

Financial analysis and ESG integration

AIAF (Associazione Italiana per l'Analisi Finanziaria)

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AIAF as standard setter for financial analysis considers the role of financial analysts to be fundamental for the integration of environmental, social and corporate governance (ESG) issues in the corporate and investment evaluation processes. The promotion of environmental or social characteristics in decision-making and advisory process of new financial products will have to be in line primarily with 2015 Paris climate agreement and the goals for sustainable development of the United Nations 2030 Agenda.

There is a growing and urgent demand to improve the consistency and comparability of figures, data and extra-financial information in sustainability reporting and this position paper addresses the main issues related to the integration of ESG factors into the financial analysis used to assess a corporate security: a compass for professionals who start to deal with this subject more deeply. The essay will focus on ESG metrics and information that determine sustainable business strategies with long-term sources of value with measurable financial impacts.

Expecting the effective standardization or recognition of best practices in the detection of E, S and G data; the paper is based on the work done by the World Federation of Exchanges (WFE) along with the United Nations Sustainable Stock Exchanges (UN SSE) creating the Model Guidance on Reporting ESG information for more than 48,000 listed companies worldwide. These guidelines have a number of 30 indicators relevant for all sectors as a concise, robust and solid starting point for communicating non-financial information that have so far been overlooked for reliability and degree of detail:

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

Each of 30 indicators observed in our guide takes inspiration from the effective, practical and compact Nasdaq ESG Reporting Guide but adds those aspects that may be helpful for an in-depth financial analysis: risk, results and reputation. While a 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.

Milan, October 19th 2020

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