Integrated Reporting <IR> framework. Of these standards and frameworks, the most widely adopted by Philippine listed companies are the GRI standards, similar to what we observed in the 2019 review. However, we have seen an increase in the adoption of the TCFD recommendations in our review of 2020 sustainability reports. This trend can be attributed to investors' need to understand the risks and opportunities climate change may pose to a business and how these are governed and managed.

Figure 5: Sustainability reporting standards and frameworks companies used

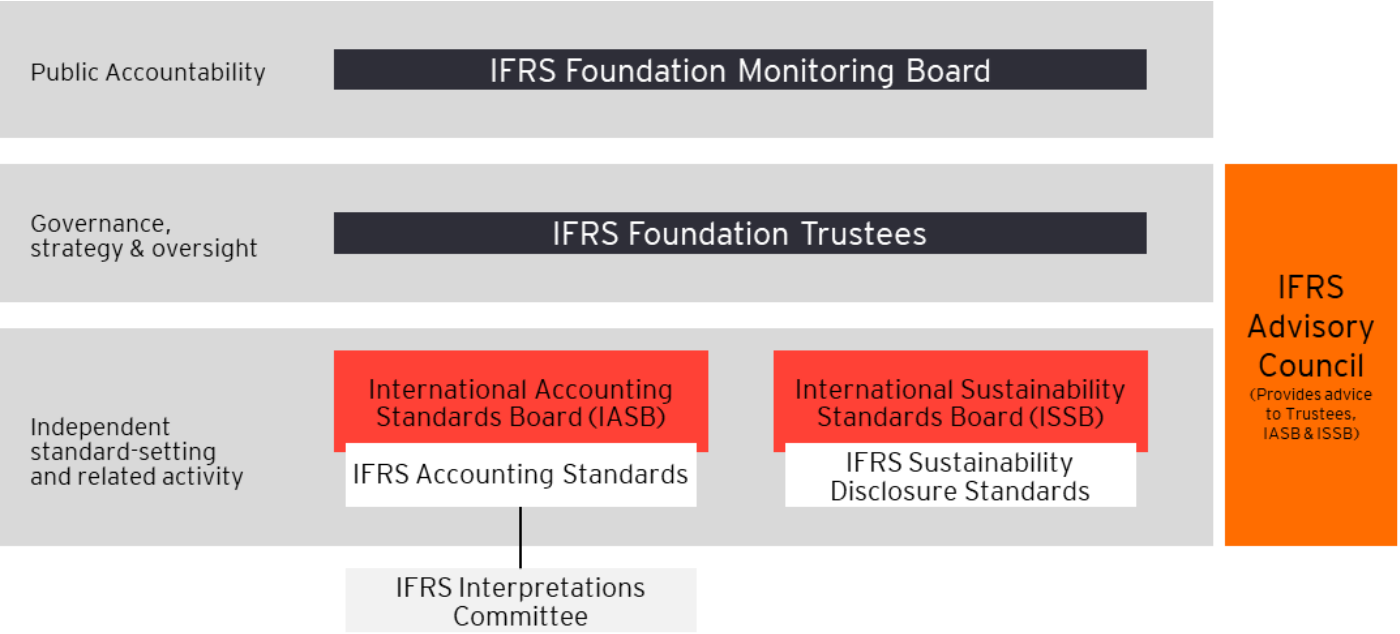


While local companies mainly use these four major ESG standards and frameworks, an EY study estimates that there are over 600 ESG reporting provisions globally. The abundance of reporting standards and frameworks can be attributed to the various needs of stakeholders such as regulators and stock exchanges, investors and ratings providers. As a result, there are often variations in the ESG disclosures of companies, even from those that belong to the same industry. Corporates face an array of options in their ESG reporting and try to address the needs of their various stakeholders, which can lead to strained resource capacities that can impact the quality of ESG disclosures. Investors, on the other hand, navigate inconsistent ESG data with no established framework to compare corporates' performance. According to EY's 6th Global Institutional Investor Survey, both finance leaders and investors agree that mandating reporting of ESG performance against a set of globally consistent standards will be helpful to promote transparency. This echoes the push from corporates and different stakeholders to harmonize the plethora of ESG standards available globally and, similar with financial reporting, establish a uniform set of standards for measuring and reporting ESG performance.

Necessary convergence in ESG reporting

Figure 6: IFRS Foundation's organizational structure

Image taken from the IFRS Foundation's website



Given the International Financial Reporting Standards (IFRS) Foundation's experience in setting global accounting standards, there had been calls for the Foundation to play a role in harmonizing the multiple global sustainability reporting standards and frameworks. At the 2021 United Nations Climate Change Conference (COP26) in Glasgow, Scotland, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB), the main body equivalent to the International Accounting Standards Board (IASB) that will handle the development of sustainability reporting standards that will provide a high-quality, comprehensive baseline of ESG information to meet the needs of investors and capital markets. This set of sustainability reporting standards is called the IFRS Sustainability Disclosure Standards. The ISSB consolidated the Value Reporting Foundation (VRF), which housed the organizations that developed the International <IR> Framework and the SASB Standards, and the Climate Disclosure Standards Board (CDSB), who supported the development of the TCFD recommendations.

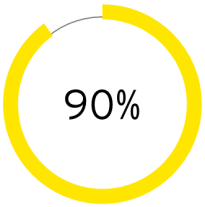
In late March 2022, the ISSB released the exposure drafts of two IFRS Sustainability Disclosure Standards: the *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures*. The comment period for these exposure drafts will end by 29 July 2022. The ISSB will review feedback on the proposals afterwards and aims to issue the new standards by the end of 2022.

With this development, we anticipate that there will be changes in the global and local reporting landscape soon. The SEC is watching the developments of the ISSB-developed sustainability reporting standards closely, and has mentioned in several webinars that it will be making the sustainability reporting requirement for listed companies mandatory after the "comply or explain" period, which ended in 2021.

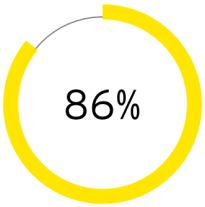
Applying the rigor of financial reporting to ESG reporting

Figure 7: Importance of ESG according to institutional investor

Data from EY 2021 Institutional Investor Survey



of investors surveyed said that, since the COVID-19 pandemic, they attach greater importance to corporates' ESG performance when it comes to their investment strategy and decision-making



of investors surveyed said that a corporate having a strong ESG program and performance would have a significant and direct impact on analyst recommendations today

Based on the EY survey, more investors are also looking for assurance of ESG performance reporting. They are inquiring more about the depth and reliability of ESG disclosures and the company's risk exposure and resilience. Concerns about "greenwashing" are also growing among stakeholders, making trust in sustainability reporting more critical. However, without a strict regulatory requirement for assurance on sustainability reporting, it seems that listed Philippine companies are more lax in this area, with only 10% of the companies we reviewed obtaining limited assurance on their non-financial disclosures. **The hesitation of local companies to have their ESG data assured can be attributed to insufficient preparedness, inefficient ESG data management and absence of audit trail, robust processes and controls**, all of which may already exist for financial reporting.

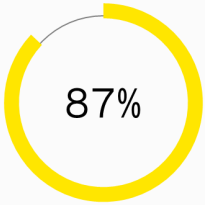
The finance function can play a key role in taking an organization's ESG reporting to the next level. It can instill discipline into non-financial reporting processes and controls, drawing on experience and knowledge of financial reporting. The finance function's insight on ESG metrics that the company can report on is also significant, as its experience with assurance will help the business assess the auditability of ESG metrics. With the finance team's involvement, the organization can also understand better the requirements of stakeholders – especially of investors – and build the trust and transparency needed in ESG reporting.

Compared to the 2020 results of EY's investor survey, more institutional investors are conducting a structured, methodical evaluation of non-financial disclosures in 2021, showing that companies' ESG disclosures are under enhanced scrutiny. In fact, since the COVID-19 pandemic, investors now attach more importance to companies' ESG performance and say it is at the heart of their investment decision-making. They are concerned with the reliability, accuracy and quality of ESG disclosures, and they are seeking more alignment of ESG disclosures with financial reporting.

