PSE

THE PHILIPPINE STOCK EXCHANGE, INC.

ESG 101: A REPORTING GUIDEBOOK

Table of Contents

About this Guidance Document 03

Foreword 04

Message from the Sustainability Unit 05

Overview 06

Sustainability Reporting Principles 12

How to Get Started 14

Reportorial Requirements 29

Globally-recognized Sustainability Reporting Frameworks and Standards 32

Conclusion 38

About this Guidance Document

As a central market place that connects between issuers and investors, The Philippine Stock Exchange, Inc. is uniquely positioned to promote a more transparent, credible, and efficient capital market. Transparency builds trust and is critical to well-functioning markets. Environmental, Social, and Governance factors are increasingly recognized as important for investors and issuers alike; therefore, the PSE has developed a guidance document to help issuers who seek to take the next steps towards quality sustainability reporting aligned with international best practices, standards, and frameworks.

This Guidance Document was developed with reference to the *2015 Model Guidance on Reporting ESG Information to Investors* of the United Nations Sustainable Stock Exchanges Initiative. This guidance document has updated sustainability reporting regulations, data, and best practices that are relevant to Philippine listed companies. It is hoped that this guidance document shall serve as a sufficient starting point for companies seeking to enhance their sustainability reporting capabilities. This should be used alongside globally-recognized reporting frameworks and standards and should not replace any sustainability-related legislation and rules issued by legislators and regulators.

Disclaimer:
The information contained in this publication has been prepared by the Sustainability Unit of The Philippine Stock Exchange, Inc. No part of this publication may be reproduced in any form by any means without consent of the PSE. The PSE assumes no liability and responsibility for any loss or damage suffered as a consequence of any errors or omissions in this publication, or any decision made, or action taken, in reliance upon information contained herein. The information contained herein is solely for information purposes only. It does not constitute investment advice, and is not intended to influence investment decisions. Advice from a securities professional is highly recommended.

©The Philippine Stock Exchange, Inc. 2024 All rights reserved.

Foreword

As a capital market regulator and listed company, The Philippine Stock Exchange, Inc. ("PSE") stands at the forefront of standardizing reporting practices among listed companies. The Philippine market is still mostly at the learning stage of its sustainability journey. Recognizing the gaps in reporting standards and practices, the PSE has developed a guidance document to provide a clear and practical starting point for publicly-listed companies seeking to improve the quality and depth of sustainability information disclosed.

The goal of the guidance document is not to provide a one-size fits all template but a conceptual guidance that highlights the key elements of an effective ESG report to better serve the needs and expectations of investors and internal stakeholders, among others. The guidance document will contain an overview of ESG, sustainability reporting principles and best practices, and the reportorial requirements of listed companies in the Philippines.

We would like to acknowledge our partners at the United Nations Sustainable Stock Exchanges Initiative, or SSE, who have always been helpful in supporting the Exchange in its initiatives. The Exchange will continue to collaborate with regulators, listed companies, international organizations, and the investing public to create a sustainable and resilient capital market.

Ramon S. Monzon
President and Chief
Executive Officer

Message from the Sustainability Unit

Atty. Roel A. Refran
Chief Operating Officer and
Head of Sustainability

The Exchange's contribution to sustainability can come in many forms, but not least through facilitating the disclosure of material sustainability information. We at the PSE's Sustainability Unit seek to guide listed firms along their sustainability journeys acknowledging the steep learning curve that the transition brings. This Reporting Guidebook is the PSE Sustainability Unit's first step to provide market participants with useful guidance towards quality reporting. Our doors remain open to users of this Guidebook. We look forward to collaborating with you.

PSE
THE PHILIPPINE STOCK EXCHANGE, INC.

Overview

Integrating environmental, social and corporate governance (ESG) policies and practices into a company's strategy and daily operations is increasingly regarded by investors as relevant to its ability to realize long-term value. Therefore, transparency around how a company manages ESG risks and opportunities is part of its value proposition. As a result, the financial community increasingly recognizes that to thoroughly assess an investment, it must also analyze relevant ESG factors. This document provides insight into the benefits of reporting for issuers, as well as guidance on navigating the reporting process so that they may effectively and credibly disclose ESG information to investors.

Reporting on ESG considerations is rapidly evolving. Companies practice a variety of reporting in different industries and countries, and there is no one-size-fits-all approach; however, common practices include:

- Adopting existing reporting processes or developing new ones in line with investor - and potentially other stakeholder expectations. Stakeholders can be defined as the individuals or groups who are affected by, or can affect, the company's performance and long-term competitiveness. In addition to investors, stakeholders may include employees, suppliers, contractors, governments, communities, customers, consumers, media and non-governmental organizations, among others.

- Considering national securities laws, which may already require disclosure of material information, and international best practices

Ultimately, reporting on ESG information is about corporate accounting and reporting mechanisms, functions fundamental to every company in every industry.

What is ESG?

Sustainability is the practice of operating a business in a way that meets the economic, social and environmental needs of the present without compromising the ability of future generations to meet their own needs.[1]

ESG is a set of criteria used to evaluate a company's environmental, social, and governance impact. It is a standardized framework that enables investors and other stakeholders to assess environmental and social impacts of a company, as well as its corporate governance practices.[2]

What is a sustainability report?

The United Nations Environment Programme defines sustainability reporting as “the practice of measuring and disclosing sustainability information alongside, or integrated with, companies’ existing reporting practices”.[3] A sustainability report is a document that shows to the public a company’s significant economic, environmental, social, and governance impacts, in accordance with globally accepted standards. The sustainability report serves not only as a report, but also an opportunity for the company to periodically review its performance with regard to the transition to more sustainable business models and product lines. Increasingly, investors look for information on companies’ transition to low-carbon value chains and products. A study published by Mckinsey shows that more than 80% of investors include ESG considerations among important factors when making investment decisions.[4] This shows that investors want to see how prepared the company is for risks related to sustainability, because a company that is not prepared for ESG risks will not be able to operate properly in the long-term. A company must also be able to maximize business opportunities arising from addressing needs caused by sustainability issues.

