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ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG):

A New Landscape for Corporate Responsibility.

Tuesday, November 15th, 2022
4:00 PM – 4:45PM.

Featuring CEFLI Affiliate Member Organization:

Locke Lord

FACULTY.

Paige Waters (Moderator)
Partner
Locke Lord

Tim Bolden
VP, CCO and Deputy General Counsel
American Fidelity

Blaine Doerrfeld
Senior Vice President, Corporate
Secretary and Privacy Officer
Athene USA

Gerald D. "Jerry" Higdon
Partner
Locke Lord

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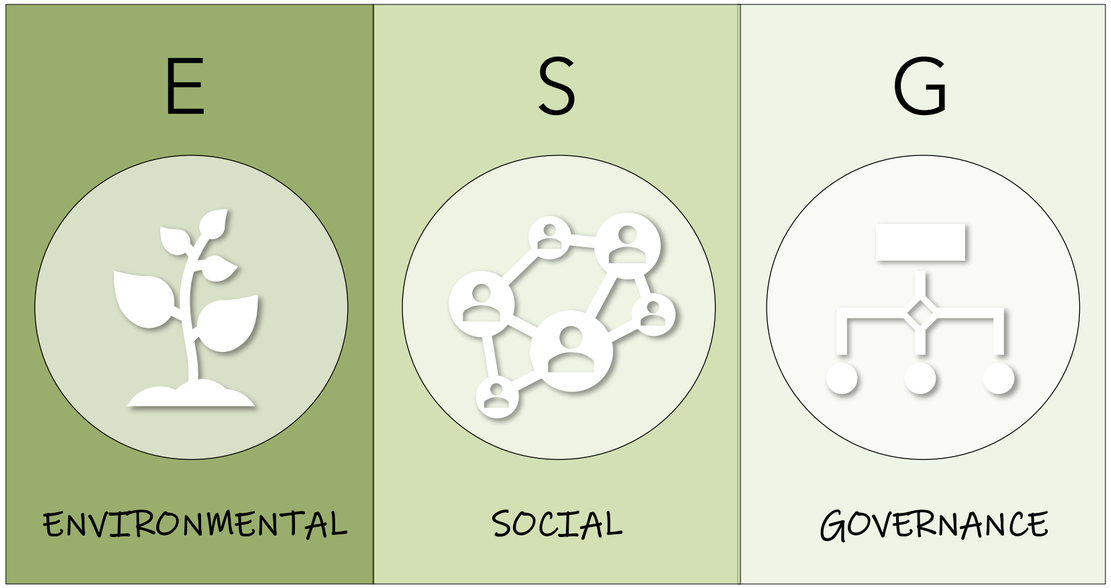
AGENDA.

- Background.
- Regulatory & Rating Agencies.
- Greenwashing.
- Quantifications.
- Closing Thoughts.
- Questions.
- Appendices.

BACKGROUND.

BACKGROUND: DEFINING ESG.



How a company manages the environmental impacts of their operations, products and services (e.g., pollution, climate change, energy and water consumption, etc.).

How a company takes a leadership role in its community (e.g., DEI, philanthropy, health and safety, employee relations, etc.).

How a company's leaders address governance matters (e.g., executive pay, board diversity, bribery and corruption, etc.).

BACKGROUND: DEFINING ESG.

- ESG" is the management of environmental, social and governance risk to preserve shareholder value.

"We must rise higher to rescue the Sustainable Development goals – and stay true to our promise of a world of peace, dignity and prosperity on a healthy planet."

– António Guterres
Secretary-General, United Nations

BACKGROUND: THE ORIGINS OF ESG.

ESG investing began in the 1960s when investors, investment firms, mutual funds, etc., began to seek out investments in businesses and industries that support sustainability and began to limit their holdings in businesses and industries that were not viewed to be socially responsible.

In the last 50 years, ESG has had a profound effect on the corporate policies and actions of a growing number of businesses and industries.

BACKGROUND: WHY ESG IS IMPORTANT.

92% = Percentage of companies within S&P 500 reporting on ESG matters (*Sustainability Reporting in Focus, G&A Institute, 2021.*)

85% = Percentage of investors who considered ESG factors when making investment decisions in 2020 (*Gartner CFO and Finance Executive Conference Research*).