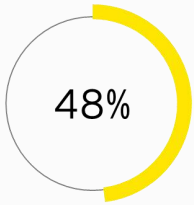
Technology and data innovation can be key to addressing this investor sentiment. Corporates should take a hard look at their ESG data management practices across the business and assess data availability, aggregation, reporting and review. Collecting data only at the end of the fiscal year in preparation for the sustainability reporting regulatory requirement—usually using manually prepared Excel sheets—can lead to inaccurate and weak ESG disclosures, which in turn can erode investor confidence. Having an efficient, technology-enabled ESG reporting system and a consistent enterprise-wide taxonomy of ESG data similar to financial reporting can improve monitoring and reporting of performance, help generate insights from data, and address investor concerns.

Figure 8: Views of institutional investor on independent assurance

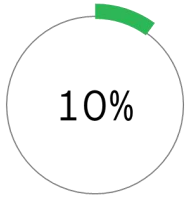
Data from EY 2021 Institutional Investor Survey



of investors said that mandating independent assurance around reporting of ESG performance measures would improve their ability to assess corporates' ESG performance

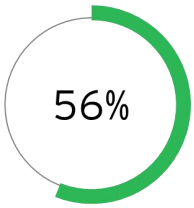


of investors said they include in their assessment if the corporates' ESG performance reporting receives independent, third-party assurance to an international standard



of the listed companies we reviewed obtained limited assurance on their non-financial disclosures

ESG integration and long-term value creation



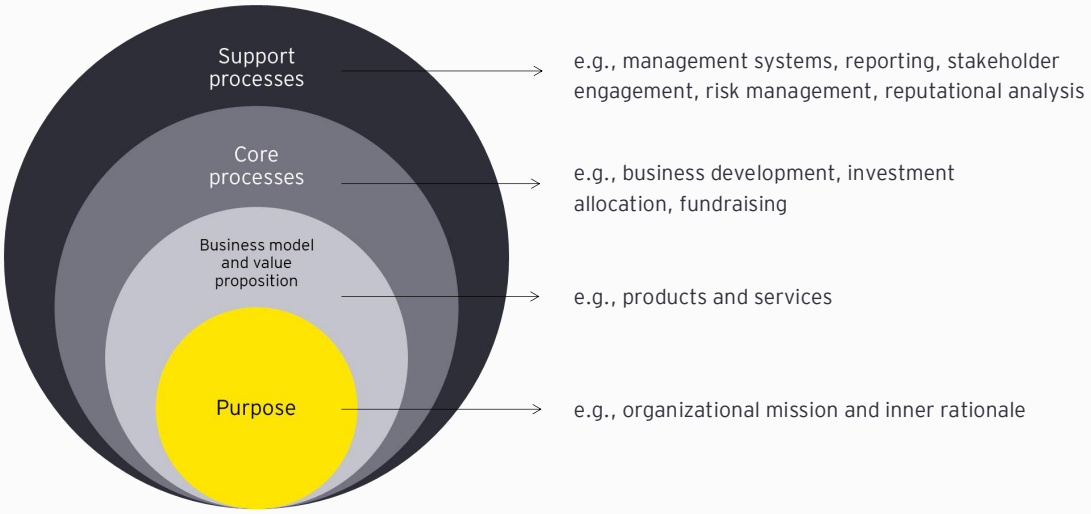
of the listed companies we reviewed either have not disclosed their sustainability vision and strategies or provided only high-level statements of intent relating to sustainability

Integration of ESG into the broader corporate strategy can improve an organization's performance and enhance its competitiveness. However, based on our review, it seems **that local companies are treating sustainability and sustainability reporting as a mere "box-ticking" exercise and are not fully realizing the value that ESG integration may bring to the business.** Many are focused only on disclosing data and addressing the requirements of sustainability reporting standards and have not fully considered the potential benefits they may reap from embedding sustainability within the organization and integrating ESG into the company's culture, strategies and operations.

ESG strategies can strengthen long-term business resilience and become a driver of success. In an assessment of the data of 3,000 firms at the onset of the global pandemic and several lockdowns around the world, Serafeim et al. "found that the ones the public perceived as behaving more responsibly had less-negative stock returns than their competitors." Businesses may also realize several benefits once they integrate ESG into their corporate strategy:

- Long-term value by considering material ESG opportunities and risks
- Improved brand reputation among consumers, employees and investors
- Improved market differentiation through strategic position in sustainability
- Improved relationships with stakeholders

Figure 9: Possible levels of sustainability integration



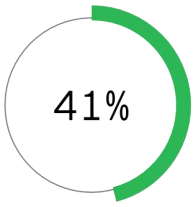
ESG integration also entails a shift in corporate mindset wherein value is generated not only for shareholders but also for a broader group of stakeholders that include employees, consumers, suppliers, communities and regulators. According to EY's Long-Term Value and Corporate Governance Survey 2022, organizations focused on creating long-term value adopt a multi-stakeholder approach and would usually put the following approaches in place:

- Have a corporate purpose with a focus on sustainable growth
- Continuously reassess strategy to improve long-term value generation
- Measure and communicate the long-term value the company generates
- Consider all stakeholders in decision-making
- Communicate to all stakeholders with authenticity
- Implement remuneration schemes tied to long-term value creation
- Approach decision-making with an effective balance between near-term and long-term value creation

As companies start their journey towards integrating ESG into the business and creating long-term value for stakeholders, they must consider what matters most to their stakeholders, where they can make the most impact as aligned with their company's purpose and how they would drive the right behavior within the organization. Those who fail to do so will lag behind peers and may struggle to deal with regulatory, customer and investor pressure.

Climate-related disclosures are picking up, but companies are still struggling

Climate-related disclosures are becoming mainstream public policy and corporate governance tools for governments, businesses and investors to measure and adapt to the physical and transitional risks of climate change. France, New Zealand, the United Kingdom and Japan have been among the leaders in the adoption of climate disclosure legislation. Moreover, the 2021 TCFD Status Report revealed that the top five countries by number of supporters of TCFD are Japan, the United Kingdom, the United States, Australia and France. In the ASEAN region, the Singapore Exchange (SGX) mandated all its issuers to provide climate reporting on a "comply or explain" basis in their sustainability reports for FY22. FY23 onwards, climate reporting will be mandatory for specific industries.



of the listed companies we reviewed adopted or referenced the TCFD recommendations in their sustainability reports

In the Philippines, climate reporting using the TCFD recommendations is included in the SEC's sustainability reporting guidelines, although disclosures based on this framework are not yet mandatory. Nonetheless, we found that **among the four sustainability reporting standards and frameworks mentioned in the SEC's memo, the adoption of the TCFD recommendations increased the most** for the companies we reviewed. In fact, 48 explicitly mentioned that they are adopting or referencing the TCFD recommendations, while there were 30 additional companies who have some form of discussion on climate change without mentioning TCFD in their reports.

