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Financial analysis and ESG integration

Introduction

This document addresses the main issues related to the integration of environmental, social and governance factors (ESGs) into the financial analysis used to assess a corporate security: a compass for professionals who start to deal with the subject more deeply. The essay will focus on extra-financial principles and information that determine sustainable business strategies with long-term source of value with measurable financial impacts.

In this context, the *AIAF Sustainable Principles of the AIAF* arisen with the objective to promote the integration of ESG issues in financial analysis. The latter is crucial for the evaluation of corporate governance, risk profile and business dynamics. It also promotes greater stability and transparency in markets in the long term and thus reduces volatility and risks of political and social instability.[1]

ESG typically refers to a range of environmental, social and corporate governance considerations that can impact business and create value over the long term. At the origin of this concept can be easily traced back the *Triple Bottom Line* (3BL)[2] due to the consideration of extra-financial aspects in the calculation of corporate value. In traditional accounting the bottom line on a statement of revenue and expenses refers to the profit or loss for a company. The 3BL considers the relation of company responsibility with various stakeholders[3] taking into account social, economic, and environmental factors (People, Planet, Profit)[4].

The increasing sustainability in the financial market outlines some interesting trends: a change in preferences that underpin investment choices, with savers more focused on ESG issues than just maximizing returns and a clear evolution in the business world. The company's aim remains to maximize shareholder value and in particular to safeguard business and profit, even in transition to a lower-carbon economy resilient to climate change. However, to achieve this objective the company must respect principles such as those on human rights, work, the environment and anti-corruption. It must therefore fairly compensate employees, meet customer expectations, build fair and ethical relationships with suppliers, and protect the environment by adopting

[1] The Sustainable Principles promoted by AIAF are in line with the six Principles for Responsible Investment (PRI) of United Nations. A voluntary and aspirational set of investment principles that offer a set of actions for incorporating ESG issues into investment practice. https://www.aiaf.it/osservatorio-esg-1-1

[2] John Elkington, Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Capstone, Oxford, 1997, 402 pp. ISBN 1-900961-27-X

[3] The recent awareness of the American Business Roundtable with the new *Redefines the Purpose of a Corporation to Promote An Economy That Serves All Americans*[3]*,* goes in the direction in searching for a new model of doing business in the interest of all *stakeholders* involved workers, suppliers, customers and the whole community in which they operate.

[4] *People* refers to the fair and positive contribution on local community in which a corporation conducts its business. *Planet* refers to sustainable environmental practices and policies. *Profit* refers to the economic value created by corporate.

sustainable practices in all its activities. It thus fulfills an important social mission: it creates jobs, invests in research and development, and pays taxes. Company creates shared value[5].

European framework

Eurozone stands at the forefront of the transition to sustainability and it is confirmed by the *European Green Deal*[6] introduced by von der Leyen European Commission on 11 December 2019. This long-term strategy aims to transform the EU into a just and prosperous society with a modern and efficient economy, with zero greenhouse gas emission by 2050 and an economic growth decoupled from the use of natural resources. This strategy aims to protect, preserve and improve the EU's natural capital; to protect the health and well-being of citizens from environmental risks and, to help companies become world leaders in clean technologies and products. European Green Deal is part of the European Commission's strategy to implement the *2030 Agenda for Sustainable Development*[7] and it expects this transition to be fair and inclusive.

The European Commission "EU next Generation" presented on May 27th 2020, focuses on sustainability issues inherent the renovation of buildings, the decarbonisation process by supporting renewable energies and the financing of research and innovation activities for clean hydrogen, mobility with reference to the automotive industry and the railway sector and includes a section dedicated to strengthening the circular economy.

This section reiterates the message of the European Green Deal about the importance of investing in economic sectors and infrastructures that have a direct impact on health and the environment and to create sustainable jobs. It is necessary to guarantee the transition towards a circular economy allocating new investments to the waste management sector, in technologies and infrastructures for the collection, sorting and recycling to guarantee the supply and reuse of high quality second-hand raw materials. The goal of producing high quality second-hand materials and integrating this recycled material into new products is significant and offers substantial economic opportunities.

Furthermore, alongside the construction of new infrastructures and the development of technologies for the sorting and recycling of different waste streams, it will be necessary to start a significant digitization process also in the waste sector.

EU commits to ambitious climate and energy targets by 2030, in line with the *2030 Agenda* and the *United Nations Sustainable Development Goals* (SDGs)[8] and the 2015 Paris Agreement (COP21)[9]. This European ambition will be formalized and strengthened by the implementation of *the European Climate Law*[10]

The EU has set three main objectives:

- Minimum reduction of 40% in greenhouse gas emissions from 1990 levels[11],
- At least a 32% share of renewable energy in final energy consumption,
- At least 32.5% energy savings compared to the normal scenario or business-as-usual scenario.

Supporting this great and complex project is the *European Action Plan on Sustainable Finance*[12] for sustainable growth financing presented by the European Commission in March 2018. *Action Plan* aims *i*) to reorient capital flows towards sustainable investments, *ii*) to integrate sustainability into risk management and

[5] The *Shared Value* can be defined as the set of policies and operational practices that strengthen the competitiveness of a company while improving the economic and social conditions of the communities in which it operates. Porter e Kramer, *Creating shared value*, HBR, 2011.
[6] https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf
[7] https://sustainabledevelopment.un.org/post2015/transformingourworld
[8] https://www.un.org/sustainabledevelopment/sustainable-development-goals/
[9] https://ec.europa.eu/clima/policies/international/negotiations/paris_en
[10] https://ec.europa.eu/clima/policies/eu-climate-action/law_en
[11] The Climate Law proposal raises the possibility of setting the emission reduction target at 50-55 % compared to 1990 levels.
[12] https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth

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iii) to promote transparency and long-term financial decisions. The recent regulations and legislative proposals of the Technical Experts Group on Sustainable Finance (TEG) are the result of the tight working table that the European Commission carried out through the establishment, in October 2016, of the High-Level Expert Group on Sustainable Finance (HLEG).

Of the ten points indicated by the Action *Plan,* four are those currently carried out: sustainable taxonomy of an environmental economic activity; new categories of climate benchmarks[13]; consideration of sustainable preferences in the process of verifying the adequacy of the financial products offered and finally the creation of a European standard for green bonds[14]. Careful regulation and market standardization can play a crucial role in facilitating certain points that, at the moment, still remain unclear and undefined, such as the definition of sustainable goods, projects or activities.

In this context, the role of financial analysts in the integration of environmental, social and business governance (ESG) issues into financial analysis and, the ability of companies to give *smart* information[15] are crucial. The company's assessment is based on information of their risk profile, governance and the business dynamics that distinguish them. This allows to work on the asymmetry of information that has always been considered a weakness in the financial markets in order to promote greater stability and transparency in markets in the long term and thus reduce volatility and risks of political and social instability.

Extra-Financial information Regulation

The European Parliament and the European Council have recognized, through the Directive 2014/95/EU (NFRD - *Non-Financial Reporting Directive*)[16], the importance of non-financial communication by companies. The obligation to disclose sustainability information satisfies the purpose of identifying the risks associated with it and increasing investor and consumer confidence. Non-financial information underpins a transition to a sustainable global economy that combines long-term profitability, social justice, and environmental protection.

The initial impact assessment for the 2014/95/EU Directive reports the problems it may have in its implementation and the possible impacts[17]. The impact assessment found that *difficult for investors and other users to find non-financial information even when it is reported, and that the reported non-financial information is not reliable enough*. The European Commission also states that *companies do not report all the non-financial information that users deem necessary, and many companies report information that users do not find relevant*. Ultimately, the main difficulties found relate to the following aspects:

- Extra-financial information reported not sufficiently comparable or reliable,
- Extra-financial information that does not meet the needs of users,
- Unnecessary and avoidable costs incurred to communicate extra-financial information,
- Uncertainty and complexity in deciding which, how and where to report extra-financial information.

[13] https://ec.europa.eu/info/publications/sustainable-finance-teg-climate-benchmarks-and-disclosures_en
[14] https://ec.europa.eu/info/publications/sustainable-finance-teg-green-bond-standard_en
[15] specific, measurable, achievable, relevant e time-bound. Rif. UNGC e GRI. Business Reporting on the SDGs: An Analysis of the Goals and Targets
[16] It should be noted that a public consultation on non-financial reporting by large companies was closed on 11 June 2020, the purpose of which is to collect the opinions of interested parties on possible revisions of the provisions of the directive on non-financial information. (NFRD). As announced by the European Commission in the European Green Deal, it is important that companies and financial institutions improve their communication of non-financial information as users of this information, mainly investors and civil society organizations, are increasingly demanding better information to companies on their performance and social and environmental impacts. To this end, the commission undertook to review the non-financial information directive during the year 2020 as part of its strategy to strengthen the foundations for sustainable investments.
[17] https://ec.europa.eu/info/publications/directive-2014-95-eu-impact-assessment-accompanying-original-proposal-commission_en

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In July 2017, as required by the 2014/95/EU Directive, the European Commission published *Guidelines on non-financial reporting* (C/2017/4234) for companies' methodology for reporting non-financial information[18]. This document better details the guidelines on the methodology for communicating information, considering existing best practices and international developments on the subject. Fundamental indicators of general and sectoral performance are also considered (KPIs – key performance indicators), in order to facilitate the relevant, useful and comparable disclosure of non-financial information by companies.