77% = Percentage of consumers who reported that companies held in a "socially responsible" ESG fund align with their personal values (*Consumer Insights: Money & Investing, FINRA, 2022*).

BACKGROUND: KEY STAKE HOLDERS.

Customers.

Employees.

Investors.

Ratings Agencies.

State Insurance Regulators.

The NAIC.

Federal Regulators.

International Regulators.

ESG PROGRAM CONSIDERATIONS.

Small Company

Privately Held Company

Large Company

Publicly Traded Company

Geographical Considerations

Local Influences

Distribution Methods

Program Maturity

REGULATORY & RATING AGENCY INSIGHTS.

THE SEC & ESG

- Last Spring, the SEC proposed a Climate Disclosure Rule. See Appendix A.
- The proposed rule focuses heavily on greenhouse gas emissions produced by the firms or as a result of a firm's purchases. This includes indirect impacts related to a firm's supply chain.
- Some politicians and stakeholders have raised concerns regarding whether the SEC is outside of its authority on the matter.
- Critics argue the proposal is too broad and too prescriptive.

Impacts Fiscal Year 2023.

THE SEC & ESG.

- Under the proposed rule, a registrant would be required to provide disclosures about greenhouse gas (GHG) emissions (with attestation for Scope 1 and Scope 2 disclosures), certain financial statement disclosures, and qualitative and governance disclosures within its registration statements and annual reports (e.g., Form 10-K).
- Implementation timeline (for accelerated filers):
  - FY 2023, Filed Early 2024 – All disclosures <u>except</u> Scope 3 emissions.
  - FY 2024, Filed Early 2025 – All disclosures <u>including</u> Scope 3 emissions (with limited assurance).
  - FY 2026, Filed Early 2027 – All disclosures including Scope 3 emissions (with reasonable assurance).
- A summary of the Climate Change proposal can be found in <u>Appendix A</u>.

THE NAIC & ESG.

NAIC

- The NAIC revised its Climate Risk Disclosure Survey last April. See Appendix B.
- The Survey is intended to:
  - Enhance transparency about how insurers manage climate-related risks.
  - Identify good practices and vulnerabilities.
  - Provide a baseline supervisory tool to assess the affect of climate-related risks.
  - Promote insurer strategic management, shared learnings, and improvement.
  - Enable better-informed collaboration and engagement amongst parties.
  - Align with international climate risk disclosure frameworks reporting redundancy.

THE NAIC & ESG.

NAIC

- As many as 400 insurance companies will be required to submit TCFD-compliant reports, with reports due November 30, 2022 (reporting year 2021).
- Jurisdictions involved:
  - **California** Department of Insurance
  - **Connecticut** Insurance Department
  - **District of Columbia** Department of Insurance, Securities and Banking
  - **Delaware** Department of Insurance
  - **Maine** Bureau of Insurance
  - **Maryland** Insurance Administration
  - **Massachusetts** Division of Insurance
  - **Minnesota** Department of Commerce
  - **New Mexico** Office of Superintendent of Insurance
  - **New York** Department of Financial Services
  - **Oregon** Division of Financial Regulation
  - **Pennsylvania** Insurance Department
  - **Rhode Island** Department of Business Regulation
  - **Vermont** Department of Financial Regulation
  - **Washington** State Office of the Insurance Commissioner.

THE NAIC & ESG.

NAIC

- The Survey includes sections on:
  - Governance.
  - Strategy.
  - Risk Management.
  - Investments.
  - Metrics.

- Insurers are required to measure their progress and commit to reducing climate risks across all areas of their business.
- Survey responses must be consistent with the information the insurer makes publicly available (e.g., published reports, website content, press releases, etc.).
- Survey helps regulators understand climate-related risks to U.S. insurers.

THE NAIC & ESG: SURVEY DISCUSSION.

THE NY DFS & ESG.

- On September 22, 2020, the DFS issued Circular Letter No. 15 (2020) summarizing its expectations related to addressing financial risks related to climate change. See Appendix A.
- The NY DFS published its "Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change" on November 15, 2021. See Appendix A.
    - The DFS expects New York insurers to include the financial risks related to climate change within their governance frameworks, risk management processes, and business strategies.

THE RATING AGENCIES.

