PAKISTAN
STOCK EXCHANGE

PSX Primer on

Environmental, Social and Governance (ESG)

Reporting Guidance for Companies

Table of Content

Executive Summary

Introduction

Pakistan Stock Exchange (PSX) is pleased to release this primer on Environment, Social and Governance (ESG) as the first in a series of guiding resources for companies at various stages of their ESG journey, and for the investors as well who are looking to learn about ESG to make informed investment decisions. The primer aims to apprise companies of the ESG risks and opportunities, educate stakeholders on how ESG data can be used, highlight the potential of ESG innovation, and provide practical guidance for producing a sustainability report. The guide is intended for companies that are new to sustainability reporting, as well as beneficial for those who have been issuing sustainability reports; all collectively referred to as "users".

Importance of ESG

In recent years, there has been a significant increase in capital flows into ESG opportunities, constituting up to approximately one-third of the total assets under management worldwide. The integration of firms' economic, environmental, social, and corporate governance performance is also essential for managers, employees, and other stakeholders, along with the investors. ESG reporting provides transparency, helps investors make informed decisions, enhances brand loyalty, ensures regulatory compliance, and helps companies manage risks. It also encourages innovation, goal tracking, and resilience, making companies better prepared for ESG related risks and opportunities. In today's competitive business and investment environment, it is imperative for companies to learn about, apply, and incorporate the standards governing ESG in their corporate structure.

Pakistan's low ranking on the Global Competitiveness Index (GCI) along with high public expenditures limit its fiscal space for investments in infrastructure and people. The global investor base can help deliver financing solutions for local communities. However, investors demand greater transparency from corporates, especially from those in volatile regions, to understand emerging risks for businesses, environment and assess threats to corporate profitability. Thus, for market forces to raise sustainable capital for necessary growth, it is essential to properly address ESG concerns which require good measurement and consistent reporting, so that the progress can be tracked. Enhancing work on ESG and reporting may also help the domestic equity markets attract long-term investments.

PSX Initiatives on ESG

The rapid and vast changes in the global environmental landscape highlight the importance of identifying material ESG risks and opportunities, which also ties in with Pakistan's Nationally Determined Contribution (NDC) roadmap that aims to meet UN Sustainable Development Goals (SDGs). To address these challenges, PSX formed an ESG Task Force, under the leadership of Federal Minister for Finance, Revenue, and Economic Affairs, Dr. Shamshad Akhter, that included Pakistan Institute of Corporate Governance (PICG), representatives from Securities and Exchange Commission of Pakistan (SECP) i.e., the apex regulator and other stakeholders. The objective of the Task Force was to develop and launch a coherent, systematic and realistic framework backed by regulatory support and tools to encourage companies and financial institutions to voluntarily adopt ESG standards and guidelines.

PSX also joined the United Nations' Sustainable Stock Exchanges (SSE) Initiative in 2021 to enhance corporate transparency, encourage sustainable investment, and advance gender equality. SECP has also prioritized sustainability in its regulatory agenda and published an "ESG Regulatory Roadmap" in 2022 followed by "Draft Guidelines on ESG Disclosures for Listed Companies, 2023"

PSX also recognizes the significance of promoting a sustainable ecosystem, enabling listed enterprises to raise capital on a credible platform. PSX resolves to continue its efforts to raise awareness among companies and investors and plans to develop an ESG Information Portal, integrate sustainability into its own operations, and launch ESG data products, including an ESG index. To this end, PSX has initiated collaboration with London Stock Exchange Group's (LSEG) in connecting them with listed companies to provide ESG data through LSEG's ESG Contribution Tool, making Pakistan's companies ESG data visible and available globally in line with international practices. This will also help make companies' ESG scoring available to both domestic and international markets and would also build the capacity among the companies.

ESG Frameworks and Standards

From a historical standpoint, ESG investing has been around for a long time which basically integrates ESG factors into investment strategies. It encouraged the investee companies to act responsibly helping investors align decisions with their beliefs. However, it wasn't until the 1990s that ESG frameworks and standards began to develop, which aimed to provide guidance to companies on how to report on their ESG performance in a consistent and decision-useful manner while assisting investors in assessing ESG risks and opportunities. Over time, many ESG frameworks and standards arose to address the needs of a broader stakeholder base. At present, companies should at least be familiar with the International Sustainability Standards Board (ISSB), which aims to consolidate the Climate Disclosure Standards Board Framework (CDSB), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD) frameworks. Additionally, the Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP) are also important organizations for companies to be aware of. In 2022, CDP announced the incorporation of the ISSB climate-related disclosure standard into its global environmental disclosure platform, enabling many global companies to uniformly provide their climate related disclosures.

Along similar lines, ESG data providers and rating methodologies have also expanded significantly over time with reportedly hundreds of ESG ratings and rankings available globally at the time of publishing of this primer. Further, to facilitate ESG conscious investors, various ESG investment vehicles, such as mutual funds, Exchange Traded Funds (ETFs), and index funds, have emerged, making it easier for them to invest in securities with a high sustainability score and exclude those with poor records.

Significance of ESG Reporting

In the same spirit, ESG considerations with effective reporting have also become increasingly important for companies to embed into their operations, strategy, and governance offering many benefits, including improved risk management, reduced volatility in corporate profitability, and better alignment with peer practices. By addressing ESG risks, companies make the effort to transition towards sustainability. Companies that also recognize the opportunities and innovate will drive growth through new products and services, attracting and retaining customers that are more aligned towards ESG considerations helping in generating financial value as well.

Thus, good ESG reporting is crucial for companies to establish transparency, trust, and accountability about their ESG related endeavors. It also helps companies satisfy local regulatory requirements, and build corporate reputation and branding. In addition, it also enhances access to the capital by exhibiting how ESG links to their business strategy and financial performance.

PSX also takes sustainability related factors into account when evaluating its Top 25 listed companies award recognizing companies' efforts toward ESG.

The characteristics of good ESG reported data can be divided into four categories: accessibility, credibility and responsiveness, assessment and assurance, and relevance and materiality. To make ESG information more accessible, companies should use diverse communication channels that accommodate variable information, needs, and interests while also keeping international investors in mind. ESG reports are made more credible by strong internal assessment processes and/or external assurance. Companies can make use of existing internal audit, risk, and data control verification systems to collect concise, reliable, and complete ESG data.

Materiality of information and its relevance to the concerned are important in determining the scope and content of a company's reporting. High-quality ESG disclosures include governance, strategy, risk management, and metrics and targets, with high levels of standardization and accuracy being the hallmarks of high-quality. Different stakeholders have different views on which ESG factors are material for the company, however, companies must reflect on what they consider most material given their risks, opportunities, and impacts assessments.

Drafting ESG Report

Drafting an ESG report involves several crucial steps. The process begins by assigning reporting roles to the relevant departments along with proper context. It is important to align corporate values and create an ESG vision that is in line with stakeholders' expectations. Engaging stakeholders throughout the process is essential to ensure that their concerns are addressed. Next, materiality metrics to measure ESG performance should be selected to identify relevant issues to be included in the report. Data collection and reporting practices should then be clarified to ensure that the report is accurate and reliable. Linking ESG performance to financials is also an essential part to demonstrate the business case for sustainability. Finally, the disclosure format should be identified to ensure that the report is readily accessible and understandable to stakeholders. The above-mentioned steps are crucial in drafting an ESG report to meet stakeholder expectations and provide a comprehensive overview of the company's sustainability performance.

More recently and towards harmonizing global ESG reporting, the International Sustainability Standards Board (ISSB) under International Financial Reporting Standards (IFRS) has developed two standards, IFRS S1 (sustainability) and S2 (climate-related) in June 2023, to respond to the growing demand from investors seeking consistent and comparable information on sustainability-related risks and opportunities. IFRS S1 sets out the requirements for companies to disclose sustainability-related financial information about their significant sustainability-related risks and opportunities. Meanwhile, IFRS S2 sets out the requirements for the identification, measurement, and disclosure of climate-related financial information. Both standards aim to provide a global baseline for comparable sustainability-related disclosures.

Conclusion:

To summarize, ESG investing has gained popularity worldwide, with a growing demand for relevant and comparable ESG data. Sustainable investors are more inclined to fund companies that proactively measure and assure their ESG practices, making it imperative for companies to raise their reporting standards and add transparency to their environmental and social impact. Companies that fail to address the ESG disclosure needs can harm their brand and relationship with various stakeholders. This primer aims to explain the relevant concepts by providing some practical examples from Pakistan’s corporate world. We hope that you find this information useful in your ESG journey.

MESSAGE FROM THE PSX CHAIRPERSON

I am very happy to see the launch of "PSX Primer on Environmental, Social, and Governance (ESG)," issued as a reporting guidance for listed Pakistani companies. This primer provides a valuable resource for companies to assess the integration of ESG into their businesses strategies and identify ESG risks and opportunities.

ESG is an area that holds great significance not only to me but also to the companies and the economy of Pakistan. I am grateful for the opportunity to lead and contribute to this effort through the establishment of the ESG Task Force, PSX's membership in the UN SSE Initiative and the promotion of ESG discussion within the private sector and government.

ESG is indeed a different concept from Corporate Social Responsibility (CSR), which is more focused on philanthropy and charitable giving. ESG encompasses a broader range of considerations, such as environmental, social, and governance factors and aims to integrate them into business operations. By identifying ESG risks and opportunities, companies can potentially reap economic benefits as well.

ESG has gained immense global importance as countries and businesses strive towards sustainability and sustainable development. This focus on sustainability is crucial in ensuring a viable future for generations to come

Climate risk is one of the most critical aspects of ESG's environmental factors. With implications of climate change, including rising global temperatures, floods, droughts are evident worldwide. The need for collective action has been long recognised, as demonstrated by the recent declaration in COP 28. Pakistan, being situated in the Global South, has experienced disproportionate affects of climate change. Events, such as floods, heatwaves, and droughts, have caused significant loss of life and property. Despite these challenges, Pakistan has demonstrated resilience and determination in its efforts to mitigate and adapt climate change. There is still much work to be done, and it is vital for us to prioritise this on our agenda.

Companies, as key players in economic activities, must recognise these risks and take appropriate measures to adapt to them, while also taking responsibility for their own environmental impact. Moreover, they should astutely explore the opportunities that ESG offers in terms of enhancing their competitiveness.

To conclude, I would like to emphasize that ESG is an essential rather than an existential aspect for businesses to consider. I have confidence that the listed companies will give due consideration to this aspect, and that this ESG Primer of PSX will serve as an invaluable tool in that regard.

Dr. Shamshad Akhtar,
Chairperson, Board of Directors, Pakistan Stock Exchange (PSX)

MESSAGE FROM SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP) CHAIRPERSON

I am pleased to extend my felicitations to the Pakistan Stock Exchange (PSX) on the launch of the Environment, Social, and Governance (ESG) Primer. This endeavour signifies a commendable stride towards fostering sustainable and responsible business practices in our capital markets.

I commend the efforts of the ESG Task Force, led by Dr. Shamshad Akhtar, for raising awareness about the importance of sustainable best practices in corporate practices.

The Securities and Exchange Commission of Pakistan (SECP) places a primary emphasis on incorporating sustainability initiatives within its regulatory framework. In this regard, after issuing the ESG roadmap with key milestone in 2022, SECP accelerated its advocacy and capacity building efforts particularly in reference to ever evolving global sustainability reporting framework by International Sustainability Standards Board (ISSB). Further, the recent unveiling of centralised information portal namely ESG Sustain by SECP shall prove to be significant stride towards availability of real-time information for stakeholders. On legislative front, SECP has also issued draft ESG disclosure Guidelines, 2023 and we foresee that these guidelines will pave the way for encouraging disclosure of ESG based performance by corporate sector.

As the significance of ESG factors in global investment decisions continues to rise, the endeavours of PSX to incorporate sustainability become crucial for the advancement of our domestic capital markets. I am pleased to note that this primer aligns not only with global advancements but also with legislative interventions, as highlighted in the SECP's draft ESG Disclosure Guidelines. The prospect of ESG Sustain by SECP, in partnership with PSX and other stakeholders, fortifying transparency efforts and sustainable business practices is promising. There is optimism that through nurturing synergies and fostering collaborative efforts, we can reinvigorate the alignment of business strategies across all sectors with sustainable practices.

SECP remains committed to support initiatives that enhance transparency, trust and accountability in sustainability related endeavours. I look forward to witnessing the positive impact of the ESG Premier on shaping a more sustainable, inclusive and responsible business landscape in Pakistan.

