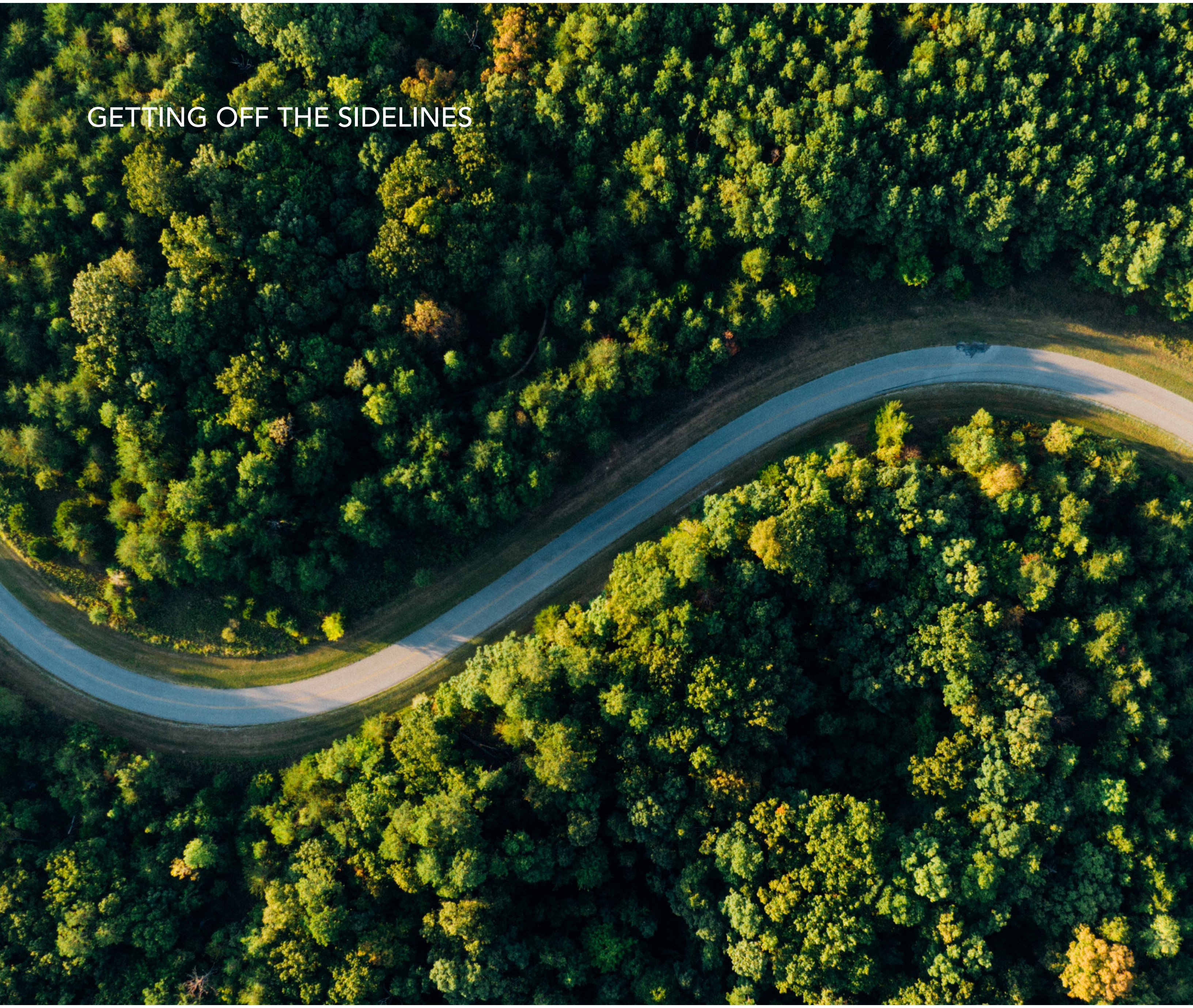
# Sustainability Disclosure Practices

IN THE RUSSELL 3000, S&P 500, AND S&P MIDCAP 400 | 2022 EDITION




In collaboration with: HEIDRICK & STRUGGLES

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# Foreword

2022 has the key hallmarks of a watershed moment for corporate sustainability, as broad pressure to tackle the climate crisis grows, and ESG regulation ramps up in the United States. We will see ESG emerge as a "license to operate" issue in 2022 and 2023, with access to capital on favorable terms increasingly at risk for those who don't build rigorous measurement, disclosure, and performance practices.

There are many reasons to be optimistic in the wake of the 2021 COP26 summit, as 153 countries put forward new 2030 zero-emissions targets and set mechanisms and frameworks for making progress; significant headway was also made toward financing the US$100 billion per year needed to address the most pressing climate risks. In addition, the US Securities and Exchange Commission is set to release a new set of regulatory requirements early this year to provide a standardized framework for reporting and supporting sustainable investment that covers climate risks and opportunity, human capital management, and boardroom diversity.

To ensure progress toward our collective goal of a greener, more equitable world, sustainability disclosure is essential. And, for corporations, this new battery of regulatory expectations is one part of a fundamental change in their license to operate: acting to minimize their impact on the planet and on society is no longer optional; they are expected to step up and fill the gaps where the government and regulators are struggling to meet societal needs. Some organizations will be able to confirm that they are on the right track, but the overwhelming majority will likely need to spend a lot of time and resources to catch up on what and how they have to disclose across a full range of ESG issues.

