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ESG Made Easy:

A Beginner's Guide to Environmental Reporting

Environmental, Social, and Governance (ESG) has emerged as a critical framework for measuring the sustainability and ethical impact of an organization’s operations. As the world grapples with issues such as climate change, social inequality, and corporate governance, investors, regulators, and stakeholders are increasingly looking to ESG factors to inform their decisions. ESG encompasses a wide range of issues, from carbon emissions and labor practices to board diversity and executive pay. In this whitepaper, we will explore the environmental pillar of ESG, including what it is, why it matters, and how to establish a comprehensive ESG program that aligns with your business objectives. We’ll cover key topics such as identifying your ESG task force, defining your ESG goals, selecting frameworks, gathering and analyzing data, establishing baselines, and implementing internal controls for sustainability reporting.

What is ESG?

Environmental, Social, and Governance (ESG) is a framework for measuring the sustainability and ethical impact of an organization's operations. The framework evaluates a company's impact on the environment, society, and the governance of the company. ESG is not just a trend but a concept that is rapidly gaining traction, and investors are now taking a keener interest in ESG data to make informed decisions.

Each of the three pillars of ESG - environmental, social, and governance - has unique data gathering, analysis, and reporting requirements. For the purposes of this whitepaper, we'll be focusing on the ***environmental pillar.***

Environmental

Carbon emissions

Energy consumption

Climate change effects

Pollution

Waste disposal

Renewable energy

Resource depletion

Social

Discrimination

Diversity, Equity and Inclusion

Human rights

Community relations

Animal rights

Governance

Executive compensation

Shareholder rights

Takeover defense

Staggered boards

Independent directors

Board elections

Political contributions

Environmental pillar of ESG

The environmental pillar of ESG measures a company's impact on the environment. This includes factors such as carbon emissions, water usage, waste management, biodiversity, and energy use. The environmental pillar is critical as companies that operate sustainably are more likely to manage risks and opportunities effectively and are viewed more favorably by investors.

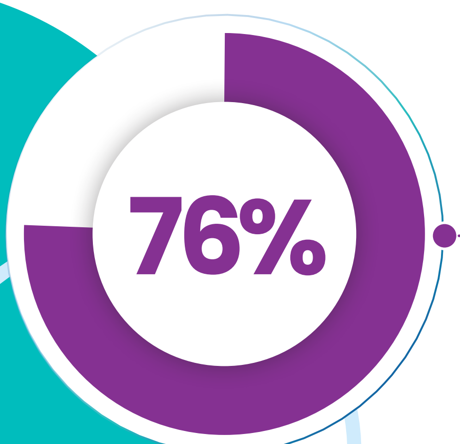
Why does ESG matter?

Organizations are facing increasing pressure to track and report the ESG initiatives in a consistent and reliable manner. As regulatory agencies create new rules requiring standardized methodology and transparency, it is becoming more important than ever to prioritize and place accountability on ESG initiatives. But why exactly does ESG matter to organizations?

Improved access to capital: One of the main benefits of prioritizing ESG initiatives is improved access to capital. By demonstrating a strong commitment to ESG, companies can attract more investment and improve their financial performance. According to a report titled, "Climate Change Investment in the US: Progress and Opportunities", by CDP, companies that disclosed their carbon emissions and climate change strategies received an average of $1.2 billion more in investment from institutional investors compared to companies that did not disclose this information.

Better regulatory compliance: ESG initiatives can also help organizations stay compliant with regulatory requirements. As new regulations are created, organizations that have already implemented ESG initiatives are more likely to be in compliance and avoid penalties. This not only saves organizations money but also helps them maintain a positive reputation with regulators.

Improved environmental impact: Of course, one of the most important reasons to prioritize ESG initiatives is to reduce greenhouse gas emissions and improve an organization's environmental impact. By implementing sustainable practices and reducing waste, organizations can help protect the planet for future generations.



According to a recent statistic from PwC, 76% of consumers will stop buying from companies that treat the environment, employees, or the communities that they operate in poorly. By prioritizing ESG initiatives, organizations can improve their reputation and attract more customers.

How to establish your ESG task force.

Now that you understand why ESG matters, you may be wondering how your business can get started. Before diving into reporting, it's crucial to identify what matters most to your business, stakeholders, executive team, and employees. This section will provide guidance on setting up an ESG task force to ensure you have a solid foundation for ESG reporting and can focus on what matters most for your organization.

1. **Identify an Executive Sponsor:**
   [sample titles: Chief Financial Officer, Chief Compliance Officer, Chief Risk Officer]

   The first step in setting up your ESG task force is to identify an executive sponsor. While large enterprises may have a dedicated Chief Sustainability Officer (CSO), smaller and mid-market businesses may need to look to other C-suite roles to fill this critical position. We recommend that CFOs take on the role of executive sponsor as they are well-positioned to oversee ESG initiatives and ensure that they are aligned with the company's strategic objectives and financial goals.

