



FOCUS ON BUSINESS VALUE  
2022 Crowe Financial Services Conference

# Carpe Diem

## Navigating and Capitalizing on ESG

November – December 2022

Presented by:

Crowe Industry Specialists

# ESG?

## ENVIRONMENTAL



### How business operations impact the environment (and vice versa)

- Natural resource management - energy, materials, and product compliance
- Impact of climate change including greenhouse gas (GHG) emissions and net-zero strategies

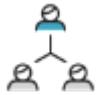
## SOCIAL



### How an organization's operations affect its people and communities

- Social considerations, such as human rights due diligence, labor practices, community investments, diversity equity and inclusion
- Human capital management including culture, training, and compensation

## GOVERNANCE



### How a company behaves and governs

- Leadership, transparency, board diversity and ethics
- Supply chain oversight including sanction monitoring, and labor practices
- Governance considerations, such as stakeholder engagement and anti-fraud policies

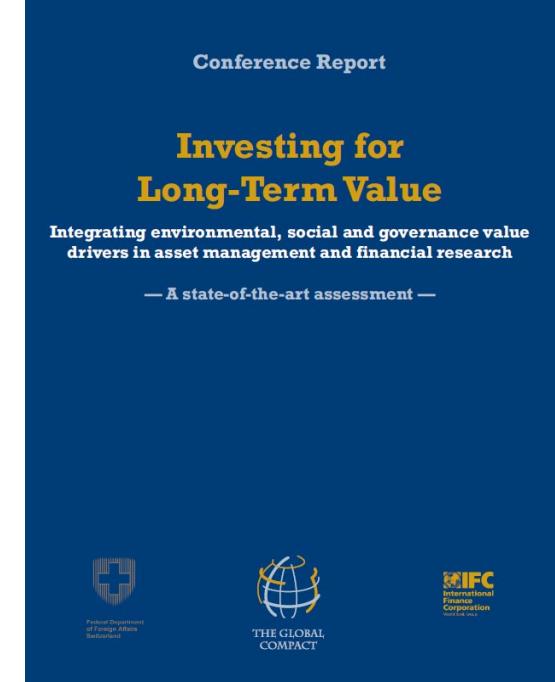


# How Did ESG Originate?

“In a more globalised, interconnected, and competitive world, the way that environmental, social, and corporate governance issues are managed is a key part of companies’ overall management quality that’s necessary to compete successfully.

“Companies that perform better with regard to ESG issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action, or accessing new markets, while at the same time contributing to the sustainable development of the societies in which they operate. Moreover, these issues can have a strong impact on reputation and brands, an increasingly important part of company value.”

Sustainability + Corporate Responsibility => ESG



Zurich, 2005

# Why Do We Care?



## CUSTOMERS



# 79%

Nearly 4 in 5 people in the US report they are “passionate” about climate change. However, only 22% say they know whether their bank is financing fossil fuels.

Bank of the West's Money Matters Report—Revealing the Sustainability Intention Gap

## EMPLOYEES



# 72%

By 2029, the Millennial and Gen Z generations will make up 72 percent of the world’s workforce, compared to 52 percent in 2019. These generations place greater importance on environmental and social concerns than their predecessors do – and will expect more from employers on these issues.

ESG as a Workforce Strategy, Marsh & McLennan Advantage

## INVESTORS



# 88%

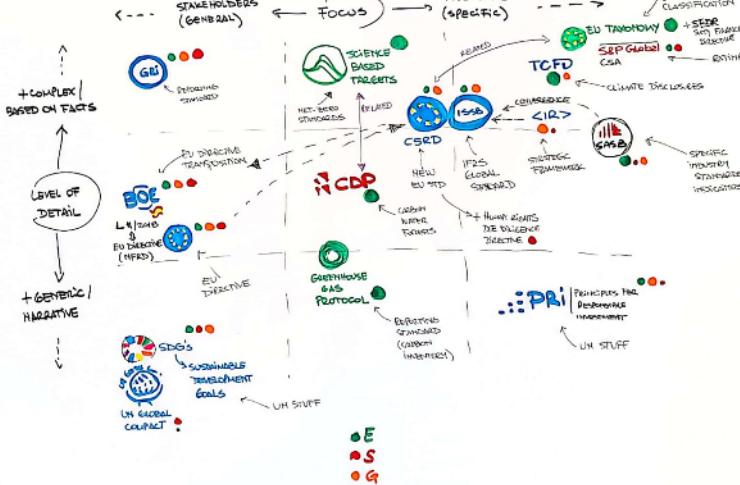
of Institutional Investors subject ESG to the same scrutiny as operational and financial considerations.

2021 Edelman Trust Barometer, Special Report: Institutional Investors

# How Do We Navigate?



## STANDARDS/FRAMEWORKS



Courtesy of Luis Piacenza, Crowe Spain

## RATINGS



“There is little clarity and alignment on definitions, including on what ratings or data products intend to measure.”

International Organization of Securities Commissions (IOSCO) Final Report (November 2021), Environmental, Social and Governance (ESG) Ratings and Data Products Providers

## REGULATORS



Strategic Goals of the Department of the Treasury

1. Promote Equitable Economic Growth and Recovery
2. Enhance National Security
3. Protect Financial Stability and Resiliency
4. Combat Climate Change
5. Modernize Treasury Operations

Department of the Treasury Strategic Plan, 2022-2026

# Agenda

What's Going On?

What are Banks Doing?

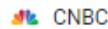
Steps to Take Now



# What's Going On?



# What's Going On



[Big business likes to trumpet ESG credentials. But a 'greenwashing' reckoning could be on the horizon](#)

Today, companies that give their products or services the "ESG" or "sustainable" label are finding their business practices and claims...



The New York Times

['Woke, Inc.' Author Ramaswamy Targets Apple and Disney](#)

A prominent critic of investing that factors in climate and social considerations wants to use shareholder pressure to refocus companies on...



Bloomberg.com

['Dilbert' Becomes the Voice of the ESG Opponents: Green Insight](#)

Sign up to receive the Bloomberg Green newsletter in your inbox. There's now little doubt ESG has gone mainstream.



The World Economic Forum

[ESG disclosures are transforming companies. Here's how](#)

...

The Forum's flagship Stakeholder Capitalism Metrics provides businesses with a common approach to ESG disclosures. As global regulation develops...



The Washington Post

[Opinion | Texas's war against ESG investing is ingenious but futile](#)

The state's pension funds have been directed to divest from financial firms such as BlackRock and UBS that supposedly boycott fossil fuels.



Barron's

[ESG Is Just a New Tool to Solve an Old Problem For Investors](#)

Environmental, social, and governance investing is fundamentally about finding new ways to manage risk, write Alex Friedman and Scott...



# ESG Ratings

PRESS RELEASE

## Fitch Group Announces Creation of Sustainable Fitch and Launches ESG Ratings Products

Wed 15 Sep, 2021

*Target of full ESG coverage of investable fixed-income universe, backed by best-in-class analytics, transparency and robust methodologies*

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DATA

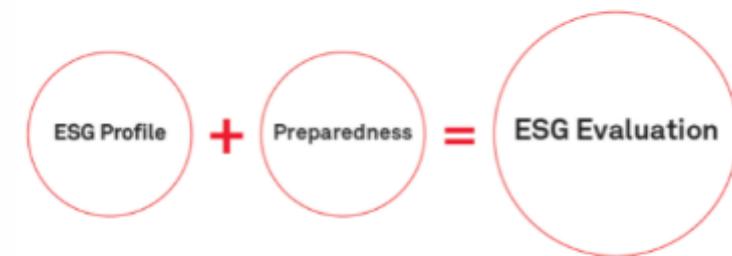
## Refinitiv ESG company scores

Our ESG scores are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data.



## S&P Global Ratings ESG Evaluation

S&P Global Ratings ESG Evaluation is a one of a kind assessment of a company's ESG strategy and ability to prepare for potential future risks and opportunities. The ESG Evaluation is the ideal tool for investors in that it provides a forward looking, long term opinion of readiness for disruptive ESG risks and opportunities. The methodology is founded on our analysts' sector and company expertise, relying upon in-depth engagement with company management to assess material ESG impacts on the company, past, present and future.



[ENVIRONMENTAL, SOCIAL AND GOVERNANCE EVALUATION ANALYTICAL APPROACH >](#)

From July 1 2020, we will be extending our ESG Evaluation product to also include the assessment of banks and insurance companies. For more information, please email [esg.evaluation@spglobal.com](mailto:esg.evaluation@spglobal.com)

# ESG Ratings



**S&P Capital IQ PRO**

Search S&P Capital IQ Pro (CTRL+SHIFT+F)

Advanced Search

App News Dashboard Research Markets & Deals Industries ESG

Wells Fargo & Company | ESG SCORES

NYSE:WFC (IN KEY: 100382; BPCIQ KEY: 252891; TUID: 440195)

Methodology Year: 2020

**PUBLIC ASSESSMENT**

**S&P Global ESG Score**

37 / 100

Updated: 12/18/2020

Environmental weight 12% 84 / 100

Social weight 32% 27 / 100

Governance & Economic weight 55% 32 / 100

ESG Score Industry Average 24 / 100

ESG Score Industry BNK Banks

**ESG Evaluation** by S&P Global Ratings

To learn more about the S&P Global Ratings ESG Evaluation click here.