---

[1] World Commission on Environment and Development (WCED) (1987) Our common future. Oxford: Oxford University Press, p. 43.
[2] HSBC, Sustainability vs ESG: What’s the Difference and Why They Matter [Series 1 of 4], *available at* https://www.businessgo.hsbc.com/en/article/demystifying-sustainability-and-esg (Last accessed October 28, 2024).
[3] United Nations Environmental Protection Programme, Corporate Sustainability Reporting Toolkit. *Available at* https://wedocs.unep.org/bitstream/handle/20.500.11822/30663/CSRHdb.pdf?sequence=1&isAllowed=y
[4] Gelb, J., McCarthy R., Rehm, W. (2023). “Investors want to hear from companies about the value of sustainability”. *Available at* https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/investors-want-to-hear-from-companies-about-the-value-of-sustainability (last accessed October 16, 2024).

Through the regular preparation of the sustainability report, the company will be able to track its progress towards achieving its sustainability targets and commitments.

What are the primary objectives for reporting on ESG?

Investor interest in ESG factors

A large and growing proportion of assets managed globally are with asset managers and owners who are incorporating ESG considerations in the investment process. Morningstar reports that Europe attracted USD 11.8 billion in the second quarter of 2024. Up from the restated inflows of USD 8.4 billion in the previous quarter.[5] Meanwhile, the Asia-Pacific region is not as consistent. The same report from Morningstar shows that Taiwan experienced inflows of USD 2.7 billion while Japan, Australia and New Zealand suffered continued significant outflows.[6] However, by the middle of 2024, the United Nations-supported Principles for Responsible Investment (PRI) had more than 5,300 signatories with US$ 128 trillion in assets under management (AUM), up from 1,400 signatories with US$ 54 trillion AUM in 2015, and up from US$ 121 Million in March 2021.[7] For these investors, ESG information provides insight into the quality of corporate management and helps investors forecast company performance by providing a more comprehensive view of the company.[8] The PRI found that from 2021 to 2023, the policies of PRI signatories became more comprehensive in that they are covering more areas such as environmental factors, social factors, management of conflicts of interests, and other factors.[9] Effective analysis of relevant ESG factors has become a fundamental part of assessing the value of an investment for many investors.[10] For these reasons, investors are asking companies to communicate how they are managing ESG-related

[5] Bioy, H. et al. (2024). Global Sustainable Fund Flows: Q2 2024 in Review. *MorningStar Sustainalytics. Available at* https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt18dd898943dd6d27/66abf0adb3480c965b14d575/Global_ESG_Flows_Q2_2024_Report_(2).pdf (last accessed October 22, 2024).
[6] *Id.*
[7] Principles for Responsible Investment "Signatory Update: April – June 2024". *Available at* https://www.unpri.org/download?ac=21603 (last accessed October 22, 2024).
[8] Ghoul, S. et al. (2014) *Corporate Environmental Responsibility and the Cost of Capital: International Evidence*
[9] PRI, Global Responsible Investment Trends: Inside PRI Reporting Data 15 (2024).
[10] Eccles, Robert G.; Krzus, Michael P.; Serafeim, George. Market Interest in Nonfinancial Information. Harvard Business School Working Paper 12-018, September 22, 2011. *Available at* http://www.hbs.edu/research/pdf/12-018.pdf

risks and opportunities.[11] The public equity assets of PRI signatories that are subject to ESG integration has risen from 70% in 2014 to 95% in 2020.[12]

Getting ahead of regulatory developments

Governments around the world are responding to demands for high-quality corporate reporting on ESG information by taking action to drive improved disclosure. They recognize the importance of strengthening market mechanisms that will help the country in achieving its objectives related to sustainable development. As a result, a number of jurisdictions have introduced regulatory requirements governing corporate disclosure of ESG information. As of the first quarter of 2024, there were over 2,400 sustainability-related disclosure regulations and other instruments worldwide.

For example, all six members of the ASEAN Exchanges have regulations on sustainability disclosures. In the Philippines, as will be discussed later in this document, publicly listed companies are required to submit annual sustainability reports as an annex to the annual financial statements.

In Europe, companies are similarly required to submit sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS). This regulation extends also to non-European firms that do significant business in Europe. Establishing protocols for identifying and disclosing ESG factors can help companies stay ahead of such new regulatory developments.

Strengthening financial performance

A growing number of studies make the business case for companies to fully integrate sustainability into their business strategy. The evidence suggests that strong corporate performance on ESG factors correlates positively with improved cost of capital and financial performance. Companies that perform well on material ESG factors significantly outperform peers with poor performance on these issues.

---

[11] In addition to equity investors, there is growing interest in ESG in private equity, fixed income and other asset classes. Global green bond issuances tripled in size from 2013 to 2014 reaching more than US$36 billion, and the global green bonds market is expected to be valued at US$1 trillion by 2020. Source: The Climate Group (2015) Green Bond Market's Growth is Boosting Low Carbon Projects.)

[12] PRI, ESG Integration in Listed Equity: A Technical Guide 10 (2023).

Reporting on how sustainability initiatives are linked to strategy, financial performance and valuation provides important benefits. Some companies measure sustainability impacts on future cash flows and weighted average cost of capital. Integrating sustainability into company valuation will assist in communicating how a company is addressing the world's most pressing challenges, from poverty and education, to climate change and biodiversity. Addressing these challenges promotes more prosperous economic systems that benefit all participants and create more stable and resilient markets within which companies operate.