Figure 10: Coverage of the TCFD recommendations in PLCs' 2020 sustainability reports

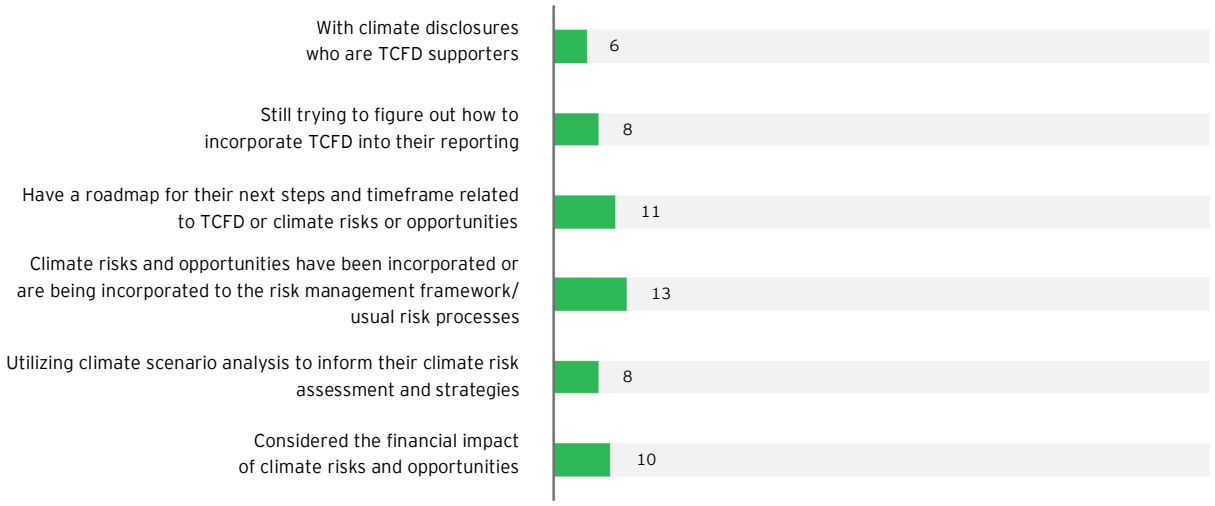
TCFD Recommendations		Banks	Construction, Infrastructure & Allied Services	Power & Utilities	Food, Beverage & Tobacco	Holding Firms	Mining	Retail	Transportation Services
Governance	Describe the board's oversight of climate-related risks and opportunities.								
	Describe management's role in assessing and managing climate-related risks and opportunities.								
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.								
	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.								
	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.								
Risk Management	Describe the organization's processes for identifying and assessing climate-related risks.								
	Describe the organization's processes for managing climate-related risks.								
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.								
Metrics and Targets	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.								
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.								
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.								

Most of the companies in the industry barely reported on the TCFD element

Most of the companies in the industry have some disclosures on the TCFD element

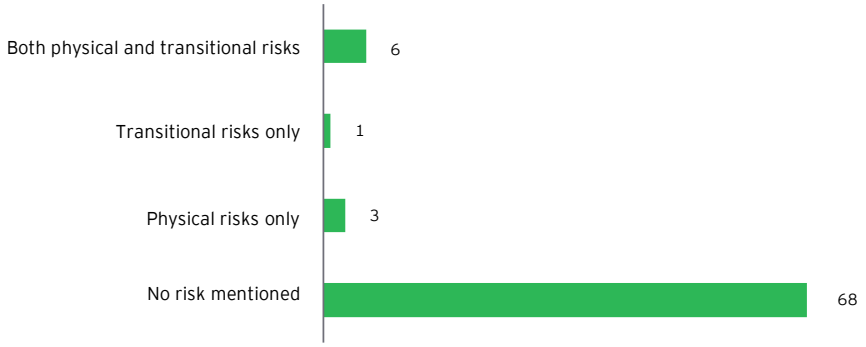
Considering the exposure of businesses in the construction and power and utilities industries to the adverse impacts of climate change, it is no wonder they are leading the coverage of TCFD disclosures among the listed companies we reviewed. In its report, the Intergovernmental Panel on Climate Change (IPCC) pointed out that climate change will likely increase the demand for energy, while water supply systems will be impacted by changes in precipitation patterns and quantities, thereby requiring water utility companies to ensure the resiliency of their supply. Meanwhile, the construction industry is exposed to risks that may lead to more costs — extreme weather patterns, changing design standards and demands for rebuilding and repair. Based on our review, holding firms and companies from the banking, mining, retail and transportation industries have some climate-related disclosures, while the food, beverage and tobacco industry is yet to catch up in terms of climate disclosure coverage.

Figure 11: Very few companies have begun their journey towards TCFD compliance



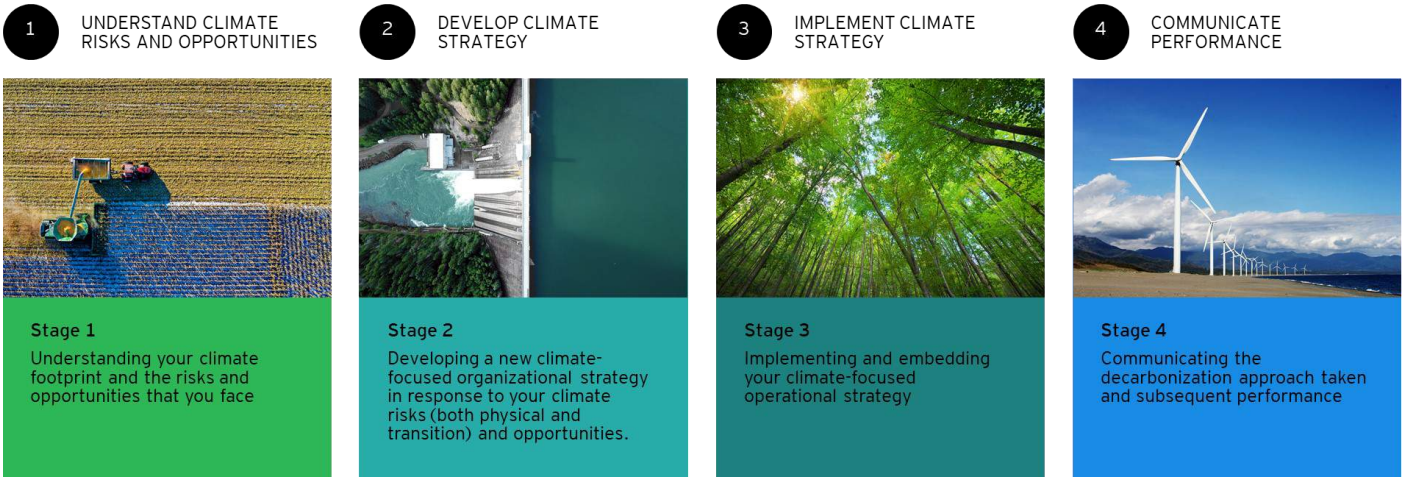
While climate disclosures are not yet a regulatory requirement in many markets, it looks like the push from investors is forcing businesses to pay attention. EY's 2021 investor survey "found that 77% of investors surveyed said that, over the next two years, they will devote considerable time and attention to evaluating physical risk implications when they make asset allocation and selection decisions – an increase from 73% of investors surveyed in 2020." Many investors also put greater importance on companies' ESG performance as a result of the COVID-19 pandemic, giving companies more reason to disclose their climate-related initiatives. Spurred by this demand from investors, Philippine companies are publicly committing to supporting the TCFD, while some are starting to identify their governance, risk management and strategies around climate change and figuring out how to adopt the TCFD recommendations. Others have disclosed that they have a roadmap or a timeframe relating to TCFD adoption or disclosure of climate risks and opportunities. However, as we have seen in the review of 2020 sustainability reports, current corporate disclosures leave much to be desired in terms of physical and transitional risks exposure and the metrics and targets they are setting to assess and manage climate-related risks and opportunities in the short, medium and long-term.

Figure 12: Climate risks disclosed in 2020 sustainability reports



More concerning is the lack of disclosures relating to climate scenario analysis, which can help companies explore alternatives that may significantly alter the basis for "business-as-usual" assumptions and promote critical strategic thinking. In our review, only eight companies mentioned using scenario analysis, a tool that allows organizations to explore some of the impacts of different climate futures on the company and its value chain, the scale of change and the timing of change, depending on the model. It can help management and investors understand the physical, economic and regulatory connection between future climate impacts and business and supply chain activities, as well as provide stakeholders with decision-useful, forward-looking information on the financial impacts of climate-related risks and opportunities. Scenario analysis allows businesses to stress test their current strategy against potential future outcomes and helps with capital allocation by testing portfolios of assets and investment opportunities. Should reporting using TCFD recommendations become a regulatory requirement in the country, companies will need to incorporate scenario analysis in their strategic planning and risk assessment exercise.

