# Sustainability

## CFO’s Driving Opportunities Through ESG

Alvin Lee, APAC

puro·earth

# How to Talk to Your CFO About Sustainability

"Sustainability efforts have increasingly become 'table stakes.' And yet many CFOs still see them as a cost rather than a source of value. That makes it hard to unlock the internal financing needed to scale them up."

"As the links between sustainability and economic performance become clearer, pressure will mount from investors, boards, and executive leadership to track and report the payoffs."

- Tensie Whelan, Elyse Douglas

NYU Stern Center for Sustainable Business

https://hbr.org/2021/01/how-to-talk-to-your-cfo-about-sustainability

puro•earth

# In conversation: the new CFO mandate

"ESG has been talked about as a reporting responsibility for CFOs and that is largely how investors and others perceive the CFO's role in ESG today."

- Ankur Agrawal

Partner, McKinsey, New York

**NOTE:** Not just for listed companies – see ACRA and SGX RegCo announcement on roadmap for wider implementation of sustainability reporting for SG-incorporated companies (21 June 2022)

https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/in-conversation-the-new-cfo-mandate

# In conversation: the new CFO mandate (continued)

"But CFOs want to more actively shape ESG programs and better align them with strategy, finance, and how topics such as climate or social issues integrate with the company's overall direction."

- Ankur Agrawal

Partner, McKinsey, New York

https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/in-conversation-the-new-cfo-mandate

# What is your company's overall direction?

"I believe there is a social purpose of a corporation – to create profitable solutions to the challenges of people and planet."

"Every company like ours also now has to earn the license to operate in every country and community at a time -- You actually have to prove that you belong everywhere you operate by creating local surplus, local benefits to the community. I feel that that's the core sense of purpose we have and the social contract we have in every country. But the interesting thing, though, is to your ESG point, it's not even let's do some ESG on the side. It's integrated into your core business."

– Satya Nadella, CEO, Microsoft

https://www.weforum.org/agenda/2022/05/davos-2022-mtl-satya-nadella-metaverse-hybrid-work/

# Why CFO's Should Embrace ESG

"People are sometimes surprised by this because CFOs are usually so bottom-line focused, but I firmly believe sustainability and sound governance are inherently tied to long-term value creation."

"The numbers show clearly that businesses that invest in this space reap enormous benefits. Ninety-two percent of Americans are more likely to trust companies that support social and environmental issues. Turnover is 25-55% lower in companies with strong ESG programs."

- Gina Mastantuono, CFO, ServiceNow

https://www.forbes.com/sites/servicenow/2022/03/01/why-cfos-should-embrace-esg/?sh=4b514360d890

# From Reporting and Compliance to Value

- Reporting --> Data
- Data --> Impact, Performance, and Opportunity
- Opportunity --> Strategy, Execution, Value Creation

- Underpinned by Corporate Purpose

# Agenda: CFO's Driving Opportunities Through ESG

- Taking Care of Business
- Financing
- Net Zero and Beyond

# 1. Taking Care of Business

# Reporting: a starting point, and survey observations from BNY Mellon

- Disconnect: Investors want more than what issuers are currently offering, but issuers think they are offering everything that's being asked.
- Disconnect: There is a shift in investor thinking from viewing ESG as a risk-mitigation exercise toward it being a driver of returns. Hence, issuers need to focus on and understand growing or changing investor demands.

https://www.bnymellon.com/us/en/insights/all-insights/how-issuers-and-investors-can-find-common-ground-on-esg.html

# Reporting:  a starting point (continued)

- Demand:  Investors want more transparency on ESG topics, more quantitative (vs. qualitative) data and more consistency in reporting.
- Demand:  Investors want more focus on material issues and those with the greatest impact.
- Demand:  Up until now, there has been a strong focus on environmental issues but investors also want issuers to focus on social and governance issues in ESG reporting.

https://www.bnymellon.com/us/en/insights/all-insights/how-issuers-and-investors-can-find-common-ground-on-esg.html

puro·earth

# From reporting to performance: CFO's and Sustainability (NYU)

- Identified **nine drivers** of corporate financial performance that can be bolstered by sustainability strategies: **innovation, operational efficiency, sales and marketing, customer loyalty, risk management, employee relations, supplier relations, media coverage, and stakeholder engagement**. ("mediating factors")
- Good management of any type can improve financial performance through the mediating factors; **however, good management of sustainability risks and opportunities is one of the most powerful ways** to do so.
- By boosting one or more of the mediating factors, contribute to astonishing returns by generating new revenue or reducing costs or both.

