



# How to move beyond compliance in sustainability reporting?

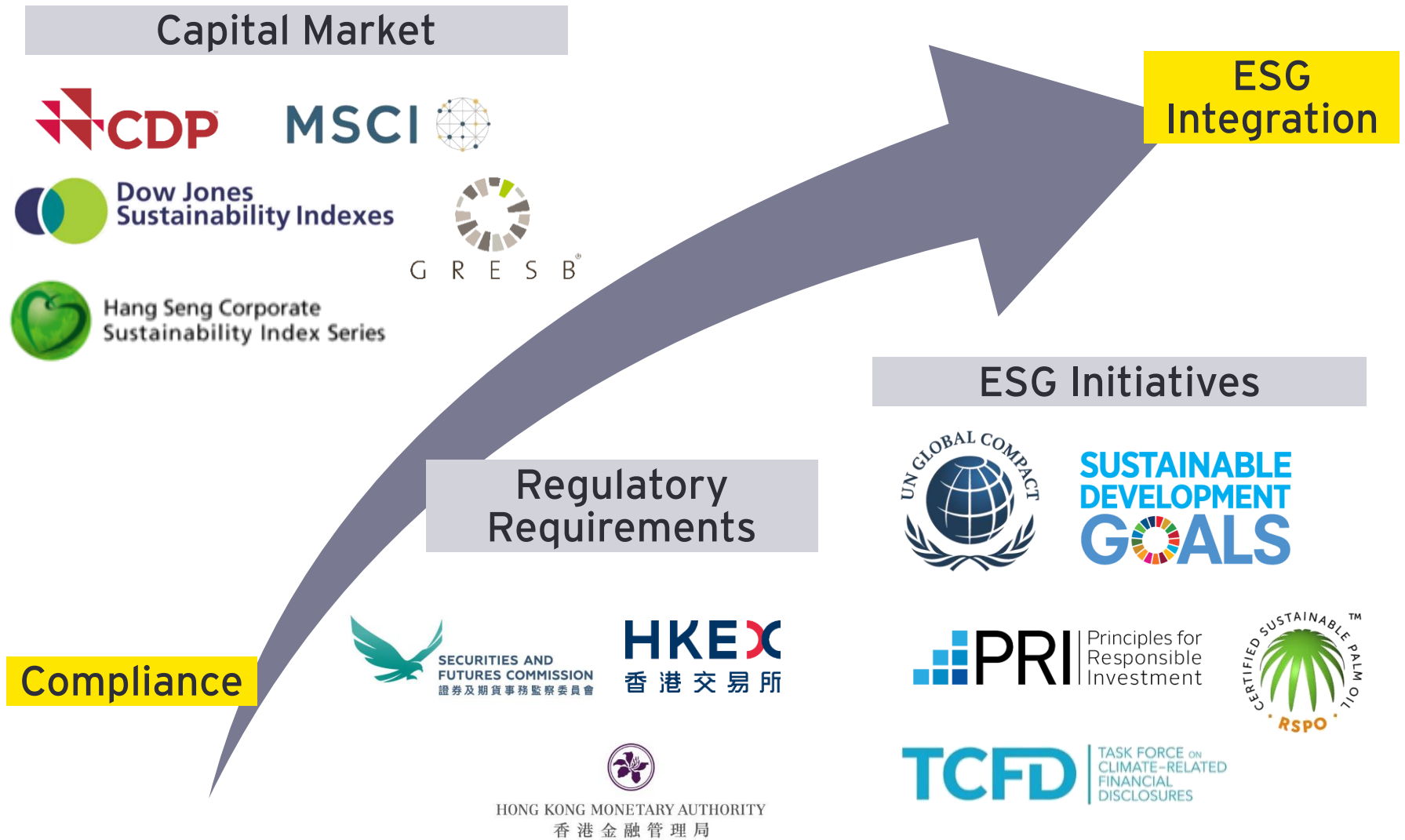
Integrating ESG for better risk management and business  
performance

■ ■ ■ ■ ■  
The better the question. The better the answer.  
The better the world works.



**EY** 安永  
Building a better  
working world

# Driving from compliance to ESG integration



# Topics which various rating institutions looking for and also the useful information to investors

The below management system systematically helps company to inform investors of how its ESG issues are well managed so as to gain investors' confidence:



# Establish governance structure

## Investors have specific expectations

Investors' rating criteria on ESG governance structure:

- 1 Is it clear that the **Board** resumes **responsibility** on ESG management?
- 2 Are the **roles of Directors** clear on management of different ESG aspects?
- 3 Does the company have an **ESG task force**?