**Disclosure Analysis**

S&P Global ESG Score 41 / 100

18 / 32 23 / 88

Required Public Disclosure Additional Disclosure

Potential Score Contribution: 70 / 100

Data Availability: Medium

**Historical ESG Performance**

Score Type: PPA Score

2016 2017 2018 2019 2020

More ▾

Disclosure Level 80% Disclosure Level 98%

Data Availability: High Data Availability: Medium

Score Contribution 18 / 32 Score Contribution 23 / 88

Potential Score Contribution: 36 / 68

Report Builder

## ESG Score Breakdown

**84 Environmental** Weight 13%

- CRITERIA
  - Climate Strategy
  - Environmental Reporting
  - Operational Eco-Efficiency

**27 Social** Weight 32%

- CRITERIA
  - Human Capital Development
  - Talent Attraction & Retention
  - Financial Inclusion
  - Labor Practice Indicators
  - Corporate Citizenship and Philanthropy
  - Human Rights
  - Occupational Health and Safety
  - Social Reporting

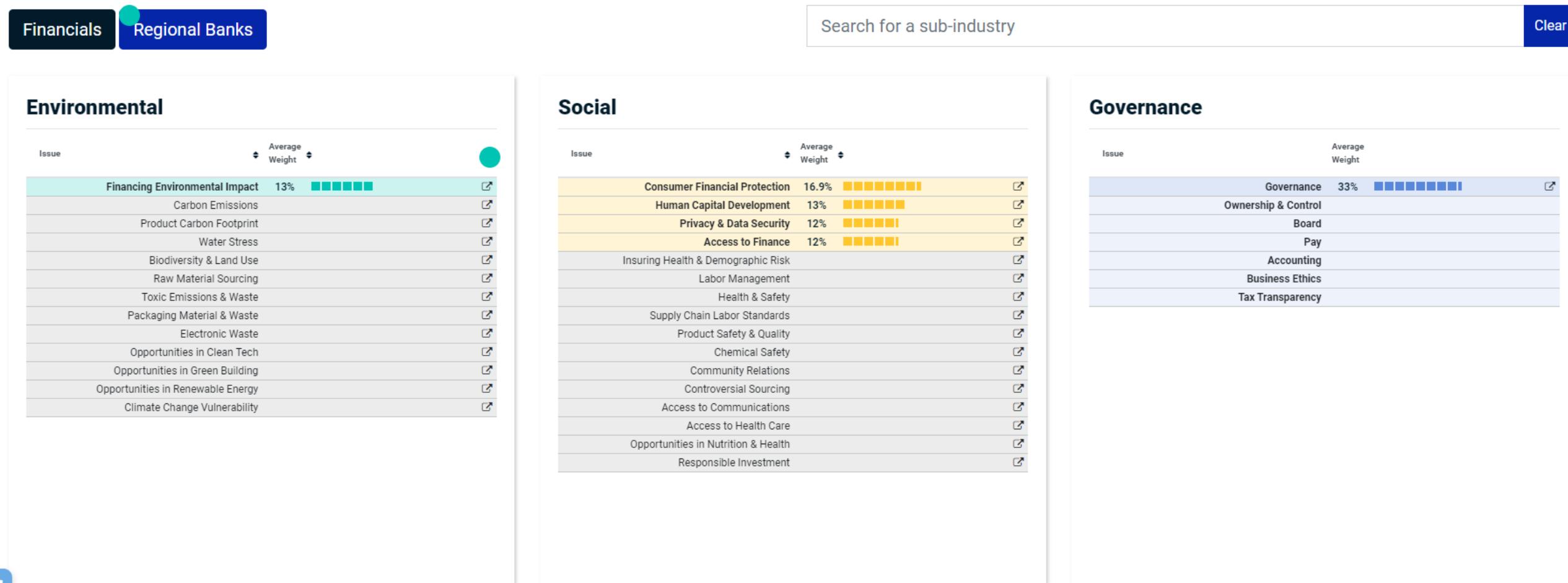
**32 Governance & Economic** Weight 55%

- CRITERIA
  - Corporate Governance
  - Sustainable Finance
  - Codes of Business Conduct
  - Risk & Crisis Management
  - Anti-crime Policy & Measures
  - Information Security/Cybersecurity & System Availability
  - Materiality
  - Policy Influence
  - Tax Strategy
  - Customer Relationship Management
  - Financial Stability and Systemic Risk
  - Privacy Protection

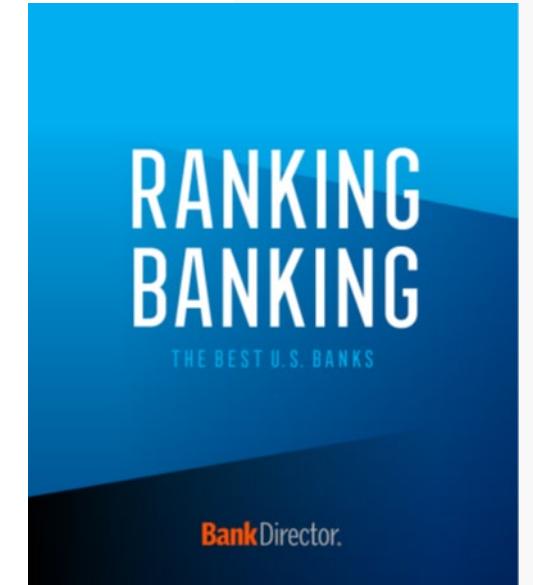
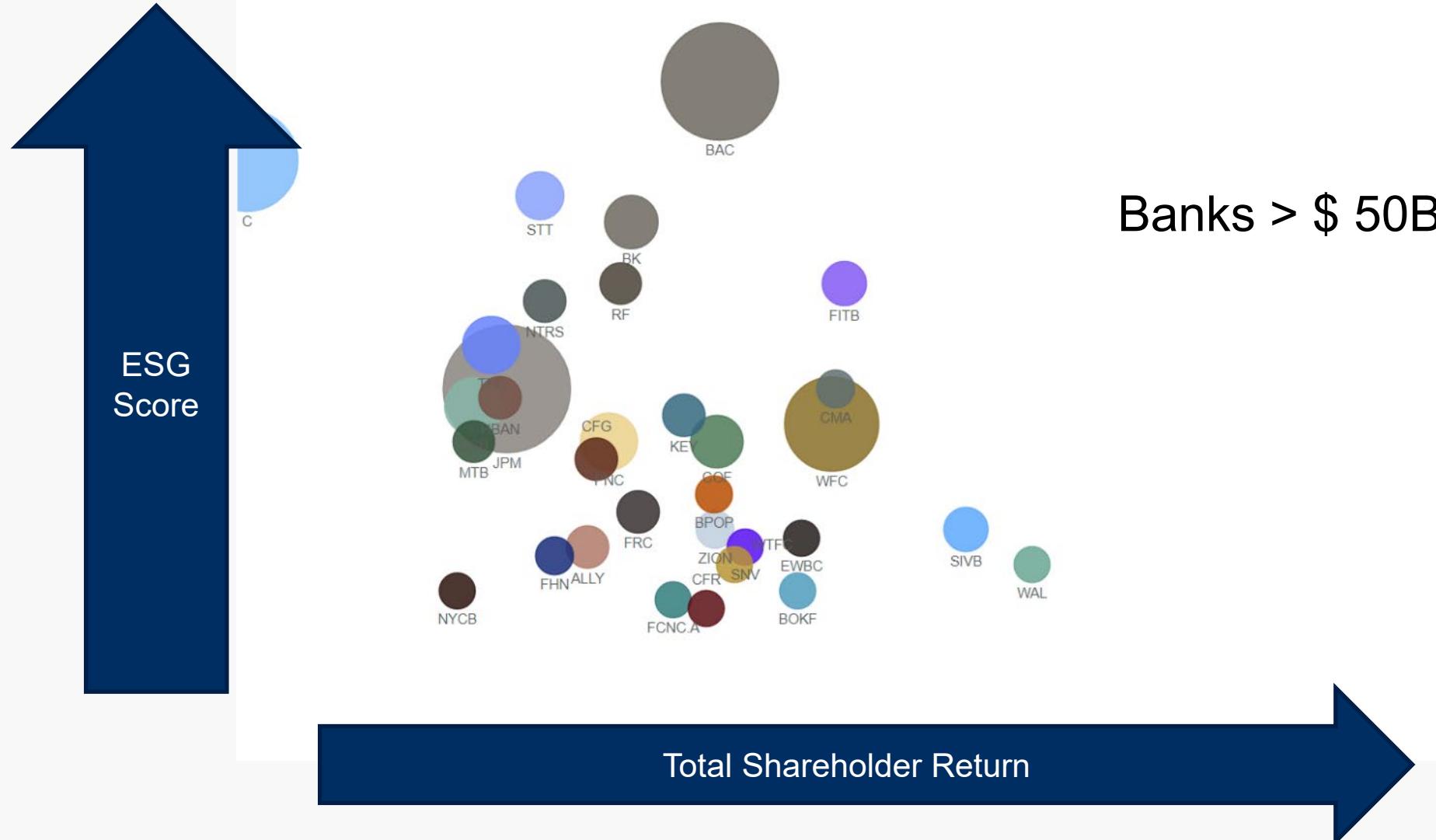
# ESG Industry Materiality Map

MSCI ESG Ratings provide an assessment of the long-term resilience of companies to environmental, social, and governance (ESG) issues. Our ESG Industry Materiality Map is a representation of the current Key ESG Issues and their contribution to companies' ESG Ratings. It is part of our ESG Ratings transparency initiatives, through which we have made ESG Ratings of [companies](#) and [funds](#) accessible to the public.