https://hbr.org/2021/01/how-to-talk-to-your-cfo-about-sustainability

# Drivers of corporate performance - ROSI

## The ROSI Methodology

Working with firms across sectors, NYU developed the Return on Sustainability Investment analytic method, which companies can use to measure the financial returns on their sustainability activities

1. **Identify your current sustainability strategies**
2. **Identify the related changes in operational or management practices**
3. **Determine the resulting benefits**
4. **Quantify the benefits**
5. **Calculate the overall monetary value**

https://hbr.org/2021/01/how-to-talk-to-your-cfo-about-sustainability

# Example:  Pharmaceuticals manufacturing

1. **Strategies** – efficiency of production inputs and waste, management of waste and hazardous materials, GHG emissions associated with production
2. **Changes in practice** - cross functional team and 'green chemistry' principles
3. **Benefits** – redesigned drug production process reduced energy, chemicals, and water required by 80%; cut waste generation and GHG emissions by 75%
4. **Quantify** – cost savings on inputs, waste handling, and GHG 'tax' savings
5. **Value** - $1.5m savings per 100 tons product;  retain greater market share after loss of exclusivity (improved product pricing via increased efficiency)

Bringing the CFO fully onboard requires showing that proposed sustainability activities will meet the company's required ROI on a project.

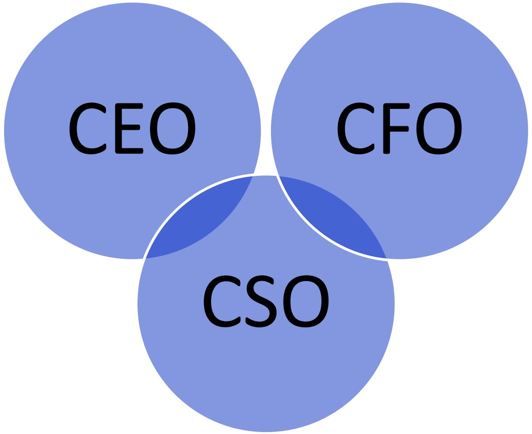
https://hbr.org/2021/01/how-to-talk-to-your-cfo-about-sustainability

# C-Suite Collaboration

"I view my role as CFO as the copilot to the CEO. A copilot has to do everything the pilot does."

- Howard Ungerleider, President and CFO, Dow Inc.

McKinsey Podcast (2021)




"The CSO would be a good choice [to lead the ROSI process] for obvious reasons, and she/he generally has relationships across the organization.  Ideally the CSO is joined by a leader from Finance."

- Whelan, Douglas, NYU

https://hbr.org/2021/01/how-to-talk-to-your-cfo-about-sustainability

# Example: E-Commerce -- sustainability as a selling point

- The Shopify Carbon Offsetting tool has been included in the new Shopify Shop App, with the ability to offset carbon from all orders placed using Shopify eCommerce sites.

"Clearly, Shopify has commercial reasons for this move. For them, there is a substantial financial upside in encouraging online consumers to use Shop as their preferred location when shopping online."