PSE

THE PHILIPPINE STOCK EXCHANGE, INC.

Sustainability Reporting Principles

Sustainability Reporting Prinicples

FAIR

Sustainability-related information must be fully disclosed, whether positive or negative.

ACCURATE

The issuer should be transparent on the scope of what is being measured, how numerical disclosures were computed, and all other assumptions and estimates used in reporting.

CONSISTENT AND COMPARABLE

The issuer should set a reporting baseline against which the company should benchmark. This will allow users of the information to measure the company’s ESG performance over time as well as compare its performance across companies in the same sector or industry.

How to Get Started

Responsibility and oversight

The initial stages of report preparation provide an opportunity to determine who within a company is best placed to be involved in creating the report. As a practical first measure, it is useful to determine within a company the roles, responsibilities and capabilities that are relevant for ESG reporting, including identifying appropriate personnel and coordinating among them.[13] Senior management can lead the process by demonstrating commitment to high-quality reporting and providing strategic input into, and oversight over, the process. Any team working on ESG reporting should have access to input from across the functional divisions of a company, as different functions within the company may be engaging with different stakeholders and managing material issues.

A company's board of directors can play an essential role in relation to integration and oversight. As the board of directors has responsibility for oversight of the strategic direction of a company, integrating ESG considerations into the company's strategy is an appropriate aspect of the board's role.[14] Thus, it is increasingly worthwhile for companies to define their ESG rationales and objectives with their boards of directors,[15] and provide governance mechanisms for addressing these factors at all levels of the organization. By embedding sustainability into their core duties, directors can position themselves to ensure the mainstreaming of ESG factors into business strategy, organizational culture, and operational practices in a way that supports the long-term profitability and viability of the company.[16]

Governance is defined by the United Nations Global Compact (UNGC) as "the systems and processes that ensure the overall effectiveness of an entity – whether a business, government or multilateral institution".[17] This includes oversight structures in developing and implementing a company's business strategy and risk management processes. From an ESG standpoint, strong governance of material ESG issues is key to effectively execute the company's sustainability programs and commitments.

[13] Professional Accountants in Business, International Federation of Accountants (2013) Principles for effective business reporting processes.
[14] Singapore Exchange, Guide to Sustainability Reporting for Listed Companies 5 (2011).
[15] Bursa Malaysia, Powering Business Sustainability - A Guide for Directors, 36-37. (2010)
[16] UN Global Compact, Board Programme: Unlocking the Value of Corporate Sustainability (2015).
[17] United Nations Global Compact, Governance, *available at* https://unglobalcompact.org/what-is-gc/our-work/governance (last accessed March 20, 2024).

Governance structures ensure accountability for and oversight of ESG integration into the operations of the reporting entity. ESG disclosures on governance shall include information on the following:

1. The governance body/bodies (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of sustainability-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about: [18]

    a. How responsibilities for sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s); [19]

    b. How the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities; [20]

    c. How and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities; [21]

    d. How the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and [22]

    e. How the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets. [23]

---

[18] International Sustainability Standards Board (ISSB) *supra* note 3 at 9.
[19] *Id.*
[20] *Id.* at 10
[21] *Id.*
[22] *Id.*
[23] *Id.*

2. Management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities, including information about: [24]

    a. Whether or not the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and [25]

    b. Whether or not management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.[26]

Boards may find it beneficial to issue a statement that clarifies how the board determined:

- Importance of different stakeholders, including investors and other stakeholder groups[27];
- Which ESG factors were selected and how; and
- Within what time frame it made these judgments, as they change over time.[28]

While a statement from the board is not mandatory, it is seen as an emerging best practice. Developing this statement is also an opportunity for the board to reflect on the company's role in society and contribution to sustainable development. It can provide transparency regarding the board's position on and oversight of the company's ESG risks and opportunities, and strengthen the company's credibility when communicating on ESG factors.

A Board leadership commitment to reporting on ESG factors lends credibility to a company's claims about its sustainability commitments and performance. It indicates that risks and opportunities are adequately dealt with at the highest level, and is thus a proxy for good governance overall. In order to evaluate quality of management, many investors examine not only

[24] International Sustainability Standards Board (ISSB) *supra* note 3 at 10.
[25] *Id.*
[26] *Id.*
[27] Stocker, F. et al., *Stakeholder engagement in sustainability reporting: A classification model*, 27 Corp Soc Responsib Environ Manag. 2071, 2077 (2020).
[28] Eccles and Krzus (2014). The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality.

ESG performance and the quality of disclosures, but also the governance or management of these issues by executive teams.

Clarity of purpose

Supporting corporate strategy

In addition to the benefits of the report itself, a company also derives value from the process of creating a report. High-quality corporate reporting can help a company address various goals in relation to internal and external stakeholders and inform decision-making (particularly that of investors). While reporting provides decision-useful information for stakeholders, the process of compiling this information can also strengthen internal reporting systems beneficial to the management of a company. As such, there is a need for clear links between strategic goals, the business model, risks, opportunities, operational indicators and financial performance. With strong connections between these areas, a company becomes better able to identify and manage risk, evaluate and measure success, as well as identify future challenges and opportunities.[29]

Identifying and understanding the audience

When considering reporting information to investors, it is important to remember that while all investors can benefit from ESG information, different investors can have distinct information needs. Companies can therefore benefit from asking themselves the following questions:

- Who are the company's top investors?
- What kind of investors would the company like to have?
- How has the company engaged with relevant investors to find out what they are interested in?