Indeed, this report, *Sustainability Disclosure Practices 2022 Edition: Getting Off the Sidelines*, finds that sustainability disclosure in S&P 500 and Russell 3000 companies is underwhelming and patchy: 54 percent of the S&P 500 and less than a third of the Russell 3000 report on climate issues, for example. Some sectors (utilities, real estate, energy) are reporting far more often than others (health care, communications, information technology, financial services). Disparities among companies of different sizes and in different sectors persist even when looking at other metrics such as greenhouse emissions, supply chain risks, water use, and biodiversity exposure. It's worth noting, though, that the larger companies, particularly in the utilities and energy sectors, have been under longer, more sustained pressure to address their ESG impact.

Beyond climate, another area of continued scrutiny is board and workforce diversity, which will be reinforced by the SEC's proposed rules. And the pressure is warranted: on average, among Russell 3000 companies, only 1 in 3 managers are women, despite women making up 43 percent of the workforce, and fewer than 1 in 10 companies report the number of racial or ethnic minorities in management positions.

One clear blind spot for many companies this report spotlights is how their end-to-end supply chain fares against the full range of ESG metrics, including secondhand impact on environmental and social considerations such as human rights. The report finds that only 6 percent of S&P 500 companies disclose the share of new suppliers that are screened using social criteria, and 5 percent disclose the share of new suppliers screened using environmental criteria. Yet climate-related supply chain disruption will affect all businesses, regardless of their current exposure to biodiversity, water stress, land erosion, pollution, and related risks. By assessing and addressing their ESG risks and impact, companies can make a strong case to investors, regulators, and consumers that they are managing those risks in a holistic and systematic manner.

Meeting new regulatory requirements will require additional time and resources, but however burdensome that effort may be, it pales in comparison with the cost of inaction. The price tag of not addressing climate issues could be crippling for the planet. A 2019 UN report warned of an unprecedented decline in nature, with 1 million species threatened with extinction.[a] The cost of loss of biodiversity or water sources can be assessed in dollars as well: a recent CDP water survey estimates that the potential financial impact of reported water risks was up to US$301 billion, while the amount required to mitigate those risks was US$55 billion—the former is five times higher.[b]

The change in the corporate license to operate also means that the role of boards and CEOs will evolve. Board members in particular will have to transition from a position of expertise that is often a natural continuation of a previous CEO or C-suite role into a very different place, where managing what they don't know is one of their most important priorities. And that lack of knowledge on climate matters is a fact: a recent global survey Heidrick & Struggles conducted with INSEAD shows that nearly half of the board members surveyed think their boards have insufficient knowledge of climate implications for financial performance, and more than three-quarters say they need to increase their climate knowledge.[c]

Internal and external experts could become instrumental in helping boards integrate ESG considerations into their agenda and decision-making process. They would also benefit from external validation of internal conclusions. Such efforts will build trust.

This new wave of regulations sends an undeniable signal to boards and executive teams that we are well past carefully constructed and well-meaning narratives that say companies care. Going forward, the ability to show clear results and precise data against ambitious targets will directly affect a company's access to capital and ability to insure its business. That means boards and companies must approach ESG reporting in the same way as financial reporting and disclosure: same rigor, same risk philosophy. And being clear about where each company stands in addressing the most pressing issue of our generation is a duty for every organization, regardless of size or sector.

**Jeremy Hanson**
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Co-Lead, Global Sustainability Office
**Heidrick & Struggles**

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a UN Report: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating,' United Nations, May 2019.

b CDP Global Water Report 2020.

c Louis Besland, Alice Breeden, Jeremy Hanson, Ron Soonieus, and Sonia Tatar, *Changing the Climate in the Boardroom*, Heidrick & Struggles and the INSEAD Corporate Governance Centre, December 13, 2021, heidrick.com.

# SUSTAINABILITY DISCLOSURE PRACTICES

## in the Russell 3000, S&P 500, and S&P MidCap 400: 2022 Edition

## Getting Off the Sidelines

*Sustainability Disclosure Practices in the Russell 3000, S&P 500, and S&P MidCap 400: 2022 Edition* highlights key findings from an analysis of the disclosure of environmental and social metrics by US publicly traded companies—including information on climate, water, biodiversity, the use of external assurance, and gender diversity. The analysis is based on companies' publicly reported sustainability information, including information found in annual reports, proxy statements, sustainability/CSR reports, and company websites. When relevant, the report highlights data across business sectors and company size groups.

The project is a collaboration among The Conference Board, Heidrick & Struggles, and ESG data analytics firm ESGAUGE. See "Access Our Online Dashboard" on p. 25 for more information on the study methodology. Visit conferenceboard.esgauge.org/sustainabilitypractices to access and manipulate our data online.

### Insights for What's Ahead

As evidenced by COP26—the most recent UN climate summit—global momentum for tackling climate change is increasing. As one prominent sustainability executive who attended COP26 recently noted, companies that have already made commitments to address climate change are promising to do more; the challenge is that so many companies remain on the sidelines.[1]

This finding is borne out by our analysis of information provided by US public companies in their SEC filings, CSR/sustainability reports, and websites. While large public companies are providing information on climate risks, greenhouse gas (GHG) emissions, responsible supply chain management practices, and workforce diversity, smaller companies are generally not. Similarly, disclosures relating to topics such as biodiversity and water usage remain largely limited to a few industries.

To be sure, the importance of sustainability issues varies by industry, geography, and company. Moreover, it is important for companies to focus their attention and resources on issues that are material to their long-term future and have the greatest impact on stakeholders, society, and the environment.

1 "Corporations and Climate Change: From Ambition to Impact," The Conference Board Sustainability Watch, November 18, 2021.