Figure 13: Proposed workflow to support climate reporting and decarbonization from EY Global Climate Risk Disclosure Barometer



For companies that are starting to develop their climate disclosures, they may begin by getting internal buy-in from leadership and other stakeholders within the company and embarking on an assessment of the business' climate risks and opportunities. A key for effective and efficient reporting is to know first the material exposures within the business' entire value chain by analyzing its carbon footprint and performing scenario analysis. After this, companies can then create an appropriate climate strategy to address the risks and respond to opportunities identified. Strategies vary from one business to another, which may include but are not limited to decarbonization, supply chain transformation, optimization of operations, portfolio risk reduction and technological integration. With the set targets and benchmarked data, companies can finally communicate their approaches, initiatives and performance for their stakeholders to see and appreciate.

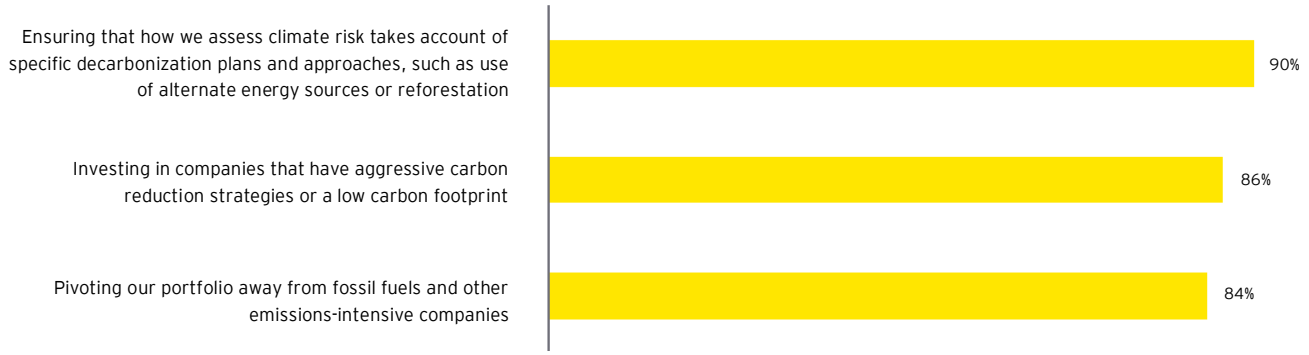
The call for bold carbon commitments

The growing concern on climate change advances the concept of decarbonization, as we recognize that the uncontrolled amounts of global greenhouse gas (GHG) emissions significantly contribute to global warming. The Intergovernmental Panel on Climate Change (IPCC), in its 6th Assessment Report, has emphasized the need for deep reductions in GHG emissions for us to meet the 1.5°C to 2°C target set by the Paris Agreement. As a signatory, the Philippines has committed its Nationally Determined Contributions (NDC) to a projected 75% GHG emissions reduction and avoidance against a business-as-usual scenario by 2030. This ambition is supported by the country's Sustainable Finance Roadmap, a national approach towards the shift to a low-carbon and climate-resilient economy through financing, with the goal of promoting sustainable investment by addressing policy and regulatory gaps and to help accelerate our transition from coal to clean energy.

The country also has a wide range of climate-related policies. The Climate Change Act of 2009 (Republic Act No. 9729) guided the establishment of a framework and created the country's Climate Change Commission (CCC). In 2010, the national Framework Strategy on Climate Change was officially established, which focuses on synergies of adaptation and mitigation strategies. The National Climate Change Action Plan for 2011 to 2028 highlights the shift to a more sustainable energy mix with the objective of reducing climate vulnerability. Additionally, Executive Order No. 174, Series of 2014 institutionalized a more standardized and updated GHG inventory system for the country and mandated the CCC to lead its overall implementation. As the government exerts more efforts to reach our NDC commitment, regulatory changes and additional laws are expected. Studies on establishing carbon pricing instruments (CPIs) have already been initiated, and currently, the House of Representatives and the Senate are developing a bill that will promote and institutionalize CPIs in the country. With the ongoing and planned interventions, there is no doubt that there will be a transformation that will impact all businesses regardless of industry.

Figure 14: Institutional investors who say the following tactics play an important role today in their decision-making

Data from EY 2021 Institutional Investor Survey



Considering that businesses contribute substantially to global GHG emissions, there is now a widespread appeal for companies to actively incorporate climate-related issues in their decision-making and operations. As a response, many companies' main driving action is to reduce carbon emissions or decarbonize their operations, with the regulators, investors, customers and communities leading on this front. In fact, EY's 6th Global Institutional Investor Survey revealed that **decarbonization has now become central to investors' investment decision-making, paying much attention to climate-related risks and opportunities.** They are more likely to invest in companies that have adopted carbon reduction strategies and avoid or divest from companies whose business models are emissions-intensive.

Evidently, investors have already begun weighing ESG factors in their portfolios, as 86% of investors surveyed in 2021 considered financing projects that have significant and aggressive carbon reduction strategies. At the same time, the government has accelerated its pace in responding to climate change by improving and developing policies and strategies to mobilize climate finance. In fact, the 2020 Joint Report on Multilateral Development Banks (MDBs)' Climate Finance revealed that the country's climate financing by MDBs went up to USD 878 million in 2020. Although this is comparatively lower compared to 2019 with USD 1,693 million, this was expected because of the financing needs for COVID-19 response, but this is still higher than the annual average of USD 492 million from 2015 to 2018.

Main types of carbon reduction targets

Absolute emissions targets
Aggregate targets specify an overall reduction in emissions from baseline operations

Science-based targets
Emissions reduction targets grounded in climate science follow specific ambition and reporting requirements through the Science Based Targets initiative (SBTi)

Net-zero/carbon neutral targets
Targets aim to achieve net zero (emitting no more carbon than you remove) by 2050 or earlier. The SBTi has developed a global standard for science-based net-zero targets

Carbon-negative/climate positive targets
Targets aim to remove or offset more carbon than an organization generates or have a net positive impact on the climate

Renewable energy targets
Easily understood by stakeholders and can be achieved on a much shorter timeframe (2025/2030) but only cover Scope 2 emissions

Emissions intensity (relative) targets
Specify a reduction of the carbon-intensity
of output and can be useful to highlight the improved efficiencies to be gained or progress in a journey

With this progression, climate financing is likely to increase further. Since the Philippines has committed a 75% carbon reduction by 2030, companies that are emissions-intensive would have to be more proactive in acquiring green investments for their green projects to capitalize on the transition, mitigate risks and maximize opportunities.

While decarbonization efforts are gaining ground among Philippine companies, more is yet to be undertaken as some still hesitate to make bold carbon commitments and usually employ low-impact carbon reduction strategies such as office-based energy and water efficiency initiatives. **Decarbonization requires business model changes, portfolio rebalancing and investments in new technologies and capabilities.**

> “To do their part and contribute to the global climate action, local companies will need to expand their carbon ambition and assess their business operations and value chains.

Initiating decarbonization efforts expect companies to first understand their own carbon footprint and put in place a data management system that will allow them to produce accurate and timely reports. Companies may begin with energy use and GHG emissions disclosures. In our review of 2020 sustainability reports, we found that **listed companies across all industries we covered have some disclosures on energy and emissions and probably considered these as material sustainability issues.**

Assessing the business' energy consumption and carbon emissions will provide a baseline for reduction targets. Afterwards, companies will have to assess reduction levers, determining which parts of their value chain contribute the most to their carbon footprint and where reduction opportunities are available. Active collaboration with value chains is necessary to effectively reduce carbon footprint, while investing in technologies will help maximize carbon reduction opportunities. Finally, as we transition to a low-carbon economy, businesses can also explore products and services that contribute to positive climate outcomes.

A just transition

A just transition describes a transition process towards a more sustainable economy without compromising anyone's welfare. Burdens and benefits obtained from initiatives addressing climate change shall be equally shared, while social inclusion and shared responsibility should be promoted.

Climate change mitigation and adaptation efforts are undoubtedly needed in the Philippines especially since the country is highly impacted by climate change. However, such efforts also entail potential injustice as some communities may be negatively affected or be abandoned by the transition to a low-carbon economy. It is therefore necessary to adopt measures that would prevent this from happening, and instead promote equal and quality growth for all.