Akif Saeed
Chairman, Securities & Exchange Commission of Pakistan

MESSAGE FROM PSX CEO

I am very pleased to share this ESG primer and guide for all PSX listed companies. This guide aims to provide a comprehensive understanding of the importance of ESG benefits, and best practices for ESG reporting, as well as highlighting the risks and opportunities. It also covers examples from some of the listed companies to help others improve their ESG performance and disclosure.

At the outset, I would like to acknowledge and thank the PSX Chair, Board and SECP for their guidance and support in this important initiative. Leadership of the Chairperson, Dr. Shamshad Akhtar, has been instrumental in bringing ESG to the forefront at PSX and the capital markets more broadly by establishing and leading initiatives like the ESG Task Force and PSX becoming a member of the UN SSE Initiative.

As a listed company and the frontline regulator, PSX always strives to lead by example. We have included a dedicated Sustainability section on ESG disclosures in our annual report for year ending June 2023, and plan to fully integrate ESG initiatives into PSX business strategy and operations.

Furthermore, we have recently agreed with the London Stock Exchange Group (LSEG) Refinitiv for making their ESG Contribution Tool available to all listed companies to report ESG data for ESG scoring. This will make companies visible globally on LSEG's platform and also enhance the learning and development of the companies and build their inhouse capacity. This information will be valuable for local and international fund managers, analysts and other investors to assess the holistic performance of listed companies, along with providing valuable data for constructing the ESG or Sustainability Index for the Pakistani market.

Believing in the growing importance of environmental performance disclosure, PSX has formally supported ISSB's climate global baseline as part of the COP28 agenda's, which aims to recognize the urgent need for a global baseline of disclosures and a confirmation that the ISSB Standards can deliver a vital global solution to the need for better information about the risks and opportunities posed by climate.

Stock exchanges around the world are playing an increasingly important role in promoting sustainable development. They are well-positioned to connect national markets to global ESG investment trends and build capacity by promoting ESG standards, products, services, and practices. With a large volume of assets now globally guided by sustainable investment practices, PSX has a responsibility to all its market participants to highlight the importance of ESG, the opportunities available, and indeed the risks of non-compliance.

PSX has also joined the United Nations Sustainable Stock Exchanges (SSE) Initiative to be better equipped to champion and lead the ESG narrative for Pakistan's listed companies.

The issuance of the first version of this primer is an important step in providing a one-stop guide to all companies in creating awareness of ESG factors and instituting proper disclosures and reporting. The first version aims to enhance transparency on sustainability-related issues and urges listed companies to integrate the concept of sustainability in their strategy and action plans to enable them to report on their sustainability performance.

At present, it is imperative for businesses to incorporate ESG into their strategies and operations, along with the due reporting and development of the whole eco-system for the advancement of Pakistan's capital market. Together, we can harness Pakistan's financial potential and channel it to accelerate inclusive and sustainable growth and support the global drive in realizing the Sustainable Development Goals (SDGs). This is also an opportunity to move ahead of the region and improve "Brand Pakistan".

At the end, I would like to express my sincere gratitude to Prof. Dr. Muhammad Zahid, Dean Management Sciences, Bahria University, Karachi for his valuable contribution to the PSX team. His expertise in sustainability has been instrumental in providing examples of Pakistani companies that are making a positive impact on the environment.

I would also like to acknowledge and thank many of the listed companies that are already doing excellent work on ESG and for sharing their knowledge and experience. Finally, the cross functional team at PSX has done an excellent job of pulling together this ESG guide.

Farrukh H. Khan
Managing Director & Chief Executive Officer, Pakistan Stock Exchange

BACKGROUND

Importance of ESG Reporting

In order to establish perception about transparency, trust and accountability among the investors, customer and other stakeholders of the company, amongst other things, it is vital for the companies to measure and report ESG data.

In 2020, capital flows into ESG opportunities listed on stock exchanges increased 80% or $3.2 trillion across social impact funds, ESG ETFs & green bonds[1]. Then in 2021, the majority of newly-invested capital got allocated towards ESG assets.[2]

Global ESG assets are expected to reach $50 trillion before 2025[3], constituting one-third of the total assets under management worldwide. Growing awareness of the next generational challenges has fueled exponential interest in ESG investing by shifting focus towards financing of climate-resilient infrastructure, ensuring food security, clean energy production, and raising living standards.

Individual and institutional investors across the world seek attractive financial returns along with a positive impact on communities and the environment. Nonetheless, integration of firms' economic, environmental, social, and corporate governance performance is equally important for the managers, employees and other stakeholders along with the investors.

In the aftermath of a pandemic-driven economic crisis, which impacted the decade of global prosperity, the global marketplaces are championing efforts to support an economic recovery. The rebound in global growth after the pandemic was also sustained by record trading volumes in ESG assets.

Emerging markets, however, have experienced slower equity valuation growth, due to reduced investor risk appetite post-crisis and a stronger US Dollar, and more investment is needed to finance the recovery for these resilient economies. The countries reporting more ESG initiatives can potentially attract more investment from developed markets hopefully contributing toward good equity valuation growth.

In a changing global scenario where environment, social justice, and equality are considered a top priority, socially conscious investors and shareholders use ESG criteria to screen investments and evaluate companies with respect to their wholesome impact on the world. Globally, listed companies are at the forefront of corporates in the business, trade and industrial landscape including Pakistan. It is, therefore, imperative that listed companies learn about, apply, and incorporate the standards governing ESG in their corporate structure in today's competitive business and investment environment.

ESG reporting is important for organizations for many reasons, making it a corporate mainstay across industries and jurisdictions. Following before few of the reasons for opting ESG compliance and reporting:

Transparency. As climate change and corporate social responsibility are issues of concern for stakeholders, organizations must be transparent about their operations. ESG reporting provides that transparency, giving organizations the opportunity to report on ESG efforts and progress.

Investor demand. Investors have long relied on all kinds of metrics to gauge the value and growth potential of an organization. An ESG report is another critical piece of information used to help investors make good decisions as it highlights the risks and opportunities.

Brand loyalty. Consumers choose to do business with organizations that align with their beliefs about governance and sustainability. Consumers are likely to exhibit more brand loyalty with those organizations that report on ESG initiatives and progress.

[1] https://unctad.org/system/files/official-document/diae2021d1_en.pdf

[2] https://esg.conservice.com/esg-funds-new-record-inflow-2021/

[3] https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape-140-5-trillion-of-global-aum-by-2025-finds-bloomberg-intelligence/

Compliance. There are a growing number of regulations globally requiring organizations to disclose and report on ESG initiatives, sustainability and governance. An ESG report provides a way for organizations to make proper disclosure and helps ensure regulatory compliance.

Risk management. ESG-related issues do expose organizations to risk. An ESG report is an opportunity to get ahead of those issues by disclosing activities and identifying potential areas of risk.

Innovation. ESG reporting can also offer business benefits that help drive and improve ESG strategies. Reporting can be the driver that pushes an organization to enhance efficiency and identify areas that need improvement.

Goal tracking. An ESG report is a way for an organization to be accountable for its ESG performance claims and strategy. ESG reporting also provides a way to track progress on goals, as many targets can be multiyear, longer-term strategies that play out over a period of time.

Resilience. By monitoring ESG-related factors, companies can be better prepared for environmental and social risks and opportunities, thereby becoming more resilient and long-living companies.

Impact of ESG On Financing Growth in Pakistan

Pakistan's rank on the Global Competitiveness Index is the lowest within South Asia, and far below APAC peer scores. Shrinking tax revenues and high public expenditures limit fiscal space for investments in infrastructure and people. A boost in productivity would foster competitiveness among industries, but growth prospects remain subdued and the domestic equity markets are not attracting long-term investors.

The global investor space can deliver financing solutions for local communities, by overcoming resource constraints and creating new markets. However, investors demand greater transparency from corporates, especially in frontier/volatile regions as many economies have a history of poor governance, to understand emerging risks for businesses, environment and assessing threats to corporate profitability.

Pakistan is ranked eighth internationally for countries most impacted by Climate Change. It is expected to encounter a 1.4 - 3.7 degree Celsius temperature increase by 2060.

Corporates need to reduce their risk exposure to climate change. In addition to the climate, there is also a stronger business case today for local businesses to prioritize progress on social factors (i.e., labor rights).

Addressing these and other significant ESG concerns is essential for market forces to raise sustainable capital for the necessary growth, which requires good measurement and consistent ESG reporting, so that progress can be tracked.

Role of SECP, PSX and PICG in the ESG Development

Considering the rapid and vast changes in the global environmental landscape, the importance of identifying material ESG risks and opportunities is further heightened, which also ties in with Pakistan's Nationally Determined Contribution (NDC) roadmap which aims to meet UN Sustainable Development Goals (SDGs). A proper response, in this regard, requires active coordination of government agencies with the private sector.

To address these challenged, PSX formed an ESG Task Force, under the leadership of Chairperson PSX, Dr. Shamshad Akhter, that included Pakistan Institute of Corporate Governance (PICG), representatives from the apex regulator, the Securities and Exchange Commission of Pakistan (SECP), and other stakeholders. The objective of the Task Force[4] was to develop and launch a coherent, systematic and realistic framework backed by regulatory support and tools, instruments and incentives, to encourage companies and financial institutions to voluntarily adopt ESG standards and guidelines. The Task Force engaged with listed companies and arranged various roundtables to understand their perspective on ESG and assess the issues in ESG reporting. KPMG served as the key knowledge partner for the Task Force.

PSX also joined the United Nations' Sustainable Stock Exchanges (SSE) Initiative in 2021. SSE Initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG issues and encourage sustainable investment. Joining SSE is both, an effort towards highlighting the progress made by our domestic market, via contributing to the ESG Disclosure Guidance Database, and participating in a meaningful dialogue on an international scale to embed sustainability within its operations, help grow green finance, and advance gender equality.

In addition, SECP has also prioritized sustainability in its regulatory agenda. In order to encourage ESG disclosure practices and introduce a framework to facilitate sustainable investment, it has also published an "ESG Regulatory Roadmap" in 2022. The roadmap was the first step in gaining understanding, setting momentum in achieving key milestones and charting a way forward through an inclusive approach that embraces ESG best practices for sustainable capital markets. As envisioned in the Roadmap, in 2023 SECP also issued "Draft Guidelines on ESG Disclosures for Listed Companies, 2023" to guide companies towards incorporating ESG factors into their business operations and reporting processes.

SECP is also actively working with other industry key stakeholders including PSX, Pakistan Business Council (PBC), PICG, professional institutions, multilateral institutions for advocacy and capacity building initiatives.

More recently, IFRS' International Sustainability Standards Board (ISSB) has also developed two standards to fulfil information needs of investors with regards to ESG and sustainability reporting.

a. IFRS S1: General Requirements for Sustainability-related Disclosures - sets out the overall requirements for an entity to disclose sustainability-related financial information about its sustainability-related risks and opportunities. This emphasize consistency and connections between financial statements and sustainability, for comparable company information.

b. IFRS S2: Climate-related Disclosures - requires an entity to provide material information about its significant climate-related risks and opportunities.

PSX recognizes the importance of joint efforts of the key stakeholders towards promoting a sustainable ecosystem that connects all market participants, enabling listed enterprises across all industries to be able to raise capital on a credible platform and cater to evolving investment priorities.

Having gone through detailed discussions with Sustainable Stock Exchanges Initiative and utilizing

[4] Refer to Appendix B for Task Force Member organizations and the organization engaged with.

established frameworks for measuring and reporting on sustainability, adopting international practices in providing guidance to reduce asymmetry of information, PSX also plans the following initiatives on the ESG front, apart from issuing this Primer on ESG:

- Raise awareness among companies and investors through relevant training along with other stakeholders.
- Collaborate with SECP and other stakeholders in developing an ESG Data Portal to encourage data collection, reporting analytics, etc.
- Integrate sustainability into Exchange's own operations as a listed company.
- Develop and launch ESG data products including an ESG index.