The non-financial statement, required by the legislation, should contain information regarding: *environmental issues* such as the use of renewable energy resources and greenhouse gas emissions, and *social aspects* such as the implementation of the fundamental conventions of human rights, workers' rights and the fight against corruption. In providing this information, companies are free to rely on national, European standards (e.g. EMAS[19]), or international as long as they are recognized (such as UNGPs[20], OECD Guidelines[21], MNE Declaration[22], ISO 26000[23], GRI[24]).

The communication of non-financial information helps to measure, monitor, and manage the results of companies and their impact on society. Information must be provided to the extent necessary to ensure an understanding of business activity, performance, results, and impact. Companies that do not implement policies in relation to relevant information must provide the reasons in the management report.[25] This rule, defined as *comply or explain,* requires information on aspects considered most significant in understanding and defining the non-financial impacts of a company. The information should only be provided to the extent that it is significant in the light of the company's activity and its characteristics and, therefore, of socio-environmental issues on which it can have a significant impact.

European Commission takes into account the work of the Task Force on climate financial disclosures (TCFD)[26] built to develop recommendations for voluntary reporting of climate-related financial risks.

The TCFD recommendations, published in 2017, focus on companies' exposure to these risks[27]. Companies are invited to actively use scenario analysis to evaluate effective corporate resilience policies that can cope with different climate change trends.
Recommendations focus on helping companies identify and communicate the potential financial impacts of climate risks and opportunities on their activities divided into four thematic areas:

- Governance: the company's management policies on climate-related risks and opportunities,
- Strategy: the actual and potential impacts of climate-related risks and opportunities on activities,
- Risk management: the company's identification, assessment, and management of climate risks,
- Metrics and Goals: goal-processing and monitoring and managing metrics used to assess and manage climate risks and opportunities.

[18] Guidelines on non-financial reporting (methodology for reporting non-financial information) C/2017/4234. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017XC0705(01)
[19] https://ec.europa.eu/environment/emas/
[20] United Nations Guiding Principles on Business and Human Rights. Rif. https://www.business-humanrights.org/en/un-guiding-principles
[21] OECD Guidelines for multinational enterprises. Rif. https://www.oecd.org/corporate/mne/
[22] Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. Rif. https://www.ilo.org/empent/areas/mne-declaration/lang--en/index.htm
[23] https://www.iso.org/iso-26000-social-responsibility.html
[24] https://www.globalreporting.org/Pages/default.aspx
[25] Relevant non-financial information should consider several factors including business model, key strategy and risks, key sectoral issues, stakeholder interests and expectations, business impact, public policy and regulatory stimulus.
[26] Created in December 2015 by the Financial Stability Board (FSB) at the request of the G20 finance ministers and central bank governors.
[27] https://www.fsb-tcfd.org/publications/final-recommendations-report/, https://www.fsb-tcfd.org/publications/tcfd-2018-status-report/ and https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/

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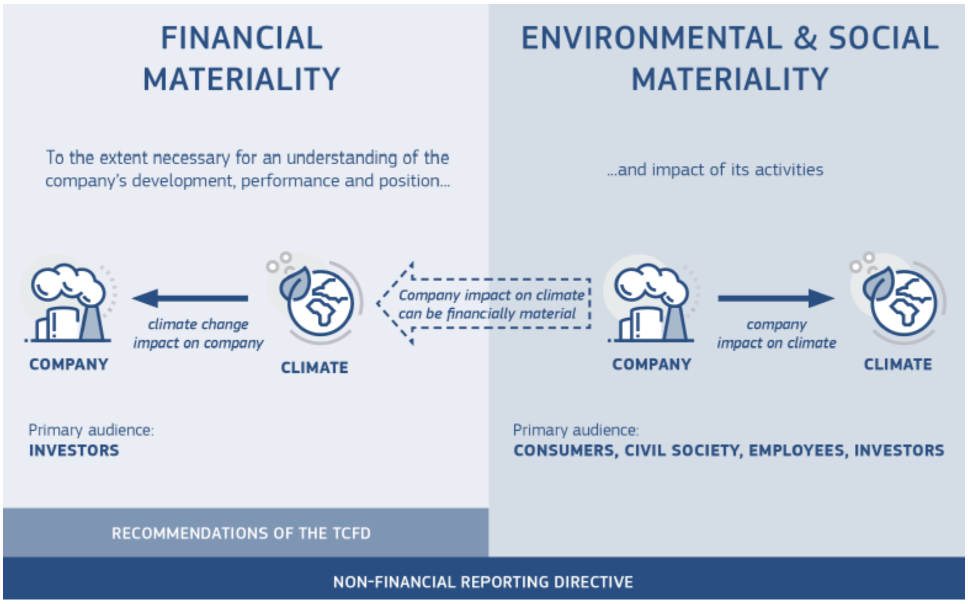
In June 2019, the European Commission published additional *Guidelines on non-financial reporting: Supplement on reporting climate-related information*[28]. These guidelines embedded the TCFD's recommendations in order to be consistent and in line with the NFRD. Achieving climate neutrality has a certain priority for the EU, There is therefore a need for companies to better understand, communicate and address the risks of a negative impact of their business on the climate and, conversely, the risks that climate change poses to their business. The guidelines call for a *double materiality* that is previously absent in the assessment of the relevance of non-financial information:

- Climate information communicated if necessary, to understand the company's performance, its results, and its situation,
- Climate information should be communicated if necessary, to understand the external impact of the company.

The *Double Materiality* is in line with the new concept of the *dynamic materiality* developed by World Economic Forum[29] and Bob Eccles[30]. The basic idea of dynamic materiality is that what is considered to be the material ESG issues changes over time. What is financially immaterial to a company or industry today can become material tomorrow, a process called dynamic materiality.

Figure 1. Double Materiality of Climate Information. COM(2019) 209 final.



Better communication of climate information by companies can contribute to the implementation of *Sendai Framework for Disaster Risk Reduction 2015-2030*[31]. This comprehensive strategy sets goals and priorities for governments to deal with increasingly intense and frequent disasters.

[28] https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf
[29] WEF, "*Embracing the New Age of Materiality. Harnessing the Pace of Change in ESG*", march 2020, http://www3.weforum.org/docs/WEF_Embracing_the_New_Age_of_Materiality_2020.pdf
[30] Bob Eccles, "*Dynamic Materiality In The Time Of COVID-19*", April 2020, https://www.forbes.com/sites/bobeccles/2020/04/19/dynamic-materiality-in-the-time-of-covid-19/#4a212b554f07
[31] https://www.undrr.org/

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In addition, climate change, as a source of financial instability, has come under the hood of central banks, regulators, and supervisors, responsible for maintaining and monitoring stability in the markets. The effort to consider the climate element in the risk analysis, and therefore in facilitating the inflow of capital into green investments, has seen the establishment of the Central Banks and Supervisors *Network for Greening the Financial System*[32] (NGFS) in December 2017. Climate change can be considered a *green swan event*[33] that can cause systemic financial crisis. Physical and transient climate risks create complex, broad, and non-linear knock-on effects that can lead to catastrophic and irreversible impacts whose damage is difficult to estimate.

The six basic principles for proper disclosure of non-financial information, as outlined in the guidelines, must also be taken into account for climate information[34]. Communication by companies remains voluntary and if they are integrated by the company can be made available in a stand-alone report or in the management commentary as required by the TCFD recommendations. In addition, companies are free to choose how to communicate climate information, provided that the method chosen complies with applicable legal requirements. Finally, as methodologies and practices are constantly evolving, companies are required to update and innovate their approach.

Climate communications will have to follow a structure covering five areas: the business model, policies and due diligence, the outcome of policies, the main risks, and their management and finally the impact of its business. These aspects serve to guide the company in communicating the information necessary to enable an understanding of the performance, results, and impact of the business.

The guidelines identify a list of information that is recommended for communication and for each area, there are also additional details for banks and insurance companies specifically indicated in Annex I[35].

In order to encourage a certain uniformity and standard in the communication of climate information, the guideline lists the main documents to refer to: In addition to the TCFD recommendations, the Global Reporting Initiative (GRI), the Climate Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) and those of EU's eco-management and audit system (EMAS).

Annex II of the Guidelines shows a table linking the NFRD's disclosure obligations with the TCFD's disclosure, which may be useful to companies that are subject to the Directive but wish to complement the task force's recommendations.

[32] https://www.ngfs.net/en
[33] Rif. The green swan: Central banking and financial stability in the age of climate change. BIS. https://www.bis.org/publ/othp31.pdf
[34]The information disclosed should be relevant; fair and understandable; comprehensive but concise; strategic and forward-looking; stakeholder-oriented and ultimately consistent and systematic.
[35] TCFD, "Annex: Implementing the Recommendations of the TCFD (June 2017)", June 2017, https://www.fsb-tcfd.org/publications/final-implementing-tcfd-recommendations/

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Figure 2. Mapping NFRD's disclosure obligations and TCFD's recommendations. COM(209) 2019 final

TCFD Recommended Disclosures		NFRD Elements: Business Model	Policies and Due Diligence Processes	Outcomes	Principal Risks and Their Management	Key Performance Indicators
Governance	a) Board's oversight		■			
	b) Management's role		■			
Strategy	a) Climate-related risks and opportunities				■	
	b) Impact of climate-related risks and opportunities	■				
	c) Resilience of the organization's strategy	■				
Risk Mgmt.	a) Processes for identifying and assessing				■	
	b) Processes for managing				■	
	c) Integration into overall risk management				■	
Metrics & Targets	a) Metrics used to assess					■
	b) GHG emissions			■		
	c) Targets			■		

The final report on the EU Taxonomy published in March 2020 by the EU Expert Group (TEG) contains guidance for businesses on how to implement, use and communicate taxonomy. The European Council has already adopted the Regulation in April[36] 2020 and after it has done so the European Parliament will come into force after the technical timing of the publication in the official gazette. Delegates for the introduction of technical criteria on climate mitigation and adaptation are expected by the end of 2020 to become applicable by the end of 2021, and for the other four EU Taxonomy environmental targets are expected by the end of 2021 to become applicable by the end of 2022.