For instance, investors with a long-term investment horizon, such as pension funds, may be particularly interested in information regarding risks, such as how climate change may affect the company in the medium or long term. While some investors may only be interested in material information that is

[29] While the overarching objectives for reporting on ESG information will vary from company to company, in the context of supporting corporate strategy, they often include certain overarching themes. Annex C provides a breakdown of a number of these drivers.

being disclosed within a financial or integrated report, others may want supplemental, detailed sustainability information in a stand-alone report. These considerations are important early in the reporting process, as they will help define the content, scope and format of reporting, as well as engagement efforts. While this guidance focuses on facilitating transparency between investors and issuers, investors' information needs go beyond investors themselves. Investors are interested in how a company communicates with other key stakeholders, which can have a material impact on company operations (e.g., workers, consumers, civil society, governments). Investors recognize that a company's ability to create value in the long term depends on its interactions with its stakeholders and use of resources.

Relevance and materiality

While companies have a number of reporting objectives, the materiality of information and its relevance for investors is a key consideration in determining the scope and content of company's reporting. Different organizations have different interpretations and recommendations on how the concept of materiality could be applied to reporting on ESG considerations.[30] Likewise, different stakeholder groups have distinct views on which ESG factors are material for a company. Identifying relevant issues is a starting point for identifying material factors.[31]

The Consolidated Listing and Disclosure Rules of the PSE define material information as:

> "A material fact or event [which] would reasonably be expected to affect investors' decisions in relation to securities. This includes, but is not limited to, any significant and relevant information related to the business and operations of the Issuer that, if and when disclosed, would result in or would reasonably be expected to cause a significant change in the trading and/or market value of the Issuer's securities."[32]

---

[30] For further information, see how the concept of materiality has been framed within the IFRS Sustainability Disclosure Standards, SASB's standards, the GRI Standards, and the International Integrated Reporting Framework.

[31] International Federation of Accountants. (2015). Materiality in <IR>: Guidance for the Preparation of Integrated Reports. *Available at* https://integratedreporting.ifrs.org/wp-content/uploads/2015/11/1315_MaterialityinIR_Doc_4a_Interactive.pdf. Last accessed October 28, 2024.

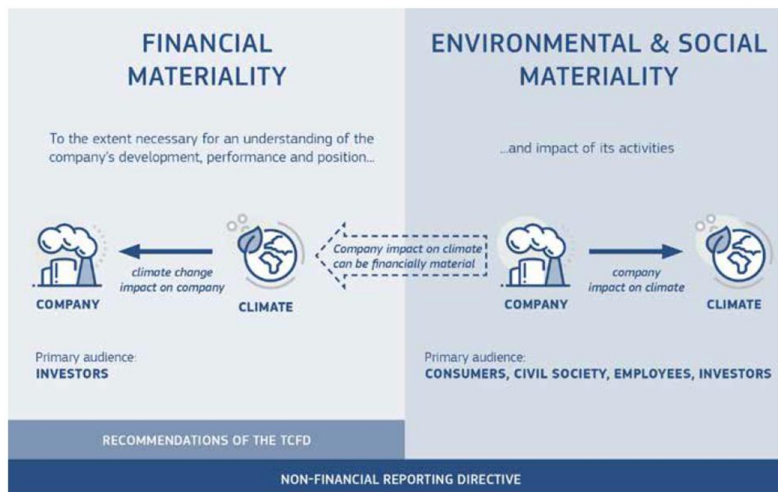
[32] Consolidated Listing and Disclosure Rules. Part IV, Section 4. (2024)

As such, understanding the reporting audience is critical to determining what information should be included in a report. For determining relevant matters, it can be useful to gauge how much an issue might potentially affect the company's ability to create value over time.

Sustainability risks and impacts cover a wide array of a company's business processes. Companies are expected to disclose all relevant information related to sustainability. However, not all sustainability issues are relevant to a certain company. For example, sea level rise may be quite relevant for a company with a factory near a body of water, but the same issue may not be so relevant for a company operating in a landlocked area.

Issuers should consider taking a "double materiality" perspective on sustainability related programs. Double materiality pushes a company to account for the effects of sustainability issues on its business (financial materiality) and also the effects of the business on the earth and the greater society (impact materiality).

Financial materiality refers to sustainability risks and opportunities that positively or negatively affect an enterprise's performance and value.[33] Impact materiality refers to the actual or partially significant influence of a firm's operations and its upstream and downstream value chains on people and the environment.[34] While financial materiality reflects an outside-in perspective, impact materiality is about the inside-out perspective.[35]



Source: New Guidelines on Reporting Climate-Related Information by European Commission

[33] Aracil and Sancak (2024). Essential Concepts of Sustainable Finance: An A-Z Guide.
[34] *Id.*
[35] *Id.*

By acknowledging financial and impact materiality, double materiality enables stakeholders to assess firms' impacts on the environment and society as well as firms' sustainability risks.[36]

In addition to material ESG information, a company may decide to report on other elements that do not meet the threshold for materiality, but may still be relevant to the company's operational and/or reputational (i.e. brand) performance. For example, a company's perspective on what is material to investors may diverge from what, in its view, is significant to society.[37] Therefore, a company may decide to report only on material information, whereas another may report all information it deems significant to its stakeholders. As investors increasingly understand how business-critical operations are being affected by a variety of ESG factors, the range of information considered relevant and material by existing definitions is widening.

The IFRS Sustainability Disclosure Standards S1 instructs that "An entity shall disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects."[38] Thus, it is essential for a company to conduct a **materiality assessment** to determine which sustainability information will indeed affect the company's prospects. The IFRS Standards instruct that "information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity."[39]

The process of conducting a materiality assessment varies per company. There is no one-size-fits-all approach. What is important is that the assessment takes into account the company's strategy, vision, mission, and business model.[40]

---

[36] *Id.*
[37] Eccles and Krzus (2014) The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality.
[38] International Sustainability Standards Board (ISSB), IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information 8 (2023).
[39] International Sustainability Standards Board (ISSB), IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information 8 (2023).
[40] HKEX, *How to prepare an ESG report*. Page 9. (2020).