The Evolution of ESG Frameworks and Standards

In its primal form, the concept of ESG (environmental, social, and governance) investing has been there for long, however it was not until 1990s that various ESG frameworks and standards began to develop. These frameworks and standards provide guidance to companies on how to report on their ESG performance in a consistent and decision-useful way, which also help investors to assess associated ESG risks and opportunities. With the growing interest in ESG domain, many ESG frameworks and standards rose overtime to address varied need of the diverse stakeholders. While historically there have been several different ESG disclosure frameworks and standards developed, at the time of publishing this guidance, a consolidation of standards had brought many of these frameworks together. As a result of this consolidation, companies should be at least familiar with the below mentioned frameworks, as well as any national guidelines that specify additional reporting requirements. For the benefit of users, following provides brief introduction to the main disclosure frameworks:

International Sustainability Standards Board (IFRS Foundation). The ISSB is developing a new set of standards by consolidating CDSB, SASB and built off of TCFD frameworks. The new framework is an attempt to create a consolidated and comprehensive view of sustainability efforts in reporting. A brief introduction of the three frameworks is mentioned below:

- **Climate Disclosure Standards Board Framework (CDSB).** The CDSB Framework was a model designed to help organizations measure the environmental side of ESG reporting. Although the framework is still used by some ESG reports, the CDSB was consolidated into IFRS Foundation in January 2022.
- **Sustainability Accounting Standards Board (SASB).** The SASB Framework is an approach to providing information material to financial reporting on an organization's sustainability efforts. SASB got its start in 2011 and, in 2022, was consolidated[5] into the IFRS Foundation.
- **Task Force on Climate-related Financial Disclosures (TCFD).** The Financial Stability Board created the first set of recommendations from the TCFD in 2017. The TCFD approach includes four thematic areas: governance, strategy, risk management, and metrics and targets. These areas are interrelated and supported by 11 recommended disclosures that provide information for investors and others to understand how companies evaluate and address climate-related issues. IFRS S1 and IFRS S2 fully incorporate the recommendations of the TCFD. As a result, from 2024, the IFRS Foundation will take over these responsibilities from the TCFD and globally companies shall start reporting on S1 and S2

[5] For more information on how SASB now operates within IFRS visit https://sasb.org/blog/answering-your-top-five-questions-about-the-issb-and-sasb-standards/

Global Reporting Initiative GRI Standards. Founded in 1997, the GRI Standards aim to provide a set of sustainability standards for reporting. The GRI Standards contain three modular components:

- the universal standards which cover foundational and general reporting aspects,
- topic standards that cover disclosure on material topics and
- sector standards for specific industries.

It is pertinent to note that GRI and the IFRS Sustainability refer to different materiality approaches and are intended to be complementary and interoperable. GRI's focus is on impact materiality, i.e. reporting on the impacts of the organization on the economy, environment and people (including human rights), also referred to as the outward-looking focus. GRI reporting typically targets a broader stakeholder audience. The Sustainability Standards (ISSB), on the other hand, are focused specifically on investors' needs to highlight the financial materiality of sustainability-related matters, and how this impacts the organization, also called the inward-looking focus.

Carbon Disclosure Project (CDP): Established in 2000, CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action. In 2022, CDP announced to incorporate the ISSB climate-related disclosure standard into its global environmental disclosure platform[6].

Difference between ESG, SRI and CSR

Environmental Social and Governance

In many economies, corporate purpose is shifting away from shareholder capitalism to driving value that serves the interest of all stakeholders. Most of the world's largest companies have embraced corporate sustainability by embedding it into the core of their businesses to promote sustainable business and also attract new cross-border investment flows. Listed entities in Pakistan can join this movement and attract international capital, primarily from institutional investors who have ample resources, longer investment time horizon and higher risk tolerance.

It is therefore important to differentiate ESG from CSR, although the latter was a precursor to the ESG movement. ESG exists on a spectrum of sustainable finance, between philanthropic initiatives and conventional investments (see Figure 1)

Through ESG investing, participants evaluate environmental, social, and governance risks and opportunities which may have a material impact on the investment performance. Decisions that incorporate ESG lead to investing sustainably without foregoing financial returns that would be realized using other conventional approaches.

[6] https://www.cdp.net/en/articles/companies/cdp-to-incorporate-issb-climate-related-disclosure-standard

Social Impact ⟷ Social & Financial ⟷ Financial Return

	Philanthropy		Social Impact Investing		Responsible	Conventional
	Traditional	Venture	Sustainability-Themed	Impact	ESG	Financial
Capital Flows	Address societal challenges via grants	Address societal issues with VC	Social/environ-mental outcome & financial return	Measurable environmental and/or social return	Enhance long term value using ESG factors to mitigate risks & identify opps.	Limited/no regard for ESG practices
Returns	Social only	Social focused	Social & sub-market financial	Social impact & sufficient financial	Financial market focused on long term value	Financial market only

Application of ESG metrics & methodologies

Figure 1. Investors in public equities view ESG as a risk mitigation tool while expecting market-rate. Adapted from 'ESG financial ecosystem, ratings methodologies, & investment approaches, ESG Investing: Practices, Progress & Challenges,' OECD '20

Socially Responsible Investing

Sustainably-themed and impact investments are subsets of social impact (or socially-responsible) capital, that prioritizes positive social change after accounting for both financial returns & value-alignment in investment decisions.

Corporate Social Responsibility

CSR commitments have been used to inform stakeholders about corporate culture and values. They are generally self-regulated, qualitative, and often linked with philanthropic initiatives/volunteerism.

On the other hand, ESG priorities are quantifiable and tied to the financial performance of a company. Investment types that employ ESG metrics & assessment frameworks are explored in Figure 2.

Social Impact Investing		(ESG) Responsible			
Sustainability-Themed	Impact	Active Ownership	Best in Class	Exlusionary Screening	ESG integration
Inclination toward an underlying factor and its metrics - values driven	Address concerns raised by policy makers	Active engagement with companies on ESG issues; may use proxy voting	Meeting Minimum ESG standards relative to a group of its peers.	Filtering out companies for controversial associations or based on moral values	Integrating ESG factors in decisions to mitigate risk & improve financial returns
$ 1.2 - 1.3 trillion		$ 29 trillion			

Market Rate Financial Returns

Figure 2. Social impact investments are generally targeted by private equity & venture capital funds. Adapted from 'Promoting investments for sustainable development,' UNCTAD

WHAT IS ESG INTEGRATION?

From investors' perspective, ESG integration typically involves assessing various ESG risks and opportunities, formulating ESG investment strategy, measuring ESG performance etc. The CFA Institute and UN Principles for Responsible Investments (PRI) have developed an ESG Integration Framework that collates many ESG integration techniques used by practitioners. The framework is designed to help investors integrate ESG factors into their investment processes[7].

Finally, the terms such as sustainable investing, ESG investing, socially responsible investing (SRI), green investing, ethical investing, and impact investing are often used interchangeably.

[7] https://www.unpri.org/investment-tools/the-esg-integration-framework/3722.article

BENEFITS OF ESG REPORTING

Embedding ESG considerations into your company's operations, strategy, and governance offers many benefits that may include improved risk management and reduced volatility in corporate profitability.

Investors also seek to understand how ESG information is linked to the company's business strategy and financial performance. Thus, ESG Reporting in its broad sense is vital for the potential investors to evaluate their investment decisions and articulate the value proposition for all relevant stakeholders. Undoubtedly, ESG factors influence the investors' confidence in the financial market more than it has ever been.

Given the ever-increasing investors interest in ESG investments, and consideration of ESG attributes in their investments and in their portfolio composition, it is critical for companies adequately map the ESG issues that are most relevant to the nature of the business and moreover, align the ESG disclosures around those more relevant topics with the already- established frameworks.

Therefore, an ESG strategy, its relevance to internal and external stakeholders, impact on the organization and progress towards defined goals, can be communicated to better inform investors about the company's ability to create value in the short, medium and long-term. Developing a good reporting strategy also ensures that a company's ESG efforts are recognized.

Some companies also measure sustainability impacts on future cash flows and weighted average cost of capital. Integrating sustainability into company valuation assists in communicating, to investors and stakeholders, how a company is addressing the world's most pressing ESG challenges. Addressing these challenges promotes more prosperous economic systems that benefit all participants and create more stable and resilient markets within which the companies operate.

While reporting, the quantitative ESG data is of significant importance as it can be more easily compared across time within the same company or with similar ESG data from other companies. Investors appreciate information that appears in the appropriate context, including comparisons related to ESG data of the following:

a. Historical company and industry trends

b. Related corporate goals

c. Relevant ratios

d. Industry averages

e. Financial results performance

Various types of financial instruments are also constructed with qualitative judgments applied in screening criteria & weightings of inputs by portfolio managers that utilize an array of products & services to make informed investment decisions.

Companies choose to report on ESG factors as it provides several benefits, including financial and non-financial factors, such as:

a. Increased Stakeholder Engagement:

Improve relationships with key stakeholders by engaging them throughout the ESG reporting process. Potential stakeholders may include Asset Managers, Investors, Indexers, Exchanges, Governments, NGOs, Suppliers, Customers, Academics, Media, Raters and Reporters etc. In addition, it shall improve employees' perception of the company, helping to attract, retain, motivate, and align new and existing employees.

b. Managing Risk and Capturing Opportunities

Effective ESG reporting may also enable management and board's scrutiny of ESG risks, and promote company-wide alignment on goals.

ESG risks, for example, refer to a company's ESG factors which could create a bad reputation, such as by greenwashing or harming the company financially. ESG risks have become more imperative in the business world as many companies start to make the effort in the transition towards sustainability.

Following are few examples of ESG risk that also resulted in incidental financial penalties and reputational risk:

- **BP's Oil Explosion in 2010:** BP ended up paying a hefty cleaning fee after the oil explosion, totaling around $65 billion dollars for both the fines issued and fees to clean the surrounding areas.

- **Volkswagen:** accused of tampering with emissions tests for their vehicles. Millions of cars were recalled, and the car company had to pay over $30 billion in fines, settlements and penalties

- **PG&E, or the Pacific Gas and Electricity company:** that aimed to provide people with natural gas and electric services to millions of people, have been subject to almost $30 billion due to their roles in multiple California wildfires. This is because PG&E failed to keep their power lines stable, something that could have been avoided had the company valued ESG risk management over profit. Following these fires, PG&E was forced to file for bankruptcy protection in 2019.

Businesses are also increasingly exposed to environmental conditions and social changes, including population growth; extreme weather events; climate change, ecosystem decline etc., and operational risks including aspects like shortage of natural resources, workforce health & safety, supply chain exposure etc. ESG reporting can also help manage and mitigate these risks and help organizations to be compliant and keep risk management intact all the time. That can save them from incurring losses or costs.

Likewise, companies may generate financial value by identifying opportunities of cost savings, revenue generation etc., for example, by driving innovation and enhancing market differentiation and competitiveness. Companies that recognize the opportunities and innovate will drive growth through new products and services, and shall attract and retain customers that are more aligned towards ESG considerations.

c. Aligning with Peer Practice:

International entities use different sustainability scoring criteria to assess the sustainability reporting of companies worldwide. Scores are used by index providers for screening the constituents, asset managers to perform their own research and retail investors to gauge potential investment opportunities. In addition to scoring, research firms provide aggregated datasets with coverage on multiple entities and analytics tools that can be integrated into financial analysis.

According to KPMG Pakistan, Asia Pacific region leads in sustainability reporting, with 89% of its companies undertaking sustainability reporting. Seven Asia Pacific countries, territories and jurisdictions have sustainability reporting rates higher than 90% with Pakistan being the 7th with 91%.[8] It makes a good business case for all the companies to report ESG data and be in line with peers.

---

d. Access to Capital:

Demonstrating transparency and effective management through good ESG reporting, may help companies attract cheaper long-term capital and favorable financing conditions.

e. Satisfying Local Regulatory Requirements:

SECP has mandated Corporate Governance and Corporate Social Responsibility frameworks for designated companies including listed companies, public sector companies, and insurance companies for compliance. In addition, governmental environmental agencies also have certain reporting requirements.

f. Corporate Reputation and Branding:

By establishing good reporting practices, companies may also demonstrate their commitments to responsibly managing environmental, social, and economic impacts and exhibit their adherence to industry's ethical standards and national and international frameworks on corporate sustainability and sustainable development, particularly in light of the UN Sustainable Development Goals (SDG's).

PSX also has a top 25 company's award, whose criteria include reporting on Sustainable Development Goals (SDGs). PSX worked with UNDP to simplify reporting on the SDGs for listed companies and, through these efforts, a minimum reporting framework is set for companies to report. Listed companies are now required to report on at least five of the seven SDGs in order to qualify for the PSX Top 25 Companies Award[9] . Other elements of the updated criteria include reporting on Diversity and Inclusion, Corporate Governance and Investor Relation activities.