- A.M. Best's Credit Rating Methodology – adding a new section to credit ratings that will focus primarily on ESG factors.
  - Focus on physical, transition and liability related risks.
  - Considers risks to: balance sheet strength, operating performance, business profile, and enterprise risk management.
  - Notes that strong ESG investment integration does not necessarily translate into higher credit quality of investment portfolio.

- Moody's.
  - Developed integrated credit and operational risk analytic tools.
  - Internal Capital Adequacy Assessment Process and stress testing to be run against selected ESG factors.

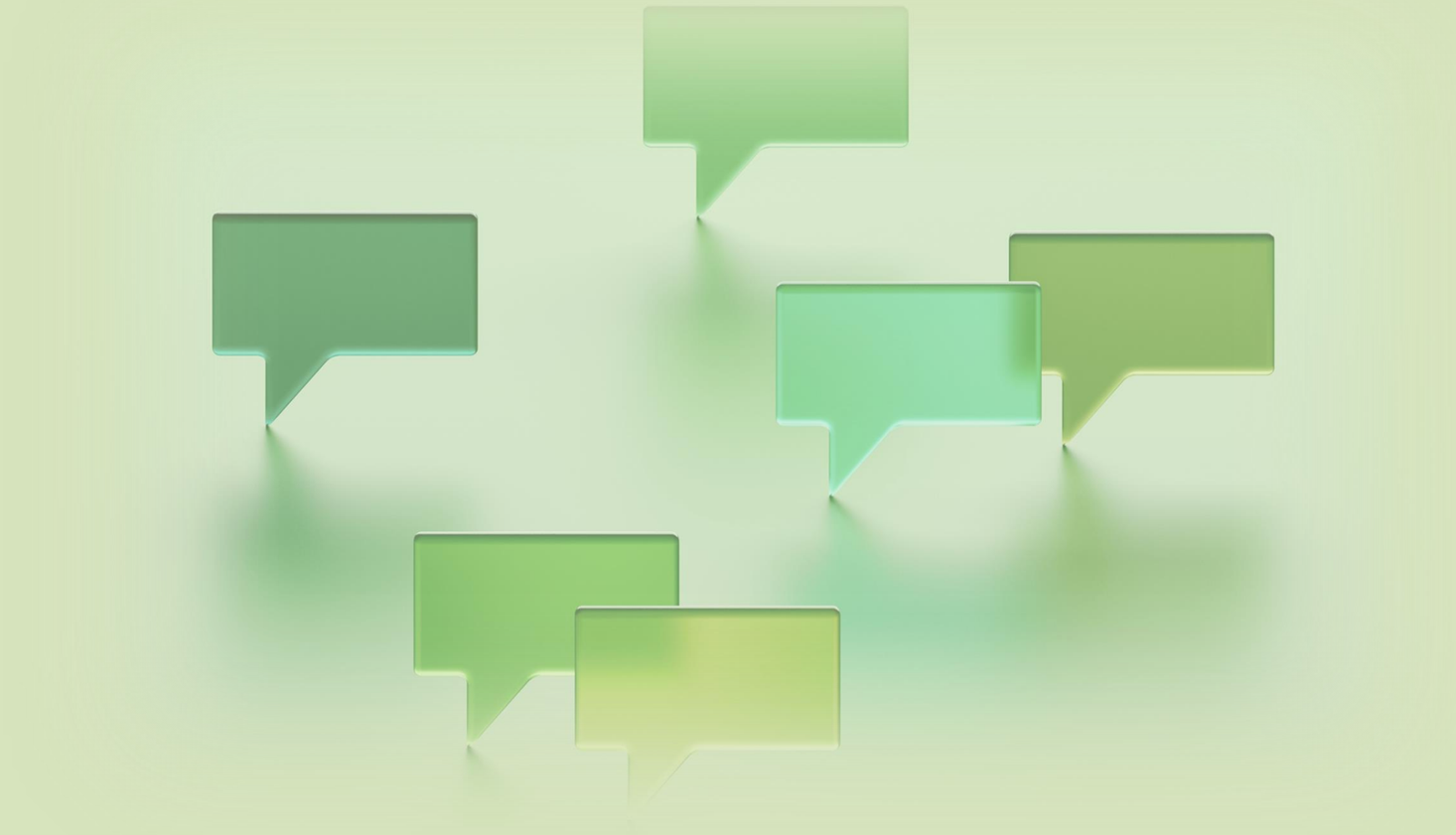
GREENWASHING.