This is not good enough



'this report is approved by the Board, aiming at demonstrating the company's social responsibility in the market, workplace, community and environment...'



# Establish governance structure

## Investors have specific expectations

Investors' rating criteria on ESG governance structure:

- 1 Is it clear that the **Board** resumes **responsibility** on ESG management?
- 2 Are the **roles of Directors** clear on management of different ESG aspects?
- 3 Does the company have an **ESG task force**?



### Well established governance structure

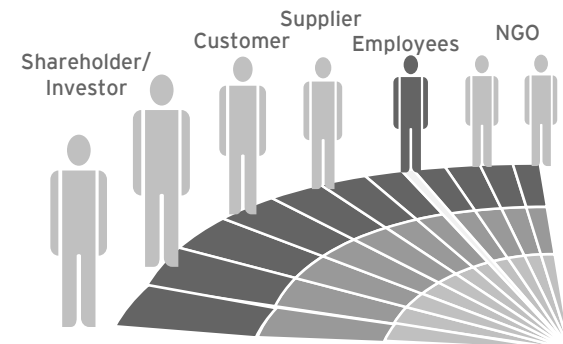
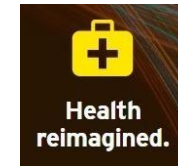
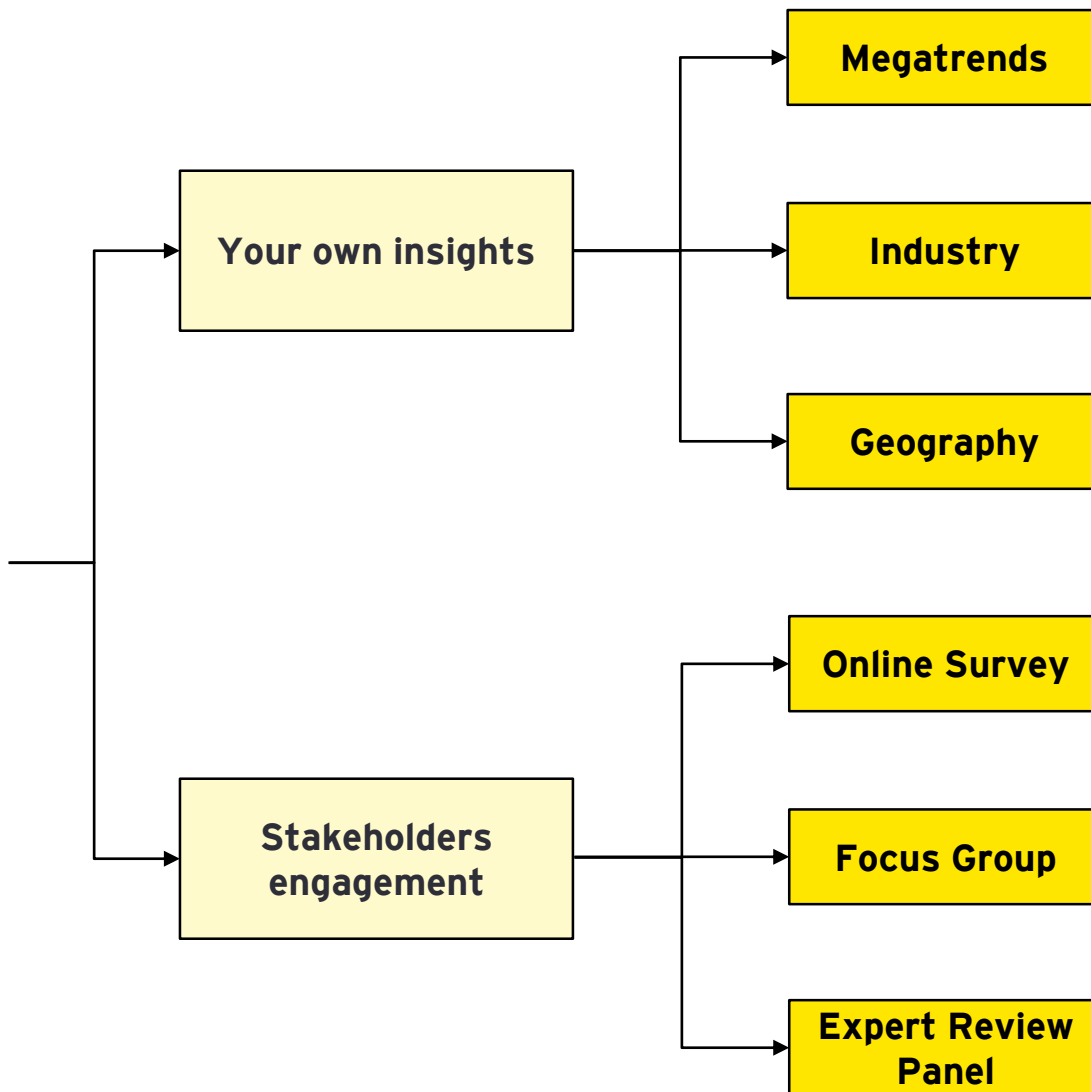