It is important to note that companies subject to the NFRD will be required to disclose the extra-financial information according to taxonomy processed and considering the KPIs defined by the climate information guidelines. The harmonization of the eco-friendly activities' criteria at European level aims to overcome that fragmentation of the market, due to divergent definitions of both national practices and requirements, which can cause harm to the interests of consumers and investors interested in sustainable financial products.

Focus on EU Taxonomy

The classification of eco-friendly activities is the basis of the legal requirements for determining the degree of environmental sustainability of investments and is the reference to the regulatory initiatives of the Action Plan already adopted or in progress. This extensive definition work will therefore be the benchmark for all future EU law, which aims to facilitate the shift of investment towards environmentally sustainable economic activities.

The regulation identifies six environmental objectives to which to prioritize and therefore the subject of taxonomy:

- climate change mitigation,
- climate change adaptation,
- water and marine resources sustainable use and protection,
- circular economy transition,

[36] https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy_en

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- pollution control and prevention,
- protecting and restoring biodiversity and ecosystems.

Economic activities will be considered environmentally sustainable if they meet the following requirements:

- to contribute substantially to achieving at least one of the six environmental goals (condition of *substantial contribution*),
- to do no significant harm to any of the environmental goals (criteria of *do no significant harm* - DNSH),
- to be in accordance with the minimum safeguards on the social level (condition of *minimum social safeguard*)[37],
- to be comply with technical evaluation criteria.

For each environmental objective, technical regulatory standards must be established to determine whether economic activities contribute substantially to this objective, are carried out in accordance with minimum social guarantees and do not significantly damage any of the other expected environmental objectives. These criteria must take into account the lifecycle of the products and services provided (production, use, and end-of-life) to assess the environmental impact of economic activity and therefore should be geared towards a long-term impact assessment.

In establishing and updating technical screening criteria, the European Commission will need to take into account existing legislation, consistent with current *Classifications of Environmental Protection Activities* (CEPA)[38] and *Classifications Resource Management Activities* (CReMA)[39] and in general with the communication made in July 2008 on *public procurement for a better environment*[40].

In addition, European Commission will also have to take into account sector specificities, environmental, social and economic externalities as part of a cost-benefit analysis and appropriate good governance strategies that integrate ESG factors, as outlined in the *United Nations Principles for Responsible Investment* (UN PRI) at all stages of a project's life cycle.

The European Commission has provided a *Sustainable Finance Platform* to ensure a consistent and adequate process of updating technical assessment criteria involving stakeholders, as well as experts who have proven knowledge and experience in areas relevant to both the public and private sectors.

This effort to define, map and monitor eco-friendly activities plays a game in favor of companies that communicate climate information. The European Commission assesses several benefits for these companies, including:

- increased awareness and understanding of climate-related risks and opportunities,

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[37] Minimum social guarantees are crucial for sustainable and inclusive growth. Respect for these guarantees is necessary to ensure that economic activities are defined as environmentally sustainable. The minimum guarantees are part of the *Charter of Fundamental Rights of the European Union*, which includes the rights and principles enshrined in OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Right, Fundamental Principles and Rights at Work of the ILO and the eight fundamental conventions of the ILO and the International Bill of Human Rights.

[38] United Nations department of economic and social affairs, "*Classification of Environmental Activities (CEA) - Information paper*", Expert Group meeting on International economic and social classifications, 16 May 2018, https://communities.unescap.org/system/files/seea-cf_4_classification-environmental_activities.pdf Public procurement for a better environment

[39] Statistic Denemark, "*Classification of Resource Management Activities (CReMA), v1:2014*", https://www.dst.dk/en/Statistik/dokumentation/nomenklaturer/ressourceforvaltningsaktiviteter--crema-

[40] Commission of the European communities, "*Public procurement for a better environment*", Brussels, 16.7.2008, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0400&from=EN

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- better risk management, decision-making and more informed strategic planning,
- diversified investor base and potentially lower cost of capital,
- more constructive dialogue with stakeholders, primarily investors and shareholders,
- reputation and continuous recognition of the company's social license.

In the absence of reliable and comparable sustainability information, it will not be possible for the financial sector to make an efficient capital focus towards socially responsible investments and achieve the sustainable objectives that the European Union has set itself.

Extra-financial Reporting

The growing availability of such ESG data, which is increasingly comprehensive, consistent, reliable, comparable and clear, is the basis of the process of integrating sustainability into the valuation of a stock and must necessarily be the starting point if you want to maintain that *Reasonable Basis and Fair Representation*[41] that characterizes the activity from the financial analyst.

In the absence of a shared standardization of technical standards and their widespread and official disclosure, it remains not easy to read and evaluate corporate non-financial data, known by *practitioners* as ESG data. Communicating ESG data is now synonymous with *value proposition* for the company, which can thus demonstrate that it is moving the business towards mid long-term value creation, with a focus on mitigating ESG risks[42].

In order to obtain a competitive advantages that can arise from sustainability, the company will need to develop a certain awareness on the subject and translate it into a vision and business strategy that allows it to evaluate how sustainable issues can impact the company's business in the short, medium and long term.
There are four business areas that need to be analyzed as indicated by the European Commission's climate information communication guidelines approach:

Figure 3. Business Areas and ESG Integration, AIAF data elaboration. COM(2019) 209 final

1. Business Model	The company's vision provides the importance of sustainable issues and how it can impact the business model and business strategy and how business activities can affect these issues in the short, medium, long term.
2. Governance and Audit system	Business policies and due diligence processes are key to understanding the robustness of the company's sustainable approach. Indicators of corporate awareness are the involvement of boards and the definition of responsibility on the subject.
3. Business Results	ESG KPIS communication helps monitor and control the company's implemented strategies and results against defined business goals.
4. Management Risk	The analysis of potential risks, through a clear and transparent methodology and their management is crucial to understand whether the company has considered ESG risks in the short, medium, long term.

The assessment of the indicated business areas includes the determination of potential risks, performance, and reputational factors. Risks may be due to company-specific factors or negative externality costs (fines and

[41] https://effas.net/pdf/EFFAS_PoEC_June2011.pdf
[42] Examples of risks include climate risks. These are attributable to a) *physical risks* (chronic or acute) with the ultimate loss of assets and business continuity consequences, b) *technological risks* related to the transition to a low-carbon economy, c) *legal risks*, which relate to the ability to anticipate possible changes in the regulatory framework, d) *reputational risks* which affect the pressure on the financial community for greater commitment to climate containment and adaptation, e) *social risk* directly or indirectly associated with rising temperatures and the increase in extreme weather events.

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penalties/supply chain blocks), while performance can be generated by disruptive new business opportunities for the market (product or process innovation). Particular attention should be given to reputational factors, which can be crucial to creating lasting value over time (resource attraction, standard working conditions even along the supply chain).

Awareness of the company's ESG issues and potential related risks should then be analysed, and the availability of ESG data (ESG KPIs) should be analyzed: the significance and comparability of the different KPIs is limited due to the discretion with which they have been defined on a voluntary or on regulatory basis, and on regional and/or sectoral specificities basis, but improvements of the different indicators are expected in the future.

The integration of ESG data into business policies and practices is growing around the world and there are now many guidelines that have been drafted, among the first definitely include those of the United Nation Principles for Responsible Investment (UN PRI), United States Social Investment Forum (US SIF) and London Stock Exchange Group (LSEG) and more recent those of Nasdaq, Luxembourg Stock Exchange (LuxSE) and Stock Exchange of Hong Kong (HKEX).

The International Business Council (IBC), established in 2011 by the World Economic Forum's Board to identify and address globally relevant business issues and development practical solutions, had a robust discussion on the significance of ESG aspects of business performance and risk.
IBC invite the World Economic Forum (WEF) to collaborate with the four largest accounting firms (Deloitte, EY, KPMG and PwC) to prepare a proposal with the purpose to encourage greater cooperation and alignment among existing ESG standards towards a systemic solution generally accepted by international accounting frameworks.

A consultation draft was presented in Davos in January 2020[43] and this effort represents a system change moving forward coordinating and consolidating non-financial information initiatives.

The metrics and disclosures proposed have been organized in four pillars that are aligned with the SDGs and principal ESG standards: Principles of Governance, Planet, People and Prosperity.
The most material aspects are associated into mainstream reports on a consistent basis, rather than creating a new standard. Two related sets of metrics are proposed:

- core metrics: 22 well-defined metrics and reporting requirements for all firms, primarily quantitative indicators, focused on business activities,
- expanded metrics: less well-defined metrics in existing practice and standards and focused on wider value chain scope.

Figure 4. The Four Pillar. WEF and Big Four Analysis.