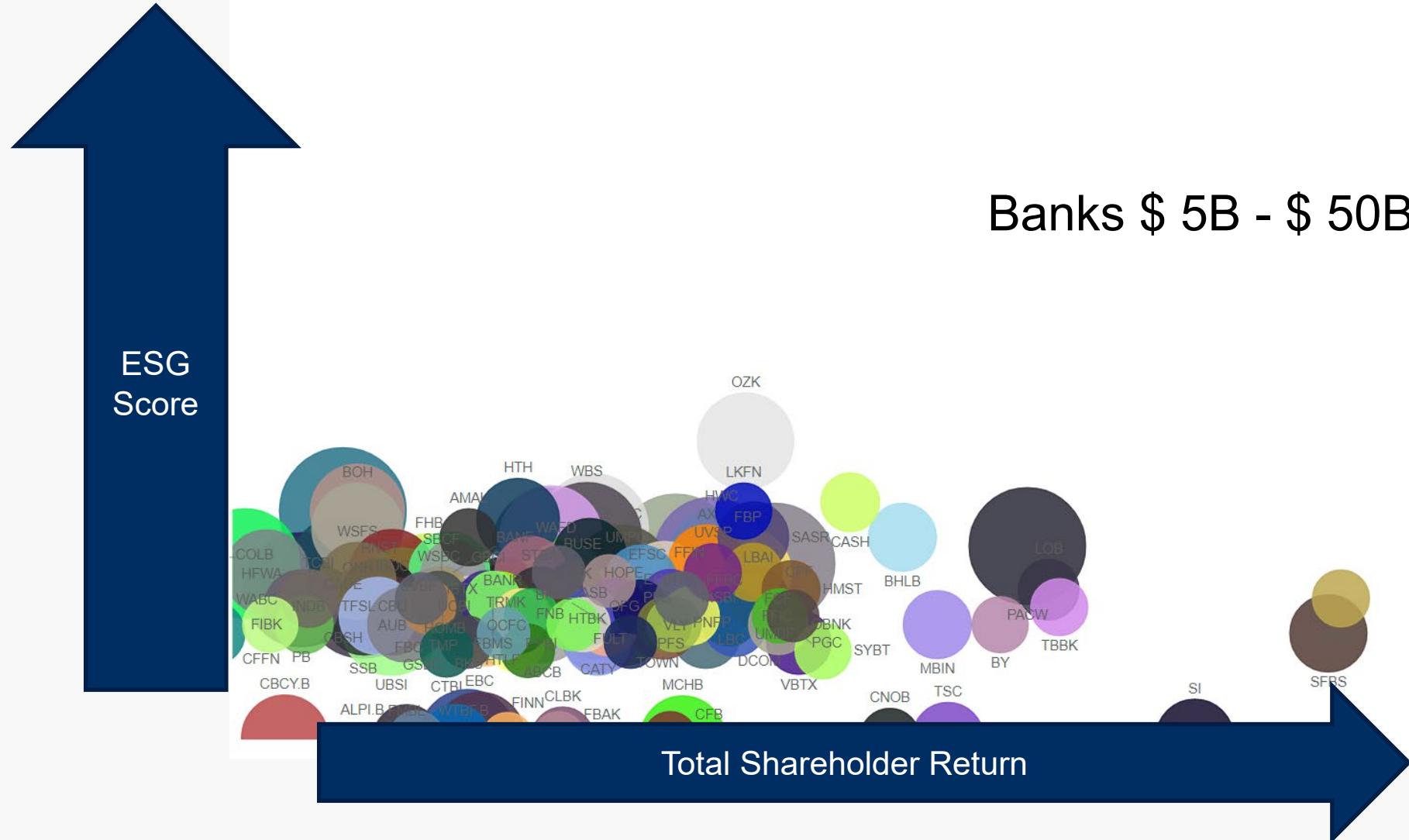
To see the Key Issues assessed for companies in a specific GICS®<sup>1</sup> sub-industry or sector, find the industry in the dropdown list or use the search bar on the right. [Click here](#) for more information.



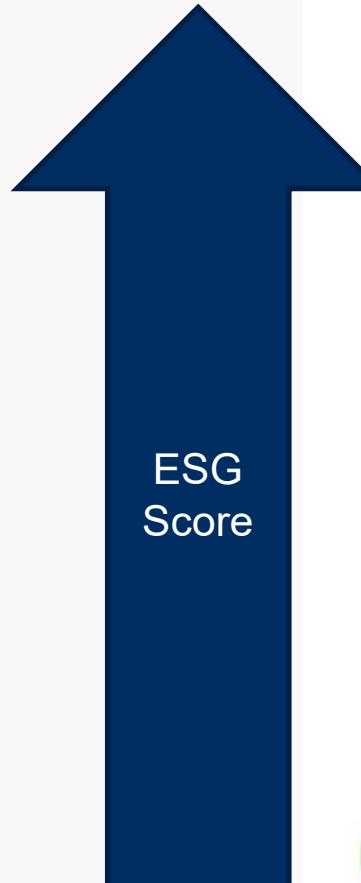
# ESG in Context of Measuring Business Performance



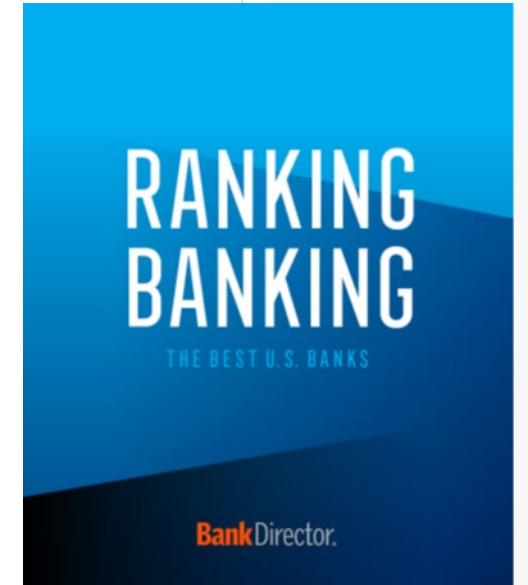
# ESG in Context of Measuring Business Performance



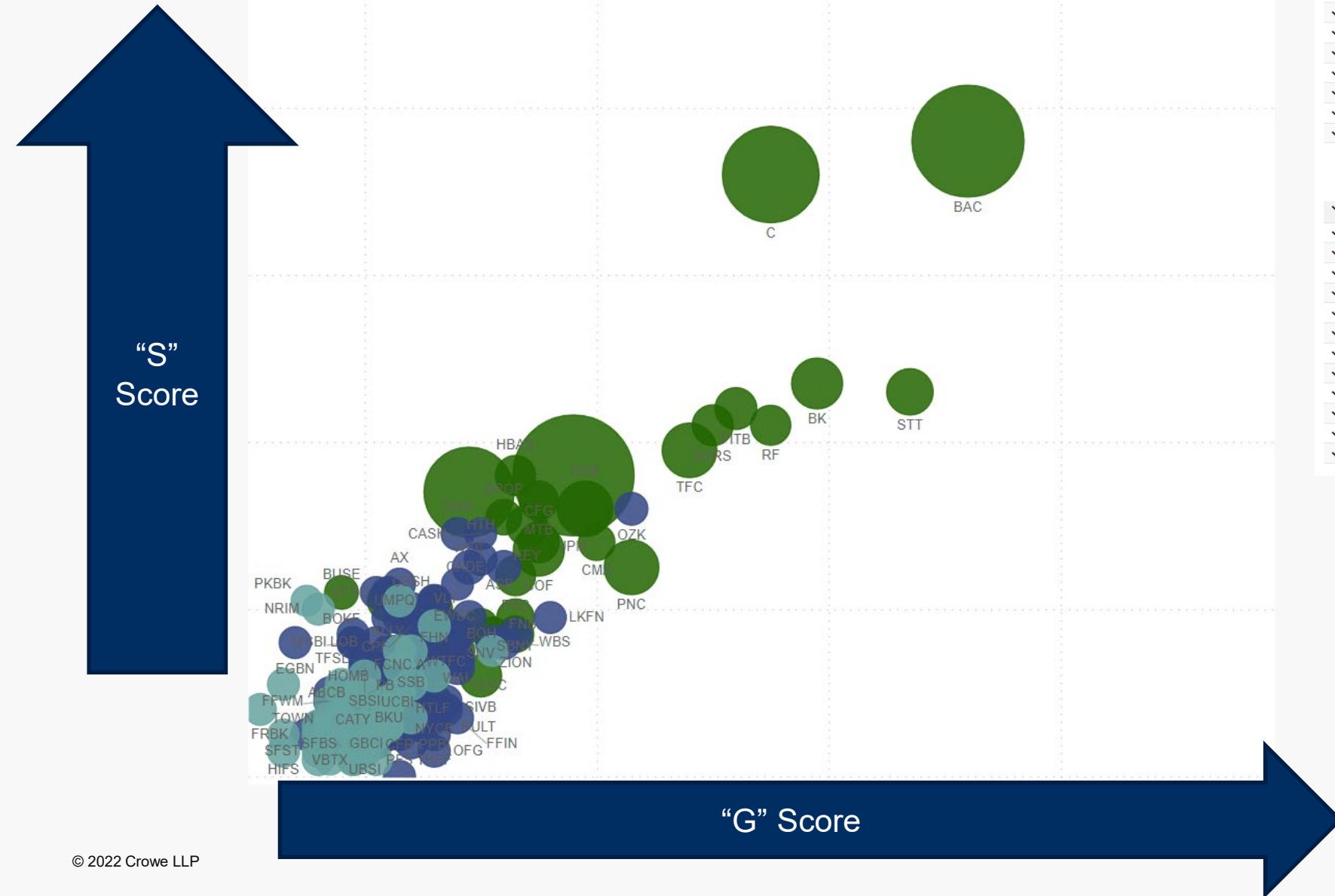
# ESG in Context of Measuring Business Performance