To better achieve the corporate goals in ESG, our company set up an ESG committee... their role and responsibility are as follows:

<p><b>Board</b></p>	<ul style="list-style-type: none"> <li>• Responsible for the evaluation for ESG risk</li> <li>• Ensuring the establishment of an appropriate and effective ESG internal monitoring system</li> <li>• ...</li> </ul>
<p><b>Executive Committee</b></p>	<ul style="list-style-type: none"> <li>• Executing ESG risk management and internal monitoring</li> <li>• Guiding the work of the ESG working groups</li> <li>• ...</li> </ul>
<p><b>ESG Task Force</b></p>	<ul style="list-style-type: none"> <li>• Promoting the implementation of ESG policies</li> <li>• Reporting to the Executive Committee on implementing ESG projects</li> <li>• ...</li> </ul>

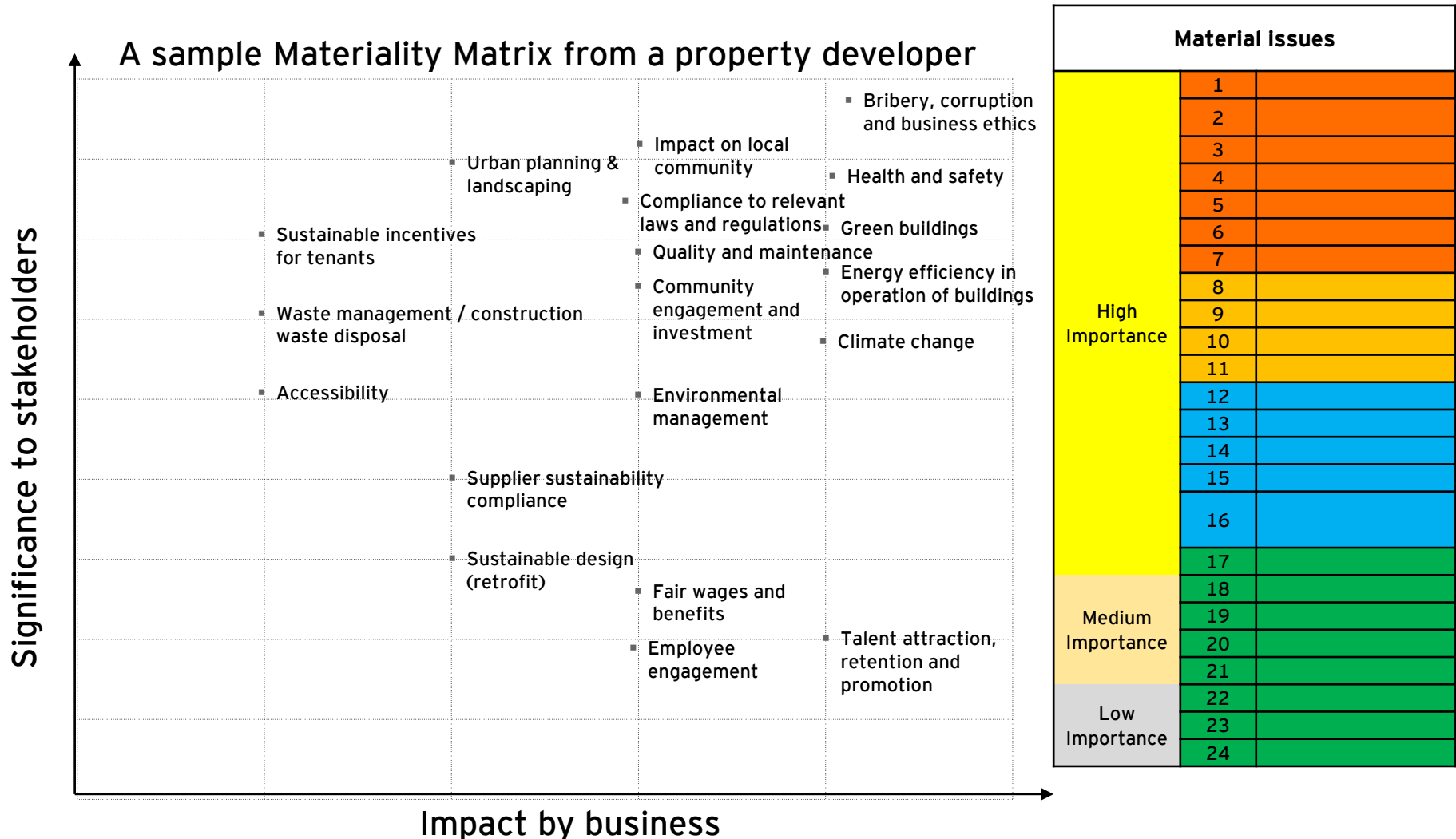
# Identifying ESG risks

## A mind map for identifying ESG risks



# Identifying ESG risks

The materiality matrix is a useful tool



# Policy, Process, Procedures, Controls

## Investors have specific expectations on policies

### Investors' rating criteria on ESG policies:

- 1 Whether it meets the legal requirements
- 2 Whether it is consistent with the business related environmental protection requirements
- 3 Whether it is continuously monitored
- 4 Whether the policy has been extended to stakeholders



This is not good enough



Manufacturing

### Environmental policy

Due to the business nature of conglomerate and the wide range of business, we must be careful on identification and management, and minimize the impacts of business activities on environment. We also intended to encourage working together to promote environmental protection throughout the operation internally and with our customers



# Policy, Process, Procedures, Controls

## Investors have specific expectations on policies

### Investors' rating criteria on ESG policies:

- 1 Whether it meets the legal requirements
- 2 Whether it **consistent** with the business related environmental protection requirements
- 3 Whether it is **continuously monitored**
- 4 Whether the policy has been **extended to stakeholders**



### All-rounded ESG management policy



Manufacturing

#### Environmental Policy

We are committed to :