[43] https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation

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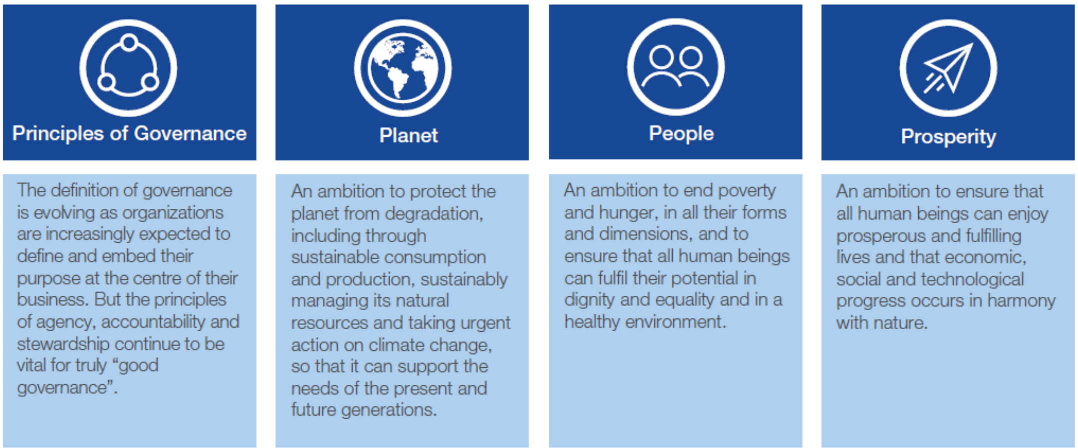

Soure Consultation draft, "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation", World Economic Forum

The dissemination of the United Nation political framework *Agenda 2030,* with his 17 *Sustainable Development Goals* (SDGs) and 169 linked Targets, has been a great support for the completeness and rationality of ESG data analysis. While SDGs help define the company's mission and strategy, long-term business areas and monitor it; on the other hand, to plan and measure activity and assess risks and opportunities, the use of specific performance indicators ESG KPIs will be needed.

The guide *Business Reporting on the SDGs: An Analysis of the Goals and Targets*[44] by the United Nation Global Compact (UNGC) and the Global Reporting Initiative (GRI), recommends the following three steps to integrate SDGs and ESG into business and reporting processes:

Figure 5. SDGs Analysis of the Goals and Targets, UNGC and GRI. AIAF data elaboration.

1. Define target SDGs	priorities and **identification of SDGs** to which the company will have to align. The priority is defined by the vision and strategy of management. actions and content are then defined.
2. Measure and analyze	setting business goals, **selection of suitable KPIs ESG,** collect and analyze data and performance to monitor the objectives defined.
3. Reports, integration and change information	communicate the processed information. The **data must be SMART**: specific, measurable, achievable, relevant e time-bound.

This guide helps connect SDGs and ESG performance indicators. The goal is a better representation of the value created by the company. It also allows the company to have more transparent and responsible support on which to base the definition of the strategy, implementation of sustainable policy, as well as dialogue with stakeholders.

The growing focus on sustainable finance has seen the development of organizations engaged in screening activities, that provide raw data directly captured from data published by companies, sustainability ratings by industry or type of companies. The sustainability or *ESG rating* is a summary judgment that certifies and summarizes the solidity of an issuer, stock, or fund from an ESG performance point of view. It complements

[44] https://www.unglobalcompact.org/library

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the traditional rating, which considers only economic-financial variables: the aim is to increase the available information and thus improve the valuations and investment choices that follow.
The ESG rating currently circulated for the evaluation of companies brings with it a great error due to the excessive simplification and difficulty comparing of dimensions E, S and G, which are inherently complex[45].

The resulting synthesis measure may not capture the prevalence of one of the dimensions E, S and G, which may pose a higher risk to society, nor much less the sustainable corporate policies put in place in the long-term by firm. The ESG rating in general turns out to be an ex post and static period measure. Financial analysts need to have individual indicators, *a minimum set of material single ESG KPIs*, that can be monitored like any other financial indicator that is followed during daily activity, in order to evaluate and dialogue with the company in an active manner.

WFE Material ESG Metrics

Waiting for the effective standardization or recognition of best practices in the detection of data E, S and G; it is useful to consider the work done by the *World Federation of Exchanges* (WFE) along with the *United Nations Sustainable Stock Exchenges* (UN SSE)[46] creating the *Model Guidance on Reporting ESG information*. These guidelines have limited number of extra-financial aspects relevant to communication.
In the updated *ESG Guidance and Metrics*[47] are 30 *Material ESG metrics* which are generic adaptable to all sectors and to all the more than 44,000 million listed companies' part of WFE. The following are the 30 indicators as a robust starting point for communicating non-financial information that have so far been overlooked for reliability and degree of detail:

Figure 6. WFE Material ESG Metrics. AIAF data elaboration.

Environmental (E)	Social (S)	Governance (G)
E1 GHG Emissions	S1 CEO Pay Ratio	G1 Board Diversity
E2 Emissions Intensity	S2 Gender Pay Ratio	G2 Board Independence
E3 Energy Usage	S3 Employee Turnover	G3 Incentivized Pay
E4 Energy Intensity	S4 Gender Diversity	G4 Collective Bargaining
E5 Energy Mix	S5 Temporary Worker Ratio	G5 Supplier Code of Conduct
E6 Water Usage	S6 Non-discrimination	G6 Ethics & Anti–Corruption
E7 Environmental Operations	S7 Injury Rate	G7 Data Privacy
E8 Climate Oversight / Board	S8 Global Health & Safety	G8 ESG Reporting
E9 Climate Oversight / Management	S9 Child & Forced Labor	G9 Disclosure Practices
E10 Climate Risk Mitigation	S10 Human Rights	G10 External Assurance

Among the activities that the UN SSE initiative seeks to incentivize and improve is the dissemination of sustainability reports, ESG Training e support for ESG reporting and finally the spread of ESG indices to facilitate investor access to sustainable markets.
In particular, the importance of the production of good quality ESG reporting is reinforced by the UN SSE initiative, which identifies seven supporting drivers:

45 *Aggregate Confusion: The Divergence of ESG Ratings* - MIT Sloan Research Paper No. 5822-19
46 https://sseinitiative.org/
47 https://www.world-exchanges.org/storage/app/media/research/Studies_Reports/WFE%20ESG%20Guidance%20June%202018.pdf

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- Better access to capital. The company demonstrates transparency and efficiency in managing the business in the creation of long-term value,
- Profitability and growth. The company generates financial value by identifying opportunities, which lead to cost savings (efficiency), earnings generation (successful business), and risk mitigation (understanding the context and alignment of the mission e. g. carbon neutral policy),
- Appropriate regulatory compliance and risk management. The company establishes the ESG data measurement and communication,
- Strengthened brand and reputation. The company responsibly manages the environmental, social and economic impacts,
- Dedicated information flow. Different stakeholders can assess the business's ability to create value in the short, medium and long term,
- Strengthening the relationship and engagement on ESG issues,
- Measuring business objectives related to the implementation and impacts of ESG strategies.

The ESG metrics material was then taken up by Nasdaq, part of the WFE, which proposed its own *ESG Reporting Guide*[48]. This guide is useful for all companies wishing to adopt best practices in the sustainable area, to move the first coordinated developments in environmental, social and governance information (ESG). The management of ESG factors creates financially measurable consequences for the company and impacts the ability to carry out the business strategy and thus create value in the long term. Therefore, the Nasdaq encourages companies to consider this information extra-financial as well as consider costs and benefits.

The list identifies the most pervasive and persuasive ESG indicators that provide the best understanding of sustainability performance suitable for a large number of companies. This list is flexible enough to take into account addresses and issues such as the materiality of the *Sustainability Accounting Standards Board* (SASB), *UN Sustainable Development Goals* (UN SDGs) and the recommendations of the *Task Force on Climate-related Financial Disclosure* (TCFD). Nasdaq's work aims to stimulate broad sustainable governance and corporate awareness of E, S and G information, which will stimulate not only disclosure, but also the integration of sustainability indicators into risk management systems.

Each of 30 indicators[49] will be observed in this guide taking inspiration from the effective and compact Nasdaq ESG Reporting Guide but adding those indications that may be for in-depth financial analysis. If the company is interested in understanding how to communicate a data and what data, investors and financial analysts will be interested in understanding the importance of the data itself, its magnitude and potential impact on the overall valuation of the business.

To make the ESG data more readable, the analyst will borrow the rationale at the base of *Model 3R*[50] born for the Circular Economy. Applying the model to the broader concept of Sustainable Economy based on ESG metrics. It will return a three-dimension view of each ESG metrics in terms of risk, revenue, and reputation[51]. These are significant factors for the evaluation and sustainability of a company. This three-dimensional

[48] Rif. ESG Reporting Guide del Nasdaq https://business.nasdaq.com/media/Nasdaq-ESG-Reporting-Guide-2019_tcm5044-70227.pdf

[49] *ESAs Draft on regulatory technical standards with regard to the content, methodologies and presentation of ESG disclosures* is currently in consultation (April 2020) and It reports in the annex Table 1 a *mandatory reporting template* to use for the statement on considering principal adverse impacts (ESG KPIs) of investment decisions on sustainability factors, which contains required reporting items on summary, scope, the principal adverse impacts, policies on the identification of principal adverse impacts, actions taken and planned to mitigate the principal adverse impacts, adherence to international standards and a historical comparison.
https://www.esma.europa.eu/sites/default/files/jc_2020_16_-_joint_consultation_paper_on_esg_disclosures.pdf

[50] Claudio Zara, *Impact on Finance: Risk, Revenue, Reputation*. Economics & Management, 2018

[51] In the boxes for each of the ESG metrics, the three dimensions will be named: Risk Management; Achieving the goal (Result); Disputes and Engagement (Reputation)

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conceptual analysis allows us to better understand the sustainable strategy for a company, with its developments and benefits.

The three dimensions or 3R fit perfectly with the broader concept of Sustainable Economy. In this case, as well as for the Circular Economy, the *risk* that comes from the decoupling of economic growth from finite resources and the resilience of the economic system[52], the *revenue* that can come from supporting new sustainable businesses and the *reputation* that can be strengthened, creating shared value, through policies and practices that strengthen the competitiveness of a company, but also the economic and social conditions of the communities in which it operates.