---

[8] https://assets.kpmg/content/dam/kpmg/pk/pdf/2022/10/Survey-of-Sustainability-Reporting-2022.pdf

[9] https://www.psx.com.pk/psx/themes/psx/uploads/Final_Notice_-_Criteria_for_the_Year_2022_(November_14,_2022)_-_Revised.pdf

Thus, PSX also counts, among other things, entities that are now incorporating ESG into their regulations and methodologies to rate and assess the companies. To that end, PSX also conducted webinars etc., for listed companies on integrating ESG (Environment, Social, and Governance) in their business and operations and the value of reporting these ESG factors. The webinar covered topics like

- Benefits of committing to ESG for the textile industry
- Race to Zero: Sustainable Production and Carbon Emissions
- Calculating Carbon Emissions for the textile industry
- Affordable and Clean Energy for the export-oriented industry like textile

[10] https://psx.com.pk/psx/exchange/general/psx-announces-top-25-companies-awards-winners-2022

ESG PRODUCTS IN LOCAL AND INTERNATIONAL MARKETS

An ESG investment product integrates environmental, social or governance factors into investment strategies and may only contain securities with high sustainability score while excluding companies with, for example, poor records on pollution, labor relations or management practices. It may also exclude the sovereign bonds of governments with similar poor records.

Many ESG investment vehicles have emerged, including equities, green bonds, mutual funds, ETFs, and index funds (among others). These publicly traded instruments make it easier for investors to align their investment decisions more closely with their own beliefs and values around E, S, or G factors.

ESG investing is used to screen investments based on corporate policies and to encourage companies to act responsibly. Globally, many mutual funds, brokerage firms, and robo-advisors now offer investment products that employ ESG principles.

In recent years, the range of ESG standards, frameworks, data providers, ranking methodologies, & rating providers expanded significantly, with over 600+ providers of ESG ratings alone. Accordingly, this has influenced the manner in which companies report ESG data, shaped public perception of corporate behavior, and impacted the development of ESG-linked investment products. Some of the primary services and products offered by large data providers internationally are defined below:

- **Data:** Quantitative or qualitative pieces of information on the environmental, social, economic and/or corporate governance exposures and practices of companies.
- **Ratings:** Evaluations of corporates, based on relative assessments of their performance on ESG issues. Rating systems can vary based on differences in factor weights & varying priorities of data providers.
- **Screening:** Tools/services for researching an entity's exposure to, or involvement with specific controversial sectors, products or services (e.g. in arms production or fossil fuels). Commercial screening services & ratings may be offered as a bundled product by for-profit data providers.
- **Controversy Alerts:** Analysis conducted on companies/countries that highlight new events, common practices, recent trends, etc. associated with reputation loss and negative sentiment, which in turn create business risks, reduce profitability and lack alignment with investor policies.
- **Indices:** An ESG index is a set of securities designed to represent some aspect of the total market by including ESG criteria into security selection.
- **Advisory Services:** Support offered to investors and companies, such as proxy voting advice, guidance on how to integrate ESG into the investment approach, solutions for streamlining fund disclosures, additional insight into how ratings function, indexing support, etc.
- **Impact Solutions:** Products that evaluate the negative and positive impacts of a portfolio or investment, or even evaluate company product impacts.

Following are the key ESG international service providers covering the following data products:[11]

	Bloomberg	CDP	FTSE Russell	RepRisk	Vigeo Eiris	ISS	MSCI	Refinitiv	S&P Global	Sustainalytics
Data	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ratings	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Rankings	✓	✓					✓	✓	✓	
Screening						✓	✓			✓
Controversy Alerts	✓				✓	✓	✓	✓	✓	✓
Benchmarks/Indices	✓		✓		✓	✓	✓	✓	✓	
Advisory Services		✓			✓	✓	✓	✓	✓	
Impact Solutions			✓		✓	✓	✓		✓	✓

Drafting an ESG Report

It is important for companies to consider certain factors while drafting an ESG report to informative, accurate, and useful to all the stakeholders. In the following sub-sections, characteristics of good ESG data and high-quality ESG disclosures are briefly discussed:

Characteristics of Good ESG Data

Accessibility

To accommodate variable information, needs and interests, it may be relevant to use different communication channels, including websites, regulatory filings, annual reports, and stand-alone sustainability reports. Using more than one communication channel can be an effective way to ensure that a company's complete target audience gets the necessary information. To make the information more accessible to international investors, companies may also wish to disseminate their ESG information in a language widely spoken globally in addition to a national language.

Credibility and Responsiveness

Better data leads to better decision-making and performance. First, it is useful to assess the capabilities of existing internal systems to collect concise, reliable and complete ESG data. Rather than creating completely new channels, companies can make use of existing internal audit, risk and data control verification systems. If internal systems are not currently sufficient for the task, a company may decide it is in its long-term best interest to invest in building capacity in this area. If data collection gaps are identified, companies can identify and explain them in their report.

[11] Exchange does not recommend any data provider. This list is for knowledge and companies' own perusal.

Assessment and Assurance

ESG reports are made more credible by strong internal assessment processes and/or external assurance. With respect to the former, an internal audit committee or group of individuals, tasked with measuring and gathering the information, can review disclosures made. An internal audit can also further ensure that internal data collection systems are robust and organized. Interest in externally assured ESG disclosure, along with the development of accompanying assurance standards, has been driven by investor requests for companies to bring ESG information up to financial grade reporting.

External assurance can lend an added degree of trust, credibility and recognition, just as financial auditing does. It is important to note that while third-party assurance is valuable for strengthening the credibility of reports, an overemphasis on external assurance can hamper a company's reporting journey if it becomes a barrier to disclosure. It is better to start with reporting with no external assurance requirement rather than not start reporting at all.

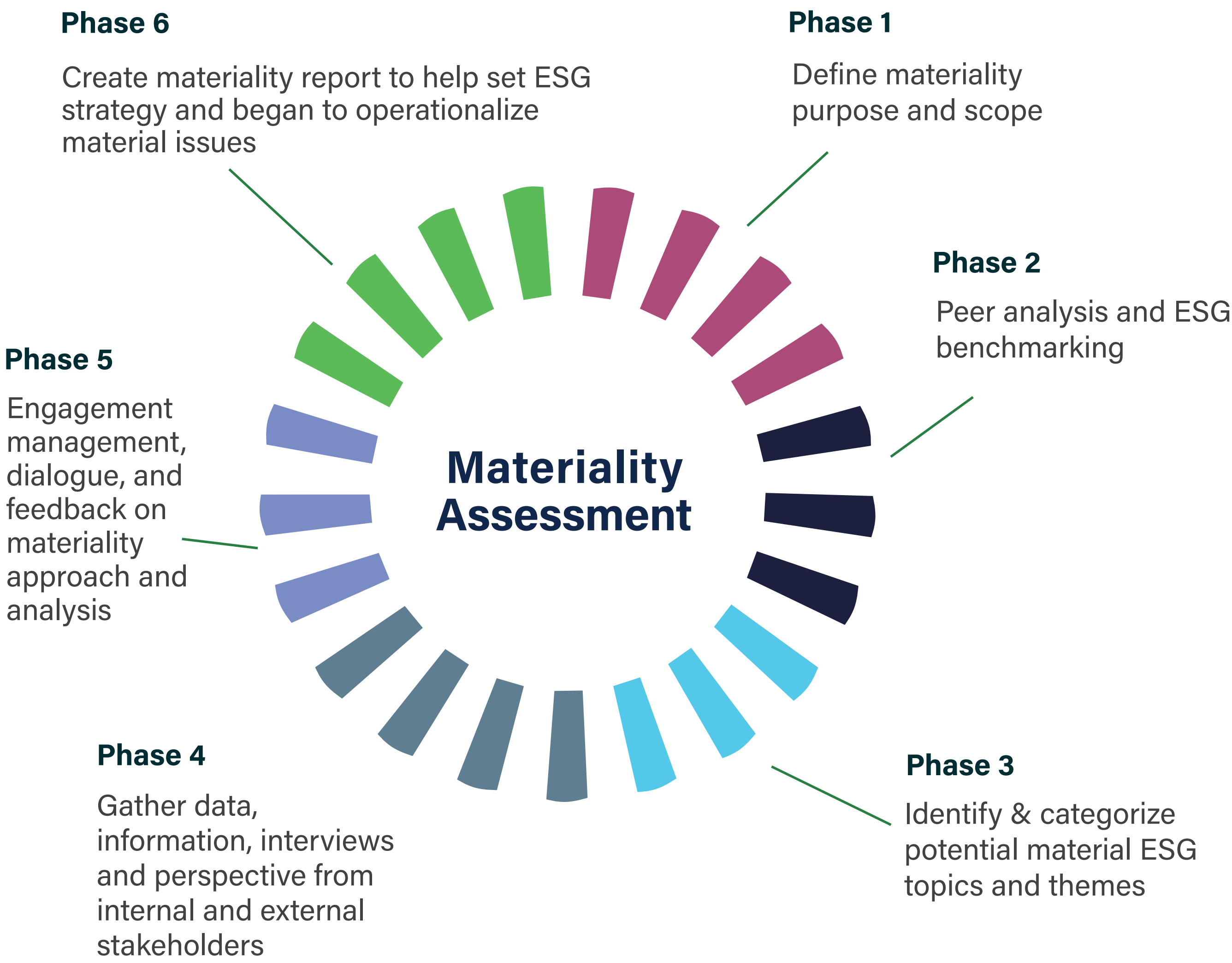
Relevance and Materiality

Materiality of information and its relevance to the report users is important in determining the scope and content of company's reporting. With the range of different ESG factors to report, the accounting and legal guidelines of materiality, is commonly used to identify and prioritize matters covered in ESG disclosures. However, given the qualitative nature of some of the sustainability information, other reporting standards and frameworks (e.g., GRI) are also useful in providing guidance on the determination of materiality beyond applying only the financial consideration.

There is also a concept of "double materiality" in reporting practice i.e., looking at materiality from both an impact perspective i.e., impact of companies' activities on sustainability topic (e.g., the climate) and from a financial perspective i.e., the risks and opportunities for companies' business offered by the same topic.

Different stakeholders have different views on which ESG factors are material for the company. While identifying relevant issues is necessary for identifying material factors, the organization should reflect on what it considers as being most material given its risks, opportunities and impacts. For determining relevant ESG factors, it can be useful to gauge how much an issue might potentially affect the company's ability to create value over time. In addition to material ESG information, a company may decide to report on other elements that do not meet the threshold for materiality, but may still be relevant to the company's operational and/or reputational performance.

A common ESG materiality topic or theme is climate change. For example, if we're an insurance company, we insure property that's near the ocean, and climate change causes storms and rising sea levels that risk damaging those homes or buildings, that's a material financial risk for our business.


Materiality Assessment
Phase 1
Define materiality purpose and scope
Phase 2
Peer analysis and ESG benchmarking
Phase 3
Identify & categorize potential material ESG topics and themes
Phase 4
Gather data, information, interviews and perspective from internal and external stakeholders
Phase 5
Engagement management, dialogue, and feedback on materiality approach and analysis
Phase 6
Create materiality report to help set ESG strategy and began to operationalize material issues

Attributes of High Quality ESG Disclosure

High quality ESG disclosure includes the following elements:

Governance: Mentioning the processes used to monitor and manage sustainability risks and opportunities. It includes information on the roles and responsibilities of the board of directors, senior management, and other stakeholders in relation to sustainability issues.

Strategy: Disclosing the strategy for addressing significant sustainability-related risks and opportunities. It includes information on how sustainability issues are integrated into the company's overall strategy, as well as any targets or objectives related to sustainability performance.

Risk Management: Disclosing how companies integrate sustainability risks into their overall risk management process. It includes information on how sustainability risks are identified, assessed, and managed, as well as any processes in place for monitoring and reporting on these risks.

Metrics and Targets: Here companies disclose the way they measure, monitor, and manage sustainability risks and opportunities, including the metrics and targets used, and their assessment of performance towards these targets. It includes information on how companies track their progress towards sustainability goals, as well as any key performance indicators (KPIs) used to measure sustainability performance.

The performance should also include:

- Improving period-over-period; and
- Improving relative to the firm's peer group.

As a general rule, high levels of standardization and accuracy are also the hallmarks of high quality ESG disclosure.

STAGES OF DRAFTING AN ESG REPORT

Different stages of drafting an ESG report are outlined below:

a. Assign reporting roles
b. Provide context to stakeholders
c. Align corporate values & an ESG vision
d. Engage stakeholders
e. Create a materiality matrix
f. Collect data & clarify reporting practices
g. Select relevant metrics
h. Link ESG Performance to Financials
i. Identify the disclosure format

Assign Reporting Roles

Collaboration - across the organization and within departments - is essential to the reporting process. As ESG reporting expectations continue to evolve over time, the increasing complexity of new features demands greater engagement from more employees, depending on expertise, experiences in designated roles and their relationship with reported factors.