Banks \$ 1B - \$ 5B



# Banks are Strongest in “S” and “G”



## Social Weight 32%

CRITERIA	SCORE
Human Capital Development	64
Employee Development Programs	50
Human Capital Return on Investment	92
Training & Development Inputs	55
Talent Attraction & Retention	0
Financial Inclusion	42
Labor Practice Indicators	7
Corporate Citizenship & Philanthropy	27
Human Rights	0
Occupational Health & Safety	0
Social Reporting	50

## Governance & Economic Weight 55%

CRITERIA	SCORE
Corporate Governance	72
Sustainable Finance	0
Codes of Business Conduct	41
Risk & Crisis Management	28
Anti-crime Policy & Measures	0
Information Security/ Cybersecurity & System Availability	34
Materiality	0
Policy Influence	20
Tax Strategy	50
Customer Relationship Management	0
Financial Stability & Systemic Risk	100
Privacy Protection	9

# Value through the Lens of Integrated Thinking

## Financial Driven World

- Optimize Returns
- Financial Materiality
- Risk Based Taxonomy
- Risk Avoidance
- Standards and Language Clearly Defined
- Strategy Based On Business Targets and Goals
- Rules Based

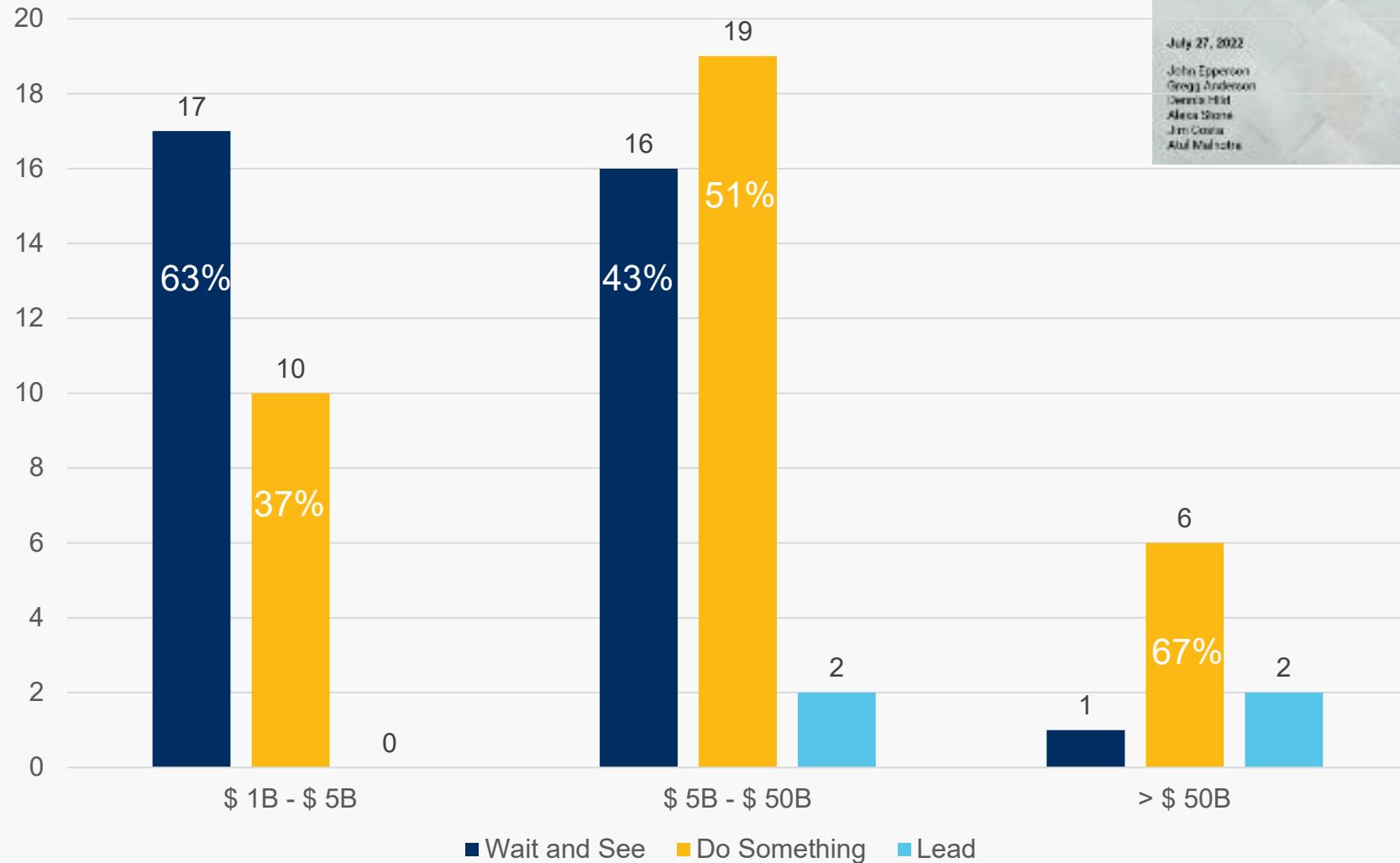
## ESG Driven World

- Integrated Thinking
- Dual Materiality
- Topic Based Taxonomy
- Risk and Opportunity Balanced
- Standards and Language Immature
- Strategy Based On Purpose, Sustainability, and Responsibility
- Principle Based

A blurred, motion-filled image of a crowd of people walking on a path, with a modern glass building in the background.

# What are Banks Doing?

# Where do you see your organization in its ESG journey?

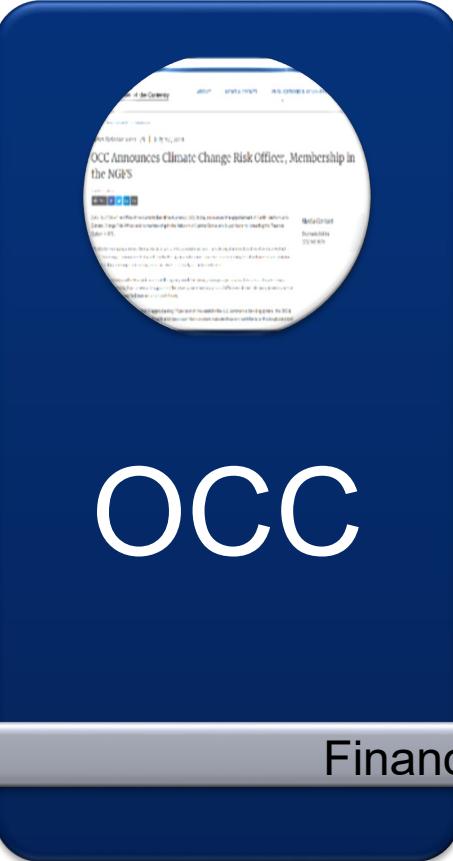


A

# Wait & See



# Watching the Banking Regulators



Financial Stability Oversight Council

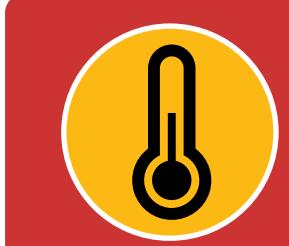


# Watching the SEC

On March 21, 2022, the SEC issued a 500+ page draft proposal on climate-related disclosure requirements for public registrants.

The proposal was subject to a 60-day comment period that ended on June 17, 2022. The SEC reopened the comment period in October through November 1, 2022 due to a technical glitch.

The proposal highlights five major types of disclosures that may be required in periodic reports for public registrants.



How entity governs and manages climate-related risks



Actual or material impacts of climate-related risks on business, strategy, outlook



Quantitative measures of Greenhouse Gas (GHG) emissions



Climate-related targets and goals, scenario analysis, and transition plans (if any)



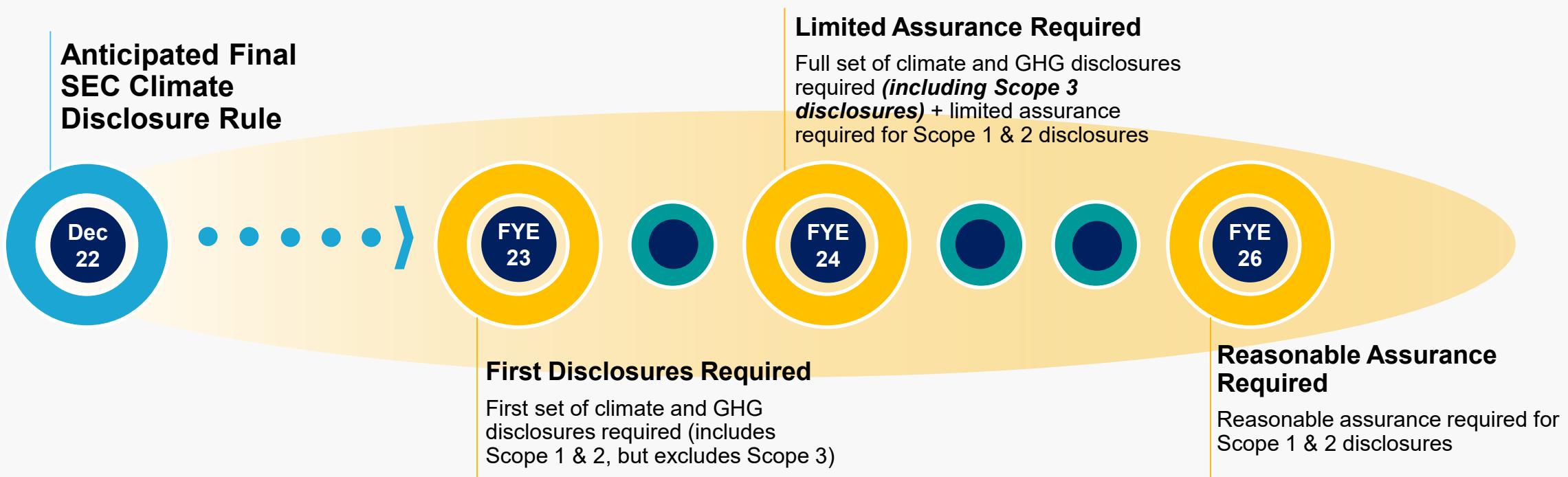
Footnote disclosures with financial impacts (expenses, estimates)

assurance requirements

impacts audited financials

# Proposed phase-in timeline for large accelerated filers

Based on the SEC's current proposal, we believe the timeline below is the most relevant phased-in timeline for climate-related disclosures. We expect that this timeline will be applicable if the proposed rule goes into effect unchanged on or before December 2022.