https://theecobahn.com/technology/shopify-carbon-offsetting-shop-app/

# Other benefits: SDG performance

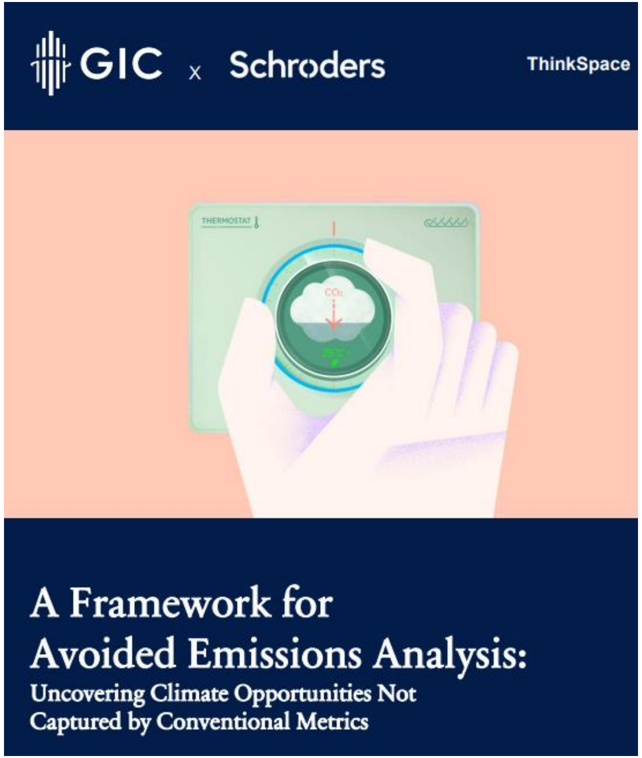

https://sdgs.un.org/goals

puro•earth

# Other benefits: Active vs. Passive (an example)

- Emissions data tells only part of the story

- How are companies driving reduction in emissions throughout the economy?




https://www.gic.com.sg/wp-content/uploads/2021/11/GIC-ThinkSpace-A-Framework-for-Avoided-Emissions-Analysis-final.pdf

puro·earth

# Other benefits: Active vs. Passive (GIC and Schroders example, continued)

- Conventional emissions data cover operations and value chains. However, beyond emissions reduction, **<u>leaders</u> are developing products and services that can drive significant reductions in economy-wide emissions**.
- Avoided Emissions metric = substitution of high carbon activities with low carbon substitutes in the value chain
- Schroders: "As our analysis shows, the industries with exposure to Avoided Emissions have already begun to outpace the growth of the broader market, a gap we expect can only widen given the **significant policy and consumer tailwinds**."
- "GIC has been studying climate change for over a decade, and we seek to stay at the frontier of research to ensure the resilience and success of our portfolio in the face of climate risks. Avoided Emissions captures the **positive contribution toward reducing carbon emissions** that traditional carbon metrics miss. This helps investors like GIC better identify companies that are likely to be winners in the ongoing carbon transition."

https://www.gic.com.sg/wp-content/uploads/2021/11/GIC-ThinkSpace-A-Framework-for-Avoided-Emissions-Analysis-final.pdf

# 2. Financing

# Open up financing for transition

“At UOB, we believe that what gets measured, gets done.”

“With companies communicating more clearly their environmental, social and economic impact, banks, including UOB, will be able to have more meaningful conversations with them and through financing, support them in global, regional, and sectoral transitions”

- Eric Lim, Chief Sustainability Officer, UOB

https://worldbusinessoutlook.com/mas-backs-local-fintech-stacs-for-singapore-esg-registry/

# Taxonomy: Overview

- Having a common understanding of what is sustainable is essential if ASEAN is going to attract and orient capital towards sustainable investments and away from non-sustainable activities.
  - **Investors** - more information and greater confidence on what their funds will be used for
  - **Businesses** will have clear guidance on what they need to do for their sustainability journey.
- The ASEAN Taxonomy acts as a map to help guide capital towards activities that can promote the transition of activities in the real economy onto a more sustainable footing.

https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf

puro•earth

# Taxonomy: Environmental Objectives & Criteria

| Environmental Objectives | |
|---|---|
| 1 Climate Change Mitigation | 2 Climate Change Adaptation |
| 3 Protection of healthy ecosystem and diversity | 4 Promotion of resource resilience and transition to circular economy |

| Essential Criteria | |
|---|---|
| 1 Do No Significant Harm (DNSH) | 2 Remedial Measures to Transition |

https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf

# What about S?

"The proceeds will be used to finance areas such as green buildings and renewable energy, as well as eligible **social assets**, including COVID-19-related temporary bridging loans extended to small businesses in Singapore to help them sustain employment and to tide over the challenges from the pandemic."