But companies that have not been addressing climate, diversity, and other key sustainability issues in their public-facing communications should take a fresh look at whether to do so. First, even companies that are not significant contributors to GHG emissions may be affected by climate change. Similarly, workforce diversity and supply chain management are near-universal issues.[2] Second, even if an issue may not seem material at first blush because of a company's size or industry, it is worth taking a closer look. For example, companies that do not have a direct link to biodiversity loss or water scarcity may be contributing to it—or affected by it—through their supply chains. Third, companies should be sure they are prepared to satisfy new SEC disclosure rules, which are likely to mandate disclosures (regardless of materiality) on climate change–related risks and opportunities, as well as data on workplace gender and diversity. Finally, even when not material to a company's performance, the key issues listed above have become "table stakes" for investors, employees, customers, business partners, and other stakeholders.[3]

Against this backdrop, companies across industries should consider stepping off the sidelines to provide greater information, whether on their website, in their CSR/sustainability reports, or in their SEC filings, in the following areas:

- **Companies should be prepared to address both their impact on climate and climate's impact on them.** A fundamental shift is underway in the allocation of equity and debt capital toward firms that are reviewed as more resilient and responsible when it comes to climate.[4] Large firms have recognized this, as more than half of S&P 500 companies disclose climate risks in annual reports, and 71 percent disclose GHG emissions in their annual reports, in their sustainability reports, or on their company websites. But disclosure levels remain relatively low among smaller companies. Among the S&P MidCap 400, for example, 28 percent of companies disclose their GHG emissions in their annual reports, in their sustainability reports, or on their company websites. Smaller companies that have not yet prepared climate disclosures will inevitably face greater disclosure pressures, not least because the SEC is expected to propose rules on climate disclosure in early 2022.

- **Companies should assess how their supply chain can affect, or be affected by, biodiversity loss and deforestation.** Investors and other stakeholders are seeking more information on companies' policies on biodiversity and deforestation, which are also connected to climate change. While more than one-third of companies in the utilities sector have biodiversity policies, most other sectors do not. Consumer staples companies, for example, have been the focus of recent shareholder resolutions on deforestation, yet only 15 percent of companies in this sector have a biodiversity policy.

2 These and other issues, for example, are included in the World Economic Forum's set of stakeholder capitalism metrics and in prominent sustainability reporting frameworks such as GRI and SASB. These are also among the issues that some companies are required to disclose under the EU's sustainability reporting requirements.

3 Note: the list of sustainability issues examined in this report is not meant to be exhaustive. While these issues represent some of the key sustainability topics, other issues (e.g., plastic waste) are also of significant interest to stakeholders.

4 "How Important is ESG to Capital Markets? Investor and Lender Perspectives," The Conference Board Sustainability Watch webcast, March 18, 2021.

- **Companies need to assess their exposure to water risks, as the financial cost of inaction can significantly outweigh the cost of mitigation.** Even the industries that are highly exposed to water risks—materials and consumer staples—do not consistently provide relevant information on water. For instance, fewer than 1 in 5 companies in the materials sector disclose the amount of water they withdraw from water-stressed areas.

- **Smaller companies also need to examine their policies and practices related to supply chain management and human rights in light of increased stakeholder scrutiny on these issues.** As global supply chains remain under stress, investors want to know how companies are managing their supply chain risks and preparing for future disruptions. More than 3 out of 4 S&P 500 companies have policies related to environmental and social supply chain management and human rights, but less than two-thirds of S&P MidCap 400 companies have these policies. While smaller firms may have less direct exposure to these issues, they are not immune from stakeholder scrutiny. Indeed, in 2021 a shareholder resolution on human rights violations in the supply chain at Wendy's (which has annual revenues of under $2 billion) passed with 94 percent of votes in support.

- **Board and workplace diversity is likely to be a focus of scrutiny at companies large and small.** In 2021, almost four times as many shareholder proposals were filed on board and workplace diversity compared to 2020—and proposals on workplace diversity that came to a vote averaged 46.4 percent. Companies should expect a continued push by shareholders on this topic, particularly as disclosure data reveal some notable gaps in the representation of women and minorities in leadership positions. Financial and health care companies have majority-women workforces, but in both sectors, women account for just over one-third of management positions. These two sectors also have some of the lowest percentages of women on boards. And while few companies report the number of minorities in management positions, those that do reveal that, on average, minorities represent less than 1 in 4 management positions at both Russell 3000 and S&P 500 companies.

- **Investors, lenders, credit rating agencies, ESG ranking firms, business partners, and regulators will increasingly expect companies to verify their sustainability information through external assurance.** The number of companies obtaining assurance is increasing, but it is primarily larger companies that are obtaining assurance: more than one-third of S&P 500 companies obtain external assurance for at least some of their sustainability information, compared to only 6 percent of S&P MidCap 400 companies. Companies with operations in Europe will need to prepare for new rules beginning in 2024 requiring external assurance of sustainability information. External assurance may also be a feature of the reporting standards being developed by the International Sustainability Standards Board (ISSB), the formation of which was announced at COP26 by the International Financial Reporting Standards (IFRS) Foundation.

## Companies should be prepared to address both their impact on climate and climate's impact on them.

As the outcome of the United Nations' Glasgow Climate Change Conference (COP26) shows, global momentum for tackling climate change is at an all-time high. The Glasgow Climate Pact, signed by leaders from almost 200 countries, urged countries to phase down coal and fossil-fuel subsidies and make more ambitious climate commitments by the end of 2022, among other pledges.[5]

But governments were not the only ones at the table: the summit resulted in a number of commitments and initiatives by major companies and financial institutions. One such example is the Glasgow Financial Alliance for Net Zero (GFANZ), which brought together more than 450 institutions to commit more than $130 trillion of private capital to meet net zero goals.[6] Another initiative coming out of COP26 is the First Movers Coalition, a platform for companies to harness their purchasing power and supply chains to create early markets for innovative clean-energy technologies.[7] The coalition's founding members include 34 major companies that aim to create demand for low-carbon technologies in industries such as steel, cement, aluminum, chemicals, shipping, aviation, and trucking.