In 2015, the International Labour Organization (ILO) adopted the "Guidelines for a just transition towards environmentally sustainable economies and societies for all." The country is one of the pilot countries that applied the guidelines in 2016 to 2017 in support of the passing of the Philippines Green Jobs Act of 2016 (Republic Act No. 10771). The Department of Labor and Employment (DOLE) stated that climate change and other sustainability issues are interconnected with social concerns such as access to social services, social protection and work-related rights. For this reason, a just transition addresses climate-related challenges while maximizing opportunities to create work and guarantee social justice and protection for all. This era is the chance for radical change; as quoted, "Modern-day challenges require modern-day solutions and approaches."

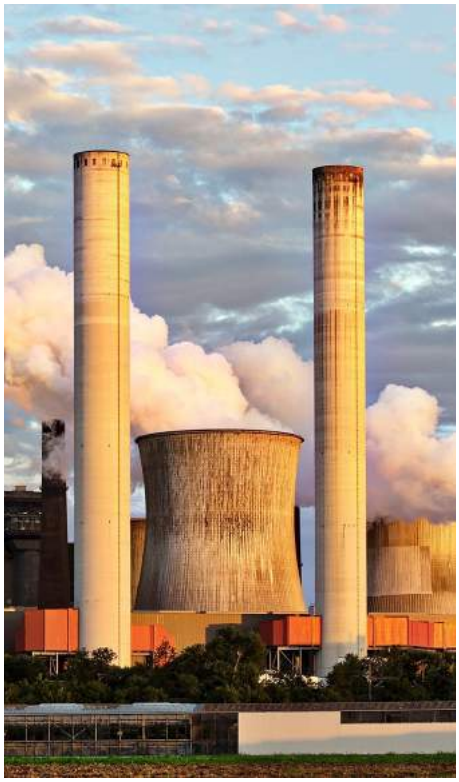
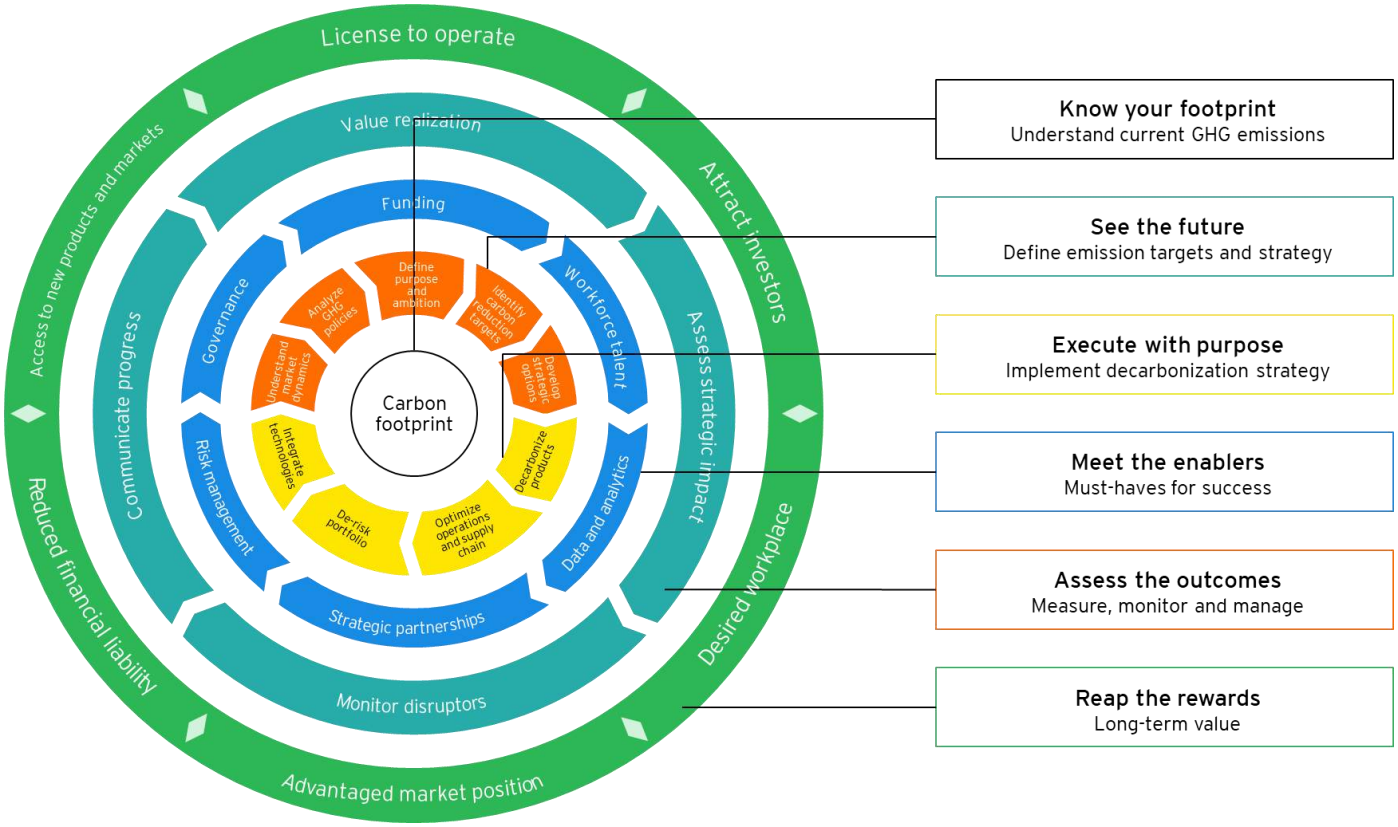


Figure 15: EY's Decarbonization Architecture is designed to assess senior executives' views on the core components required for a successful pathway to low/zero carbon to capture long-term value



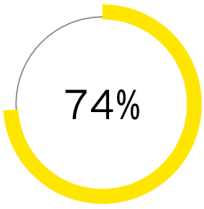
ESG at the forefront of the country's sustainable development

Regulatory push is necessary to advance the country's sustainable development, and these regulations will undoubtably impact the way companies conduct their business and respond to stakeholder expectations. While it may not be easy for some to immediately address new regulatory developments, it is important that they are aware of their potential impact, as these regulations may require a change in the company's operations and business model. Otherwise, they risk not only non-compliance but also the possibility of losing investor confidence and their social license to operate.

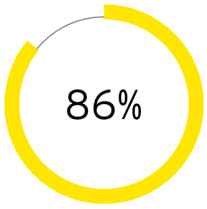
Financing a sustainable future

Figure 16: According to an investor, ESG risk is at the heart of investment decision-making and portfolio construction

Data from EY 2021 Institutional Investor Survey



of investors surveyed said they are more likely now to divest based on poor ESG performance than prior to the COVID-19 pandemic.



of investors surveyed said they are more likely now to hold an investment based on its strong ESG performance than prior to the COVID-19 pandemic.

There is an increasing recognition of the finance sector's role in mobilizing the financing needed to respond to global social and environmental challenges and support governments' and the private sector's efforts towards a more sustainable economy. In recent years, global ESG investments are expanding, many of which focus on mitigating the impacts of climate change. As we gradually transition to a post-pandemic world, investors have also recognized the need to integrate ESG into decision-making. The UN Global Compact shared that the impacts of the COVID-19 pandemic have revealed how material ESG issues are for businesses, thus the need for sustainable finance to fund immediate and long-term recovery efforts.

Global initiatives such as the Principles for Responsible Investment (PRI), the Principles for Sustainable Insurance, the Equator Principles and the Principles for Responsible Banking provide guidelines on the development of sustainable finance products (e.g., green and social bonds, green loans and sustainability-linked bonds or loans), with the goal of funding social and environmental projects or activities. In the ASEAN region, the ASEAN Green Bonds Standards were established to assist capital markets in obtaining green financing for sustainable regional growth and address investors' interest.