– UOB Sustainability Bond Offering (2021)

https://www.uobgroup.com/web-resources/uobgroup/pdf/newsroom/2021/UOB-SG-first-sustainability-bond-offering.pdf

# What about S? (continued)

- A $200m Grow with Google Small Business Fund launched in partnership with the Opportunity Finance Network (an association of community development FI's) during the pandemic:

    - Serve underserved small businesses;  move capital to hardest to serve communities
    - Short term recovery and long-term needs for SME's hardest hit by Covid.

https://www.forbes.com/sites/maneetahuja/2020/09/17/exclusive-ruth-porat

# What about S? (continued)

- Funding of $1.3m digital tools training via American Library Association to SME's since SME's embracing such have 4x revenue of counterparts

"The work we're doing around digital skills training is going to be key to setting up businesses for longer term success."

– Ruth Porat, CFO, Alphabet

https://www.forbes.com/sites/maneetahuja/2020/09/17/exclusive-ruth-porat

# GSSS – International Capital Markets Association

## The Principles

The Green Bond Principles

The Social Bond Principles

The Sustainability Bond Guidelines

The Sustainability-Linked Bond Principles

**Use of Proceeds***

Green, Social, Sustainability Bonds ("GSS" or "UoP")

**Core Components:**

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

**Key Recommendations:**

1. Bond Frameworks
2. External Reviews

**General Purposes***

Sustainability-Linked Bonds ("SLBs")

**Core Components:**

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

**Financial Instrument Guidance**

Climate Transition Finance

**Climate Transition Finance Handbook (CTFH)**

(Guidance may be applied to GSS/UoP Bonds or SLBs)

**Thematic Guidance**

https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf

# 3. Net Zero and Beyond

puro·earth

# Microsoft will be carbon negative by 2030

Jan 16, 2020 | Brad Smith - President


Microsoft President Brad Smith, Chief Financial Officer Amy Hood and CEO Satya Nadella preparing to announce Microsoft's plan to be carbon negative by 2030. (Jan. 15, 2020/Photo by Brian Smale)

# Net Zero ambition - example: Microsoft

- In 2020, CEO Satya Nadella, President Brad Smith, and CFO Amy Hood launched a bold new environmental sustainability initiative focusing on carbon, water, waste and biodiversity.
- Carbon negative – 2030; remove historical emissions by 2050.
- Set up $1 bn fund to be spent on accelerating the advance of new technology that will hopefully aid in the fight against climate change.

"This is just a fraction of what is needed to solve this problem. We hope that by doing this we will inspire both governments and other companies to invest with us." - Amy Hood, CFO

https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/

puro·earth

# How to Avoid a Climate Disaster

"But if there is only one idea I want people to take away from the book, it's this: We need to lower the **Green Premiums**.

The term refers to the difference in cost between a product that involves emitting carbon and an alternative that doesn't."

– Bill Gates

https://www.gatesnotes.com/Energy/Lowering-Green-Premiums

puro·earth

# The concept at work:  First Movers Coalition

- Launched at COP26
- The companies – whose collective market value exceeds $8.5 trillion across five continents – have sent the largest **market signal** in history to commercialize emerging clean technologies by making **advance purchase commitments** by 2030 for near-zero carbon forms of:
  - Steel
  - Aluminium
  - Shipping
  - Trucking
  - Aviation
  - Negative emissions through advanced Carbon Dioxide Removal (**CDR**) technologies.

https://www.weforum.org/impact/first-movers-coalition-is-tackling-the-climate-crisis/

puro•earth

# First Movers Coalition

### Aluminum

- Apple
- Ball Corporation
- Ford Motor Company
- Novelis
- Trafigura
- Volvo Group

### Aviation

- Airbus
- Apple
- Aveva
- Bain & Company
- Bank of America
- Boeing
- Boston Consulting Group
- Deloitte
- Delta Airlines
- Deutsche Post DHL Group
- EY
- FedEx
- Fortescue Metals Group
- Nokia
- PwC
- Salesforce
- Schneider Electric
- United Airlines
- Vattenfall

### Carbon Dioxide Removal

- AES
- Boston Consulting Group
- Alphabet
- Microsoft
- Mitsui O.S.K. Lines
- Salesforce
- Swiss Re

https://www.weforum.org/first-movers-coalition/members

puro•earth

# First Movers Coalition (continued)

**Shipping**

- A.P. Møller – Mærsk
- Agility
- Aker ASA
- Amazon
- BHP
- Fortescue Metals Group
- Schneider Electric
- Trafigura
- Western Digital
- Yara International