- Assess the impact of the company's production on the environment and set up environmental targets, to continuously improve our environmental performance
- Establish **environmental protection policies and standards that meet or exceed the requirements of the laws**, and **integrate best practices in the industry in merging business operations and production models**
- Providing sufficient information and resource to **establish, monitor and regularly review** our environmental policies and objectives
- ...
- Environmental policies and management strategies are delivered and promoted **through our value chain and stakeholders** (including employees, suppliers and customers)

# ESG data management

## Investors expect accuracy and completeness

Investors' rating criteria on ESG metrics disclosure:

- 1 Disclosure on **relevant** metrics
- 2 **Consistency** of how data is being presented
- 3 Any information on how such metrics is **representative** (i.e. is it complete?)



Construction

	Unit	2	Year 15/16	Year 14/15
GHG emission		1		
Direct GHG emission (Scope 1)	Tonnes (CO2e)		6,648	5,791
Direct GHG emission (Scope 2)	Tonnes (CO2e)		280,841	312,819
GHG emission intensity		3		
Head Office(5% of company's business)	Tonnes (CO2e)/m2		0.055	0.058
Construction (55% of company's business)	tonnes (CO2e)/m2		0.0054	0.0066
Property Management (40% of company's business)	Tonnes (CO2e)/m2		0.052	0.059

The rating agency will analyze and question the data related to the operating area, number of employees and annual profit. If the data exceed corresponding regulations, it will not be scored.

# ESG data management

## Case study: effectively control metrics for a large company

### Current state

#### Various business type and geographical distribution

- ▶ Current **ESG management** are different because of different location and industries
- ▶ Current **statistics and methods** are different because of business lines and regions difference
- ▶ Lack of **ESG framework** that suits different business

#### Management differences with joint ventures

- ▶ The company established a joint venture factory with an overseas automobile group. The factory continued its **foreign management style** in terms of production and management, especially in ESG management