These guidelines does not want to be exhaustive, but a useful and quick starting point to ensure that the availability of robust and comparable data there is a careful eye of the analyst who can grasp aspects previously not accessible for better informed evaluation of the companies being analyzed.

Financial analysis and ESG integration[53]

The ESG integration for the valuation of a stock is when the analyst, along all or in four steps that compose the fundamental analysis, estimates the main corporate indicators considering the relevant ESG factors.

1. *Qualitative analysis*. Its aim is to gather information to identify material factors that affect the company being evaluated looking at multiple sources, including companies, public institutions, and private research institutes. This step integrates ESG information with traditional financial disclosure. There is no minimum degree of ESG integration[54], it is the analyst, who according to his sensitivity and the guiding principles under which he works, organizes his work. Two types of qualitative research are identified: macroeconomic, or top-down, analysis, which assesses the impact of ESG factors on the economy to adjust, for example, expected growth rates, and apply them to the company's financial data. The other type of qualitative analysis is the microeconomic one, or bottom-up, which assesses, instead, the impact of sector-specific ESG factors to define competitiveness and the company's weaknesses in its industry.
2. *Quantitative analysis*. Its objective is to assess the impact of relevant ESG factors on equities and to change financial forecasts accordingly (e.g. revenues, operating costs, book value of assets and capital expenditures…) and/or assessment models (e.g. DCF and fair value of the company). As ESG data becomes available, comparable, and reliable, this step of analysis will gain importance and reliability.
3. *Final report*. It contains the analyst's opinion and no particular format or data is required. it will be the type of analysis carried out and the sensitivity of the analyst that will characterize the final report and his opinion on the company rated. However, special attention will be required to report the ESG data and the methodology with which they were processed, in order to make it as clear as possible the integration made with traditional data and what impact they have generated on the final opinion that will support the final investment decision.
4. *Engagement and voting activities*. Engagement refers to all kinds of interaction with society that allow you to address strategic and financial business issues related to environmental, social and governance issues. The relationships established are based on responsibility within the fiduciary duty and in general the dialogue and the comparison arise above all on those material aspects, which manifest themselves as ESG risks or opportunities, specific to industry, theme, or company.
   Depending on the degree of force used and the conflict generated, engagement can occur in different forms. Soft engagement refers to actions to promote a dialogue with the company, hard engagement

[52]This concept reiterated in the EU GREEN DEAL presented by the Commission von der Leyen on 11 December 2019
[53]Ref. *United Nation Principles for Responsible Investment guidelines* (UN PRI)
[54] However, each analyst will have to deal with regulatory updates to their existing regulatory system.

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refers to actions taken when dialogue is not possible. Engagement and voting are subject to the stewardship code to which the analyst is aligned[55]. As this process is long over time and needs sufficient resources, it can be considered to outsource this activity by *proxy voting* given to specialized external providers[56].

This area is the subject, like the whole sustainable world, of great changes: the *Shareholder Rights Directive II* (SRD2) or *Directive (EU) 2017/828*[57] encourages dialogue with companies in the long term and transparent exercise of voting. In particular, the EU SRD2 is concerned with encouraging long-term engagement and defining the right to identify shareholders, to pass on voting information between companies and shareholders, to facilitate the exercise of voting and disclosure of engagement policy. The growing importance and diffusion of active dialogue with society underlines the active role, sometimes already pre-engagement role, of financial analysis. Monitoring ESG issues and sustainable goals leads to a review of the assessment of the company analysed, and ultimately also to the change in the opinion of the financial analyste and then investment/divestment decisions that follow.

[55] Recent updates are also highlighting in national stewardship codes. Such as that of *UK Stewardship Code*, in which ESG factors play a more prominent role and will take effect from 1 January 2020 and that of *Italian Corporate Governance Code* in which the long term sustainable success of firm for all stakeholders are pursued and will take effect from 1 January 2021.

[56] Popular proxy voting services include ISS and Hermes EOS.

[57] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017L0828&from=IT

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ANNEX

European countries legislative regulation for NFRD integration

Sustainability Reporting Frameworks

Summary of sustainable finance initiative / organizations

Regulation references for reporting standard

Exchange guidance on ESG disclosure

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KPI ESG – WFE E1 ENVIRONMENTAL – GHG EMISSIONS

KPIs

Why measure
How measure

SCOPE 1	
KPI	Direct GHG emissions from sources owned or controlled by the company. It is measured in Metric tons $CO2_e$.
Rationale	This KPI ensures companies are accurately measuring their carbon footprints from direct emissions.
SCOPE 2	
KPI	Indirect GHG emissions from the generation of acquired and consumed electricity, steam, heat, or cooling (collectively referred to as "electricity"). It is measured in Metric tons $CO2_e$.
Rationale	This KPI ensure companies are measuring emissions from purchased or acquired electricity.
SCOPE 3	
KPI	All indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. It is measured in Metric tons $CO2_e$.
Rationale	For most companies, most emissions occur indirectly from value chain activities. This KPI helps to gauge the diligence of companies' accounting processes and to understand how companies are analyzing their emissions footprints.

Standards

GHG Protocol methodology, ISO 14000, TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 305, CDSB Framework, EMAS.

Why disclose

Is the company a directly or indirectly GHG big polluter through its products lifecycle, supply chain, employees transport? Are responsible consumption and production a priority for the company? GHG are crucial to determine the level of climate change state. Are approach and policy initiatives/actions in place as reduction of environmental footprint products/services and monitoring, green innovations through the increase of R&D investments? These KPIs helps to understand companies' commitments to reducing emissions and whether the company has a goal towards which it is harmonizing and focusing emissions-related efforts.

How disclose

As a number, monitored over time and compared against historical and industry averages.

Risk Management

Which part of the value chain is directly or indirectly big emitters? Are there energy management policies and certifications? Is climate change and environmental healthy considered a material in short, medium or long term? Are there any TCFD-aligned policies and reporting on material climate risks and opportunities?

Results

Is the company a solution provider for a low carbon economy or does it aspire to be a provider in the future? Is there a business target on this KPI? Is the goal aligned with the Paris Agreement? Is there a corporate strategy for achieving it (TCFD Climate Scenario)? Who is responsible for this activity? Does the company report quantitative and qualitative improvements? Is it possible to quantify in terms of company costs and / or revenues?

Reputation

Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E2 ENVIRONMENTAL – EMISSIONS INTENSITY

KPIs	Emission rate of a given pollutant relative to an industrial production process or specific activity per unit produced or provided.
Standards	GRI: 305-4. SDG: 13. UNGC: Principle 7, Principle 8. SASB: General Issue / GHG Emissions, Energy Management.
Why measure	This KPI is a measure of energy efficiency of economic activity. It helps understanding an organization's resource efficiency in term of economic value generation or cost reduction.
How measure	By dividing annual emissions (numerator) by various measures of economic output (denominator). Total GHG emissions per output scaling factor e.g. revenues, sales, units produced.
Why disclose	These KPIs helps to understand companies' commitments to reducing emissions and whether the company has a goal towards which it is harmonizing and focusing emissions-related efforts. Useful as a competitive benchmark, risk management indicator, and economic efficiency KPI.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	For industries with high energy consumption, metrics related to emission intensity are important to provide emissions per unit of economic output (e.g., unit of production, number of employees, or value-added). Which part of the value chain is most affected? Are there energy management policies and certifications? Are there any TCFD-aligned policies and reporting on material climate risks and opportunities?
Results	Is there a business target on this KPI? Is the goal aligned with the Paris Agreement? Is there a corporate strategy for achieving it? Who is responsible for this activity? Does the company report quantitative and qualitative improvements? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E3 ENVIRONMENTAL – ENERGY USAGE

KPIs	Total amount of directly or indirectly energy consumed.
Standards	TCFD Metrics and Targets, GRI 302, SASB: General Issue / Energy Management, EMAS.
Why measure	Energy cost, source, availability, and resilience directly This KPIs impact a company's ability to operate. The consumed energy over time provides an idea on energy cost, source, availability and resilience policy that company may need.
How measure	megawatt-hours (MWh) or gigajoules (GJ)
Why disclose	Useful as a competitive benchmark, risk management indicator, and economic efficiency KPI.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Can companies provide evidence that climate risk due to high emission and/or bad management of energy usage is actively discussed/managed by their management? Is climate risk integrated into their risk management framework and strategy? e.g. TCFD climate scenarios analysis.
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E4 ENVIRONMENTAL – ENERGY INTENSITY

KPIs	Energy rate of a given energy usage relative to an industrial production process or specific activity per unit produced or provided.
Standards	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 103-2 and 302, SASB, EMAS
Why measure	This KPI helps data users understand the companies' ambition to use energy more efficiently, which can reduce its energy costs and possibly lower GHG emissions.
How measure	By dividing annual energy usage (numerator) by various measures of economic output (denominator). Total energy usage per output scaling factor e.g. revenues, sales, units produced. It is typically measured in megawatt-hours (MWh) or gigajoules (GJ).
Why disclose	Useful as a competitive benchmark, risk management indicator, and economic efficiency KPI. Organizations that shift their energy usage toward low emission energy sources could potentially save on annual energy costs.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Can companies provide evidence that climate risk due to high energy usage is actively discussed/managed by their management? Is it integrated into their risk management framework and strategy (climate strategy)?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E5 ENVIRONMENTAL – ENERGY MIX