Company should assign the roles, responsibilities and capabilities to the individuals that are relevant for ESG reporting. Senior management can lead the process by providing strategic input and do the oversight of the reporting process. All the departments can provide the valuable contributions to the outcome of the report. Team working should have access to data from different departments of the company, as different functions are managing different material issues.

A cross-functional team for reporting data can represent the following departments:

- HR (workforce characteristics, hiring practices, recruitment outcomes, employee pay etc)
- Legal (developments on pending cases/ litigation matters related to controversial issues etc)
- IT (cybersecurity insights & customer data controls)
- Administration (consumption of utilities, procurement etc)
- Investor Relations (for communicating ESG efforts etc)

Other people can be included based on a company's business units. This team can report to an ESG oversight committee, or a similar body of senior management & board members. It is better to utilize internal resources for this exercise as data can exist with various individuals throughout the firm in a host of different formats. Without a goal & sufficient context, employees may not source & record information important to an ESG report.

This reporting team should have access to various external & internal stakeholders as needed, and with few restrictions, so that it can obtain support for its work.

Engage Stakeholders

Stakeholder engagement can be a highly rewarding process for issuers. Pakistani corporates should especially seek opportunities to engage with ESG rating firms, investors & data vendors. Engagement can take place over email or other online communications platforms, however, ESG data providers do engage in meetings or conference calls directly with companies. There are designated communications teams that conduct such conversations.

Issuers may also value learning from asset managers with significant portfolio exposure to your company. Analysts can be particularly helpful, since they can communicate investor priorities and offer rich information / offer a host of insights on industry practices. Since they understand a business context within which companies operate, ESG analysts would focus on material issues that are relevant to the company & industry itself.

Companies can pursue engagement with stakeholders via sustainability webinars for industry participants, and ESG-specific investor events. Similarly, professional associations, and industry & sector associations can help with establishing a collection of skills and knowledge center. Companies can request one-on-one meetings as well.

Companies can engage stakeholders to select goals that relate to the most pressing issues in their surrounding environments, with explanations on risks and opportunities presented by making progress on these priorities. Themes/priorities can be mapped to SDGs as a starting point for an ESG evaluation.

Case Study[12]: Stakeholder Engagement

ENGRO FERTILIZERS PAKISTAN, SUSTAINABILITY REPORT 2021.[13]

Engro Fertilizers have established a stakeholder engagement policy along with a methodical stakeholder engagement strategy.

Stakeholder Engagement Strategy

The Company has defined a stakeholder engagement strategy for various stakeholder groups, which is stewarded along with the results of engagement on a quarterly basis by the Company's Management Committee. A summary of key developments are shared with the Board of Directors.

The Company's engagement strategy and the processes and measures taken against the strategy are reported below.

STAKEHOLDERS	FREQUENCY OF ENGAGEMENT
Customers and suppliers	Regularly
Shareholders	Regularly
Employees	Regularly
Bank / Lenders	Regularly
Investment community / Analysts	Quarterly
Regulators	Regularly
Local communities	Regularly
Media	Occasionally

The details of engagement for each stakeholder is given separately. The stakeholder engagement for employees is given below:

ENGAGEMENT PROCESS

The Company maintains regular and open communication with its employees. Formal and informal meetings and sessions, including:

- Employee engagement sessions;
- Performance appraisals;
- Feedback sessions including corporate retreats;
- Employee satisfaction surveys;
- Internal website; and
- Internal magazine and newsletters.

EFFECT AND VALUE

Helps in focusing on increased employee satisfaction, implementing diversity and inclusion initiatives, resulting in improved performances.

ACTIONS TAKEN

Pulse surveys conducted to engage employees and to look out for their emotional and physical wellbeing. EFERT launched "Employee Central," a digital platform for HR policies and employee-related processes to allow employees online access and the opportunity to learn about their benefits and apply for them through the system.

[12] Disclaimer: All the case studies mentioned in this guide are illustrative and their inclusion does not imply that the exchange endorses or intends to promote the report or the company in question.

[13] https://www.engrofertilizers.com/themes/engro/documents/Engro-Fert-Sustainability-Report-2021.pdf

Case Study: Stakeholder Engagement

ICI PAKISTAN LIMITED, ANNUAL REPORT 2020-21.[14]

ICI Pakistan has devised an elaborate system of stakeholder engagement which outlines the engagement frequency, mode of consultation, material topics identified by stakeholders during engagement process and the corrective action taken to address stakeholders response. Extract from annual report showing data for three stakeholders is given below:

Stakeholder group	Engagement frequency	Mode of consultation	Topics identified by stakeholders	ICI Pakistan Limited's response
Shareholders/ Investors	Regular	Corporate Finance, Company Secretary, Corporate Communications and Public Affairs Department, analyst briefings, meetings	Ongoing economic viability, growth prospects, petrochemical market situation, new projects and expansions	Commitment to ongoing growth and value creation; continuing transparency of financial and other information; timely public disclosures; clarifications, if any required
Employees	Regular	CE Sessions, internal events, annual engagement survey, discussions, internal communications	Training and education; career development;	Career roadmap launched; increased transparency of HR processes; focus on capacity-building trainings
Customers	Regular	Technical Support Services, surveys, field visits, advisory services	Cost, quality and product availability	Customer capacity-building, expanding/increasing product offerings, efficiencies in supply chain, HSE-related support to customers for optimisation of systems, efficiencies and energy conservation.

Provide Context to the Stakeholders

ESG considerations impact many aspects of company's operations that have transformed over time as business leaders respond to changing dynamics of interconnected marketplaces. This should be articulated, focusing on the company's strategy for maintaining resilience during challenging transitions.

ESG related risks & opportunities should be explained along with company's response via adaptation & mitigation. This section informs readers about how data is prepared & presented. It serves as the baseline against which the quality of companies ESG analysis is measured.

Therefore, consider the following:

- Are environmental & social resources crucial to your organization?
- Which processes & business units have E&S implications?

[14] https://dps.psx.com.pk/download/document/171469.pdf

- What types of outputs (final products/ services, by-products and externalities) have an impact on the surrounding community and global supply chains?
- Which outcomes are targeted across value chains, and how do they impact your stakeholders?
- How has the company integrated ESG issued into routine workflows?

Companies tend to focus on revenue creation, employee engagement and customer satisfaction. ESG analysts and investors will evaluate the merits of company's report against this information. Ideally, company should inform readers about the short & medium-term effects of its work, in relation to the longer-term ones.

Align Corporate Values & an ESG Vision

Since BODs are responsible for setting the strategic direction of the company, integrating ESG into company's strategy should be an important task of the boards. Company should define their ESG objectives, and provide the mechanisms for addressing these factors at the organizational level.

Boards may issue statements that clarify how they determined the selection of ESG factors along with rationale? It can show Board's interest in oversight of company's ESG risks and opportunities and indicates that such important matters are dealt with at the highest level.

All investors can benefit from the ESG reporting of the company, but some specific investors have specific information needs. Companies can therefore benefit by asking the following questions internally:

- Who are the company's top investors?
- What kind of investors would the company like to have?
- How has the company engaged with relevant investors to find out what they are interested in?

For example, long-term investors are interested in the long-term risks such as climate changes. Some might need financial information only; some will need additional sustainability information for their decision-making. These considerations will help define the content, scope and format of reporting.

Case Study: Integrating Sustainability in Vision and Mission

ATTOCK OIL REFINERY LIMITED (ARL)

The ARL sustainability report 2022 [15], is a good example of the integration of ESG in the vision, mission and core values.

Vision statement describes what the firm wants to become on the long-term. The vision statement is used to set strategic goals of a firm. ARL has embedded ESG in its 'vision' statement thereby showing its commitment to ESG.	**Vision** To be a world class and leading organization continuously providing high quality diversified environment friendly energy resources and petrochemicals.
Mission defines the purpose of a company. It motivates the employees and reassures the investors of a company's future. ARL's mission statement besides other elements gives a reference to meeting the expectations of the stakeholders.	**Mission** We will utilize best blend of state-of-the-art technologies, high performing people, excellent business processes and synergetic organizational culture thus exceeding expectations of all stakeholders.
Core values are the fundamental beliefs and principles that guide an organization. These values shape the company's culture and promote cohesion and cooperation among the employees. ARL core values are: ▪ Integrity & Ethics ▪ Quality ▪ Social Responsibility ▪ Learning and Innovation ▪ Team Work ▪ Empowerment	**Core Values** Our success will not be a matter of chance, but a commitment to the following enduring beliefs and values that are engrained in the way we think and take actions to pursue a climate of excellence:

[15] https://www.arl.com.pk/arl-sustainability-report-2022/

Case Study: Sustainability Oriented Goals

ENGRO FERTILIZERS

Engro Fertilizers have established a comprehensive strategic plan for implementing sustainability. Their sustainability report of 2021[16] describes the sustainability related goals, an excerpt is given below:

07. Our Goals

Our ability to create and deliver value is dependent upon the availability of our capital, climate change and a thriving society and economy. A cautious use of resources and efficient management of our activities that adversely impact our ecosystem and society are critical factors for us to continue delivering sustainable returns.

Our goals are reviewed annually by evaluating our progress and adapting to changing times to become a sustainable organization that delivers value to its stakeholders and positively impacts the communities and environment in which it operates.

STRATEGIC AREA FOR SUSTAINABILITY	EFERT'S GOALS	EXPECTED YEAR
Socio-economic Transformation		
• Continue to positively impact communities in education, livelihood, health and infrastructure	• Continue to invest in initiatives contributing toward the society at large; investing one percent of profit before tax toward a social cause	Ongoing
• Upgrade technological development of the industrial sector by encouraging innovation and increasing development spending	• Leading industry in digitization and automation	2021-2023
• Encourage and promote effective partnerships, mobilize experience, knowledge, and technology or financial resources	• Continue investing in farmers' development to support agri-value chain	Ongoing

Carry out Materiality Assessment

Materiality assessments are revealed in a materiality matrix. This is a mapping of issues such as green procurement, fair employment, public financial literacy, & sustainable risk management, on charts that help visualize outcomes of issuers' stakeholder engagement processes.

Companies have traditionally followed a style in which the x-axis represents 'impact on the business', while 'importance to stakeholders' is plotted on the y-axis. For example, GRI has encouraged the use of a strategy matrix, with 'significance of economic social and environmental impacts' as the x-axis and influence of stakeholder assessments & decisions' on the y-axis.

Likewise, some companies expand the matrix to a Venn diagram with four quadrants. Another useful approach for a good visual report is to use a "heat map" i.e., for example using color coding to highlight which matters were considered along with their importance (for example, green is least material while red being most material and orange or yellow being moderately material.)

There is significant diversity in the types of stakeholders and a large range of views that can affect materiality assessments. It is challenging for companies to address all the issues considered material, and attempting to do so can impair the quality of a report since there is little room left for detailed analysis.

[16] https://www.engrofertilizers.com/themes/engro/documents/Engro-Fert-Sustainability-Report-2021.pdf

Case Study: Materiality Assessment

ICI PAKISTAN

ICI Pakistan in its annual report of 2020-21[17] has identified material issues for economic, environment as well as the social aspects. An extract from their report shows the material topics for Environment and Social aspects:

List of Material Topics and their Boundaries

Area	Material Topic	Boundary
Economic	Economic Performance	ICI Pakistan Limited
	Indirect Economic Impacts	Local community
	Market Presence	ICI Pakistan Limited
	Compliance	ICI Pakistan Limited
	Anti-Competitive Behaviour	ICI Pakistan Limited
Environmental	Energy	ICI Pakistan Limited, customers
	Water	ICI Pakistan Limited, local communities, customers
	Emissions	ICI Pakistan Limited, suppliers, and local communities
	Effluents & Waste	ICI Pakistan Limited, suppliers, and local communities

ICI then goes on to discuss each material topic separately. An example is given below:

Relevance of Material Topics to ICI Pakistan Limited

ECONOMIC

Economic Performance: Deemed to be material as disclosures under this topic relate directly to the Company's value creation agenda as embodied by its vision, values, and brand promise of Cultivating Growth. ICI Pakistan Limited is committed to providing enduring growth and value for the stakeholders, and this growth and value can be quantified and assessed accurately through complete, audited financial statements of the Company, which are attached with this report. In addition, economic performance carries implications for all other material topics reported upon.