Identifying themes

Whether a company reports on a smaller number of only the most material themes or a more comprehensive range, an effective report covers ESG considerations that are relevant to business strategy and illustrates the link to both long-term and, when possible, short-term value.

Thinking through each piece of a company's value chain can help develop a comprehensive understanding of the ESG themes that could be relevant for disclosure. Additionally, it is often helpful to reflect on the risks discussed in the company's annual management reports, as well as themes reported by peers. A company can also use a variety of national and international resources to develop an initial list of ESG themes, be they generic or sector-specific. For example, the UN Global Compact's 10 Principles and its Basic Guide for reporting against these 10 thematic issues.

One area a company may benefit from further exploring is that of intangible assets. As a proportion of company value, they have, on average, grown enormously over recent decades. One of the foremost of these intangibles for many firms is human capital, and good ESG practices are recognized as key drivers of employee attraction, motivation and retention. Another intangible is brand image, and again good ESG practices affect consumer interest in products and services and the company's license to operate in the eyes of governments and local communities.[41] A recent study reiterated that sustainable business practices are more likely to positively contribute to employee retention, especially among millennials.[42] Now, with more than 75% of public company value considered intangible, companies and their investors are much more vulnerable to value collapses in the event of a high-profile problem, than when corporate value was primarily in tangible assets.

Another relevant element of company value is tied to "natural capital", which relates to the raw material inputs and other value provided by, or dependent on, environmental processes. Companies are increasingly challenged by risks, such as resource depletion, species loss and climate change impacts. As a result, better management of natural capital is believed to have an impact on companies' bottom line and long-term viability.

---

[41] ESG as a form of employee recruitment is expected to continue to grow as 75% of millennials believe business should focus more on helping to improve society. Deloitte (2015) Millennial Survey

[42] Lee et al. *Examining the Impact of ESG on Employee Retention: A Study of Generational Differences*, 22 Journal of Business and Management. 1, 14 (2023).

Adopting relevant performance indicators

Once a company has established which ESG themes to report on, it can begin to disclose specific performance indicators to demonstrate progress. These indicators may be generic, industry-specific or company-specific. It is recommended that companies use widely accepted indicators developed via a credible national or international process. The GRI, for example, produces the most widely used set of indicators for corporate sustainability reporting with detailed guidance on their application.

When reporting these indicators, investors appreciate information that appears in the appropriate context, including comparisons to:

- Historical company and industry trends;
- Related corporate goals;
- Relevant ratios;
- Industry averages; and
- Financial results/performance.

As investors seek to understand how ESG information is linked to the company's business strategy and financial performance, quantitative data is in high demand because it can be more easily compared across time within the same company or with similar data from other companies. Such data is also useful for enhancing investment valuation and credit rating models.[43]

To effectively use indicators, companies can:

- Consult nationally or internationally recognized reporting guidelines and protocols for measuring, preparing and presenting ESG metrics to improve the quality of a company's disclosure;

- Explain why indicators increased or decreased year-to- year, the company's perception of this, and how this might change in the future;

- Explain methodologies for data collection in the report, along with why these were used;

[43] Ernst & Young, *Tomorrow's Investment Rules 2.0* (2015).

- Supplement qualitative narratives with quantitative data, benchmarks and targets, and vice versa;
- Explain the link between ESG metrics and financial performance, by demonstrating how ESG initiatives drive growth, productivity and risk management in monetary terms, where possible;[44] and
- Report on challenges and mistakes as well as accomplishments. Moreover, in many jurisdictions, information on regulatory infractions or penalties is available independently. If stakeholders have access to this information and do not see it in corporate reporting, this diminishes the credibility of the corporate report. Investors understand that no company has a perfect record on every issue; an honest discussion builds rapport with shareholders and other stakeholders alike, and often wards against more aggressive engagement.

Accessibility

The right disclosure channels ensure investors receive relevant, easily-accessible, comparable, and timely information. It is advantageous for companies to present material issues according to market usage, and to update these with timely and accurate news about their performance.[45]

To accommodate variable information needs and interests, it may be relevant to use different communication channels, including websites, regulatory filings, annual reports, sustainability reports and other company reports. Using more than one communication channel can be an effective way to ensure that a company's complete target audience gets the necessary information. To make the information more accessible to international investors, companies may also wish to disseminate their ESG information in a language widely spoken globally in addition to a national language.

Regardless of the format, there are a few overarching practices to keep in mind:

- It is important to ensure consistency among the information reported in different communication channels.

[44] United Nations Global Compact, Value Driver Model (2014).
[45] Deutsche Borse Group, Communicating Sustainability: Seven Recommendations for Issuers 13 (2013).

- It is critical that the information is easy to find. For example, producing an online content index with hyperlinks to all existing ESG information will boost digital accessibility.
- Overall, reporting is most effective when the language used and the way the information is presented is clear and relevant for investors.

Credibility and Responsiveness

Robust internal ESG data collection and management processes

Better data leads to better decision-making and performance. It is useful to assess the capabilities of existing internal systems to collect concise, reliable and complete ESG data. If internal systems are not currently sufficient for the task, a company may decide it is in its long- term best interest to invest in building capacity in this area.[46] If data collection gaps are identified, companies can identify and explain them in their report.

Stakeholder engagement

Engaging stakeholders on ESG factors is best conducted as a preventative rather than reactionary activity, as stakeholders can help a company identify, mitigate, and manage ESG risks and opportunities before problems emerge. Stakeholder engagement can help to determine material sustainability issues, enable understanding of complex operating environments, including market developments and cultural dynamics also be a source of innovation, and enable learning from stakeholders, resulting in product and process improvements, and innovations.[47] Disclosing a company's engagement process can help investors understand if and how well a company is integrating ESG risks and opportunities into planning and operations, as well as lend credibility to company claims about leadership in ESG performance. Systematic stakeholder engagement enhances receptivity and the usefulness of corporate ESG information.