KPIs	energy consumption rate per generation type (renewables, hydro, coal, oil, natural gas ...).
Standards	GRI 302, CDP, SASB: General Issue / Energy Management, TCFD e UNGC
How Measure	By dividing annual energy consumption (numerator) by various energy consumption type (denominator). Quantifying the specific energy sources directly used by the company. It is typically measured in megawatt-hours (MWh) or gigajoules (GJ).
Why Measure	This KPI is an energy costs, source, availability, and resilience indicator and it directly affect the company's ability to operate.
Why disclose	The replacement of non-renewable sources with renewable one signals the responsible consumption of a company and the quantitative and temporal objectives in this area confirm the long-term strategic focus.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current energy mix? Is it a direct or indirect part of the corporate business? Are there any risks of instability related to geographical, political or commodity exposure? Are there any TCFD-aligned policies and reporting on material climate risks and opportunities? Are climate and clean energy SDGs considered in the company vision and mission?
Results	Is there a business target on this KPI? Is the goal aligned with the Paris Agreement? Is there a corporate strategy for achieving it? Who is responsible for this activity? Does the company report quantitative and qualitative improvements? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E6 ENVIRONMENTAL – WATER USAGE

KPIs	Volumes of consumed or reclaimed water by production process, in" water-stressed" areas or withdrawn by source. e. g, mega liters of fresh water consumed (withdrawals minus discharges of equal quality) in water-stressed areas. Organizations may include information about upstream and as well downstream water use.
Standards	GRI: 303-3, SDG: 6, SASB: General Issue / Water & Wastewater Management, SASB Industry Standards), CDP (W1).
Why measure	Water cost, source, availability, and resilience in water management directly impact the company's ability to operate. Fresh water is essential to the progress of human societies. It is required for a healthy environment and a thriving economy. Food production, electricity generation, and manufacturing, among other things, all depend on it. Access to water for drinking and sanitation is a basic human right. Harmful water pollutants (primarily nitrogen and phosphorous used in agriculture but also toxic chemicals, heavy metals, hydrocarbons…) are to be take carefully in account in the water usage cycle to maintain sustainable operational function over time, as well as an appropriate balance with the local community and the biosphere.
How measure	Water consumed, recycled, and reclaimed annually, in cubic meters (m3).
Why disclose	Disruptions in water supplies may result in cost increases for clean, fresh water as water becomes scarce. This KPIs is a useful as a competitive benchmark, risk management indicator, and economic efficiency KPI.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Does your company suffer water scarcity? Are available a water sensitivity analysis for the companies? Are in place resilience policy on water management? Does the company aware and respectful of local communities?
Results	An organization can reduce its water withdrawal, consumption discharge through efficiency measures such water recycling and reuse. Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E7 ENVIRONMENTAL – ENVIRONMENTAL OPERATIONS

KPIs	Formal environmental policy; specific waste, water, energy, and/or recycling polices or energy management system.
Standards	GRI: 103-2 (See also: GRI 301-308 for relevant topic-specific standards), SASB: General Issue / Waste & Hazardous Materials Management and SASB Industry Standards, ISO 50001.
Why measure	Emerging standards of environmental responsibility demand policy formation and formal execution of environmental duty. This is increasingly appreciated by stakeholders and strengthens the credibility and reputation of firm.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	The final report linked to the environmental policy firm may contain material information and give performance indicator on the company's ability to execute decided operational environmental actions. Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning may be part of the disclosure.
How disclose	As text, with appropriate links to public content.
Risk Management	Are environmental risks and their potential financial impacts evaluated along all step of the business activity? Are available an environmental sensitivity analysis (TCFD) for the company? Are in place resilience policy on environmental management to address the transition and physical risks may affect demand for products and services? Climate-related risks and opportunities may change the company profile's debt and equity structure
Results	Is there a business target in environmental policy/action? Does company provide a description of the methodologies used to calculate targets and measure them? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Are there any potential stranded assets that require a company decision and further action as alternative investment and new business activities, restructure, write-downs, or impairment?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E8 ENVIRONMENTAL – ENVIRONMENTAL OVERSIGHTS (Board)

KPIs	Formal oversee and/or manage climate-related risks by Board of Directors.
Standards	GRI: 102, SASB: General Issue / Business Model Resilience, Systemic Risk Management and SASB Industry Standards, TCFD: Governance (Disclosure A)
Why measure	Increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning [TCFD].
How measure	In companies where this subject is treated, Board meetings cover, as part of the official agenda, climate risk issue or board committee dedicated to climate-related issues. Environmental commitment decided are then considered in environmental policy and company strategy and then periodically updated. TCFD Recommends describing the board's oversight of climate-related risks and opportunities, in particular the identification and the review of environmental issues and frequency of doing it.
Why disclose	Stakeholders use this metric to evaluate the efficacy, scope of enterprise risk management (ERM), the company commitment in the environmental issues.
How disclose	As text, with appropriate links to public content.
Risk Management	Do the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans? Do the board and/or board committees consider climate-related issues when setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures?
Results	Is there a description of the board's oversight process of climate-related risks and opportunities? Does company provide a description of the methodologies used to identify targets and monitor them? Who are responsible for this activity?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E9 ENVIRONMENTAL – ENVIRONMENTAL OVERSIGHTS (Management)

KPIs	Formal oversee and/or manage climate-related risks by Senior Management Team.
Standards	GRI: 102, SASB: General Issue / Business Model Resilience, Systemic Risk Management and SASB Industry Standards, TCFD: Governance (Disclosure B).
Why measure	Increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning [TCFD].
How measure	In companies where this subject is treated, climate-related responsibilities are assigned to management-level positions and the latter report to the board or a committee of the board. TCFD recommends describing management's role in assessing and managing climate-related risks and opportunities, in particular the identification and the review of environmental issues and frequency of doing it.
Why disclose	Stakeholders use this metric to evaluate the efficacy, scope of enterprise risk management (ERM), the company commitment in the environmental issues.
How disclose	As text, with appropriate links to public content.
Risk Management	How the Senior Management Teams identify environmental issues and their impacts, risks and opportunities and implement a due diligence process? How the Senior Management Teams review the effectiveness of risk management processes for environmental issues? How often the Senior Management Teams review environmental issues and their impacts, risks, and opportunities?
Results	Is there a description of the management's role in assessing and managing the process of climate-related risks and opportunities? Does company provide a description of the methodologies used to identify targets and monitor them? Who are responsible for this activity?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE E10 ENVIRONMENTAL – CLIMATE RISKS MITIGATION

KPIs	Total amount invested, annually, in climate-related infrastructure, resilience, product development, and environmental proceedings and disputes
Standards	UNGC: Principle 9, SASB: General Issue / Physical Impacts of Climate Change, Business Model Resilience, TCFD: Strategy (Disclosure A).
Why measure	Increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning [TCFD].
How measure	Companies measure total dollar amount (USD) invested in climate-related issues, including R&D spend. Amount invested annually in climate-related infrastructure and resilience products.
Why disclose	Easier or better access to capital by increasing investors' and lenders' confidence that the company's climate related risks are appropriately assessed and managed [TCFD]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Does the company deal with climate related risks, in relation to other risks, based on the relative likelihood, magnitude, and timing of financial impacts, and along all step of the business activity? Are available an environmental sensitivity analysis (TCFD) for the company? Do Climate-related risks and opportunities may change the company profile's debt and equity structure? Are the different stakeholders considered?
Results	What are the most important climate risk mitigation activities carried out? Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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ESG – WFE S1 CEO PAY RATIO

KPIs	CEO total compensation to median full-time equivalent (FTE) total compensation.
Standards	GRI, UNGC, Dodd Frank, Shareholder Right Directive (EU SRD)
Why measure	It explains the company's costs and its valuation for the Chief Executive role as compared against other employees.
How measure	As a ratio: the CEO salary, bonus and incentives (X) to Median FTE Salary, usually expressed as "X:1"
Why disclose	This KPI allows to evaluate the potential impacts of executive compensation, a significant gap in pay between the CEO and the rest of a company's employees might lower productivity and their motivation. The company may loss of attractiveness and this is linked inevitable to profit and return.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Is there any remuneration policy in place? Is there an incentive system for workers, including the first lines? Have the differences in remuneration changed over time? Has this difference created tensions within the company and in its management?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S2 GENDER PAY RATIO

KPIs	Median male compensation to median female compensation.
Standards	GRI: 405, UNGC: Principle 6, SASB: General Issue / Employee Engagement, Diversity & Inclusion, ILO convention.
Why measure	It explains the remunerative scope and impact of any "gender gaps" within the company.
How measure	As a ratio: the median total compensation for men compared to the median total compensation for women.
Why disclose	Many countries have introduced legislation to enforce the principle of equal pay for work of equal value. This issue is supported by the ILO Convention. Equality of remuneration is a factor in retaining qualified employees in the workforce. Where imbalances exist, an organization runs a risk to its reputation and legal challenges on the basis of discrimination. [GRI]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current composition of the workforce divided between men and women? Have there been any analyses by area remuneration differences between men and women? Are these one analyse about recruitment, advancements, career paths? Are actions taken to ensure gender diversity in the company? Which part of the value chain is most impacted? Are there any business policies to support diversity? Have retention been done for the skilled workforce? There is an imbalance that can lead to a potential reputational risk (e.g. discrimination lawsuits)
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S3 EMPLOYEE TURNOVER