2. **Add Functional Owners:**
   [sample titles: Facility Owners, Procurement Leads, Real Estate Executives, Supply Chain Managers]

   This team will be responsible for collecting data from their respective areas and ensuring that the data is accurate and up to date. For example, facilities managers may be responsible for tracking energy consumption, waste management, and water usage, while procurement leads may be responsible for monitoring supplier sustainability performance. Real estate executives may be responsible for tracking building certifications and green leases, while supply chain managers may be responsible for tracking carbon emissions from transportation and logistics.

3. **Include Reporting and/or Finance Functions:**
   [sample titles: Controller, Director of Reporting, Head of Business Operations]

   This team will be responsible for collecting and analyzing the ESG data, which will be a critical component of the reporting process.

4. **Unify Data & Information:**
   [sample titles: Chief Information Officer (CIO), Chief Technology Officer (CTO), Head of IT, Director of Business Intelligence]

   Your Chief Information Officer (CIO) and their team should also be part of the ESG task force. They will help identify the systems needed to collect the data required for ESG reporting and ensure that these systems integrate with each other.

Once you've established your internal ESG task force, it's time to engage with your stakeholders. This includes both internal stakeholders, such as employees, as well as external stakeholders, such as investors and rating agencies. By understanding their priorities, you can determine how to use this information to set your ESG strategy and goals.

How do you define your goals?

After you establish a dedicated task force the next step is to define specific goals to guide your efforts.

While ESG goals may vary across organizations, one of the most critical early steps for many companies is to begin identifying your assets and start collecting your data.

Without reliable data, it's challenging to establish a baseline for measuring progress, identify areas for improvement, and communicate ESG performance to stakeholders. Prioritizing data collection and management is a foundational step for building a comprehensive and effective ESG program that can help drive long-term value and positive impact.

If you've already built your inventory of assets and started to collect data, you're ready to define goals.

Establishing your ESG objectives is a pivotal stage in showcasing your dedication to sustainable and principled operations – and there are a number of standards and frameworks you may consider when establishing your goals.

Standards:

Standards play a vital role in defining what ESG data needs to be reported. Various ESG reporting standards, such as The International Sustainability Standards Board (ISSB), The European Financial Reporting Advisory Group (EFRAG) and The US Securities and Exchange Commission (SEC) as well as state & local regulations, can be utilized to determine what needs to be reported. Many of these standards are still under development, but will likely have a phased implementation starting in 2024.

Frameworks:

Frameworks provide guidance on how to report ESG data. Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD) Sustainability Accounting Standards Board (SASB), and the National Association of Real Estate Investment Trusts (NAREIT) are examples of frameworks that offer instructions on how to report your ESG data. A recent study of the top 50 S&P firms found that they combined three different frameworks into their reporting, with SASB, GRI, and TCFD being the most commonly used. The science-based targets initiative (SBTI) focuses on advising how to set goals, rather than how to report.

What are the Scope 1, 2, & 3 emissions and requirements?

Now that you've learned a bit about how to approach ESG goals and reporting, let's shift focus to some of the types of reporting.

Greenhouse gas emissions are a significant concern for businesses and organizations worldwide. To address these concerns, there are different methods to track and report greenhouse gas emissions, including the Scope 1, 2, and 3 emissions frameworks.

Scope 1 Emissions:

DIRECT

Scope 1 emissions refer to direct emissions from sources owned or controlled by your organization, such as facilities and vehicles. These emissions are typically the easiest to manage and mitigate and are usually the smallest source of emissions.

Examples of Scope 1 emissions include emissions from fuel combustion, refrigerants, and chemical production.

To comply with Scope 1 emissions requirements, organizations need to measure, track and report the emissions from their direct sources. This can be achieved through various tools and methods, such as energy audits, emission inventories, and carbon footprint assessments.

Scope 2 Emissions:

INDIRECT

Scope 2 emissions refer to indirect emissions from the consumption of purchased electricity, heat, or steam used by your organization. These emissions are generally far greater than Scope 1 emissions and are reported with a location and market-based methodology.

- The location-based method uses an average emissions intensity from the electrical grid component where the energy consumption occurs.
- The market-based method uses information from contractual instruments for the electricity purchased, such as renewable energy certificates.

To comply with Scope 2 emissions requirements, organizations need to collect and report data on their energy consumption and emissions. This can be achieved through energy bills, contracts, and data from electricity suppliers.

TIP:

Renewable energy has a huge impact on Scope 2 emissions, as purchasing energy directly from a wind farm provides a specific greenhouse gas emission value for that part of your energy consumption.

Scope 3 Emissions:

INDIRECT

Scope 3 emissions are indirect emissions not included in Scope 2, associated with upstream and downstream activities of the reporting company. These emissions include emissions from the production and transmission of purchased goods and services, waste disposal, and other activities outside of the organization's direct control. Although Scope 3 emissions are complex and challenging to manage, they are still a critical area of focus for organizations that want to achieve sustainability goals.