Locally, sustainable finance is also becoming prominent with the Bangko Sentral ng Pilipinas (BSP) launching the Sustainable Central Banking Program in 2019, followed by the issuance of BSP Circular No. 1085, Series of 2020, calling for the integration of a Sustainable Finance Framework in the Manual of Regulations for Banks (MROB).

The BSP also issued BSP Circular No. 1128, Series of 2021, the Environmental and Social Risk Management Framework (ESMF), which provides guidelines for managing credit and operational risks, and outlines specific expectations for conducting vulnerability assessment and setting strategic plans for banks. The country's central bank plans to issue more guidelines, specifically on the environmental and social risk management related to investments of banks, climate stress testing and prudential reporting.

In 2021, the Inter-Agency Technical Working group for Sustainable Finance (also known as the Green Force), spearheaded by the Department of Finance (DOF) and the BSP, in partnership with the British Embassy Manila (BEM), launched the Philippine Sustainable Finance Roadmap and the Sustainable Finance Guiding Principles, a national framework on financing green projects to contribute to climate-related efforts.

Figure 17: Guiding principles on the assessment of economic activities from the Philippine Sustainable Finance Guiding Principles

Guiding principles	Examples of economic activities
Guiding Principle 1: Climate Change Mitigation and Adaptation	▸ Optimize energy consumption ▸ Encourage the use of renewable energy/clean energy ▸ Promote green buildings ▸ Foster low carbon mobility ▸ Adapt economic activities to mitigate physical effects of climate change ▸ Increase resilience ▸ Conduct reforestation and afforestation
Guiding Principle 2: Promoting Transition to a Low Carbon Economy	▸ Finance activities that lead to achievement of the Paris Agreement goals and the Philippines' NDC ▸ Finance an entity that is proactively pursuing the transition, with concrete action plans or medium to long-term goals/targets, aligned with the Paris Agreement and Philippines' NDC ▸ Finance an entity with a medium-term target for reducing GHG emissions towards the reduction target of the Philippines based on the Paris Agreement and that has been achieving its target or has been trying to achieve it in the future ▸ Finance a project in a GHG emitting industry or sector that achieves or implements the level of best performance of low GHG emissions in line with a reputable global or regional standard for the sector or industry ▸ Finance a project relating to or contributing to products with the level of best performance of low GHG emissions in line with a reputable global or regional standard for such a sector or industry ▸ Finance an activity, entity or project that would contribute to GHG reduction throughout the lifecycle of a product
Guiding Principle 3: Resilient Food Systems	▸ Ensure food availability and accessibility, health and nutrition ▸ Create environmentally responsible food systems ▸ Provide access and transfer of knowledge, skills and technology ▸ Adapt economic activities to the resilience of the food system
Guiding Principle 4: Sustainable Cities	▸ Create smart and intelligent cities ▸ Promote clean cities ▸ Promote healthy urban densification ▸ Foster resilient cities ▸ Peaceful and inclusive cities ▸ Adapt economic activities to make cities and communities sustainable
Guiding Principle 5: Sustainable and Resilient Infrastructure for Inclusive Growth and Poverty Reduction	▸ Decrease production costs ▸ Increase production capacity ▸ Improve access to key facilities ▸ Connect economic activities and markets ▸ Provide resilient infrastructure
Guiding Principle 6: Environmental Management and Conservation	▸ Promote air, water, and land pollution control measures, including integrated waste management aimed at improving environmental quality ▸ Promote protection, restoration and sustainable use of terrestrial and aquatic ecosystems (i.e., freshwater, coastal, and marine environment) ▸ Use endemic species in reforestation and afforestation activities ▸ Promote a circular economy by undertaking life cycle assessments, promoting use of eco-labelled products and sustainable packaging, implementing extended producer responsibility, and recovering wastes for other useful purposes ▸ Support the Philippine Economic-Environmental and Natural Resources Accounting and payment for ecosystem services
Guiding Principle 7: Prohibited Activities	*List of prohibited activities:* ▸ The open burning of solid waste ▸ Open dumping, burying of biodegradable or non-biodegradable materials in flood prone areas ▸ Importing of toxic wastes misrepresented as "recyclable" or "with recyclable content" ▸ Discharging or depositing of water pollutant to the water body, or such which will impede natural flow in the water body ▸ Constructing or operating landfills or any waste disposal facility on any aquifer, groundwater reservoir, or watershed area and or any portions thereof ▸ Single-use plastic ▸ Use of exotic and/or bio-invasive plant species in any reforestation and afforestation activity

The BSP recognized how sustainability and green investments can be used as tools to recover from the impacts of the pandemic and maintain financial stability. The central bank reported that despite the pandemic, the country experienced economic growth of 5.6% in 2021, and a greater trajectory is expected in 2022. **As investments move to financing projects that address social and environmental challenges, we anticipate that investors will become more critical of companies' ESG performance.** There will also be more scrutiny around the potential returns of ESG investments.

We expect that sustainable finance will play a more central role in supporting our country's sustainable development as we reach the end-year of international commitments such as the UN SDGs and the Paris Agreement. As enablers of sustainable development, financial services institutions should update their investment policies and frameworks to include ESG considerations and implement ESG assessment criteria across their portfolios. They should determine and fill in the gaps of the existing financial systems, so they can incorporate innovation into all aspects of financing (e.g., techniques, relationships, incentives and culture) that would allow for better ESG assessment. They can also capitalize on the growing market for ESG products but still need to keep in mind the stakeholders' needs for the credibility and transparency of these offerings.

Extended producer responsibility (EPR) regulation to manage plastic pollution

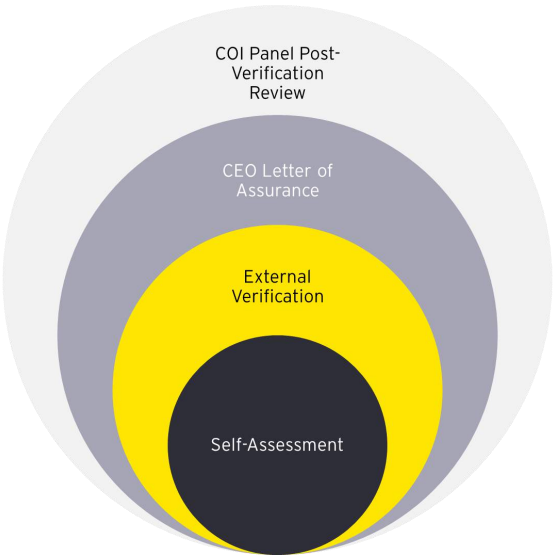
The latest drafts of the EPR bills provide specific plastic waste footprint recovery targets. House Bill No. 10969 sets a 20% recovery rate for the first year of implementation increasing to 80% by the fifth year, while Senate Bill No. 2425 requires a 10% recovery target in the first year then gradually increasing to 80% by the eighth year. The bills have been approved by both houses and are in the final stage to become a law.

Plastic pollution is still one of the most pressing environmental concerns globally, as plastic generation has continued to rise rapidly to approximately 400 million tons per year, according to the 5th UN Environment Assembly. Filipinos use up about 2.15 million tons of plastics annually, and more than one-third of these reach the environment according to a report by the World Wide Fund for Nature (WWF). To address this, there are two bills (House Bill No. 10969 and Senate Bill No. 2425) aiming to institutionalize the extended producer responsibility (EPR) scheme in the country. **EPR is the environmental policy and practice that gives businesses that use plastics in their products and services responsibility for the entire life cycle of the plastics they produce or use.** With EPR, producers should ensure proper and effective recovery, treatment, recycling, and disposal of residual plastics from their products, and should adopt ways to improve plastic recyclability or reusability. The national framework for EPR, which is expected to be finalized a few months after the EPR bill has been signed into law, includes the reduction of non-environmentally friendly products through adoption of reusable products or redesign of products for improved reusability, recyclability, and/or retrievability. Other strategies can be the inclusion of recycled content, adoption of refilling systems, implementation of extensive information and education campaigns, and product labeling to inform consumers of proper waste disposal or diversion methods. Another mandate is the establishment of waste recovery programs through redemption, buy-back, offsetting, or any other strategies for improved retrievability, recyclability and resource recovery of plastic waste. EPR may also include diversion of waste into value chains, transportation of waste to appropriate diversion facilities, clean-up of waste leaked to public spaces, and investments for waste diversion or treatment facilities. The establishment of the EPR policy aims to address the plastic pollution crisis in the country, thus contributing to both national and global circular economy and climate change targets.