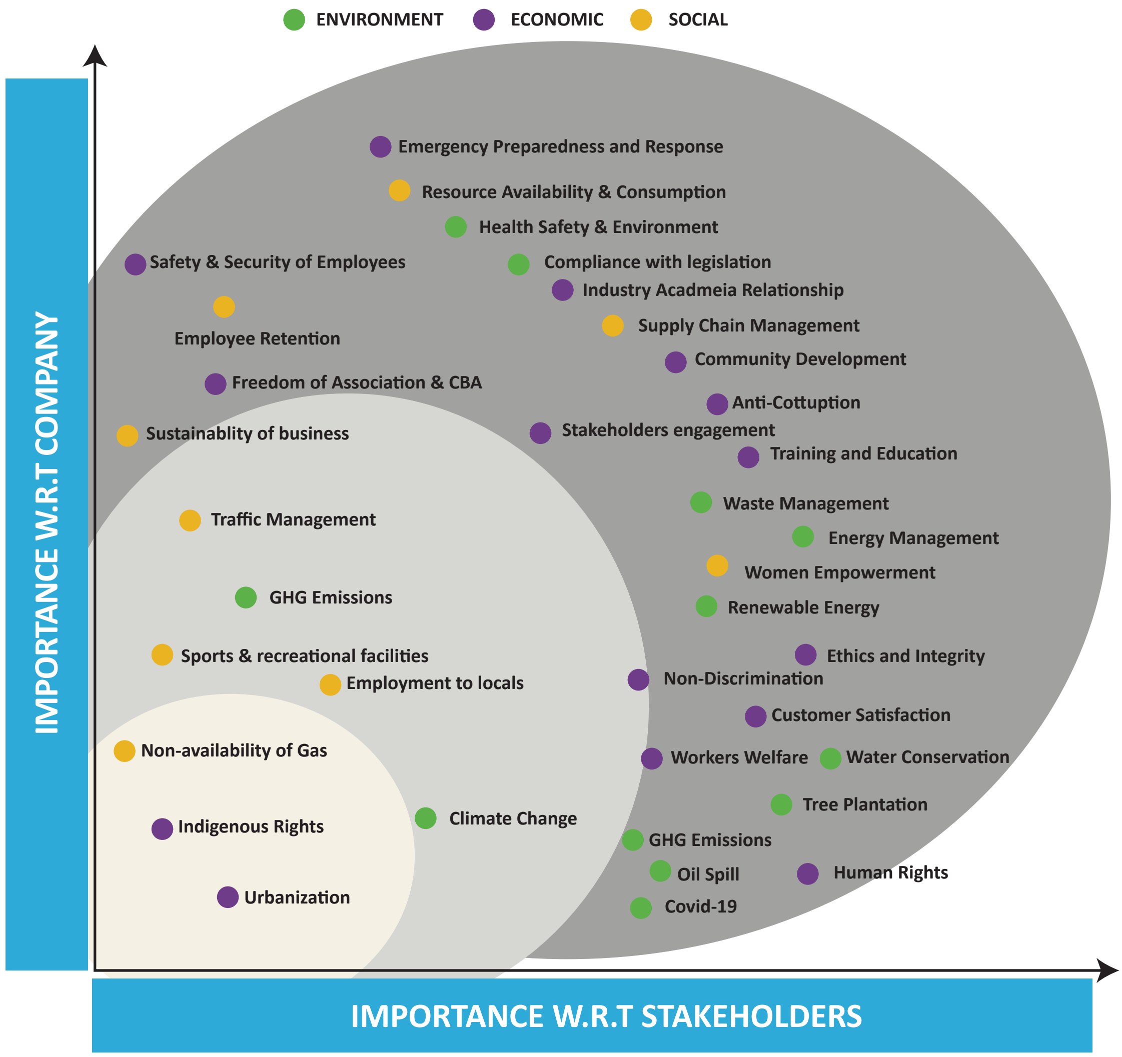
Indirect Economic Impacts: Disclosures under this topic illustrate the Company's economic impact on a wider socio-economic front than if it were simply to take the customers and suppliers into consideration. ICI Pakistan Limited's intent to support growth and development is not limited to the Company. The Company considers itself as a responsible corporate citizen and, therefore, it is important to monitor and measure its ongoing indirect economic impact in the wider context.

[17] https://dps.psx.com.pk/download/document/171469.pdf

Case Study: Materiality Assessment

ATTOCK REFINERY LIMITED (ARL)

A materiality matrix helps to identify the issues that matter most to the organization and its stakeholders, and to compare the perspectives of different stakeholder groups. A common materiality matrix uses business impact and stakeholder importance as the x-axis and y-axis respectively. ARL sustainability report 2022[18] materiality matrix is given below:



Collect and Report Data & Clarify Reporting Practices

Investors are looking for information that is consistent and comparable. Material data disclosures should always be aligned with the financial reporting cycle, so that readers can evaluate how ESG data is linked to the company's business strategy & financial performance.

[18] https://www.arl.com.pk/arl-sustainability-report-2022/

Quantitative data is in high demand because it can be more easily compared across time within the same company, or with similar data from other companies. Such data is also useful for enhancing investment valuation and credit rating models. Quantitative data imparts validity to a report.

Further, International Sustainability Standards Board (ISSB) on the other hand, has also developed IFRS S1 (sustainability) and S2 (climate-related) standards to address the investors' needs of standardized ESG and sustainability reporting, that will help companies in effective ESG reporting.

Information may be prepared using recognized methodologies (e.g. GHG emissions may be calculated on the basis of the Emissions Scopes classifications by the GHG Protocol Standard), directly measured by the reporting firm, or estimated through own approaches. In each case, following should be addressed:

- Explanation of the content type (What is being disclosed?)
- Purpose of the observations (Why is this important?)
- Key stakeholders that can derive the benefit from such data (For whom is it being reported?)
- Methodologies & frameworks that are applied to obtain this data (How is it being reported?)
- Channels on which company is providing this information (Where can this information be found?)

Based on the format of a corporate report, companies can decide how much information to include.

The following suggestions can assist companies with collecting data & articulating reporting practices:

- Consult international reporting guidelines for measuring, preparing and presenting ESG metrics to improve the quality of a company's disclosure.
- If information is provided elsewhere to the public, then duplication can be avoided by cross-referencing the source and redoing the volume of the disclosure.
- Ensure that the measurement period for the disclosure follows the financial reporting cycle, to assist investors with assessments of financial materiality.
- Wherever possible, provide at least three years of historic values and explain why indicators increased or decreased year to year, the company's perception of this, and how this might change in the future.
- Supplement qualitative narratives with quantitative data, benchmarks and targets, and vice versa.
- Report on challenges and mistakes as well as accomplishments. It would diminish the credibility of the report if stakeholders have access to any information that is not included in the disclosure.

Case Study: Provision of Quantitative Data

ATTOCK REFINERY LIMITED (ARL): DISCLOSURE OF GHG EMISSIONS DATA

An excerpt from ARL 2022[19] sustainability report, showing GHG emissions data is given below:

Green House Gas	Chemical Formula	Anthropogenic Source	Anthropogenic Lifetime (years)	GWP (100 Year Time Horizon)
Carbon Dioxide	CO_2	Fossil-fuel combustion, Land-use conversion, Cement Production	~100	1
Methane	CH_4	Fossil fuels, Rice paddies, Waste dumps	12	25
Nitrous Oxide	N_2O	Fertilizer, Industrial processes, Combustion	114	298

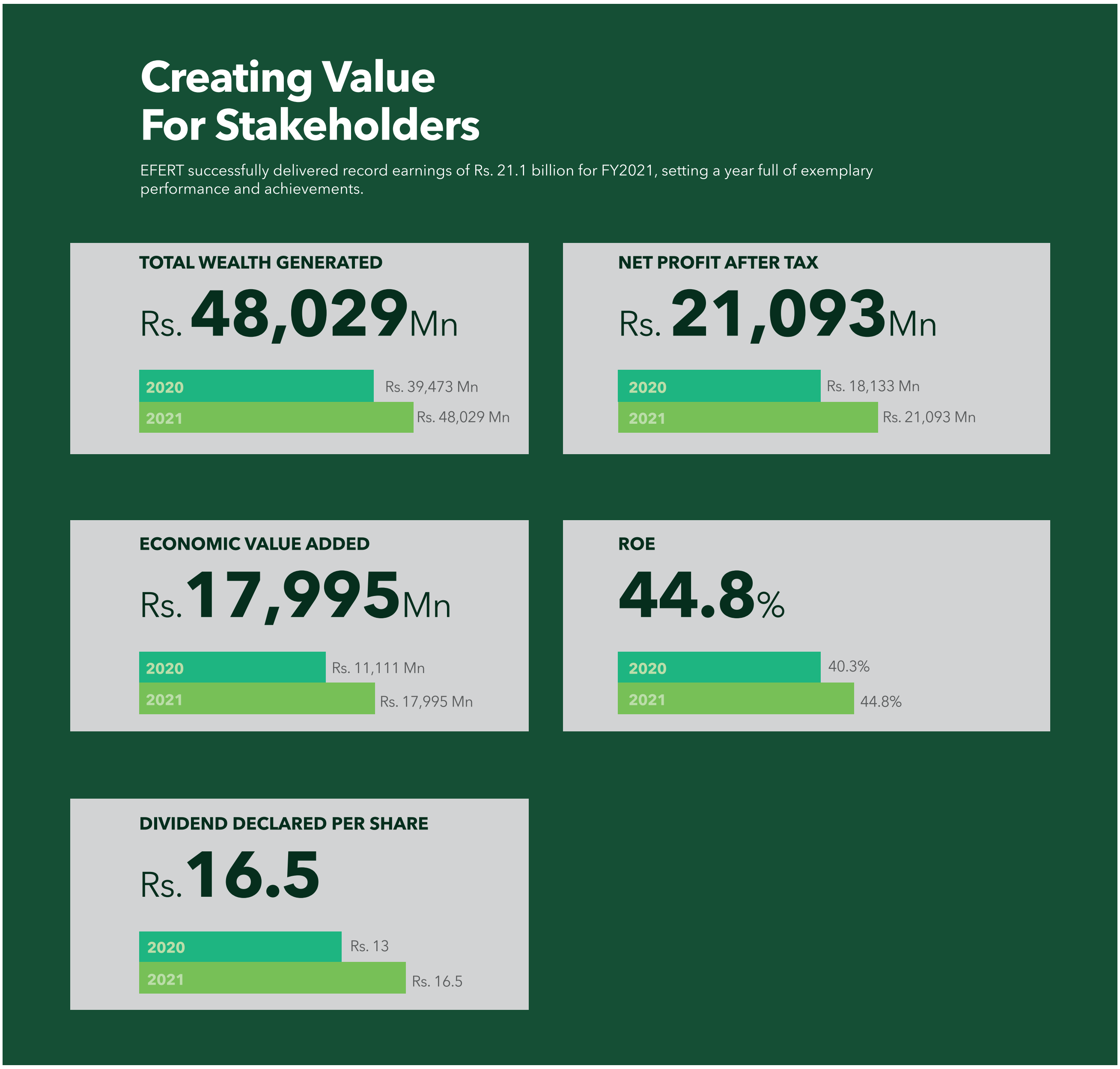
Scope-I emission (M. Ton/year)			
Distillation Units	CO_2 emissions	CH_4 emission	N_2O emission
HCU	10033	0.47	0.09
HBU-1	53814	2.56	0.51
HBU-II	6900	0.33	0.07
Lummus	8431	0.39	0.08
Total	79178	3.76	0.75

[19] https://www.arl.com.pk/arl-sustainability-report-2022/

Case Study: Disclosure of Quantitave Data

ENGRO FERTILIZERS (EFERT) DISCLOSURE OF ECONOMIC DATA

EFERT in its 2021[20] sustainability report has provided their financial performance with clear and eye-catching visuals as given below:



[20] https://www.engrofertilizers.com/themes/engro/documents/Engro-Fert-Sustainability-Report-2021.pdf

Engro Fertilizers (EFERT) Disclosure of Environmental Data

EFERT in its 2021 sustainability report[21] has used GRI standard and has used eye-catching graphics to provide an explanatory as well as quantitative disclosure of environmental data.