COP26 is just one example of the increased momentum on climate issues. Companies that have been on the sidelines of climate disclosure should prepare to engage more with investors and other stakeholders on their climate-related risks and impacts.

**Disclosure of climate-related risks:** The majority of S&P 500 companies (54 percent) disclose climate-related risks in their annual reports. But these figures are driven primarily by larger companies and companies in a handful of sectors. For example, one-third of S&P MidCap 400 companies disclose climate-related risk.

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5 See: "Glasgow Climate Pact," United Nations Framework Convention on Climate Change, November 13, 2021.

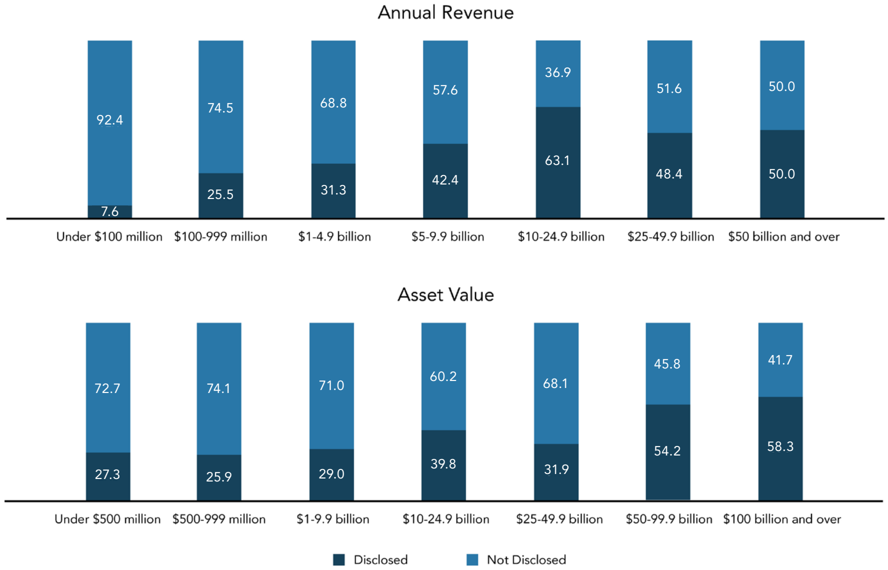
6 "Amount of Finance Committed to Achieving 1.5°C Now at Scale Needed to Deliver the Transition," Glasgow Financial Alliance for Net Zero, press release, November 3, 2021.

7 "Launching the First Movers Coalition at the 2021 UN Climate Change Conference," US Department of State, November 4, 2021.

## Risks of Climate Change Discussed in Annual Report, by Company Size (2021)

Russell 3000

(Percent of total)



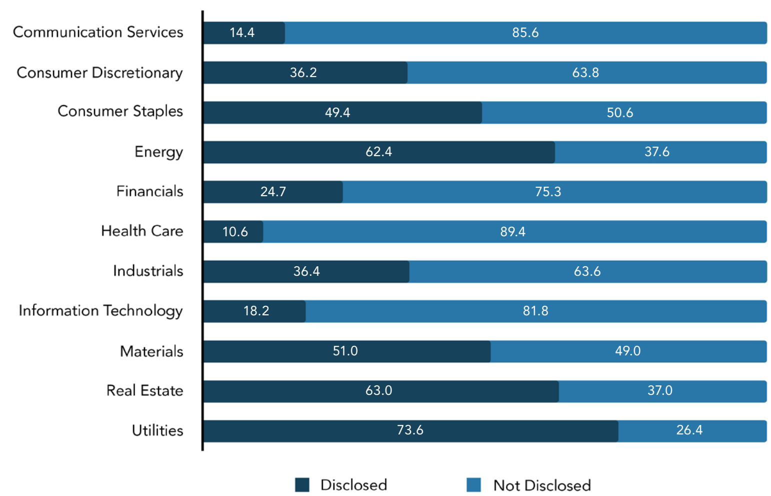

Source: ESGAUGE, 2021

And this type of disclosure is primarily driven by companies in the utilities, real estate, and energy sectors. Indeed, almost 3 in 4 companies in the utilities sector disclose climate-related risks in their annual reports. This is in sharp contrast to the disclosure rates seen across the health care, communication services, and information technology sectors.

## Risks of Climate Change Discussed in Annual Report, by Business Sector (2021)

Russell 3000

(Percent of total)




Source: ESGAUGE, 2021

Notably, only 1 in 4 financials companies disclose climate-related risks in their annual reports, despite a focus on this sector by the Task Force on Climate-Related Financial Disclosures (TCFD).[8]

Strategies to address climate risks are relevant to companies across sectors, not only to companies in manufacturing or heavy industrial sectors.[9] A review of climate risks should consider not only the impacts a company may have on climate, but also the impact that climate change may have on the company, either directly or indirectly through its supply chain. For this reason, companies that have not yet assessed their climate risks (and opportunities) should do so.