As we anticipate the passing of the EPR law, it is practical for businesses that will be highly impacted by this pending regulation like companies in the retail and consumer goods and the food and beverage industries to start monitoring their plastic waste flow and form partnerships with recovery and recycling facilities for smoother implementation of their EPR scheme. While waiting for the final approval, companies that utilize plastic packaging would have to prepare for compliance report submissions, establishment of internal recording systems, third-party audits, and fines for violations. Now is the time for businesses to prepare for and act to avoid backlogs in the future.

Moving towards sustainable mining

Figure 18: Towards Sustainable Mining Assurance Framework



Sustainable mining has been gaining more attention in the past years. The Philippine Mining Act of 1995 (Republic Act No. 7942) and the Department of Environment and Natural Resources (DENR) Administrative Order No. 2010-21, with its Revised Implementing Rules and Regulations (IRR) drive the efforts to strengthen the country's mining industry, giving high importance to the safety and health, environment and social aspects of mining activities. In 2021, the Mines and Geosciences Bureau (MGB) of the DENR issued a Safety and Health, Environment, and Social Development and Management (SHES) Manual containing strategic plans and programs to manage the exploration, operations and rehabilitation of mining areas in the country and ensuring that these guidelines are harmonized with the principles of sustainable development. With the SHES Manual, mining companies should conduct their mining operations with ESG aspects in mind.

This is aligned with the Towards Sustainable Mining (TSM) initiative of the Chamber of Mines of the Philippines (COMP), announced in 2017. The COMP mandates mining companies to subscribe to a self-assessment system for a global standard of best practices in sustainable mining. Its main objective is to enable mining companies to meet the needs for minerals, metals and energy products in the most socially, economically and environmentally responsible way. This initiative aims to help COMP members maintain their social license to operate, assess their risk, credibility and reputation needs, and earn trust in the industry.

The process starts with an annual self-assessment, followed by an external verification every three years. Mining companies would need to secure a CEO letter of assurance while the Community of Interest (COI) Advisory Panel will conduct post-verification review from a sample of mining companies to present and discuss the TSM initiative results, determine challenges and create solutions to address gaps. Through this initiative, stakeholders can assess the mining industry's sustainability performance and encourage mining companies to continuously improve.

We found significant improvement in the disclosures of publicly-listed mining companies based on our review of 2020 sustainability reports. There was increased coverage on different ESG topics, but there is still much to be desired in disclosures relating to biodiversity.

According to an EY publication on the top ten business risks and opportunities for mining and metals in 2022, the top ESG issues critical to the mining and metals industry are local community impact, waste management, green production, diversity and biodiversity. Because of increasing external pressures on the industry, it was also observed that companies have been attempting to decarbonize their operations, and this is expected to intensify in the future because of the stakeholders' general expectation that mining businesses should address issues on biodiversity, social impact and water management. According to the report, mining companies that begin their sustainability efforts early have better opportunities, not only in terms of meeting their stakeholders' needs, but also in improving human capital and market value eventually.

Spotlight on biodiversity

The Philippines is known for being one of the few megadiverse countries in the world. Being megadiverse also means that climate-related problems pose greater threats and risks to the country's environment, society and economy. The Philippine Biodiversity Strategy and Action Plan (PBSAP) 2015-2028 outlines targets and indicators for the conservation of biodiversity, sustainable use of its components and fair and equitable sharing of benefits arising from its utilization. This also aligns with the country's commitments to the UN SDGs.

Corporate reporting on biodiversity is seen as a key method to mainstream efforts towards achieving both local and global targets. According to the World Economic Forum (WEF)'s Global Risks Report 2022, biodiversity and its related impacts are included in the top business risks, specifically in the medium-term and long-term. Biodiversity loss implies financial and reputational risks to businesses (e.g., reduced supply of raw materials may lead to higher production costs). Although impacts vary by industry based on their dependency on biodiversity, all businesses are somewhat at risk. However, based on our review of sustainability reports, biodiversity (i.e., marine, watersheds, IUCN/KBA) is still one of the least-reported topics by the publicly-listed companies. It indicates that there is less focus on biodiversity in the country compared to other ESG topics. Despite this, we can see a potential acceleration because businesses are now starting to realize that there are more gains in protecting natural capital that outweigh costs, compared to the former idea that environmental projects are just added expense to the business.

Figure 19: Task Force for Nature-related Financial Disclosures (TNFD) draft disclosure recommendations

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organization's governance around nature-related risks & opportunities	Disclose the actual and potential impacts of nature-related risks and opportunities on the organization's business, strategy and financial planning where such information is material.	Disclose how the organization identifies, assesses and manages nature-related risks.	Disclose the metrics and targets used to assess and manage relevant nature-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
A. Describe the board's oversight of nature-related risks and opportunities.	A. Describe the nature-related risks and opportunities the organization has identified over the short, medium and long-term	A. Describe the organization's processes for identifying and assessing nature-related risk.	A. Disclose the metrics used by the organization to assess and manage nature-related risks and opportunities in line with its strategy and risk management process.
B. Describe management's role in assessing and managing nature-related risks and opportunities.	B. Describe the impact of nature-related risks and opportunities on the organization's businesses, strategy and financial planning.	B. Describe the organization's processes for managing nature-related risks.	B. Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks*. **Adaptation under consideration by TNFD*
	C. Describe the resilience of the organization's strategy, taking into consideration different scenarios.	C. Describe how processes for identifying, assessing and managing nature-related risks are integrated into the organization's overall risk management.	C. Describe the targets used by the organization to manage nature-related risks and opportunities and performance against targets.
	D. Describe the organization's interactions with low integrity ecosystems, high importance ecosystems or areas of water stress.		

Just like for any other ESG topic, many forces push the facilitation of disclosures on nature-related risks and opportunities including biodiversity. The Task Force on Nature-related Financial Disclosures (TNFD) is one of the global initiatives for delivering a risk management and disclosure framework that can be adopted by companies to address progressive risks with the goal of producing more positive outcomes. The International Union for Conservation of Nature (IUCN) also established the Business and Biodiversity Programme, which looks at three key areas namely: valuing biodiversity, promoting biodiversity net gain and investing in nature. **Companies would have to pay more attention to biodiversity as the sustainability reporting guidelines, such as those by TNFD and IUCN, continue to evolve.** With such developments in regulations and commitments, companies need to reassess the materiality of biodiversity topics in their sustainability reporting, especially businesses with a direct connection to natural resources from marine and terrestrial ecosystems.

Navigating the evolving ESG landscape – what the board and management can do

While still adopting the "comply or explain" approach required by the SEC, companies' sustainability reporting has improved despite the pandemic's impacts based on our review of 2020 SRs. However, the SEC has mentioned several times that it will be making sustainability reporting a regulatory requirement for listed companies and might expand this reportorial requirement to other types of corporations as well. There has also been a growing number of global developments around ESG and local regulations to address key ESG issues. With these developments, what might companies need to do next? How can businesses reinforce and advance their journey towards becoming sustainable and better stewards of the world's resources?

Obtain top management buy-in. While there are multiple accelerators for ESG incorporation and long-term value and growth, there are also challenges that hinder this process. EY's Long-Term Value and Corporate Governance Survey 2022 explained two main issues of companies in terms of integrating ESG in long-term growth strategies. Firstly, companies are highly affected by economic fluctuations and ongoing market disturbances because of the impacts of the COVID-19 pandemic. This external challenge is tied to the continuous changes in their supply chain and problems arising from irregular weather patterns. On the other hand, they are also concerned with the unavailability of established and clear direction from the boards or management to integrate ESG in decision-making, a crucial requirement for transforming business operations and addressing external challenges like the first issue. Efforts towards addressing external challenges entail proper instructions from the top management, especially for long-term strategies. Good and transparent governance plays a vital and central role in directing the focus of companies through strategic planning and risk management assessment to determine material ESG topics, establish targets and accountability and evaluate performance. With an established mandate from the board, individual business units will be able to align their specific strategies with the company's long-term goals and avoid internal conflicts.