**Steel**

- Aker ASA
- Consolidated Contractors Group S.A.L.
- Ecolab
- Enel
- Engie
- Ford Motor Company
- Fortescue Metals Group
- Invenergy
- Johnson Controls
- Mahindra
- Ørsted
- ReNew Power
- Scania
- Trane Technologies
- Vattenfall
- Vestas
- Volvo Group
- ZF Friedrichshafen AG

**Trucking**

- Agility
- Cemex
- Dalmia Cement
- Fortescue Metals Group
- HeidelbergCement
- Holcim
- National Grid
- Scania
- SSAB Swedish Steel
- Vattenfall
- Volvo Group

https://www.weforum.org/first-movers-coalition/members

# A word about CDR

"Carbon removals with durable, meaning geological time-scale, storage will inevitably play a role in stabilising atmospheric concentrations of carbon dioxide, and potentially even reducing them after net zero is achieved."

"Creating demand for carbon removal offsets today will send a signal to the market to increase supply of this scarce but vital resource."

- Professor Myles Allen, University of Oxford

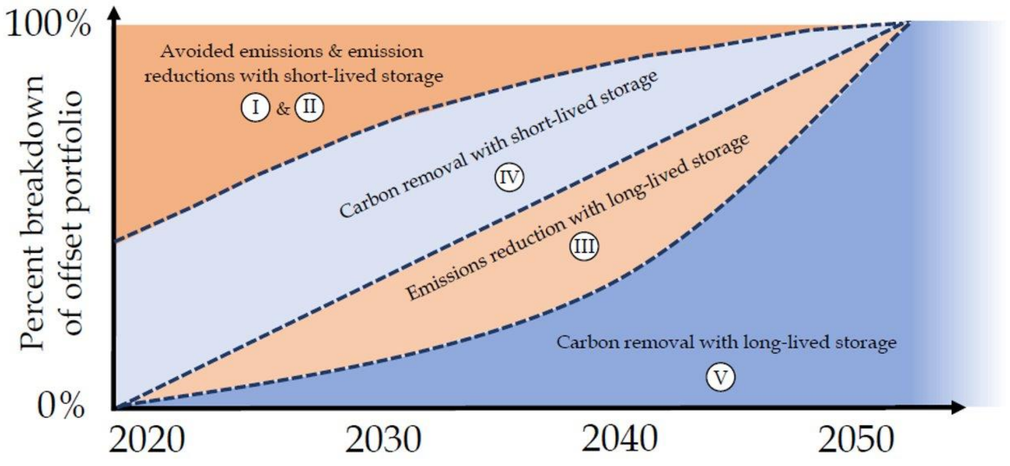
Chairman of Puro.earth's Advisory Board

Co-author, Oxford Principles for Net Zero Aligned Carbon Offsetting

puro•earth

# Oxford Principles for Net Zero Aligned Carbon Offsetting (2020)

1. Cut emissions, use high quality offsets, and regularly revise offsetting strategy as best practice evolves
2. Shift to carbon removal offsetting
3. Shift to long-lived storage
4. Support the development of net zero aligned offsetting




https://www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf

# Pioneering corporates in CDR

- **Frontier Fund** - initial $925M of permanent carbon removal by Stripe, Alphabet, Shopify, Meta, McKinsey, and tens of thousands of businesses using Stripe Climate.
- At Davos 2022, **FMC members** Alphabet, Microsoft, and Salesforce collectively committed $500 million to CDR, and BCG committed to remove 100,000 tonnes of carbon.
- **NextGen** CDR Facility - Founding buyers include Boston Consulting Group, LGT, Mitsui O.S.K. Lines, Swiss Re, and UBS
- **Zurich Insurance** – net zero by 2030 vs. 2050, via deep emission cuts complemented by support for innovative carbon removal solutions

# Parting thought

"As the importance of ESG grows, finance professionals will play an ever-greater role in driving awareness of ESG data, measuring impacts, and reporting to key stakeholders.

CFO's with proven experience of integrating ESG into finance team priorities will be in huge demand in the near future."

- Daniel Yates, Senior Partner

Page Executive

https://www.pageexecutive.com/advice/topics/executive-trends/why-cfos-should-be-movers-and-shakers-esg-8-trends

puro·earth

Alvin Lee, APAC

alvin@puro.earth

+65 9643 3896

https://puro.earth