Indeed, results from the 2021 proxy season reveal shareholder interest in this issue remains strong. In the first half of 2021, 82 percent of all voted environmental proposals focused on climate, up from 63 percent of voted proposals in 2020. And new last year was the say-on-climate proposal, requesting an annual non-binding advisory vote on a firm's climate strategy and disclosure plan. These proposals received 33 percent average support, and one of the proposals passed.[10]

From a regulatory standpoint, all signs point to increased activity related to climate disclosure, both in the US and elsewhere. For example, in September 2021, the SEC released a sample comment letter that it may issue to companies regarding their climate-related disclosure. And in early 2022, the SEC is expected to propose rules on this topic that may include qualitative and quantitative disclosure requirements, such as details on how climate-related risks and opportunities are managed as well as metrics related to GHG emissions and financial impacts of climate change.[11] Companies with operations outside the US should also note climate-related disclosure will be required by some jurisdictions (e.g., New Zealand by 2023, Hong Kong by 2025) and may soon be required by others (e.g., UK).

**Disclosure of GHG emissions:** The difference in disclosure between smaller and larger companies is even more pronounced when examining disclosure data on greenhouse gas (GHG) emissions. For example, while 71 percent of S&P 500 companies disclose their GHG emissions, only 28 percent of S&P MidCap 400 companies do so. The data by company revenue groups highlights a significant gap in disclosure by company size: 84 percent of the largest companies by revenue disclose their GHG emissions, but disclosure rates drop significantly among companies with revenues below $5 billion.

8 TCFD was established in 2015 by the Financial Stability Board to improve and increase reporting of climate-related financial information. In 2017, TCFD released recommendations for climate-related disclosures to promote more informed investment, credit, and insurance underwriting decisions and enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. For more information, see: www.fsb-tcfd.org/about/

9 See: Anuj Saush, Paul Washington, and Dana M. Peterson, "Boards and Climate Change: 5 Questions to Ask Management," The Conference Board, November 2021.

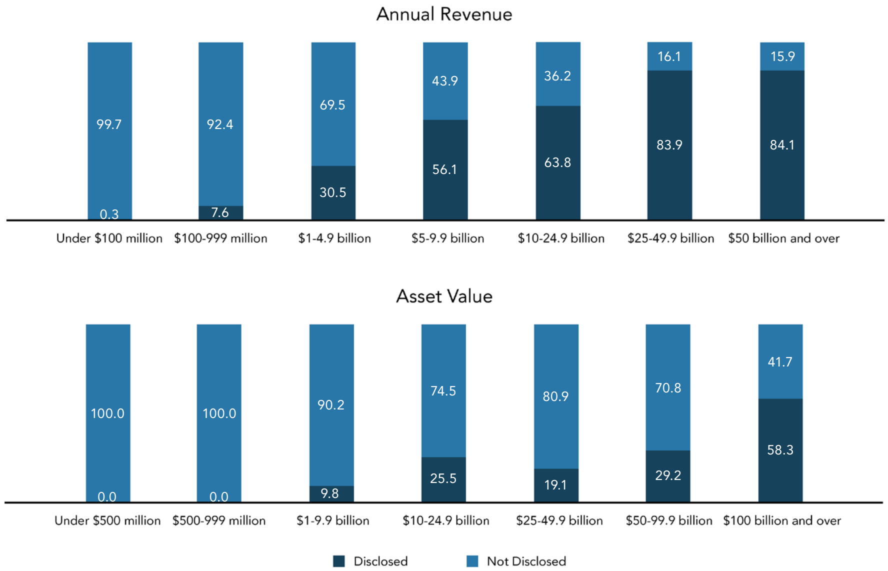
10 Merel Spierings, "Environmental Shareholder Proposals Increasingly Focus on Climate, Compromise Harder to Reach," The Conference Board Environmental, Social & Governance Blog, October 22, 2021.

11 Speech by SEC Chair Gary Gensler, "Prepared Remarks Before the Principles for Responsible Investment 'Climate and Global Financial Markets' Webinar," US Securities and Exchange Commission, July 28, 2021.

## Total GHG Emissions—Disclosure Rate, by Company Size (2021)

Russell 3000

(Percent of total)




Source: ESGAUGE, 2021

Notably, only the utilities sector has more than half of companies (53 percent) disclosing GHG emissions. Even this figure is somewhat low, given that 74 percent of utilities companies disclose climate risks in their annual reports. Energy companies also stand out, with only 37 percent disclosing emissions despite 63 percent disclosing their climate-related risks. Many companies in these sectors are not supplementing their qualitative disclosures with quantitative details, potentially leaving out information that is increasingly of interest to investors.

**Disclosure of Scope 3 GHG emissions:** While the majority of smaller companies (those with revenues of less than $5 billion) still do not disclose GHG emissions, several large companies are beginning to disclose Scope 3 emissions, a more complex endeavor.[12] Forty-three percent of S&P 500 companies report Scope 3 emissions, compared to 13 percent of S&P MidCap 400 companies. In fact, 68 percent of companies with $50 billion and more in revenue report Scope 3 emissions. These emissions are highest (based on median values) among companies in the utilities, consumer staples, and materials sectors.