Concentrate on three priorities that support strategic decision-making on ESG. EY's Long-Term Value and Corporate Governance Survey 2022 outlined three priorities that can assist companies in their sustainability journey: (1) have a right board operating model; (2) leverage rewards; and (3) build an effective ESG reporting system. Having the right board operating model for incorporating ESG transforms a company's main operating model to improve adaptability to changing regulatory and environmental scenarios. This involves expanding the skills and ESG expertise of boards by promoting diversity and inclusion of sustainability criteria in assessing memberships. Secondly, it is practical to have a proper approach for rewards, such as through remuneration and incentives. Leveraging rewards would improve responsibility and accountability of top management on sustainability. As revealed in the survey, the top governance change that companies are prioritizing over the next couple of years is changing their approach and structures for rewards and incentives, including executive remuneration. Lastly, creating an effective ESG reporting system builds trust and transparency for stakeholders. With pressure from stakeholders, boards should clearly communicate ESG efforts and value created. Although we do not have a harmonized reporting system yet, multiple frameworks can already be adopted by companies as a starting point for sustainability reporting. This is also echoed in EY's 6th Global Institutional Investor Survey. ESG investing highly accounts for performance transparency and capability. While the number of companies issuing sustainability reports increased over the years, there is a concern on whether their transparency, quality and materiality are reliable.

Integrate ESG into long-term growth strategy. Although climate-related financial risks and opportunities are currently separate from the overall risk assessment of most companies, this will eventually become a fixed factor embedded into their existing risk management frameworks. It is now becoming integral to incorporate ESG in the long-term growth strategy of companies to be more adaptable to regulatory and environmental changes, as well as to trigger new opportunities for growth and expansion. Since ESG is a broad concept, one way to prepare for long-term growth is to prioritize current material topics for the company and then gradually expand as time and resources permit. In doing so, they can focus their efforts on specific factors aligned with the overall objectives of their business, thus strengthening competitiveness. Having a holistic view and clear directions for ESG integration would avoid conflicts with other targets and would make it easier for corporate reporting.

From the investors' perspective, EY's 6th Global Institutional Investor Survey highlighted that the COVID-19 pandemic has built greater momentum to invest in ESG-focused projects. The survey showed that the pandemic led many investors to pay substantial attention to companies' ESG performance, especially in terms of their risk implications. This has also pushed for greater social considerations as clients demand more social or humanitarian activities from companies. Compared to the pre-COVID-19 pandemic period, the survey also revealed that many companies consider ESG performance reporting as more important today. However, issuing sustainability reports for the sake of compliance with evolving regulatory considerations and the demand for ESG disclosures is not enough. Rather, companies should be innovative and creative on how they can incorporate ESG in their strategies since competition is also growing through time. Investors will be more interested in investing in unique projects with significant impacts and guaranteed returns; thus the need to enhance ESG reporting tied with financial performance metrics.

EY's 2022 CEO Outlook Survey explored how companies are responding to the COVID-19 pandemic. It reported that many companies are very active in transforming their businesses as part of their recovery strategies to address the changes brought about by the pandemic. People should be at the core of transformation, and the business should prioritize long-term value creation. An effective and efficient data management system that would help the company meet the regulatory requirements for ESG reporting and respond timely to investor needs should also be a priority. Many CEOs also acknowledged the importance of investing in ESG early to ensure better opportunities in the future. Although the pandemic might have been a huge burden to businesses, it also paved the way for many companies to recognize that business transformation is now imperative because those who do not respond and act now will be left behind.

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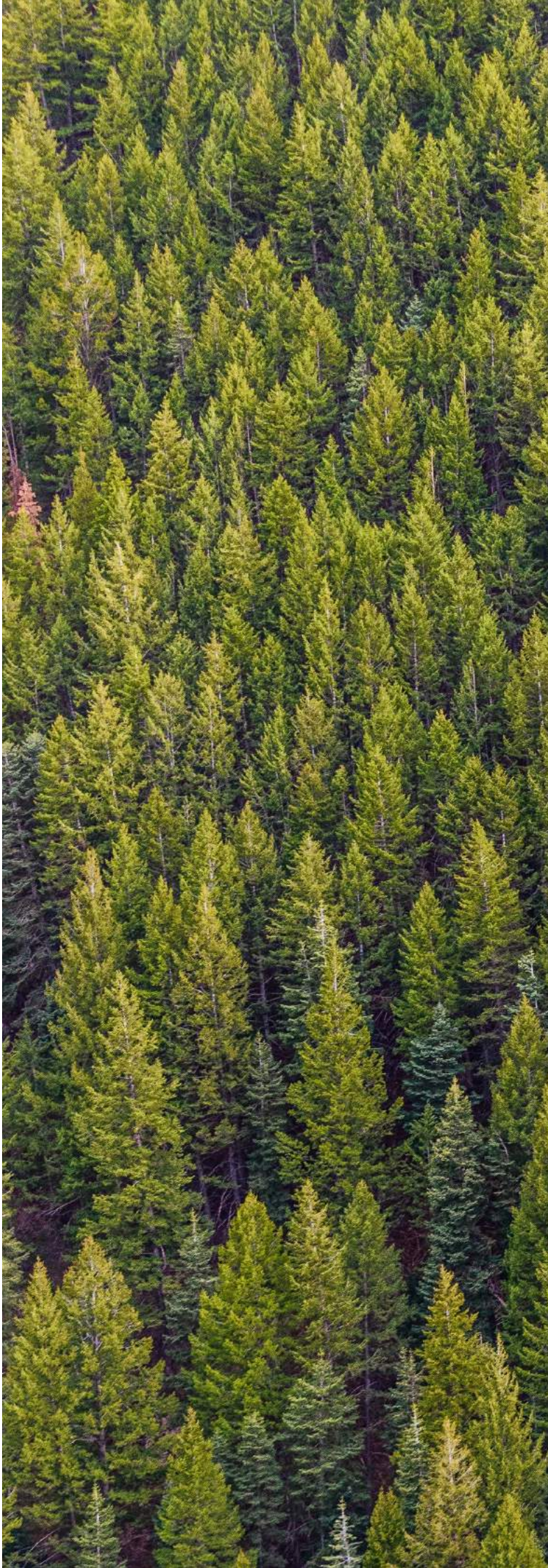


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- Sustainability/ ESG transformation
- Sustainability digital enablement
- Sustainability risk and governance
- Sustainable supply chain
- Human rights
- Materiality
- Sustainability targets/ KPIs development
- Non-financial reporting benchmarking
- Writing non-financial reports
- Integrated reporting advisory

Non-financial reporting assurance

- Sustainability report assurance
- Non-financial disclosures assurance

Climate Change

- Decarbonization transformation
- Carbon digital enablement
- Climate change modeling
- Climate-risk stress testing
- Low-carbon strategies
- Lifecycle carbon assessments
- Climate change strategy
- Climate change risk and resilience scenario analysis
- Carbon and energy management
- Climate-related reporting
- Carbon trading advisory
- Marginal abatement cost curves
- TCFD Reporting
- GHG report assurance

Environment, Health and Safety (EHS)

- EHS tax and maturity
- EHS digital enablement
- EHS risk
- EHS assessments
- EHS due diligence
- EHS benchmarking
- EHS management consulting services
- Advising on management systems, policies, etc.

Circular Economy

- Advisory on circular economy strategies
- Circular economy framework and/or roadmap development
- Assurance on circular economy commitments (e.g., plastic neutral) and disclosures
- Advisory on extended producer responsibility (EPR) and plastic footprint accounting and reduction

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