# Themes from Public Comments Submitted

Widely varied sentiments depending on individual stakeholder types, but overall sentiment was supportive based on number of individual signers

**~10,400**  
letters submitted via **28**  
templated letter formats



# Themes from Public Comments Submitted

Based on review of ~100 letters, respondents are generally supportive of the SEC's efforts\*

**~4,200**  
unique letters submitted  
through June 17, 2022

major stakeholder types	sentiment
Users of Financials	Supportive
Preparers of Financials	Supportive
Audit, Accounting, Law Firms	Supportive
Regulators / Legislators	Mixed
Associations	Mixed
Service Providers	Supportive
Others <sup>(1)</sup>	Supportive

\* Based on Crowe's preliminary analysis

(1) Others group includes a large range of indirect stakeholder types including individuals & activists, academics, voluntary frameworks, small business owners (private companies), etc.

# Themes from Public Comments Submitted

Many respondents were supportive of the SEC's efforts. Among comments, many proposed practical changes with the following emerging themes\*

---

**Concerns regarding complexity of Scope 3 disclosures and GHG boundaries**

---

**Concerns regarding materiality**, specifically the use of the 1% threshold for footnote disclosures

---

**Phase-in periods are too short** and should be expanded to allow for assurance readiness

---

**Remove board expertise requirement**, or otherwise provide safe harbor

---

**SEC is over-reaching its responsibilities** and should defer to legislators on climate issues

---

**Cost of implementation** isn't fully understood and may be more significant than anticipated

---

**Indirect burden on private companies** will be significant if Scope 3 disclosures are required

---

\*Based on Crowe's preliminary analysis

(<sup>1</sup>) International Sustainability Standards Board

# Watching the SEC

## Investor Advisory Committee Schedule

MATTERS TO BE CONSIDERED on September 21, 2022:

The agenda for the meeting included:

1. A panel discussion human capital management labor valuation and performance data;
2. A panel discussion regarding esg fund disclosure; and
3. A discussion of a recommendation on cybersecurity disclosure; a discussion of a recommendation on climate disclosure

The next meeting is scheduled for December 8, 2022. Stay Tuned.

# Banks Who Wait & See

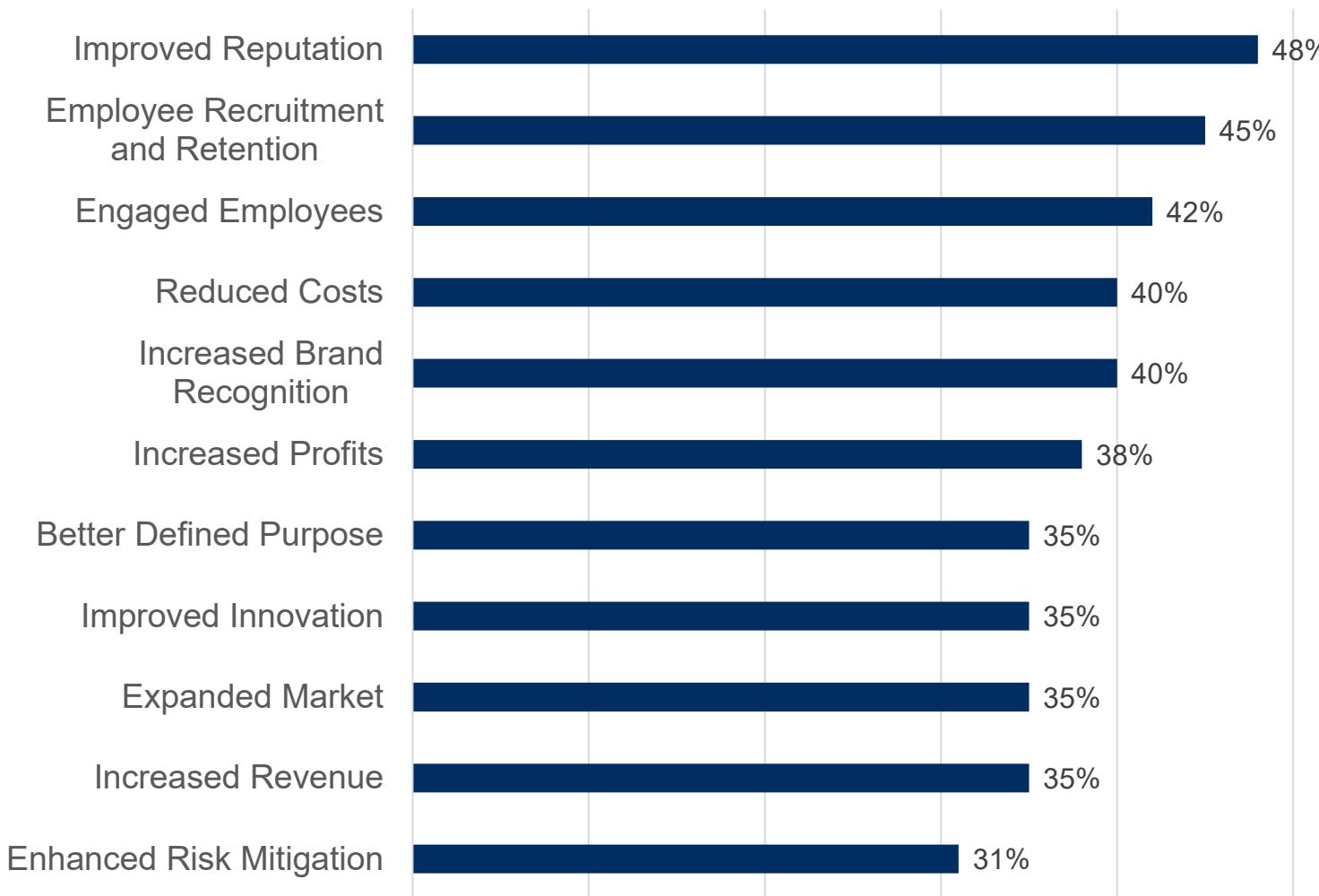
-  Assign Responsibility
-  Attend Education and Regulatory Training
-  Benchmark Peer & Role Model Organizations
-  Identify Relevant ESG Topics
-  Review the Bank's Purpose, Mission and Values





**B** Do Something

# Do Something - Benefits

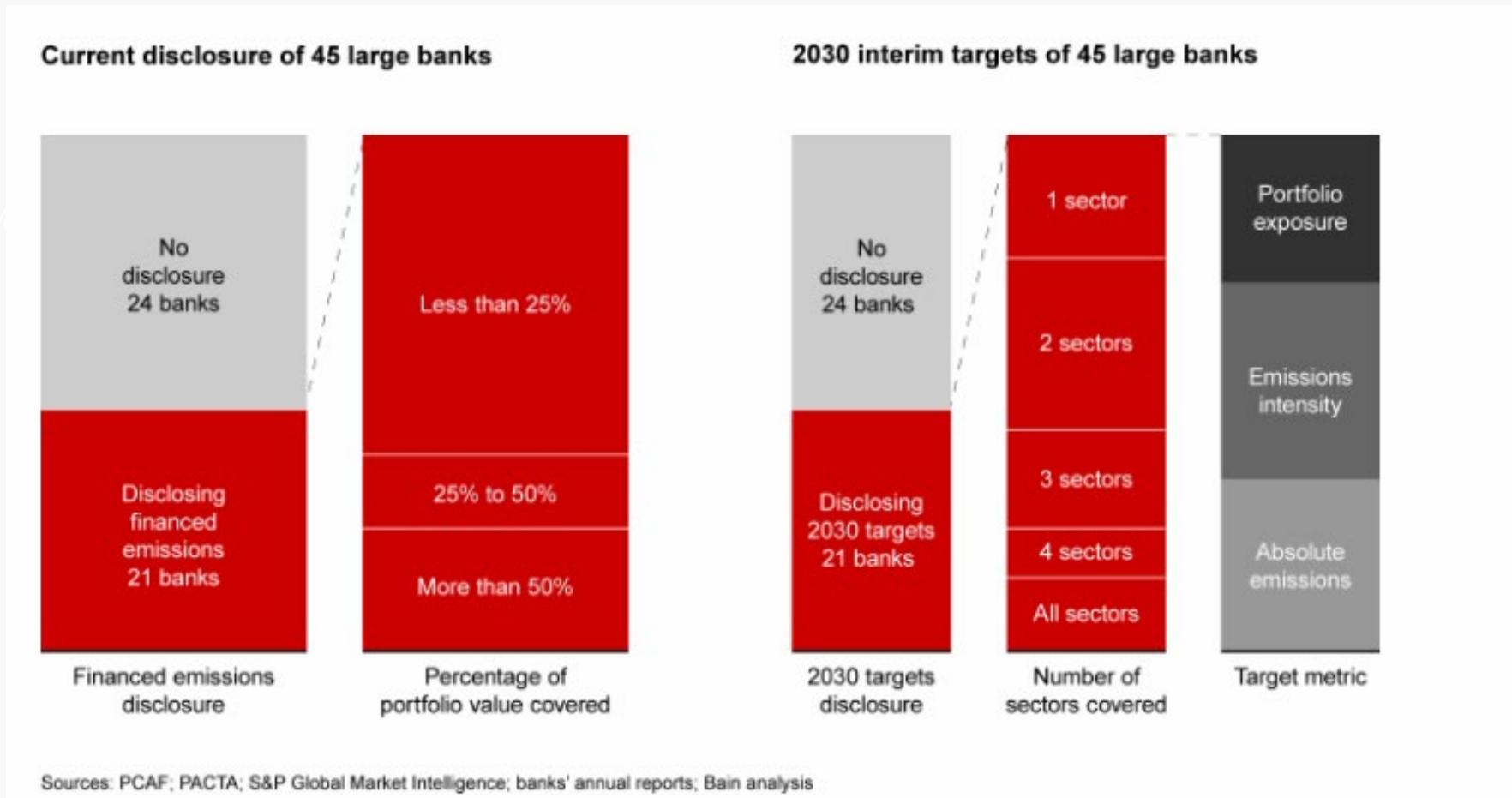


**Among the business professionals who have a CSR/ESG Strategy, 97% experienced at least one of these benefits.**

*Bank of the West's Money Matters Report—Revealing the Sustainability Intention Gap*