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12 GHGs are categorized into three groups or "scopes" by the Greenhouse Gas Protocol, the most widely used international accounting standard: Scope 1 covers direct emissions from owned or controlled sources (e.g., company fleet); Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed by the reporting company (e.g., energy use in offices, factories, etc.); Scope 3 includes all other indirect emissions that occur in a company's value chain, including emissions from purchased goods, in-use emissions by clients/consumers, and business travel. See: Journey to Net Zero: Key Words You Need to Know

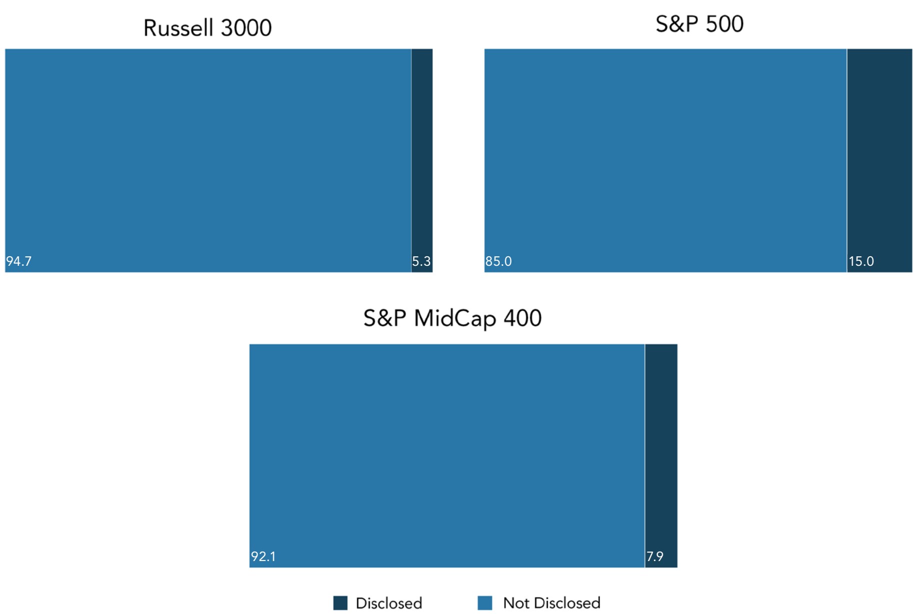
## Companies should assess how their supply chain can affect, or be affected by, biodiversity loss and deforestation.

It can be easy to dismiss biodiversity issues as only relevant to companies in certain industries. But much like climate risks, the risks associated with biodiversity loss are significant for companies across sectors. For example, biodiversity loss can lead to resource scarcity, supply chain disruption, increased operational costs, liability risks, or permanent loss of a resource or service, all of which can threaten future business operations.[13] While some companies may have a direct impact on or be directly affected by biodiversity loss, others may influence biodiversity indirectly though their suppliers. For these reasons, companies need to include in their risk assessment not only their own impacts on biodiversity, but also how biodiversity loss may affect the company and its stakeholders.

Based on data disclosed by companies, few have developed policies aimed at protecting biodiversity: 15 percent of S&P 500 companies and 5 percent of Russell 3000 companies have biodiversity policies.

### Biodiversity Policy, by Index (2021)

(Percent of total)

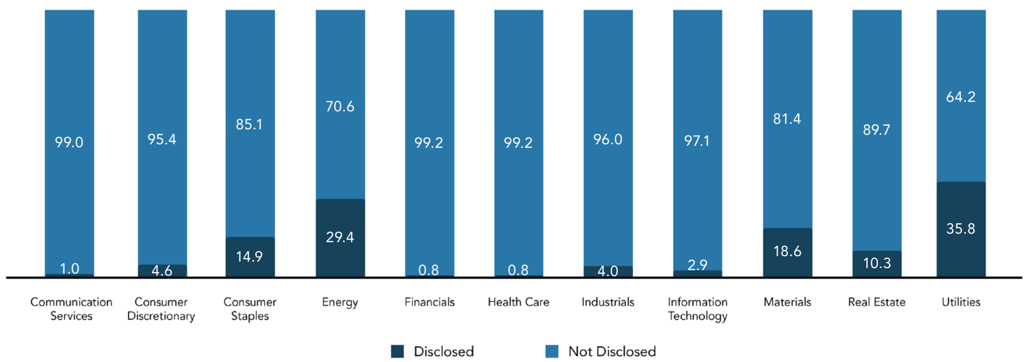



Source: ESGAUGE, 2021

13 Anuj Saush and Ioannis Siskos, "Biodiversity Loss: What Does It Mean for Your Business?" The Conference Board, June 2021, p. 3.

The sectors with the highest proportion of companies with disclosed biodiversity policies are utilities, energy, and materials.

## Biodiversity Policy, by Business Sector (2021)
Russell 3000
(Percent of total)

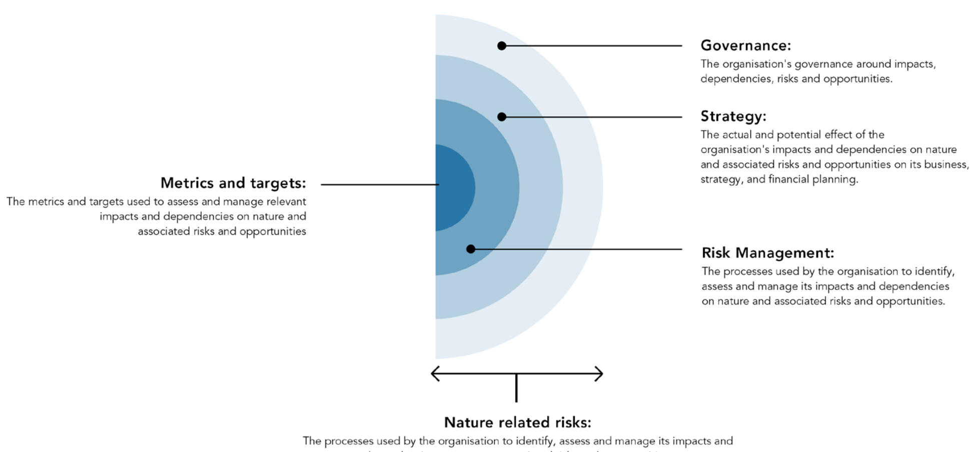



Source: ESGAUGE, 2021

Six out of 11 sectors have disclosure rates in the single digits, and three of these have disclosure rates of 1 percent or lower (communication services, financials, health care).