GREENWASHING.

Greenwashing:
The process of conveying a false impression or misleading information about how a company's products are environmentally sound.

- Touchstone: Environmental claims must be supported by evidence/data.
- FTC Act and FTC Green Guidelines 16 CFR Part 260.
- Examples:
  - 2021 Earthworks FTC Complaint vs. Chevron regarding image representations as climate friendly.
  - Private consumer actions against ExxonMobil regarding “clean energy.”

GREENWASHING.



DISCUSSION: QUANTIFICATIONS.

QUANTIFICATIONS: ENVIRONMENTAL CONSIDERATIONS.

Examples:

Total Energy Used	Total Cost of Energy	Energy Intensity
Total Waste to Landfill	Total Cost of Waster to Landfill	Total Weight of Waste Recycles of Reused
Total Cost of Recycling or Reusing Waste	Total Water Withdrawn	Total Cost of Water Withdrawn
Scope 1 GHG Emissions	Scope 2 GHG Emissions	Emission Intensity

QUANTIFICATIONS: SOCIAL CONSIDERATIONS.

- Social responsibility training on such topics as anti-discrimination, anti-harassment, equal opportunity, health and safety, fair dealings, corporate communication and social media.

- Quantifications related to fund-raising (i.e., dollars raised, funds contributed, funds matched, etc.), number of pro-bono volunteers and total pro-bono hours worked, and other volunteer efforts (i.e., meals made or served, coats collected, books donated, etc.) that provide resources to the underserved.

Losses from legal proceedings associated with marketing and communication of insurance product information.
Complaints to claims ratio.
Customer retention rate.
Products or features that incentivize health, safety.

QUANTIFICATIONS: GOVERNANCE CONSIDERATIONS.

- Governance-related training to employees on such topics as the company's Code of Business Conduct and Ethics, and Emergency Response Plan, as well as training on policies covering topics such as anti-bribery and corruption, financial crime, insider trading, personal securities trading, whistleblower reporting, record retention, cybersecurity and privacy.
- A diverse and experienced Board of Directors with a strong attendance at meetings.
- Board adopted governance guidelines and Board committees covering such areas as audit, conflicts, executive, legal and regulatory, and risk.

Exposure to Derivative Instruments.

Value of securities lending collateral assets.

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CLOSING THOUGHTS.

QUESTIONS.

APPENDICES.

APPENDIX A:
SEC PROPOSAL

- **SEC:**
  - The SEC Climate Risk Disclosure Rule proposal (March 21, 2022).

    (*A summary appears on the following slides.*)

APPENDIX A: SEC PROPOSAL

Summary.

- **Financial Statement Footnote Disclosures:**
  - The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and transition activities (e.g., changes in salvage values or useful lives of assets) if such amount exceeds 1% of the related line item.
  - The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities.
  - How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.
- **GHG Emissions Disclosures:**
  - Scope 1 and Scope 2 GHG emissions - on a gross basis and relative to intensity (e.g., tons of carbon dioxide per dollar of revenue).
  - Scope 3 GHG emissions in gross terms and relative to intensity, if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions or if Scope 3 emissions are material. Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.

APPENDIX A: SEC PROPOSAL.

Summary (continued).

- **Qualitative Disclosures:**
  - How climate-related risks have (1) had or are likely to have a material impact on the business and its financial statements as well as (2) affected or are likely to affect the registrant's "strategy, business model, and outlook."
  - The registrant's processes for detecting, evaluating, and managing climate-related risks and whether those processes are integrated into the registrant's broader risk management program.
  - If a registrant uses an internal carbon price, the registrant's internal carbon price and how such price is determined.
  - If the registrant uses a scenario analysis to assess its business in the context of climate-related risks, a description of the scenarios, assumptions, and projected financial impacts.
  - If a registrant has adopted a climate transition plan, a description of such plan as well as relevant targets and metrics.
  - Additional disclosure if the registrant has publicly disclosed climate-related targets or goals.
- **Governance Disclosures:**
  - How the registrant's board of directors and management oversee climate-related risks, the risk management process, and the registrant's response.