GRI 306: Waste

WASTE BY TYPE AND DISPOSAL METHOD

Methodology

Recycle

Mix steel
Plastic drums
Used oil with mixed water
Steel drums
Empty used cartons
Wood scrap
Mix electrical cable pieces and computer parts
Used/damaged WPP bags and liner
IBC drums
Used filters and membranes
Spent catalysts

Landfill / Disposed at SEPA-Approved Land

Paper/cardboard waste
Wood shavings
Cotton rags / gloves
Kitchen / food waste

Disposal (Landfill)

Asbestos sheets, insulation
Resin, clay and grit drums
Tube rods, bulbs and mercury bulbs

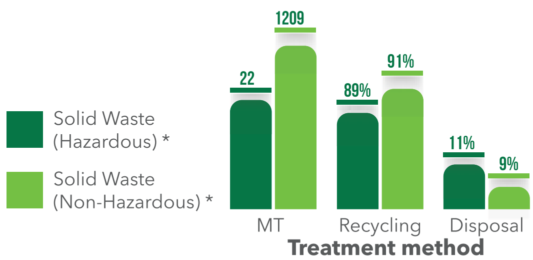
Recycle / Disposal

Molecular sieve, alumina balls and activated carbon Ceramic cement bags

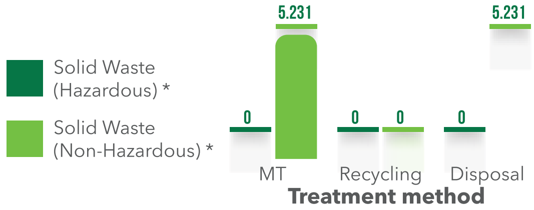
Incinerated

Clinic waste

DAHARKI



ZARKHEZ



*All sorts of solid waste are handled by SEPA-approved vendors.

The key inputs to the urea manufacturing process are:

	Units	2020	2021
Natural gas as fuel	MMSCF	31,429	30,050
Net Water Consumption	Million M3	13.6	12.4

[21] https://www.engrofertilizers.com/themes/engro/documents/Engro-Fert-Sustainability-Report-2021.pdf

Recycling / Re-use of Material:

	2021 Metrics
Natural Gas Consumption (MMBTU/annum)	The feed gas enrichment and flue gas recovery projects at urea plants have helped minimize gas waste by recycling back flue gas components and furnace fuel gas as feedstock into urea production units.
Lubricant (Liter)	No recycling of any hazardous waste in 2021. However, around 2 tons of mix hazardous waste is present at specially designated hazardous waste yard, intended for disposal by a SEPA certified vendor.
Chemicals (KG)	No recycling in 2021
WPP Packing Bags (all variants)	115 MT WPP bags recycled in Jan 2021

GRI 303: Water and Effluents

Key Performance Measures

	Unit	2020	2021
Water intake	Million M3/year	17.6	16.6
Water consumption	Million M3/year	13.3	12.4
Water effluent or discharge	Million M3/year	4.3	4.1

*Effluent is in accordance with local SEQs limit

	Unit	2020	2021
Water footprint	MT of water consumption / MT of urea	5.86	5.91

Following are the plant-wise metrics for water consumption at EFERT's Daharki facility:

	Unit	Plant I	Plant II	Daharki's manufacturing facility
Water intake	Million M3/year	7.7	8.9	16.6
Water consumption	Million M3/year	6.0	6.4	12.4
Water effluent or discharge	Million M3/year	1.6	2.5	4.1
Water footprint	MT of water consumption / MT of urea	7.8	4.8	5.91

Select Relevant Metrics

Sustainable investments were once criticized for their 'non-financial' appeal, and companies conflated ESG with their Corporate Social Responsibility efforts. Whether a company reports material themes or more comprehensive themes, an effective report covers ESG considerations that are relevant to business strategy and illustrates the link to both long-term and short-term value. Thinking through company's value chain can help develop understanding of the ESG themes that could be relevant for the company.

It is often helpful to reflect on the risks discussed in the company's annual management reports, as well as themes reported by peers. A company can also use a variety of national and international resources to develop an initial list of ESG themes. For example, the company can use GRI standards to report its sustainability performance across the ESG landscape or the UN Global Compact's 10 Principles and its Basic Guide for reporting against these 10 thematic issues.

Once a company has established which ESG themes to report on, it can begin to disclose specific performance indicators to demonstrate progress. These may be generic, industry-specific or company-specific. It is recommended that companies follow guidelines established by a well-known standard setter, that influence decisions about which metrics to report on. Measurable items (also referred to as Key Performance Indicators, or KPIs can then be selected for each topical area in a basic report.

Some Popular international reporting frameworks are featured below.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
GRI
SUSTAINABILITY ACCOUNTING STANDARDS BOARD SASB
VALUE REPORTING FOUNDATION INTEGRATED REPORTING FRAMEWORK

Note: As mentioned earlier in the document, TCFD is now being monitored by IFRS (ISSB) and the recommendations have been built into the IFRS S2. Whereas SASB and Value Reporting Foundation both have been absorbed into the IFRS Foundation.

A brief description of GRI standard is given in the next section.

Link ESG Performance to Financials

Companies are encouraged to disclose figures on relationships between ESG factors and corporate revenues in previous years, if possible, so that market actors can employ quantitative approaches to public policy & ESG investments on a global scale.

ESG reporting addresses the following so that performance can be linked to financial results ***(please note this list is not exhaustive and only includes typical examples)***:

- Risks:
  - Internal from business activities that impact the company's viability
  - External from the operational environment, e.g. new regulations
- Opportunities:
  - Creation of new products/services and innovation in internal processes
  - Changing skills of employees, and adaptability to low-carbon economy Management
  - Actions, projects, initiatives to increase long-term value
  - Investments that support current returns vs. future prospects
- Governance:
  - Organizational oversight of ESG strategy, targets, & performance
  - Strengthen internal & external controls and improve reporting process
- Strategy:
  - Objectives & goals, along with approach to management of uncertainties
  - Which factors (E/S/G) have a larger impact on financial performance?
- Targets:
  - Pursued results / use of indicators for measuring progress
  - Output-based & objective metrics for comparable data
- Performance:
  - In support of business strategy —regular, timely & consistent reports
  - Select high-priority issues that are specific to the local market

Identify the Disclosure Format

As recommended by IFRS (building on the same guidance form TCFD), companies should disclose all sustainability-related financially material information together with financial reporting (all material information should be reported publicly). Therefore, there are two main areas for reporting - the financial reporting package, and the sustainability report. Companies should use both methods, but use a materiality analysis to determine what information belongs in what report. Companies may choose from various reporting formats, such as:

- **Stand Alone Reporting**

  Stand-alone ESG reports remain popular among companies, and deliver the most value when released alongside financial statements for well-informed decision making by investors. A stand-alone sustainability report published on an annual basis will require greater data collection efforts than a disclosure that is provided as a section within the financial report.

- **Financial Reporting with Material ESG Factors**

  It is limited in practice, and companies, - especially those in emerging markets - tend to provide a narrative on their charitable activities and engagement sessions with the larger community in financial disclosures. A materiality analysis can be easily overlooked by the entities looking for ESG information.

- **Integrated Reporting**

  An integrated report in line with the Integrated Reporting framework, aims to provide a concise holistic perspective of the company's prospects and ability to create/preserve value over the short, medium and long term. It reflects the business model strategy, inputs and outcomes across the six capitals[22] (which incorporates financial, operational, reputational and sustainability matters). It is not intended to replace either the financial or sustainability report since it may not contain the same level of detail which is captured in those reports. It may therefore still be useful to produce a sustainability report as this will feed into the integrated report's content. An integrated report may be a standalone report (supported by detail from other reports such as financial, sustainability, governance etc.) or form part of a report which contains financial and sustainability information.

[22] https://www.integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/

QUALITATIVE ANALYSIS VERSUS QUANTITATIVE ANALYSIS

ESG integration is generally implemented by using approaches and analysis that are more qualitative than quantitative. Increasingly, however, practitioners are quantifying and integrating ESG issues into their company/issuer valuations. Some examples of practitioner use of qualitative analysis of ESG issues to inform investment decisions include the following:

1. The ESG analysis of a company or country is studied alongside the investment analysis of that company or country to inform a “buy/sell/hold/don’t invest” decision. For example, if a company or country is viewed poorly based on its ESG performance and on its valuation assessment, it could lead to a “sell” or “don’t invest” signal. If the same company or country is rated poorly on its ESG performance but well on its valuation assessment, it could lead to a deeper analysis of the company or country before a decision is made.
2. The ESG analysis can be the deciding factor between otherwise identical companies or countries. If all other factors are equal, the practitioner will choose the company or country that performs better on its ESG analysis.
3. Practitioners invest in undervalued securities that have an opportunity to outperform based on improving ESG performance and divest from overvalued securities that could underperform based on deteriorating ESG performance.
4. If a company has a low ESG score/assessment on certain ESG factors, engagement with the company can improve those factors, resulting in a buy/hold decision.
5. The ESG analysis can influence the maturity of the bond that an investor purchases.

Recommendation:

If sustainability disclosure is separate from financial disclosure, it is recommended that both, qualitative and quantitative, two types of disclosure are published for the same reporting period. This will allow investors to consider financial information within the context of ESG information. Cross-references within these documents ensure connectivity and accessibility of information. It is important to ensure consistency among the information reported in different communication channels.

For example, a company would not want to have one channel emphasizing the critical nature of an issue to its business and then not discuss that issue in another communication channel. It is critical that the information is easy to find, for example using hyperlinks to boost digital accessibility indicating where all existing ESG information can be found.

Stand Alone Sustainability Reporting	Financial Reporting with Material ESG Factors	Integrated Reporting
Sustainability reports address the relevant ESG information needs of investors and sometimes other stakeholders, such as customers and civil society.	After a company determines certain ESG factors are material to its business over a specific time horizon, it may decide to include this information in its financial reports. These likely cover a smaller set of ESG factors than the other options listed	An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term.

THE GRI STANDARD

Note: GRI's following information is for introductory purposes only. It is important to note that companies do not have to choose one from GRI or IFRS. GRI focuses on reporting for a broader stakeholder body and focuses on impact materiality (namely the impacts of the company's business activities on the economy, environment and people). Which is different from the financial investor-focused approach being established by the IFRS Sustainability Standards. These approaches are not intended to be mutually exclusive but rather complementary to ensure that reporting can be sufficiently comprehensive and complete to meet the needs of various stakeholders.

Introduction

GRI Standards, being one of the dominant global standards for sustainability reporting, are a modular system comprising three series of Standards: the GRI Universal Standards, the GRI Sector Standards, and the GRI Topic Standards. The GRI Topic Standards, each dedicated to a particular topic and listing disclosures relevant to that topic; the GRI Sector Standards, applicable to specific sectors; and the GRI Universal Standards, which apply to all organizations. Using these Standards to determine what topics are material (relevant) to report on helps organizations.

GRI Universal Standards

These apply to all organizations and consist of:

- **GRI 1. Foundation 2021 (GRI 1)**

  It explains the purpose of GRI standards, the explanation of important concepts and is a guide on using the standard correctly.

- **GRI 2: General Disclosures 2021 (GRI 2)**

  Contains disclosures relating to details about an organization's structure and reporting practices; activities and workers; governance; strategy; policies; practices; and stakeholder engagement.

- **GRI 3: Material Topics 2021 (GRI 3)**

  Materiality assessment is at the heart of sustainability reporting. This standard guides the organizations on determining it material topics, i.e. the topics that have an impact on ESG aspects. This standard also explains the use of Sector Standards in determining materiality. When an organization has determined its material topics, then it can use the related topic standard for detailed disclosures.

GRI Sector Standards

These standards are being developed for 40 sectors. Standards for highest impact sectors like oil and gas, coal, agriculture, aquaculture, and fishing have been developed. This standard provides topics that can be material for a particular sector.

The GRI Topic Standards

These standards explain the disclosures to specific topics for which a firm wants to disclose its impact like Child labor, Emissions, Effluents and waste, occupational health and safety etc. Each standard incorporates an overview of the topic and disclosures specific to the topic and how an organization manages its associated impacts. An organization selects those Topic Standards that correspond to the material topics it has determined and uses them for reporting.

The GRI standards are available free of cost at the following link:

https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

A short introduction to the GRI standards
https://www.globalreporting.org/media/wtaf14tw/a-short-introduction-to-the-gri-standards.pdf

THE IFRS S1 AND IFRS S2 STANDARDS

The International Sustainability Standards Board (ISSB) has finalized general requirements for a firm to disclose sustainability-related financial information and in June 2023 issued two Sustainability Disclosure Standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

The demand for these standards was triggered due to a growing demand of investors seeking more consistent and comparable information on sustainability-related risks and opportunities.

IFRS S1 sets out the requirements for companies disclosing sustainability-related financial information about all of their significant sustainability-related risks and opportunities. This will help investors understand how companies are responding to ESG issues to base their investment decisions.

The IFRS S1 requires a company's sustainability-related financial disclosures to be for the same reporting entity as the related general-purpose financial statements. If the reporting entity is a group, the consolidated financial statements and the sustainability-related financial disclosures will be for the parent and its subsidiaries. The definition of a reporting entity is consistent with that in IFRS accounting standards and excludes associates and joint ventures as the investor does not control these investees.