[46] Chartered Professional Accountants of Canada. A Starter's Guide to Sustainability Reporting, 24 (2013).
[47] AccountAbility, AA1000 Stakeholder Engagement Standard, 5-6 (2015).

Assessment and assurance

ESG reports are made more credible by strong internal assessment processes and/or external assurance, if resources permit. With respect to the former, an internal audit committee or group of individuals, independent of the division tasked with measuring and gathering the information, can review sustainability disclosures. As climate-related disclosures become more common and are included in mainstream financial filings, the governance process should be similar to those used for existing public financial disclosures and should therefore include a review by the chief financial officer and audit committee or equivalents.[48] Conducting an internal audit can also further ensure that internal data collection systems are robust and organized.

Interest in externally assured ESG disclosure, along with the development of accompanying assurance standards, has been driven by investor requests for companies to bring ESG information up to financial grade reporting.[49] If resources allow, external assurance can lend an added degree of trust, credibility and recognition, just as financial auditing does.

It is important to note that while third-party assurance is valuable for strengthening the credibility of reports, an over- emphasis on external assurance can hamper a company's reporting journey if it becomes a barrier to disclosure. It is better to start with reporting with no assurance rather than to not start reporting at all.

[48] London Stock Exchange, Your Guide to Climate Reporting 49 (2021).
[49]UNEP, GRI, KPMG, The Centre for Corporate Governance in Africa. Carrots and Sticks. 2013.

Questions to guide report preparers

Overview

1. How is the company moving towards a sustainable business strategy?
2. How can ESG aspects support the achievement of business goals?
3. What are the existing reporting requirements in the market(s) where the company operates?

Responsibility and oversight

1. How can the company use ESG disclosure to engage and align board members, senior executives and employees?
2. What are the key issues and future goals that relate to ESG from the point of view of the CEO and/or Chairman?
3. How are board members, senior executives, and employees involved in ESG-related decision-making, planning, monitoring and activities?

Clarity of purpose

1. What is the company's main reporting objective(s)?
2. What are the key ESG factors that impact the company strategy in terms of the risks and opportunities they present?
3. What are the company's public commitments towards sustainable development and corporate responsibility?
4. Who are the company's priority stakeholders? What is the process for identifying them and how often is that determination refreshed or updated? How does the company know what ESG matters are relevant for these stakeholders?
5. Which ESG factors are most relevant for the company's current and potential investors?
6. What does the company know about its existing investor base and its information needs?
7. How would the company like to evolve its investor roster in the next five years?
8. What does the company know about the information needs of its future investor roster?

Relevance and materiality

1. What is the company's materiality determination process related to ESG matters?
2. How do ESG factors fit within the company's existing materiality determination process?
3. Which ESG factors have the most impact on the company's long-term value creation?
4. Which ESG factors directly impact the company's short- term financial performance?
5. Has the company identified what information investors need?
6. How does the company maintain and enhance its relationship with investors?
7. How does the company compare with respect to ESG management among its benchmarked peers?
8. What ESG factors are linked to current and potential regulations?

Stakeholder engagement

1. How are investors, and potentially other stakeholders, using the company's disclosure?
2. How can the company leverage ESG disclosure to deepen relationships with investors?
3. How can the company use their feedback to improve performance?
4. How has the company effectively engaged investors?
5. What alternative methods does the company need to explore to engage investors?
6. How does the company use feedback from investors in its decision-making processes?
7. How do financial disclosure controls and obligations apply to the company's ESG disclosure?
8. What level(s) of assurance is meaningful and feasible?
9. What level(s) of assurance do investors expect?
10. How does the company determine which third party is the most effective and relevant to assure the company's disclosure?

PSE

THE PHILIPPINE STOCK EXCHANGE, INC.

SEC Memorandum Circular No. 4 Series of 2019 "Sustainability Reporting Guidelines for Publicly-listed Companies"

Last 2019, the Securities and Exchange Commission (SEC) issued SEC Memorandum Circular No. 4 to promote sustainability reporting among Philippine publicly-listed companies. The SEC created a reporting template to help listed companies measure and monitor non-financial performance across Economic, Environmental, and Social facets.

The sustainability reporting template builds upon four of the globally-recognized frameworks and standards namely the Global Reporting Initiative's (GRI) Sustainability Reporting Standards, the International Integrated Reporting Council's (IIRC) Integrated Reporting (IR) Framework, the Sustainability Accounting Standards Board's (SASB) Sustainability Accounting Standards, and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

The guidelines shall be adopted on a **"comply or explain"** approach. "Comply or explain" means that the reporting entity should disclose corporate sustainability data when available, and provide explanations where data is unavailable. [50]

The reporting template or "Annex A" of SEC MC No. 4 series of 2019, shall be submitted together with the company's Annual Report (SEC Form 17-A).

Reporting entities who have reported in accordance with internationally recognized frameworks and standards shall be considered compliant by the SEC. Companies may provide a link to the sustainability report or attach the report to the SEC Form 17-A.

The reporting template can be accessed at https://www.sec.gov.ph/mc-2019/mc-no-04-s-2019-sustainability-reporting-guidelines-for-publicly-listed-companies/#gsc.tab=0

[50] Securities and Exchange Commission, SEC Memorandum Circular No. 4 (2019).