KPIs	Percentage: Year-over-year change for full-time employees, Percentage: Year-over-year change for part-time employees, Percentage: Year-over-year change for contractors and/or consultants.
Standards	GRI: 401, UNGC: Principle 6, SASB: General Issue / Labor Practices
Why measure	The relative percentage of employees who leave the organization may directly impact resource allocation, budgets, planning, and productivity.
How measure	Percentage of total annual turnover, broken down by various employment types.
Why disclose	A high rate of employee turnover can indicate levels of uncertainty and dissatisfaction among employees or may signal a fundamental change in the structure of the organization's core operations. Turnover has direct cost and value implications either in terms of reduced payroll or greater expenses for recruitment of workers. [GRI]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Is there an increase in staff turnover? Is it managed by internal replacements or do new hires need to be done? Is there a staff retention policy? Are there incentive systems? What kind of training system has the company adopted? Are market research or questionnaires on the employee's well-being carried out? What is the employee satisfaction rate? If there is an increase in turnover which part of the value chain is impacted the most in the company?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S4 GENDER DIVERSITY

KPIs	Percentage: Total enterprise headcount held by men and women. Percentage: Entry- and mid-level positions held by men and women, Percentage: Senior- and executive-level positions held by men and women.
Standards	GRI: 102 and 405, UNGC: Principle 6, SASB: General Issue / Employee Engagement, Diversity & Inclusion.
Why measure	Increasing the diversity of thought (as embodied in men and women) may lead to enhanced creativity, greater team productivity, and the alleviation of systemic inequities.
How measure	Percentage of male-to-female metrics, broken down by various organizational levels.
Why disclose	This information can signify the organization's efforts to implement inclusive recruitment practices and the optimal use of available labor and talent. An uneven pattern of promotion and seniority by gender can indicate risks related to workplace inequity. Some investors specifically target more diverse (or gender balanced) companies. [GRI]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current composition of the workforce divided between men and women? Have an area-by-area analysis done of the number differences between men and women? Are these analyses about recruitment, advancements, career paths? Are actions taken to ensure gender diversity in the company? Which part of the value chain is most impacted? Are there any business policies to support diversity?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S5 TEMPORARY WORKER RATIO

KPIs	Percentage: Total enterprise headcount held by part-time employees, Percentage: Total enterprise headcount held by contractors and/or consultants.
Standards	GRI: 102, UNGC: Principle 6.
Why measure	This ratio provides valuable insight into human capital strategy and management regarding certain employment structures.
How measure	Percentage of FTE positions held by non-traditional workers in the value chain.
Why disclose	Breaking down the workforce by employment type demonstrates how the organization structures its human resources to implement its overall strategy. It also provides insight into the organization's business model and offers an indication of job stability and the level of benefits the organization offers. [GRI]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current composition of the permanent, fixed-term, temporary and consultant workforce? Are these contracts more common for first hires or even for senior grades? Which part of the value chain is most impacted? Are there any business policies to define temporary work?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S6 NON-DISCRIMINATION

KPIs	Formal sexual harassment and/or non-discrimination company policy.
Standards	GRI: 103-2 and GRI 406, UNGC: Principle 6, SASB: General Issue / Employee Engagement, Diversity & Inclusion, Guidelines for Multinational Enterprises (OECD).
Why measure	This KPI provides valuable insight into human capital strategy and management regarding certain protected employment classes.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	This KPI provide the efficacy and scope of enterprise risk management (ERM) and the company commitment in respect and implementation of Human Right.
How disclose	As text, with appropriate links to public content.
Risk Management	What is the current breakdown of the workforce divided between women and men? Is there a difference between average pay between men and women at the same senior grade? Are the senior positions also filled by women? Is there a female presence in Cda? Are there enrolment policies that can exclude certain classes given the access characteristics? Are there company policies that promote the inclusion of mothers on their return from motherhood? Are there policies in favour some weak types of workers?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S7 INJURY RATE

KPIs	Percentage: Frequency of injury events relative to total workforce time.
Standards	GRI: 403, SDG: 3, SASB: General Issue / Employee Health & Safety, Guidelines for Multinational Enterprises (OECD) e ILO&UNDHR standard.
Why measure	Low injury and absentee rates are generally linked to positive trends in staff morale and productivity. [GRI]
How measure	Total number of injuries and fatalities, relative to the total workforce.
Why disclose	Health and safety performance are a key measurement of organizational responsibility, and negative performance may impact investment, valuation, and the company's continuing social license to operate.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	Are there any safety standards within the company? Has the company identified some areas of the production process that are most risky to the health of the workforce? Is there a process description manual used to investigate any professional incidents, hazards and assess accident risks? Is there a hierarchy of control? Is there a table of frequency, location, level of consequences, number of deaths? Is there a determination of the dangers and therefore of the risks? Are accidents on the rise or down?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Are there any risk prevention system and employee training activities? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S8 GLOBAL HEALTH & SAFETY

KPIs	Formal occupational health and/or global health & safety company policy.
Standards	GRI: 103 and GRI 403, SDG: 3, SASB: General Issue / Employee Health & Safety, Guidelines on Occupational Safety and Health Management Systems (ILO).
Why measure	Formal policies may promote the acceptance of responsibilities by multiple parties and the development of a positive health and safety culture. This Indicator reveals the extent to which the workforce is actively aware of policies that determine health and safety management principles. [GRI]
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Health and safety performance are a key measurement of organizational responsibility, and negative performance may impact investment, valuation, and the company's continuing social license to operate. Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment in corporate social responsibility.
How disclose	As text, with appropriate links to public content.
Risk Management	Are there any safety standards within the company? Has the company identified some areas of the production process that are most risky to the health of the workforce? Is there a process description manual used to investigate any professional incidents, hazards and assess accident risks? Is there a hierarchy of control? How many hours of training are provided on safety and health? Are there any constant updates?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Are there any risk prevention system, any employee training activities, any promotion of health and well-being among employees, any employee-specific communication and disclosure? Are there any incentive activities for employees in health and wellbeing area? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S9 CHILD AND FORCE LABOR

KPIs	Formal child and/or forced labor company policy Formal child and/or forced labor company suppliers and vendors policy
Standards	GRI 103, GRI 408, GRI 409 and 414, SDG: 8, UNGC: Principle 4 and 5, SASB: General Issue / Labor Practices, Guidelines on Occupational Safety and Health Management Systems (ILO) and UNDHR standards.
Why measure	The presence and effective implementation of policies on this issue are a basic expectation of socially responsible conduct. Working conditions that run counter to prevailing laws expose the company to significant risk. [GRI]
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Child and forced labor performance are a key measurement of organizational responsibility, and negative performance may impact investment, valuation, and the company's continuing social license to operate. Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment in corporate social responsibility.
How disclose	As text, with appropriate links to public content.
Risk Management	Is there a policy for managing the company's workforce? Has the company identified some of the riskiest areas of the production process that can exploit child labor, or forms of well-paid modern slavery with abuse or work situations that put the worker's health at risk? Is there a manual describing the processes used to investigate these areas? Is there a hierarchy of control? Is there an attention on the entire production and supply chain?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Are there any risk prevention system, any employee training activities? Is there a clear pay policy for employees? Is there a clear policy for supply and distribution contracts? Are minimum standards used in these areas to carry out thorough due diligence already prior in the selection step? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE S10 HUMAN RIGHTS

KPIs	Formal human rights company policy Formal human rights company suppliers and vendors policy
Standards	GRI 103, GRI 412 and GRI 414, SDG: 4, 10, 16, UNGC: Principle 1 and 2, SASB: General Issue / Human Rights & Community Relations, Guidelines on Occupational Safety and Health Management Systems (ILO) and UNDHR standards,
Why measure	Adherence to a strong human rights policy often leads to enhanced productivity, better human capital dynamics, and lower risk.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Human right performance is a key measurement of organizational responsibility, and negative performance may impact investment, valuation, and the company's continuing social license to operate. Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment in corporate social responsibility.
How disclose	As text, with appropriate links to public content.
Risk Management	Is there a policy for managing the company's workforce? Has the company identified some of the riskiest areas of the production process that can exploit child labor, or well-paid forms of modern slavery with abuse or work situations that put the worker's health at risk Is there a manual describing the processes used to investigate these areas? Is there a hierarchy of control? Is there any focus on the entire supply and production chain?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Are there any risk prevention system, any employee training activities? Is there a clear pay policy for employees? Is there a clear policy for supply and distribution contracts? Are minimum standards used in these areas to carry out thorough due diligence already prior in the selection step? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G1 BOARD DIVERSITY

KPIs	Percentage: Total board seats occupied by women (as compared to men), Percentage: Committee chairs occupied by women (as compared to men).
Standards	GRI: 405, SDG: 10, SASB: General Issue / Employee Engagement, Diversity & Inclusion.
Why measure	An increased number of women in the boardroom is linked to better business results, including: strong financial performance, ability to attract and retain top talent, heightened innovation, enhanced client insight, strong performance on non-financial indicators, and improved board effectiveness.
How measure	The percentage of female directors and committee chairs, relative to male colleagues in the same groups.
Why disclose	This KPI provide the organization's efforts to implement inclusive practices and the optimal use of available labor and talent. An uneven pattern of promotion and seniority by gender can indicate risks related to workplace inequity. Some investors specifically target more diverse (or gender-balanced) company boards. [GRI]
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current composition of the board divided between men and women? Are these analyses about recruitment, advancements, career paths? Are actions taken to ensure gender diversity in the management role? In Which part of the value chain women are absent? Are there any business policies to support diversity?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G2 BOARD INDEPENDENCE

KPIs	Prohibition for the CEO from serving as board chair, Percentage: Total board seats occupied by independents.
Standards	GRI: 102.
Why measure	The presence of a high-functioning, semi-independent board is often a good indicator of other effective practices.
How measure	Number of Independent Directors compared with other board members.
Why disclose	Stakeholders use this metric to evaluate the efficacy and modernity of the company's governance structure.
How disclose	As text, with appropriate links to public content (Prohibition for the CEO from serving as board chair). As a number, monitored over time and compared against historical and industry averages (independent director).
Risk Management	What is the current composition of the board of director and its committees (executive and non-executive role, independence, mandate of the governing body, gender, etc.)? Are the CEO present in any committee and/or supervisory body? Are there any business policies to support board independence?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Does the company show an improving or worsening trend? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G3 INCENTIVIZED PAY