IFRS S1 would also require a company to disclose risks and opportunities related to activities, and to the use of resources along its value chain, such as any investments it controls, including investments in associates and joint ventures, for example, financing a greenhouse gas-emitting activity through a joint venture.

Similarly, IFRS S2 sets out the requirements for the identification, measurement and disclosure of climate-related financial information. It aims to provide a global baseline for comparable climate related disclosures. It builds upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TFCD) and incorporates industry-based disclosure requirements derived from SASB standards. To comply, a company would have to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. This will form a part of the company's general-purpose financial reporting.

ESG KEY PERFORMANCE INDICATORS

There are some ESG Key Performance Indicators focal for the ESG reporting ***(please note this list is not exhaustive and only includes typical examples):***

Environmental	Social	Governance
Environmental Policy	Full time Employees	Gender diversity on Board
Environmental Impacts	Benefits for employees	Board - Independence
Energy Intensity	Attrition Rate	Board - Separation of Powers
Carbon/GHG Emissions	Training and development Hours	Voting Results
Energy Consumption	Health care benefits	Gender Pay Ratio
Primary Energy Source	Human Rights Policy	Incentivized Pay
Renewable Energy Intensity	Human Rights Violations	Business Ethics and Code
Water management	Child & Forced Labour	Supplier Code of Conduct
Waste Management	Gender parity ratio at Workforce	Bribery/Anti-Corruption Code
	Community and social Work	Corporate Governance
	Local Procurement	

Note: Companies should also add necessary narrative reporting to help provide context to the indicators.

Companies may also refer to the IFRS's approach covering governance, strategy and risk before getting to metrics[23], which also aligns with the GRI universal standards approach. In addition, companies should also refer to the SECP provided Guidelines

Following are some specific measurement methods suggested for companies for each of these ESG Key Performance Indicators. Companies should then accordingly treat measurements of the ESG factors relevant to their company.

[23] https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

STAGES OF DRAFTING AN ESG REPORT

Category: Environment

ESG KPIs	Measurement Method
Environmental Policy	Does the company publicly publish, follow an environmental policy and indicates where it can be accessed? Yes/No
Environmental Impacts	Any legal or regulatory responsibility for an environmental impact? Yes/No If yes, explain
Energy Intensity	Source (fossil / renewable etc) and amount of energy used
Carbon/GHG Emissions	Total amount of Carbon and Green House Gas emissions in metric tons
Energy Consumption	Total amount of energy usage
Primary Energy Source	Specify the primary source of energy used by the company
Renewable Energy Extent	Specify the percentage of energy used that is generated from renewable sources
Water management	Total amount of water consumption, and details in respect of recycling if any
Waste Management	Total amount of waste generated, recycled or reclaimed, by type and weight

Category: Social

ESG KPIs	Measurement Method
Full time Employees	Number of full-time employees
Monetary and non - monetary benefits for employees	Total amount of employee wages and benefits
Attrition Rate	Percentage of employee turnover
Training and development Hours	Total number of hours of training divided by the number of employees
Health care benefits	Does the company publicly publish, follow a policy for health issues and indicates where it can be accessed?
Human Rights Policy	Disclosure and adherence to a Human Rights Policy and indicates where it can be accessed?
Human Rights Violations	Number of grievances about human rights issues filed, addressed and resolved
Child & Forced Labour	Does the company prohibit the use of child or forced labour?
Gender parity ratio at Workforce	Percentage of women in the workforce including women at executive/management level versus in rest of the workforce
Community and social Work	Number of hours spent, and/or other community investments made as a percentage of pre-tax profit
Local Procurement	Percentage of total procurement from local suppliers

Category: Governance

ESG KPIs	Measurement Method
Gender diversity on Board	Percentage of Board seats taken by women
Board - Independence	Percentage of Board seats taken by independent directors
Board - Separation of Powers	Specify whether the CEO is allowed to sit on the Board, act as the Chairman
Voting Results	Disclosure of the voting results of the latest AGM
Gender Pay Ratio	Ratio of median male salary to median female salary
Incentivized Pay	Specify the links between remuneration and performance targets
Business Ethics and Code	Does the company publish and follow an Ethics Code of Conduct?
Supplier Code of Conduct	Does the company publish and follow a Supplier Code of Conduct?
Bribery/Anti-Corruption Code	Does the company publish and follow a Bribery/Anti-Corruption Code?
Corporate Governance	Composition of the Board (beyond gender, e.g., in terms of age, tenure, skills and expertise), board committees, evaluation of board performance etc.

Conclusion

ESG investing worldwide has grown steadily in recent years, with ESG ratings, indices and other financial products proliferating to meet investors' demand. Global ESG assets are currently around $35 trillion, and they are on track to exceed $53 trillion by 2025[24]. Yet international and local market participants are still missing the relevant, comparable and verifiable ESG data in Pakistan that they need to properly conduct due diligence, manage risks, measure outcomes, and align investments with sustainable, long-term value.

SECP as a regulator has developed a roadmap to address issues, since the change to the international regulatory landscape is now becoming a lot more than just a compliance requirement. They are also becoming an opportunity for businesses to make a fundamental choice by approaching the emerging ESG regulations to comply or recognize this as a long-term change in their business strategy.

Meaningful ESG reporting is critical for developing an attractive profile that drives investment. Problems arise when companies and investors are on different pages regarding standardization and uniformity in reporting. The goals of ESG reporting are largely missed when reputable investors and responsible companies are unable to connect because of the standardization issue. When investors don't get the right information in the right format, they move on.

Sustainable investors have shown more interest in funding companies that proactively measure and assure/audit their ESG practices and operations. This has called for companies to raise their reporting standards, add transparency to a business's environmental and social impact, and develop mitigation measures. Companies that fail to comply with ESG regulations can distress various stakeholders and suffer from increased harm to their brands.

[24] https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape-140-5-trillion-of-global-aum-by-2025-finds-bloomberg-intelligence/

Appendix 'A' - Glossary

Following are some common terms selected, used in this document and across many publications covering topics related to ESG investing, that Pakistani issuers & investors may find helpful.

Materiality: refers to ESG factors that create risk for investors or impact an issuer's financial performance. Standards bodies that create reporting frameworks are working to expand factors considered material for a company based on sectors. Definitions of materiality can vary across regulators looking to introduce uniformity in the ESG landscape, with the U.S. SEC, stating "A matter is 'material' if there is a substantial likelihood that a reasonable person would consider it important."

Double Materiality: is a key concept in EU sustainable finance regulation, that not only requires disclosures of ESG risks for investors & financial performance, but implies that ESG data should also support evaluations of an entity's impact to its society & the operating environment. With this idea gaining widespread acceptance and being cited by more frameworks, we have explored it within one of the stages of reporting by corporates below.

Greenwashing: relates to reporting that makes false or misleading statements about the environmental practices of a company, for example by overemphasizing or overstating the company's environmental practices and impacts, particularly by making broad claims without providing supportive evidence. Despite having attendant risks, some companies may knowingly engage in greenwashing to increase sales.

Net Zero: Net zero is the balance between greenhouse gas emissions produced and greenhouse gas removals, which brings about no net increase in greenhouse gas levels in the atmosphere. This can be achieved through a variety of means, including reducing emissions, offsetting emissions (e.g., planting trees), and removing greenhouse gases from the atmosphere.

Road to Net Zero: is a dominant theme within climate considerations. As policy makers and corporates alike commit to net-zero carbon emissions by 2030, all sectors — including those which are heavily reliant on fossil fuels — will be participating in this movement given the adverse effects of climate change, and an reality that fossil fuels are finite in quantity. Investors are increasingly engagement with addressing climate change risks and opportunities and incorporating it in voting practices.

Transition Finance: is critical for emerging & frontier market economies to position themselves for a net-zero future, which is necessary for climate-mitigation efforts to succeed at a systemic level. An equitable transition to a low-carbon economy relies on investor financing to create market accessibility and scale innovative solutions.

Labeling: is under regulatory scrutiny in areas where sustainable finance evolved over time, and therefore intervention was justified using empirical evidence of apparent market failures. Misleading claims by, for instance, asset managers, corporates & rating agencies, regarding a product's ESG characteristics or a fund's sustainable investment approach have surfaced as a major concern for investors.

Emission Scopes: are classifications for GHG emissions from the GHG Protocol Standard. Scope I emissions are directly from owned/controlled sources, Scope II are indirect, from generation of purchased fuel, & Scope III are all other indirect emissions linked to the value chain, such as from business travel, employee commenting, waste disposal & use of sold products, etc.

Supply-Chain Transparency: is increasingly expected from corporate disclosures, and a growing awareness is necessary for companies in export-oriented sectors to maintain credibility in international markets. Changing consumer values will be reflected in regulatory standards. Companies that compete in global markets need to adhere to global social expectations, as consumers are inclined to purchase goods that do not contribute to income disparities or exacerbate environmental damage.

Shareholder Activism: is impacting corporates' ESG performance, by propelling them to change company behavior and practices. Through share voting patterns, and increased participation in earnings calls, shareholders are aligning corporate priorities with values. Almost a third of all asset owners are actively engaging on ESG issues with companies globally, however, in Pakistan, retail ownership of equity shares remains very low.

A free-float of ~25% overall, and 21% for the 20 largest companies indicates concentrated ownership, but may just trigger progress on transparency issues —this is an important step towards unlocking greater capital flows, since institutional investors maintaining large positions in the domestic equity market do represent minority interests.

Stakeholder: is essentially an individual or a group that has an effect on, or is affected by the company and its activities.

Stakeholder engagement: is defined as the process used by a company to engage relevant stakeholders for a purpose to achieve agreed outcomes. It is now also recognized as a fundamental accountability mechanism, since it encourages companies to involve stakeholders in identifying, understanding and responding to material sustainability issues and concerns. Stakeholder engagement also enables companies to report, explain and answer to stakeholders for its decisions, actions and performance.

Appendix 'B'

ESG Task Force includes and engaged with members from the following organization:

1. Pakistan Stock Exchange (PSX)
2. Securities and Exchange Commission of Pakistan (SECP)
3. Pakistan Institute of Corporate Governance (PICG)
4. State Bank of Pakistan (SBP)
5. KPMG Pakistan
6. Infrastructure, Housing & SME Finance Department (IH & SMEFD) State Bank of Pakistan
7. Unilever Pakistan
8. ACCA Pakistan
9. KMR Chartered Accountants
10. Crowe Pakistan
11. IBA Karachi
12. Bank Alfalah
13. JCR VIS
14. Engro Pakistan
15. ICI Pakistan
16. "CEO" Infrazamin
17. Al Meezan Investment Management Ltd
18. Indus Motor Company Ltd (IMC)
19. National Bank of Pakistan
20. Fauji Fertilizer Company
21. Attock Refinery Limited (ARL)
22. International Industries Limited (IIL)
23. ESG Tree
24. Faysal Bank
25. HR Metrics

Appendix 'C' - Additional Resources

1. **Pakistan Stock Exchange**
    a. Home: https://www.psx.com.pk
    b. ESG Updates: https://www.psx.com.pk/psx/environmental-social-governance
    c. SDGs Page: https://www.psx.com.pk/psx/resources-and-tools/sustainable-development-goal

2. **SECP**
    a. Home: https://www.secp.gov.pk/
    b. Regulations: https://www.secp.gov.pk/laws/regulations/

3. **United Nations SDGs:** https://sdgs.un.org/goals

4. **Global Reporting Initiative**
    a. Home: https://www.globalreporting.org/
    b. GRI Standards: https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

5. **IFRS' International Sustainability Standards Board (ISSB)**
    a. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information: https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/
    b. IFRS S1 Climate-related Disclosures: https://www.ifrs.org/projects/completed-projects/2023/climate-related-disclosures/

6. **SSE Guidance**
    a. Model Guidance On Climate Disclosure: https://sseinitiative.org/publication/model-guidance-on-climate-disclosure-a-template-for-stock-exchanges-to-guide-issuers-on-tcfd-implementation/
    b. Model Guidance on Reporting ESG Information to Investors: https://sseinitiative.org/publication/model-guidance-on-reporting-esg-information-to-investors-a-voluntary-tool-for-stock-exchanges-to-guide-issuers/

PAKISTAN
STOCK EXCHANGE

Stock Exchange Building, Stock Exchange Road, Karachi.
E-mail: info@psx.com.pk UAN: +92-21-111-00-11-22
www.psx.com.pk

/Pakistanstockexchangelimited
/@PakistanStockExchangeLimited
/pakstockexgltd
/company/pakistanstockexchangelimited