# How are banks doing on GHG Disclosures?

About half of big banks disclose current financed emissions and interim targets, but only on part of their portfolio.



Bain & Company - Banks' great carbon challenge

# Why care about TCFD

Alignment of SEC proposed  
climate related disclosure  
rule to TCFD framework



Support and pressure  
from asset managers for  
regulators to require  
TCFD and climate-related  
disclosures



**BlackRock**

**STATE STREET**

**Vanguard**

Convergence of global ESG  
reporting standards



# Task Force on Climate-Related Disclosures (TCFD)

## Governance

Disclose the organization's governance around climate related risks and opportunities.

## Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

## Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

## Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

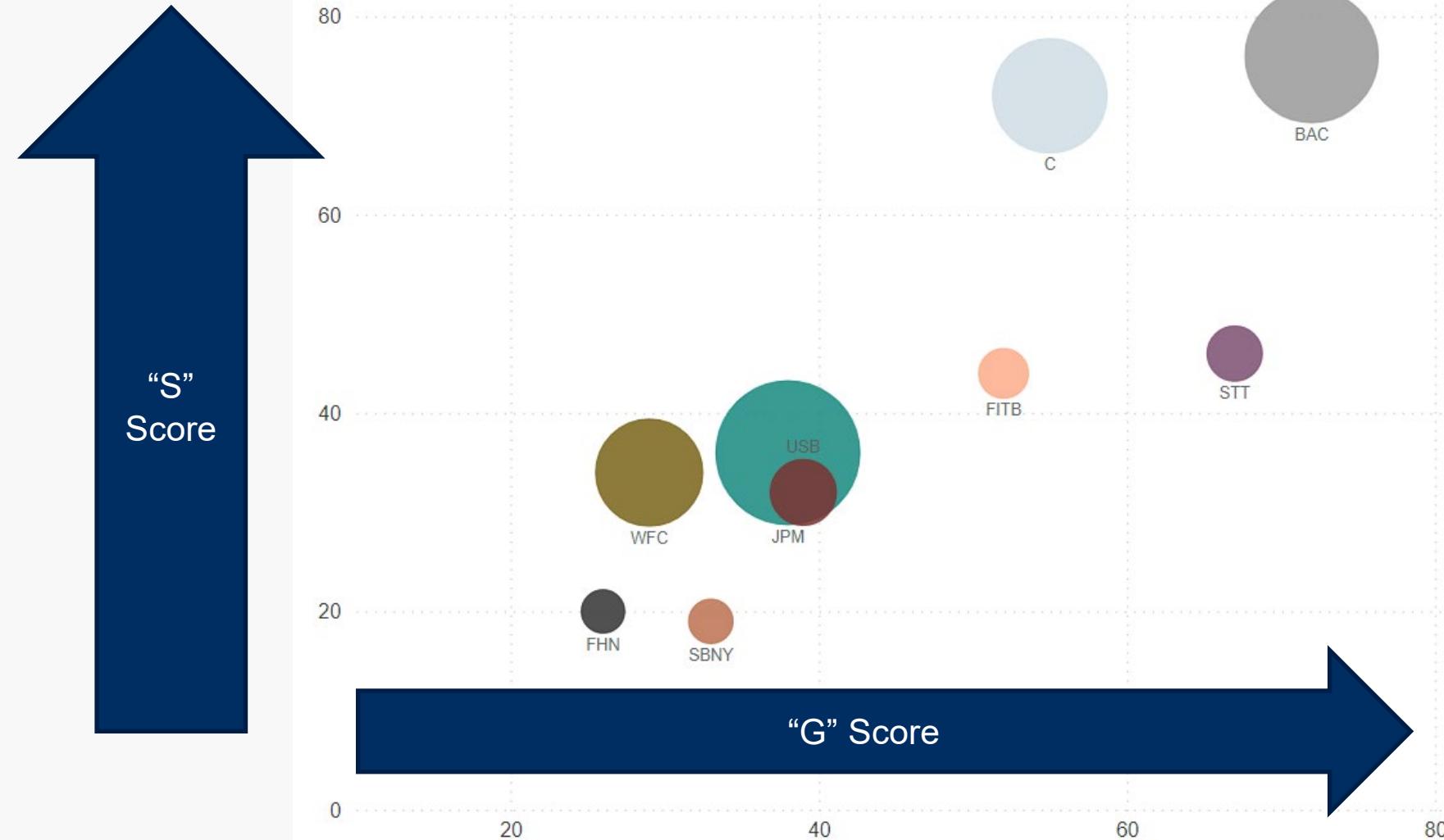
# “E” Scores for TCFD Reporters



Environmental Weight 13%

- CRITERIA
- Climate Strategy ①
- Environmental Reporting ①
- Operational Eco-Efficiency ①

# “S” and “G” Scores for TCFD Reporters



## Social Weight 32%

### CRITERIA

- Human Capital Development  ⓘ
  - Employee Development Programs  ⓘ
  - Human Capital Return on Investment  ⓘ
  - Training & Development Inputs  ⓘ
- Talent Attraction & Retention  ⓘ
- Financial Inclusion  ⓘ
- Labor Practice Indicators  ⓘ
- Corporate Citizenship & Philanthropy  ⓘ
- Human Rights  ⓘ
- Occupational Health & Safety  ⓘ
- Social Reporting  ⓘ

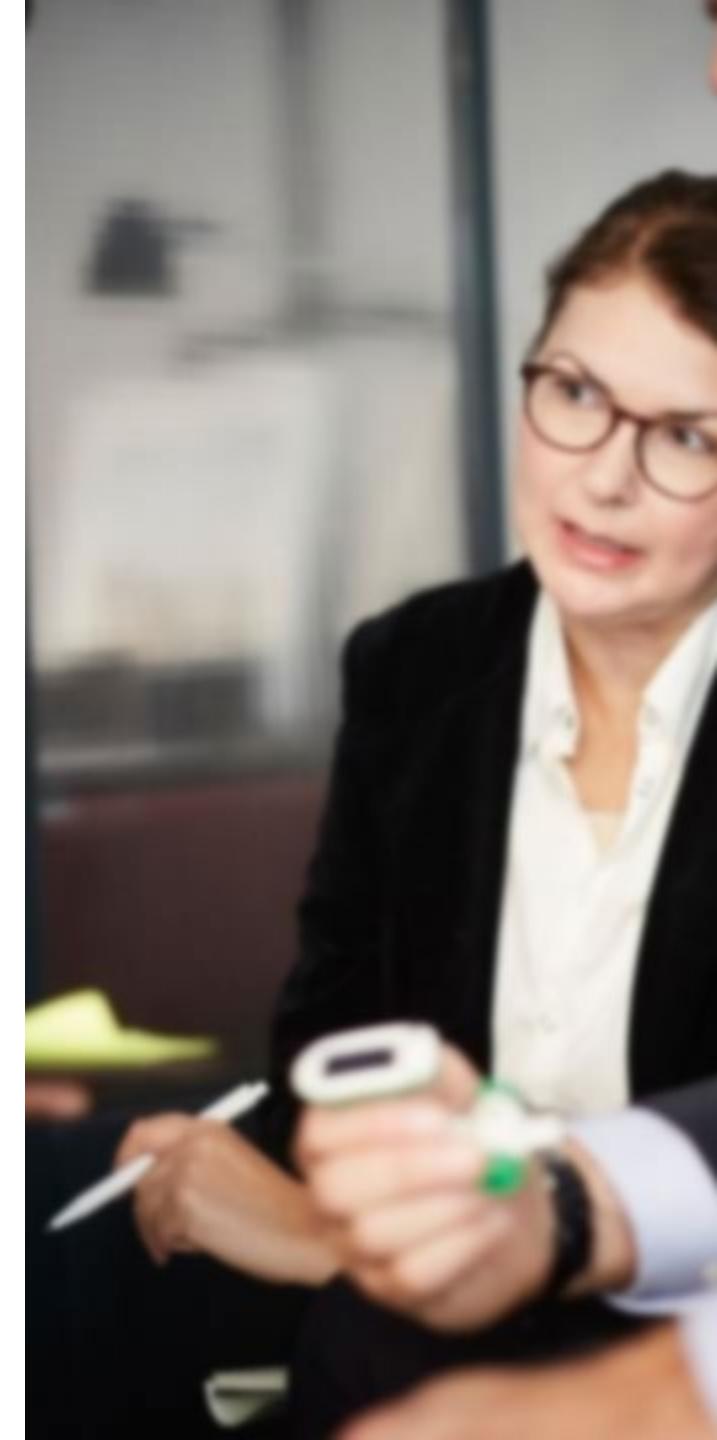
## Governance & Economic Weight 55%

### CRITERIA

- Corporate Governance  ⓘ
- Sustainable Finance  ⓘ
- Codes of Business Conduct  ⓘ
- Risk & Crisis Management  ⓘ
- Anti-crime Policy & Measures  ⓘ
- Information Security/ Cybersecurity & System Availability  ⓘ
- Materiality  ⓘ
- Policy Influence  ⓘ
- Tax Strategy  ⓘ
- Customer Relationship Management  ⓘ
- Financial Stability & Systemic Risk  ⓘ
- Privacy Protection  ⓘ