KPIs	Formal incentivized pay for executives to perform on sustainability
Standards	GRI: 102.
Why measure	The KPI provide a measure of ESG commitment of the company and its willingness to invest in.
How measure	If executives are financially incentivized to perform on ESG metrics, the company may provide it.
Why disclose	Stakeholders use this metric to evaluate the efficacy of the company's governance in ESG issue. The transparency of incentive policy and the support of ESG targets defined the company commitment in corporate social responsibility.
How disclose	As text, with appropriate links to public content.
Risk Management	Is there an existing incentive policy? This policy considers all aspects: fixed or variable pay, bonus or same different incentives? What type of ESG or sustainable targets the executive pay is linked to?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues? Is it to be referred to a specific motivation (reorganization, change of management)?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G4 COLLECTIVE BARGAINING

KPIs	Percentage: Total enterprise headcount covered by collective bargaining agreement(s).
Standards	GRI: 102, SDG: 8, UNGC: Principle 3, SASB: General Issue / Labor Practices.
Why measure	This facilitates local responses to a globalized economy and serves as a basis for sustainable growth and secure investment returns. The results help bridge the widening representational gap in global work arrangements, and facilitate the input of those people, regions and economic sectors, especially women and informal sector workers, who otherwise may be excluded from participating in processes that build decent work environments. [UNGC]
How measure	By measuring the number of employees governed by collective bargaining protocols against the total employee population.
Why disclose	Stakeholders use this metric to evaluate the efficacy of the company's Human Resources management. The presence and the disclosure of collective bargaining provide active company commitment for the protection, motivation and well-being of the workforce.
How disclose	As a number, monitored over time and compared against historical and industry averages.
Risk Management	What is the current percentage of employees covered by collective bargaining? Are there internal statistics for the various business areas? How many different contract types are covered by trade union agreements? Is there an existing collective agreements policy?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Is there an internal organization for the management of relations with trade union representatives? Is the number of employees covered by collective bargaining increasing or decreasing? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G5 SUPPLIER CODE OF CONDUCT

KPIs	Formal Code of Conduct required to vendors or suppliers, Percentage of suppliers formally certified their compliance with the code.
Standards	GRI 102, GRI 103, GRI 308 and GRI 414, SDG: 12, UNGC: Principle 2, 3, 4 and 8, SASB: General Issue / Supply Chain Management.
Why measure	By actively managing ESG performance and governance throughout the supply chain, companies act in their own interests, the interests of their stakeholders and the interests of society at large. [UNGC]
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment in corporate social responsibility. Stakeholders use this metric to evaluate the sustainability of the company's supply chain. The presence and the disclosure of supplier code of conduct provide active company commitment for a transparent, compliant, and sustainable supply management.
How disclose	As text, with appropriate links to public content (Formal Code of Conduct). As a number, monitored over time and compared against historical and industry averages (Percentage of suppliers formally certified).
Risk Management	Is there a selection process for suppliers? Is due diligence performed on all third parties who have relations with the company? Is there an impact assessment for negative screening? What is the current percentage of suppliers without code of conduct? Is there an existing policy for supplier selection process?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Is there an internal organization for the management of relations with third parties (suppliers, sellers, brokers, etc.? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G6 ETHICS & ANTI-CORRUPTION

KPIs	Formal Ethics and/or Anti-Corruption policy, Percentage of workforce formally certified its compliance with the policy.
Standards	GRI 102, GRI 103 and GRI 205, SDG 16, UNGC: Principle 10.
Why measure	This code illuminates company values and a commitment to high standards of ethical conduct. Demonstrating a fiduciary duty to prevent illegal acts may reduce the financial risks associated with government fines for ethical misconduct.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment in corporate social responsibility. The presence and the disclosure of ethics and anti-corruption provide active company commitment for a transparent, compliant, and sustainable business management.
How disclose	As text, with appropriate links to public content (Formal Ethics and/or Anti-Corruption policy). As a number, monitored over time and compared against historical and industry averages (Percentage of workforce formally certified).
Risk Management	Is there a report on the incidents of corruption detected and the employees involved? Have action been taken for the employees involved (licensing)? Is there a report of third-party involvement (e.g. vendors) and public lawsuits? Is there a periodic report to the company's governing bodies? Is there a workforce training on anti-corruption policy? Are market research or questionnaires on the employee's satisfaction carried out?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Is there an internal organization for prevention of corruption risks? Do you manage these incidents with professionals (e.g. lawyers) within the company or use external service? Are these episodes increasing or decreasing? Is there an impact assessment for corruption event? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G7 DATA PRIVACY

KPIs	Formal Data Privacy policy, Compliance with GDPR rules.
Standards	GRI 418, SASB: General Issue / Customer Privacy, Data Security.
Why measure	Data privacy, protection, and stewardship has become a prevalent issue, specifically in the context of a digital economy; many stakeholders assert that virtualized identity and property should be vigorously protected, and they use this metric to measure the sophistication of a company's risk and security protocols.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of enterprise risk management (ERM) and the company commitment privacy protection. The presence and the disclosure data protection polity provide active company commitment for a transparent, reliable, and safe business management.
How disclose	As text, with appropriate links to public content.
Risk Management	Is there a statement about the privacy of breached data and loss of customer data? How did the theft or loss happen? What is the impact? Is there a periodic report to the company's governing bodies?
Results	Is there a business target on this KPI? Is there a corporate strategy for achieving it? Is there an internal organization to set up safeguards to protect data privacy and customer data? How does prevention management take place? Is it entrusted to technologically appropriate structures? Are these episodes increasing or decreasing? Is there an impact assessment for data breached event? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G8 ESG REPORTING

KPIs	Presence of a company sustainability report. Integration of sustainability data in regulatory filings.
Standards	UNGC: Principle 8.
Why measure	This indicates the presence or absence of public communications regarding company ESG performance, and the embedding of such data in regulatory filings. This KPI provide a periodically disclosure on sustainable commitment and targets of the company.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of the company commitment on ESG issues. The presence and the disclosure of ESG data provide company transparency, reliability and sustainable business management.
How disclose	As text, with appropriate links to public content.
Risk Management	Writing an ESG report means a greater focus on the risks and opportunities of the company. Is there an ESG report and how long is it updated? Who writes the report? Which document is it contained in? Is there a periodic report to the company's governing bodies?
Results	Is there an appropriate process to edit ESG report? Does the drafting of the document require the involvement of other business areas? How often the report is updated and with what standards? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G9 DISCLOSURE PRACTICES

KPIs	Provision of sustainability data, Focus on specific UN Sustainable Development Goals (SDGs) Set targets and report progress on the UN SDGs
Standards	UNGC: Principle 8.
Why measure	This illustrates the company's history of engagement with sustainability reporting frameworks that most investors value. Collecting and monitoring sustainable data is crucial to provide a serious company commitment in achieving sustainable goals.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond. Company may consider different guidelines to do it: GRI, CDP, SASB, IIRC, or UNGC.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of the company commitment on ESG issues. The presence and the disclosure of ESG data provide company transparency, reliability and sustainable business management. Moreover, Corporate disclosure enhances data availability and access, specifically for investors.
How disclose	As text, with appropriate links to public content.
Risk Management	Is there an ESG report and how long is it updated? What sources are used to collect and monitor ESG data? Who writes the report? Is there a business target on this KPI? Is there a corporate strategy for achieving it? Is the coverage of ESG data increasing or decreasing? Is there a quality assessment for ESG data?
Results	Is there an appropriate process to edit ESG report? Does the drafting of the document require the involvement of other business areas? How often the report is updated and with what standards? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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KPI ESG – WFE G10 EXTERNAL ASSURANCE

KPIs	Sustainability disclosures assured or validated by a third party.
Standards	GRI: 102, UNGC: Principle 8.
Why measure	This indicates the relative trustworthiness of the sustainability data published by the company through various reporting channels. Collecting and monitoring sustainable data is crucial to provide a serious company commitment in achieving sustainable goals.
How measure	Companies that create, publish, and periodically update a policy document that covers this subject may affirmatively respond. Company may consider different guidelines (GRI, CDP, SASB, IIRC, or UNGC) and different audit or validation entity.
Why disclose	Stakeholders use this metric to evaluate the efficacy and scope of the company commitment on ESG issues. The presence and the disclosure of ESG data provide company transparency, reliability and sustainable business management. Corporate disclosure enhances data availability and access, specifically for investors. Investors often use this metric to determine the "investment-worthiness" of self-reported ESG data.
How disclose	As text, with appropriate links to public content.
Risk Management	What sources are used to collect and monitor ESG data? Who writes the report? Is the coverage of ESG data increasing or decreasing? Is there a quality assessment for ESG data? Is there a third party for validating sustainable data? Is the third party authoritative?
Results	Is there an appropriate process to edit ESG report? Does the drafting of the document require the involvement of other business areas? How often the report is updated and with what standards? How was the validating party selected? Who are responsible for this activity? Is it possible to quantify in terms of company costs and / or revenues?
Reputation	Are there any ongoing dialogue or disputes on this KPIs? Does the company put in place activities to solve the dispute? What damage can result? Is it possible to quantify the overall cost for the company? Is there a stakeholder engagement policy? Are there any processes for ensuring reliability of information and transparency?

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