Most importantly, companies not directly impacted by governing body requirements of Scope 1 and Scope 2 may still need to report as they may be responsible for the scope 3 emissions of another company.

Consider this scenario: Company A delivers a package to your doorstep. Should the delivery truck be owned by Company A, the fuel consumption would generate a scope 1 emission, thereby requiring Company A to disclose the same. However, in the event that the truck is owned by a subcontractor, the fuel utilization would create a scope 1 emission for the latter, which, in turn, would qualify as a scope 3 emission for Company A. It is noteworthy that the subcontractor, not being bound by SEC regulations, is exempt from the same. Nonetheless, since the subcontractor falls under Company A's value chain, Company A is responsible for monitoring and reporting these emissions.

How do you gather your data and establish baselines?

A solid ESG report is a cohesive story, combining qualitative messaging with quantitative metrics to reinforce a company's purpose and measure progress towards sustainability goals. But to achieve this, companies must focus on materiality, accuracy, and reliability - and that starts with effective data controls.

According to a Deloitte survey, more companies are now concerned about data accuracy than data availability, with effective controls playing a crucial role in ensuring data quality and validity. Establishing controls also helps companies determine their materiality threshold, a critical point of contention with the proposed SEC rules.

To effectively collect the necessary data, companies need to start with a list of their assets. For property assets, associated electricity bills can be a good first step, with electricity typically the biggest greenhouse gas emitter. While not every asset within a facility needs to be tracked, it's important to consider other sources of emissions, such as heating and cooling systems, backup generators, and onsite fuel consumption.

Beyond tracking emissions, companies should also consider transactions that involve fuel purchases, a likely source of emissions. Accurately establishing baselines is essential for progress reporting and benchmarking against industry peers. However, to ensure accuracy, companies must ensure that their data controls and technology solutions can adjust to different boundary rules, especially if reporting under different standards.

Internal controls for sustainability reporting.

Once a company has aligned on the qualitative and quantitative elements to disclose, they need processes, policies, and procedures to determine internal controls over ESG disclosures, which includes developing specific methods to enforce policies and ensure the accuracy of data.

Key considerations when establishing internal controls for sustainability reporting include clear processes for data collection, maintenance, and calculation accuracy, as well as a review and approval process to ensure accuracy and reliability. By establishing strong internal controls, companies can demonstrate their commitment to sustainability and build credibility with socially responsible investors and stakeholders.

Conclusion

While many organizations aren't yet required to report on environmental outputs, most agree that regulations are forthcoming, and prioritization is must. To stay ahead of what's ahead, companies should consider investing in a solution that solves for carbon accounting and sustainability management.

VL ESG Steward™

VL ESG Steward™, is designed to track and report on the environmental impact of an organization's owned and leased asset portfolio. The first tool of its kind within the lease management and accounting solution space, ESG Steward enables businesses around the globe to consolidate the data needed to track their carbon footprints across assets like commercial real estate, fleet, equipment and more, and make the necessary changes to address their environmental, social and governance (ESG) goals.

"As MISTRAS recognizes our responsibility to serve as an agent for positive change and advancement of the Company's ESG initiatives, we're thrilled to become a pilot customer for VL ESG Steward. We've used Visual Lease as our system of record for our portfolio of facility, automobile, and equipment leases –and feel that they are well positioned to expand and provide meaningful value into the complex landscape of ESG reporting."

Thomas Tobolski, Treasurer

"We were excited to become a pilot customer for VL ESG Steward. Our business is committed to reducing its direct carbon emissions; solutions like this will enable us to streamline reporting on key environmental data points across our portfolio of leased and owned assets."

Jon Hunke, Vice President

"Tracking and reporting on environmental data is becoming a fundamental element of all aspects of commercial real estate, including lease administration. We think that the ability to track, store, and report on environmental data using an existing technology offers users a range of opportunities and efficiencies. Scribcor Global is proud to be working with Visual Lease on the development of an ESG module that will expedite both the pursuit of environmental goals and compliance with reporting requirements."

Jamie Covert, President

About Visual Lease

Visual Lease, the #1 lease optimization software provider, empowers organizations to leverage their lease portfolio as a strategic asset. Our platform is uniquely designed to meet the needs of every team that interacts with a company's lease portfolio to reduce risk, drive confident and sustained lease accounting compliance and provide the visibility required to make agile business decisions. Informed by nearly three decades of experience, our solutions help companies easily sustain compliance with FASB, IFRS and GASB lease accounting standards and implement proper lease controls to improve the financial, legal and operational performance of their leases. Our award-winning software is used by 1,000+ organizations to manage 500,000+ real estate, equipment and other leased assets globally. For more information, visit **visuallease.com.**