Integrated Annual Corporate Governance Report (I-ACGR)

The Securities and Exchange Commission mandates all companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) to facilitate the disclosure of publicly-listed companies' (PLCs) compliance/non-compliance with the recommendations provided under the Code of Corporate Governance for PLCs.[51]

The reporting template can be accessed at https://appointment.sec.gov.ph/wp-content/uploads/2019/11/SEC-Form-I-ACGR-.docx

ASEAN Corporate Governance Scorecard (ACGS)

The ASEAN Corporate Governance Scorecard (ACGS) is an initiative by the ASEAN Capital Market Forum to improve the corporate governance standards and practices of public-listed companies (PLCs) in the ASEAN region and to enhance the international visibility of well-governed ASEAN companies.[52] This is the basis of the Golden Arrow Recognition which is awarded to companies who achieved a score of at least 80 points in the ACGS Assessment. This shows that the company has exhibited observable conformance with the Philippine Code of Corporate Governance and internationally recommended corporate governance practices as espoused by the ACGS.

The reporting template can be accessed at https://www.theacmf.org/images/downloads/pdf/ASEAN%20Corporate%20Governace%20Scorecard%20Revised%202023.pdf

[51] Securities and Exchange Commission, SEC Memorandum Circular No. 15 (2017).
[52] ASEAN Capital Market Forum, 2023 ASEAN Corporate Governance Scorecard, *available at* https://www.theacmf.org/initiatives/corporate-governance/2023-asean-corporate-governance-scorecard

PSE

THE PHILIPPINE STOCK EXCHANGE, INC.

Globally-recognized Sustainability Reporting Frameworks and Standards

IFRS Sustainability Disclosure Standards

The IFRS Sustainability Disclosure Standards are a set of standards that require an entity to disclose information about its sustainability-related and climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.[53] This indicates that the IFRS Standards do not have a multi-stakeholder approach like the GRI Standards. The IFRS Standards were developed to be used by a more specific audience, namely, the users of general purpose financial reports.

There are two sets of standards under IFRS. The first is labelled IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (S1). The second set of standards is labelled IFRS S2 Climate-related Disclosures (S2).

IFRS S1 and S2 require an entity to disclose information about all sustainability-related and climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.[54]

Generally, a company's disclosures must present the following:

a. Governance - the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related and climate-related risks and opportunities

b. Strategy - the approach the entity uses to manage sustainability-related and climate-related risks and opportunities

c. Risk management - the processes the entity uses to identify, assess, prioritise and monitor sustainability-related and climate-related risks and opportunities

[53] International Sustainability Standards Board (ISSB), s*upra* note 3 at 6.
[54] *Id.*

d. Metrics and targets - the entity's performance in relation to sustainability-related and climate-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation

The IFRS Standards may be accessed via the IFRS Sustainability Standards Navigator: https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator

Sustainability Accounting Standards Board's ("SASB") Sustainability Accounting Standards

The SASB standards provide 77 industry-based sustainability standards which identifies the subset of sustainability issues most relevant to a company's financial performance. The reporting boundaries for disclosures that conform to the SASB standards shall include all parent and subordinate entities that are consolidated for financial reporting purposes. [55] Omitted and modified disclosure topics and/or accounting metrics should be disclosed as well as the rationale for the omission.[56]

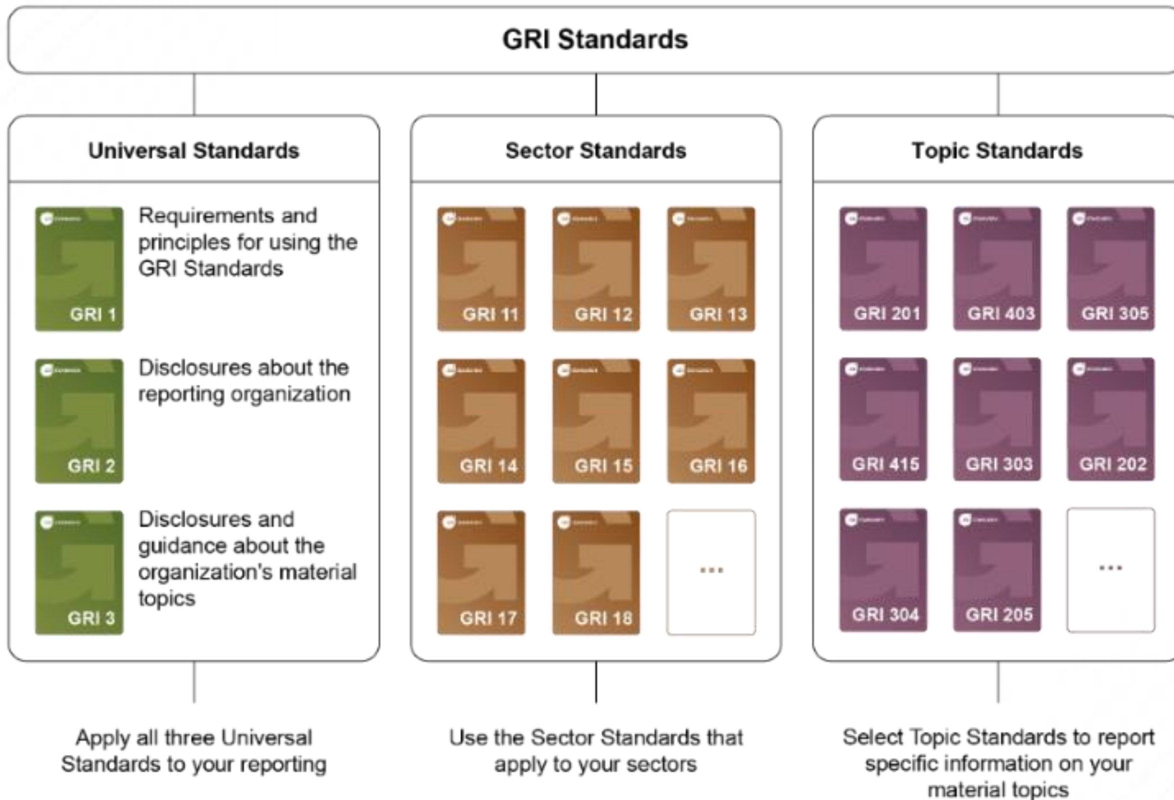
SASB industry standards can be obtained at www.sasb.org/standards-overview/downloadcurrent-standards/