APPENDIX A: SEC PROPOSAL.

Summary (continued).

Greenhouse Gas Emissions:

- Greenhouse gases (GHGs) are gases in the earth's atmosphere that trap heat. This includes: Carbon Dioxide (79%), Methane (11%), Nitrous Oxide (7%) and Other (3%).

Scope	Emission Type	Definition
Scope 1	Direct Emissions	GHG emissions directly from operations that are owned or controlled by the reporting company
Scope 2	Indirect Emissions	Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company
Scope 3		All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions

APPENDIX B:
NAIC & SELECT STATE RESOURCES.

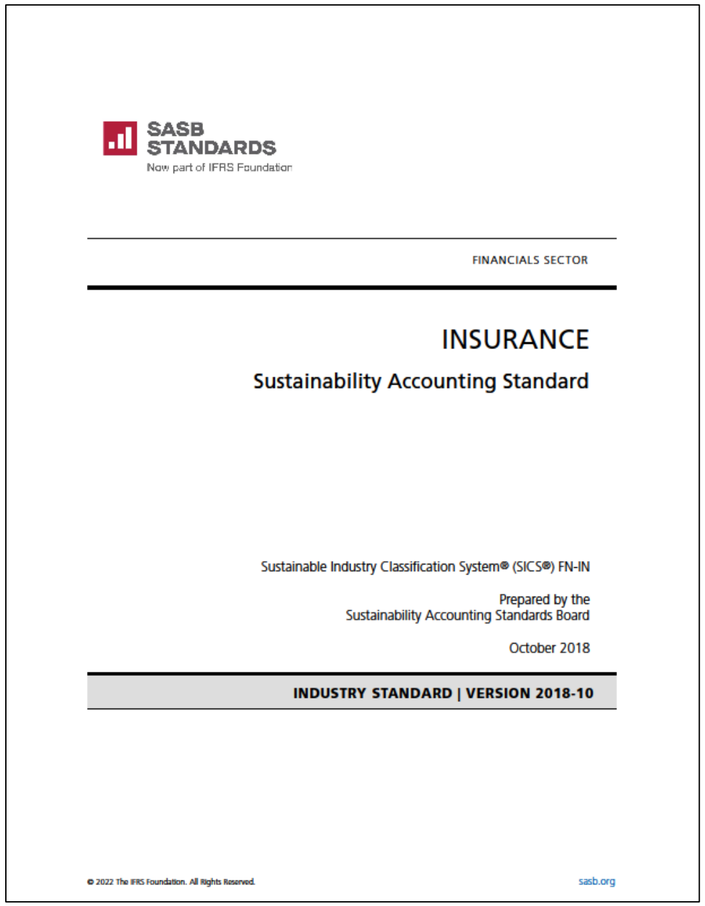
- **NAIC:**
  The updated NAIC Climate Risk Disclosure Survey (Adopted in Spring, 2022).

- **NY DFS:**
  Insurance Circular Letter No. 15 (2020) on Climate Change & Financial Risks. (September 22, 2020.)

- **NY DFS:**
  Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change (November15., 2021.)

- **CA DOI Notice:**
  Notice to Licensed Insurers with Instructions for Climate Risk Disclosure Survey Reporting Year 2021.

APPENDIX C: ACCOUNTING RESOURCES.



SASB STANDARDS
Now part of IFRS Foundation

FINANCIALS SECTOR

INSURANCE

Sustainability Accounting Standard

Sustainable Industry Classification System® (SICS®) FN-IN

Prepared by the
Sustainability Accounting Standards Board

October 2018

INDUSTRY STANDARD | VERSION 2018-10

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- **SASB Standards:**

  SASB Standard Application Guide

- **SASB Standards for Insurance:**

  Double click on the SASB Standards graphic (left) to launch the SASB Standard for insurance. (2018).

  Or click on the link below to access the standard : https://www.sasb.org/standards/download/?lang=en-us

APPENDIX D: INTERNATIONAL RESOURCES.

- **International Sustainability Standards Board**:
  - Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.
  - Exposure Draft IFRS S2 *Climate-related Disclosures*.
  - Snapshot, providing a high-level summary of the of the requirements.

TONIGHT:

Beach Bash – Networking Dinner
6:30 PM – 9:00 PM
North Beach