Biodiversity is the focus of a number of recent initiatives that will likely draw more attention on how companies are managing this issue. For one, the Taskforce on Nature-Related Financial Disclosures (TNFD), modeled after TCFD, aims to "provide a framework for organisations to report and act on evolving nature-related risks, in order to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes."[14] The TNFD framework, much like TCFD, will focus on the four pillars of governance, strategy, risk management, and metrics & targets. Notably, TNFD intends for its outputs to be integrated into existing frameworks and standards, and does not intend to develop a standard (either for disclosure or broader activities) itself.[15]

## Core Elements of Recommended Nature-Related Financial Disclosures




Source: IWG TNFD's Informal Technical Expert Group, drawing from TCFD (2017): Recommendations of the Task Force on Climate-related Financial Disclosures

14 TNFD, "Nature in Scope," June 2021, p. 4.

15 TNFD, "Nature in Scope," p. 9.

The first phase of the latest UN Biodiversity Conference, COP15, took place in October 2021, with the second phase scheduled to take place in April and May 2022. Ultimately, the conference aims to finalize a post-2020 Global Biodiversity Framework. But the first phase has already resulted in some commitments, notably a pledge by China's President Xi Jinping of about $230 million to establish a fund to protect biodiversity in developing countries.[16] Other commitments were also announced by leaders of Japan, the EU, France, and the UK. Biodiversity was also a key focus of the most recent United Nations climate summit, COP26, where leaders of more than 100 countries signed a pact to end deforestation by 2030,[17] providing an important reminder that climate change and biodiversity loss are inextricably linked. Recent research, for example, finds that forests provide a "carbon sink" that absorbs a net 7.6 billion metric tonnes of CO2 per year, which is one and a half times more carbon than the US emits annually.[18] The link between these two issues also featured in the 2021 proxy season—a shareholder resolution linking climate change and deforestation at Bloomin' Brands passed with 76 percent of votes in favor. And at Bunge, a resolution aimed at eliminating deforestation in the company's supply chain passed with 98 percent of votes in favor, the highest vote ever for a shareholder resolution on this topic.[19] Notably, the resolution was supported by Bunge's board of directors.

Companies should expect investors and regulators to focus more attention on the issue of biodiversity. Indeed, to coincide with COP15, investors with a collective $10 trillion in assets issued a statement calling for governments to get more aggressive about dealing with biodiversity loss. The 78 signatories also called for a Global Biodiversity Framework to help financial institutions and businesses align financial flows with global biodiversity goals set by the framework.[20]

For many companies, what stands in the way of action on biodiversity issues is making sense of these issues from a business perspective: many companies are far removed from the actual biodiversity impacts along their supply chains.[21] For these companies, biodiversity may not be an obvious material issue. There is a real opportunity for companies to be proactive and anticipate investor questions on the topic of biodiversity, questions that are likely to grow in volume. By assessing their biodiversity impacts and risks—and developing related policies if appropriate—companies can demonstrate to investors and other stakeholders that they are managing risks holistically, even risks that may not be immediately evident.

16 Ken Moritsugu, "China Pledges $230 Million for Biodiversity Fund at UN Meet," Associated Press, October 12, 2021.

17 Victor Moriyama, "A Pledge to End Deforestation Aims to Protect 'the Lungs of Our Planet'," New York Times, November 2, 2021.

18 Nancy Harris and David Gibbs, "Forests Absorb Twice As Much Carbon As They Emit Each Year," World Resources Institute, January 21, 2021.

19 Green Century Funds, "Bunge* Shareholders Resoundingly Support Green Century Proposal on Deforestation," press release, May 7, 2021; Green Century Funds, "Bloomin' Brands* Shareholders Vote In Favor of Green Century's Proposal to Address Climate Change," press release, May 20, 2021.

20 Hazel Bradford, "Investors Sound Call for Biodiversity Action," Pensions & Investments, September 22, 2021.

21 Saush and Siskos, "Biodiversity Loss," p. 20.

## Companies need to assess their exposure to water risks, as the financial cost of inaction can significantly outweigh the cost of mitigation.

Estimates from CDP find that globally the potential financial impact of water risks to businesses is over five times higher than the cost of addressing them. For example, based on companies that responded to CDP's water survey, the total potential financial impact of reported water risks was up to $301 billion, while the amount required to mitigate those risks was $55 billion.[22] Based on CDP's analysis, the cost of inaction is especially significant for companies in the materials and consumer staples sectors.

Investors are keen to understand the extent to which companies are exposed to water risks, either through their own operations or those of their suppliers. Examining impacts along the supply chain is important: as with biodiversity impacts, water may not be an obvious material issue for many companies. To assist companies with this type of disclosure, earlier this year the Climate Disclosure Standards Board released its Water Guidance.[23] Providing information on water-stress exposure and other water-related risks is one way to proactively engage with investors and demonstrate the company is prepared to manage these risks.

Data on water-related disclosure show there is room for more transparency on this topic. While almost one-third of S&P 500 companies report the amount of water they withdraw, less than 1 in 10 Russell 3000 companies do so. Companies in the materials and utilities sectors are far more likely to report these data than companies in any other sector.

But perhaps more important than data on water withdrawal in general is information on water withdrawn from water-stressed areas. And only a minority of companies are reporting these data: 12 percent of S&P 500 companies and 4 percent of Russell 3000 companies do so. Here again companies in the materials and utilities sectors lead in disclosure, with 19 percent and 17 percent of companies disclosing, respectively.