# Banks Who Want to Do Something

-  Provide Education and Regulatory Training
-  Plan to Produce a TCFD Report
-  Conduct Formal ESG Materiality Workshops (Dual)
-  Develop a Multi-Year Roadmap
-  Review Current Bank Reporting with an ESG Lens
-  Strengthen ESG Reporting Processes, Disclosure Controls and Data Governance
-  Engage Employees, Customers, Investors, Regulators and Communities



C

Lead



# Leaders in the News

## Fifth Third Bank Hosts Sixth Supplier Diversity Summit to Educate and Connect Diverse Suppliers

**Enterprise Bank & Trust Announces Investment Into Empower the Change Fund**

**Lake City Bank Supports the Lilly Center for Lakes & Streams**

**Sunrise Banks Recognized as a “Best for the World” B Corporation for Ninth Year in a Row**

**Old National Announces \$8.3B Community Benefits Agreement to Strengthen Small Businesses and Minority and Underserved Communities**

**First Internet Bancorp Appoints Two Directors**

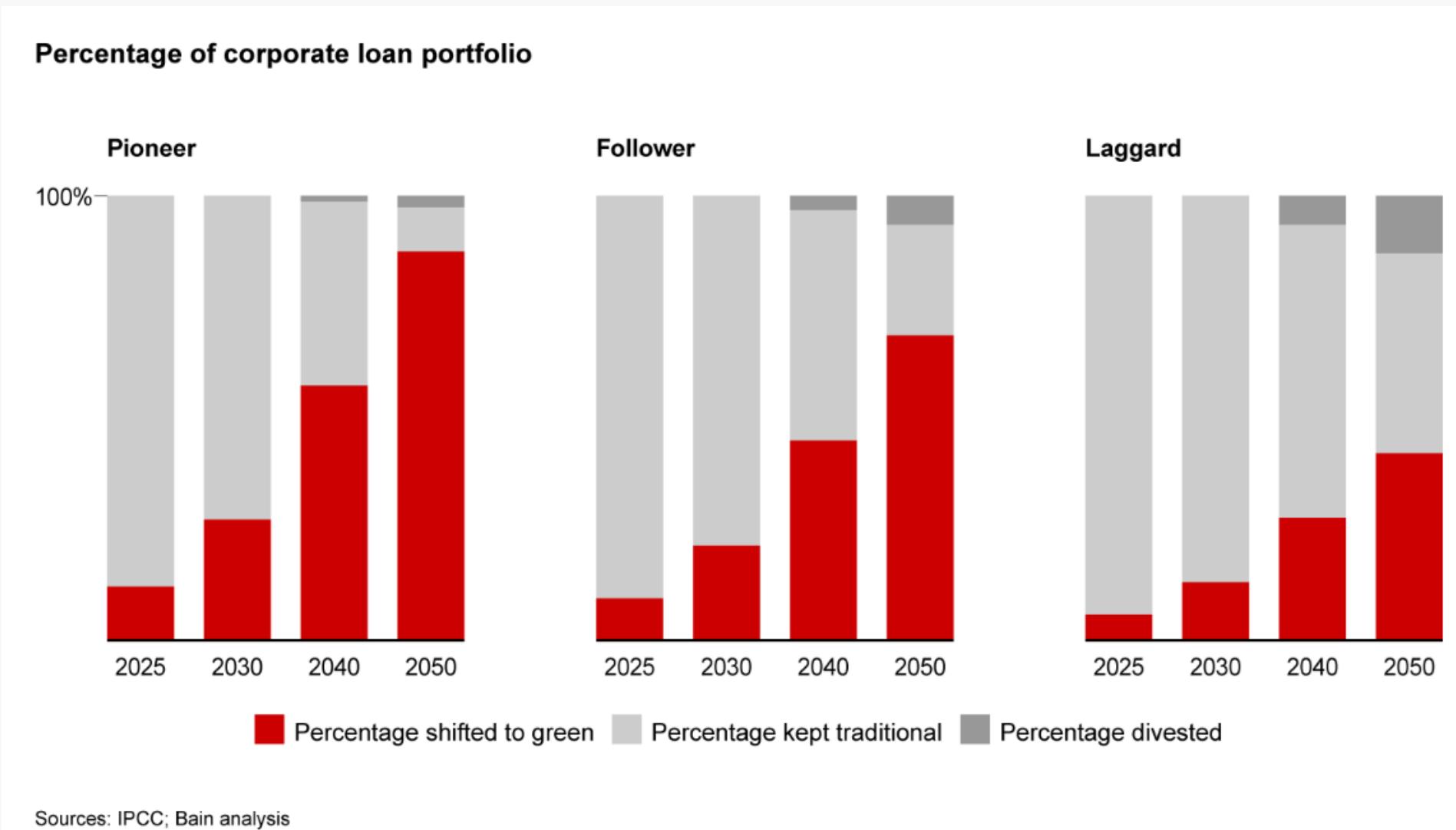
**Florida's Climate First Bank launches online solar lending with no fees**