Global Reporting Initiative's Sustainability Reporting Standards ("GRI Standards")

Of all the available reporting standards, the GRI Standards are the most widely-used reporting standards. The purpose of the Standards is "to enable organizations to report information about their most significant impacts on the economy, environment, and people, including impacts on their human rights – in the GRI Standards these are referred to as material topics."[57] The disclosure of these impacts are organized into three main classes of standards, namely Universal Standards, Topic-specific Standards and

[55] IFRS Foundation, SASB Standards Application Guidance 2 (2018).
[56] *Id.*
[57] Global Reporting Initiative, *Consolidated Set of the GRI Standards 2021*, 10 (2021).

Sector-specific Standards. The GRI Standards have a multi-stakeholder approach, meaning a single report made in accordance with or in reference to the GRI Standards can be understood and used by various stakeholders. The topic-specific standards provide us with economic, environmental, and social disclosures.



Integrated Reporting Framework, or the <IR> Framework

An integrated report, developed using the <IR> Framework, has the objective of exhibiting how value is created, preserved or eroded over time.[58] A company's value can be categorized into six capitals namely, 1) financial capital, 2) manufactured capital, 3) intellectual capital, 4) human capital, 5) social and relationship capital, and 6) natural capital.

[58] International Integrated Reporting Council, *International <IR> Framework 2021*. 11. *Available at* https://integratedreporting.ifrs.org/wp-content/uploads/2022/08/IntegratedReportingFramework_081922.pdf

To show how value is created, preserved or eroded over time, the entity must take into account several important factors. First, the entity should consider the external environment in which it operates.[59] This includes economic conditions, technological change, societal issues and environmental challenges. Second, the entity should consider its business model which draws on the six capitals as inputs[60] and, through its business activities, converts them to outputs[61]. Business activities include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services. The entity should then account for the outcomes, defined in the <IR> Framework as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.[62]

The entity must then monitor and analyze all the aforementioned factors to identify risks and opportunities relevant to the organization, its strategy and its business model.[63]

The <IR> Framework can be accessed via this link: https://integratedreporting.ifrs.org/wpcontent/uploads/2022/08/IntegratedReportingFramework_081922.pdf

The Recommendations of the Taskforce on Nature-related Financial Disclosures ("TNFD Recommendations")

The TNFD recommendations provide a way for organizations to disclose their nature-related issues, aligned with the global sustainability reporting baseline, existing and emerging regulatory requirements and in response to growing demands from investors for more information on these issues.[64]

---

[59] *Id.* at 21.
[60] Defined in the <IR> Framework as "The capitals (resources and relationships) that the organization draws upon for its business activities."
[61] Defined in the <IR> Framework as "An organization's products and services, and any by-products and waste."
[62] International Integrated Reporting Council, *supra* note 18 at 21.
[63] *Id.*
[64] Taskforce on Nature-related Financial Disclosures, *Getting Started with Adoption of the TNFD Recommendations 2023.* 4*. Available at https://tnfd.global/wp-content/uploads/2023/09/Getting_started_TNFD_v1.pdf?v=1698156380*

The TNFD Recommendations are classified into four disclosure pillars, namely:

- Governance
- Strategy
- Risk & Impact Management
- Metrics & Targets

The Governance pillar pertains to the disclosure of the board's oversight and management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities. This pillar also includes human rights policies and engagement activities with indigenous peoples, local communities and other affected stakeholders.[65]

The Strategy pillar recommends the disclosure of the effects of nature-related dependencies, impacts, risks and opportunities on the entity's business model, strategy and financial planning where such information is material.[66]

For Risk & Impact Management, the entity should describe the processes for identifying, assessing and prioritizing nature-related dependencies, impact, risks and opportunities in its direct operations, along with its upstream and downstream value chain(s).[67]

Lastly, the entity should disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.[68]

The TNFD Recommendations may be accessed through the following link: https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661

---

[65] *Id. at 8.*
[66] *Id.*
[67] *Id.*
[68] Taskforce on Nature-related Financial Disclosures (TNFD), *supra* note 56 at 8.

PSE
THE PHILIPPINE STOCK EXCHANGE, INC.

Conclusion

Conclusion

Different companies will have varied capacities when it comes to monitoring and disclosing sustainability-related risks and impacts. The goal of this guidance is to provide issuers with the basic concepts to get started with full, fair, and reliable disclosure of material sustainability information. Sustainability reporting might be a relatively new concept to businesses, but as with the disclosure of traditional material information, companies have the duty to ensure that key stakeholder(s) have the relevant information needed to make informed decisions about the company's ability to create value in the short, medium and longer term.

Sustainability reporting can also be an exercise in tracking the realization of company strategy and the extent of ESG impacts. High-quality reporting enables the measurement of success or progress in key corporate strategies as well as impacts of corporate practices. The achievement of strategic milestones needs to be data-driven (measurable/quantitative), and sustainability reporting requires the disclosure of qualitative and quantitative factors. Proper disclosure will also be an opportunity for the company to exhibit corporate adherence to industry ethical standards and national and international frameworks on corporate sustainability and sustainable development.

Ultimately, high-quality sustainability reporting will drive continuous improvement by creating accountability and fostering collaboration with stakeholders.

By identifying opportunities for cost savings, revenue generation and risk mitigation, the disclosure of sustainability data and the implementation of data-backed initiatives will generate financial value for the company.