### Challenges

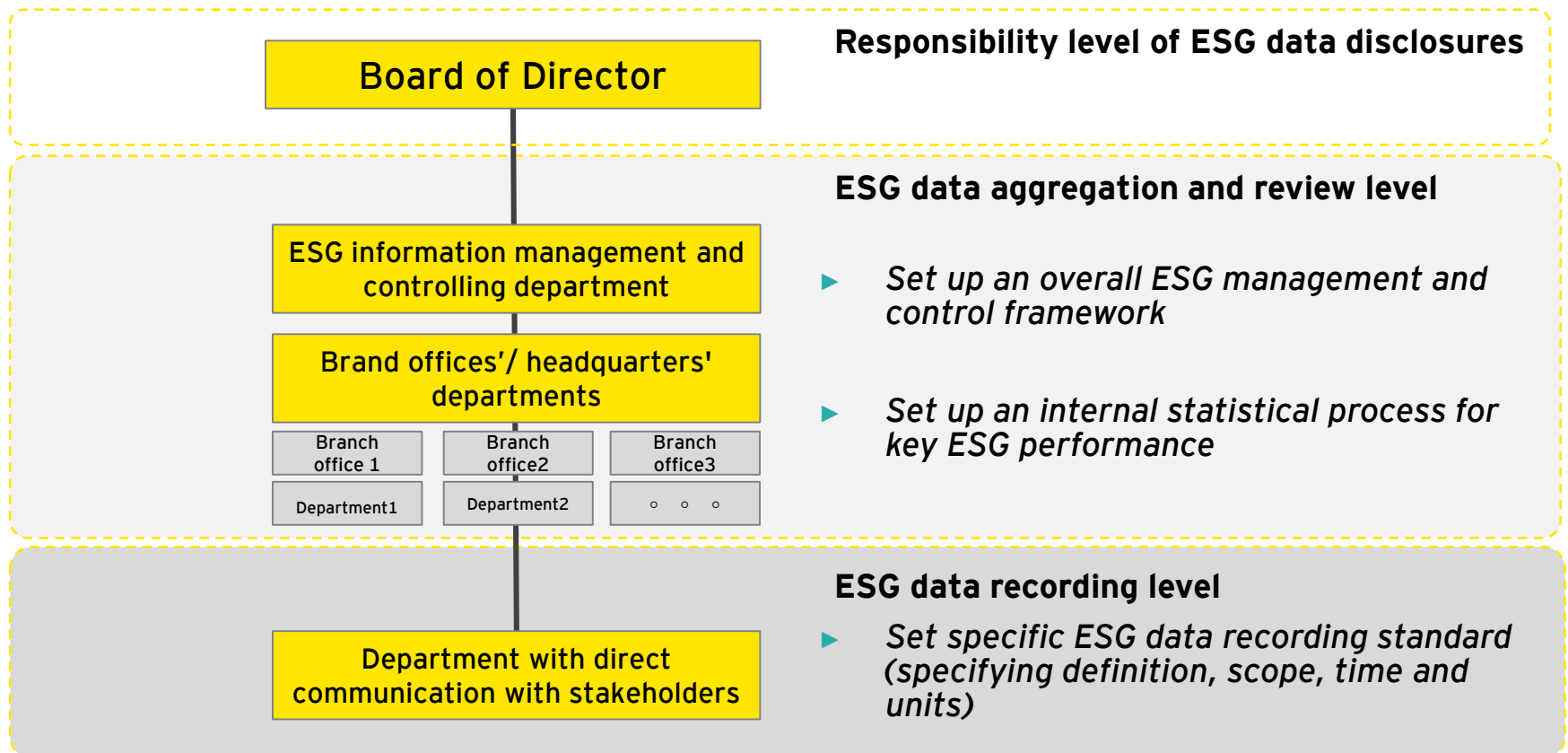
- ▶ **Data collection** is difficult to cover all business segments and regions
- ▶ As it is hard to unify, the **data accuracy** is then difficult to guarantee
- ▶ Lack of **ESG framework** that suits different business, making it difficult to ensure a top-down ESG management and control
- ▶ **ESG work and business/functional department work is difficult to integrate**, and this creates more stress and burden to the business sector
- ▶ ESG management has not formed a **normalized working mechanism**

# ESG data management

## Case study: effectively control metrics for a large company

### Solution

Without changing the current organizational structure, **establishing a complete ESG management and controlling framework** can ensure the effectiveness of internal ESG information statistics. This can improve the fundamental in ESG report writing and disclosure.



# Topics which various rating institutions look for and also the useful information to investors

The below management system systematically helps company to inform investors of how its ESG issues are well managed so as to gain investors' confidence:





## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). For more information about our organization, please visit [ey.com](http://ey.com).

© 2019 Ernst & Young, China  
All Rights Reserved.

APAC no. 03009403  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

[ey.com/china](http://ey.com/china)

### Follow us on WeChat

Scan the QR code and stay up to date with the latest EY news.