**Umpqua Bank Crowdfunding Partnership Accelerates No-Cost Financing for BIPOC, Women Entrepreneurs**

**Amalgamated Bank Announces \$15 million Loan for Decarbonization and Climate Resilience Initiatives**

**Bank OZK Completes Construction of Solar Power Plant in Arkansas**

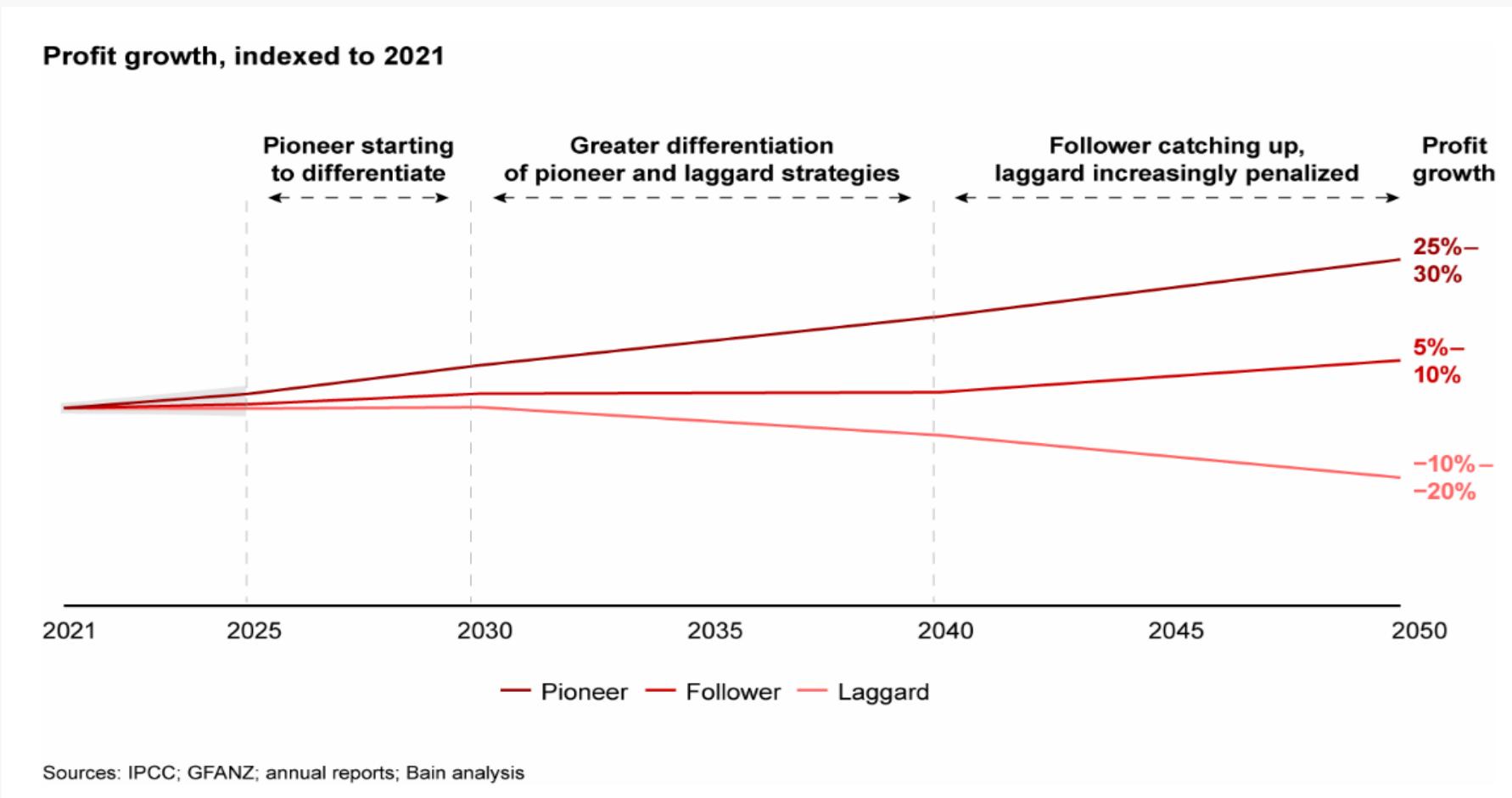
# Leaders



Bain & Company - Banks' great carbon challenge

# Leaders

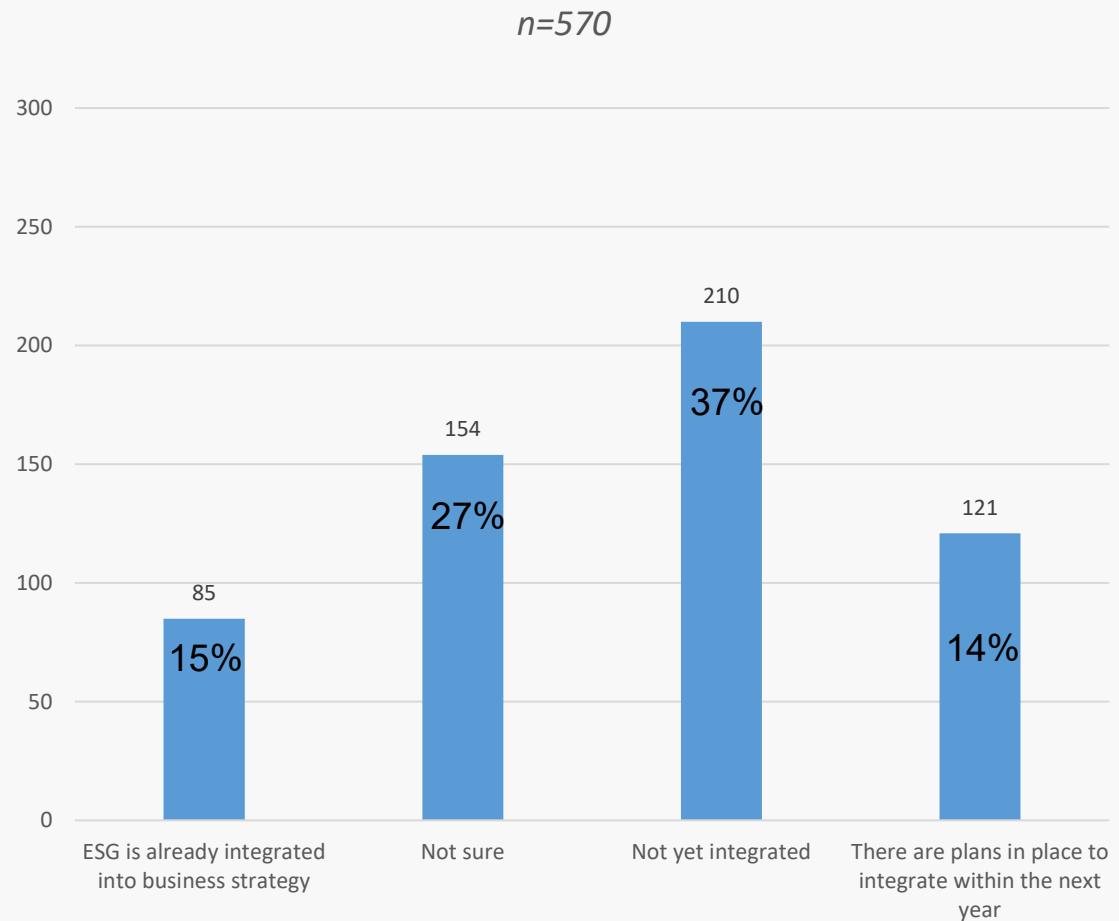
A pioneer  
will start to  
reap  
outsized  
profitability  
after 2025



Bain & Company - Banks' great carbon challenge

# Crowe ESG and Banking Webinar Survey

What is the level of your organization's integration of ESG into business strategy?

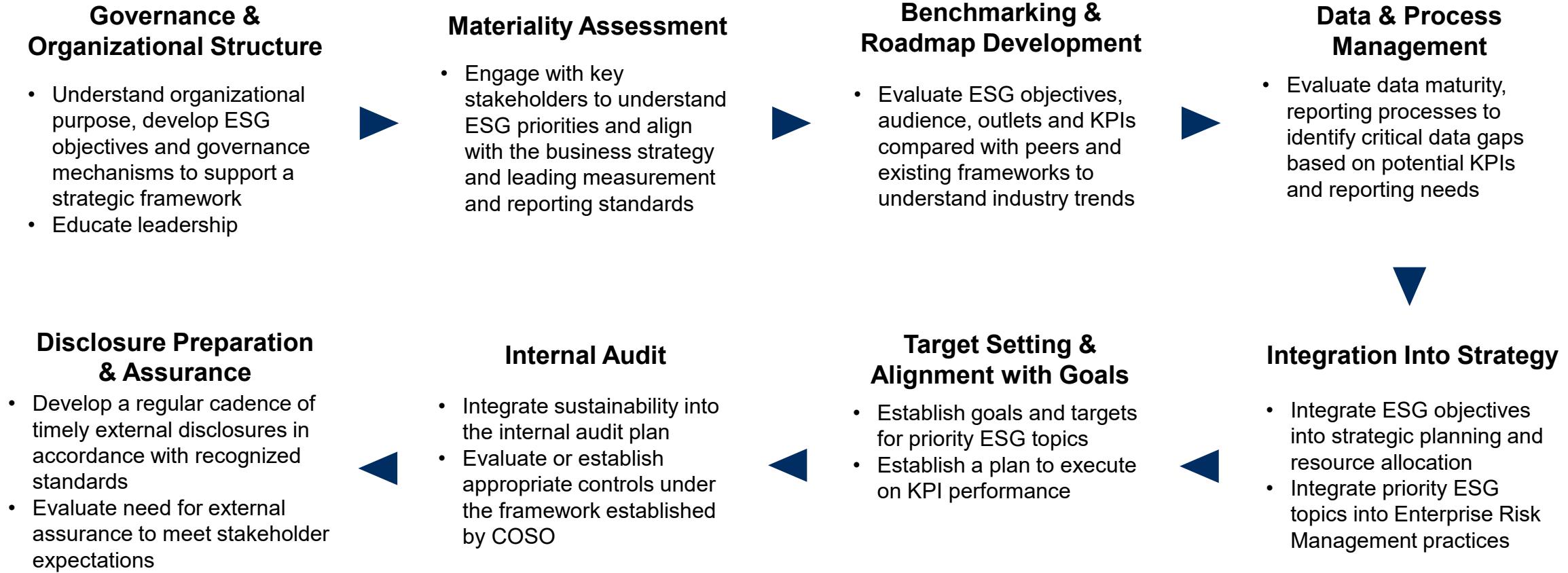


# Banks Who Want to Lead



- Perform Climate Financial Risk Assessments
- Formally Engage Stakeholders
- Calculate and Disclose GHG Emissions
- Launch New Products
- Set Climate Targets and Establish Action Plans
- Collaborate and Lead (Global Alliance for Banking on Values (GABV) and/or Net-Zero Banking Alliance (NZBA))

# The Journey to ESG Integration and Investor-Grade Disclosure while Meeting Regulatory Expectations



# Steps to Take Now

1. Review the Bank's Current Strategy (both written and informal) through the Lens of ESG
2. Evaluate the Materiality of Specific ESG Topics
3. Engage Stakeholders
4. Formalize and Confirm the Governance Structure for Addressing ESG Issues
5. Identify the Data Requirements for Measuring and Reporting ESG Issues
6. Determine Baselines and Start Documenting Existing ESG Efforts
7. Update Senior Management, Educate Employees; and Inform All Other Stakeholders About Already-Existing ESG Efforts
8. Stay Informed on ESG Issues

# QA



Gregg Anderson

Managing Director

[Gregg.Anderson@crowe.com](mailto:Gregg.Anderson@crowe.com)

[crowe.com/esg](http://crowe.com/esg)

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# ESG Resources

## CAQ and AICPA

- “**ESG Reporting and Attestation: A Roadmap for Audit Practitioners**” (February 2021)
  - <https://www.thecaq.org/esg-reporting-and-attestation-a-roadmap-for-audit-practitioners/>
- “**Key Actions for Establishing Effective Governance Over ESG Reporting**” (April 2021)
  - [https://www.thecaq.org/wp-content/uploads/2021/04/caq\\_key-actions-for-establishing-effective-governance-over-esg-reporting\\_2021-04.pdf](https://www.thecaq.org/wp-content/uploads/2021/04/caq_key-actions-for-establishing-effective-governance-over-esg-reporting_2021-04.pdf)
- “**S&P 100 and ESG Reporting**” (April 2021)
  - <https://www.thecaq.org/sp-100-and-esg-reporting/>



## IIA

- “**Internal Audit Plays Critical, Collaborative Role in ESG Reporting**” (February 2022)
  - <https://www.theiia.org/en/content/communications/2022/february/internal-audit-plays-critical-collaborative-role-in-esg-reporting/>
- “**The ESG Landscape Part 1**” (February 2022)
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-landscape-part-1/>
- “**The ESG Risk Landscape Part 2: Implementation, Reporting, and Internal Audit’s Role** (March 2022)
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/february/the-esg-risk-landscape-part-2-implementation-reporting-and-internal-audits-role/>
- “**The ESG Risk Landscape, Part 3: Evaluating ESG Risk**” (March 2022)
  - <https://www.theiia.org/en/content/articles/global-knowledge-brief/2022/march/global-knowledge-brief-the-esg-risk-landscape-part-3-evaluating-esg-risk/>



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# Thank you

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