Based on the 93 Russell 3000 companies that report this information, on average 16 percent of water withdrawn comes from water-stressed areas. And in some sectors this figure is as high as 25 percent.

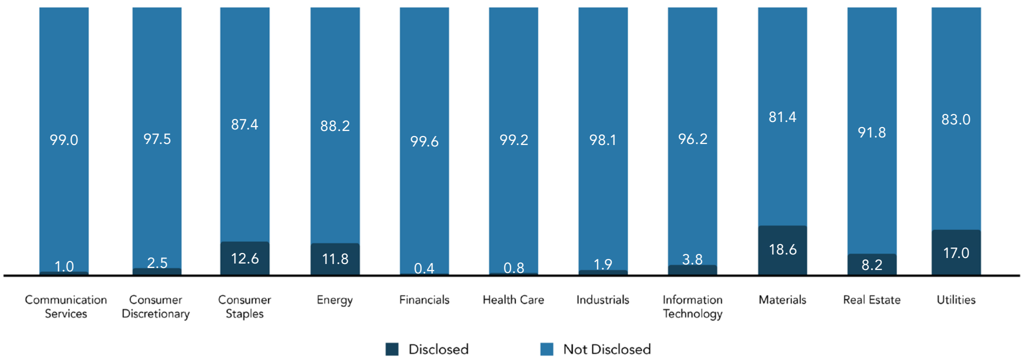
22 "CDP Global Water Report 2020," p. 12.

23 See: Climate Disclosure Standards Board, "Application Guidance for Water-Related Disclosures," August 2021.

## Water Withdrawn in Water Stress Areas—Disclosure Rate, by Business Sector (2021)

Russell 3000

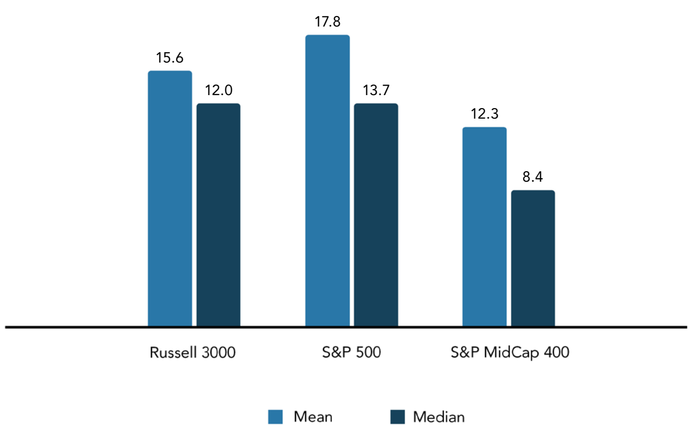
(Percent of total)




Source: ESGAUGE, 2021

## Water Withdrawn in Water Stress Areas, by Index (2021)

(Percentage)




Source: ESGAUGE, 2021

## Smaller companies also need to examine their policies and practices related to supply chain management and human rights in light of increased stakeholder scrutiny on these issues.

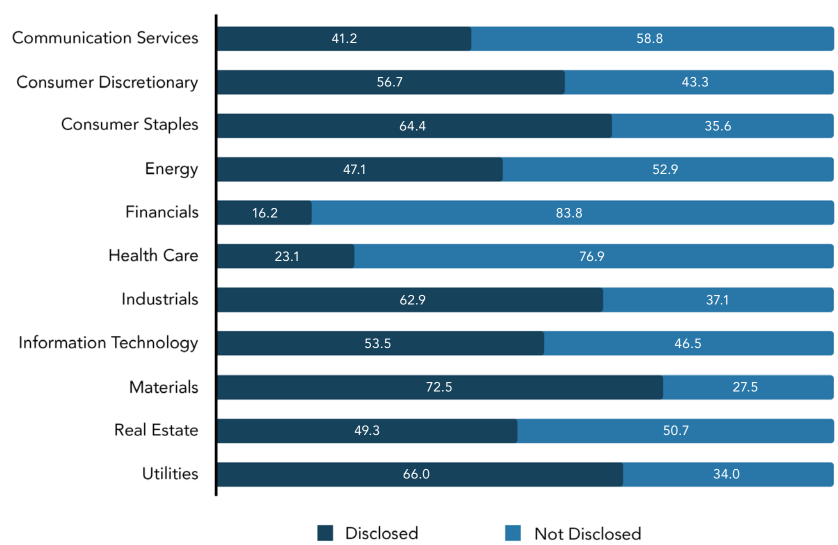
As global supply chains remain under stress, investors will increasingly turn their focus to how companies are managing their supply chain risks, including human rights issues, and preparing for future disruptions. Indeed, the supply chain risk landscape is varied and includes economic, environmental, geopolitical/regulatory, technological, and other factors.[24] In 2021, for example, a shareholder resolution at Wendy's asking the board to issue a report addressing the company's supplier code of conduct and the extent to which the company's quality assurance audits and third-party reviews protect workers in its food supply chain from human rights violations, including harms associated with COVID-19, passed with 94 percent of votes in support.[25]

Most S&P 500 companies (86 percent) have a social supply chain management policy, and 77 percent have an environmental supply chain policy. But these figures are about one-third lower for companies in the S&P MidCap 400, where 62 percent have a social supply chain management policy and 51 percent have an environmental supply chain policy. By sector, health care and financials have the lowest percentage of companies that disclose social and environmental supply chain policies.

### Social Supply Chain Management Policy, by Business Sector (2021)

Russell 3000

(Percent of total)




Source: ESGAUGE, 2021

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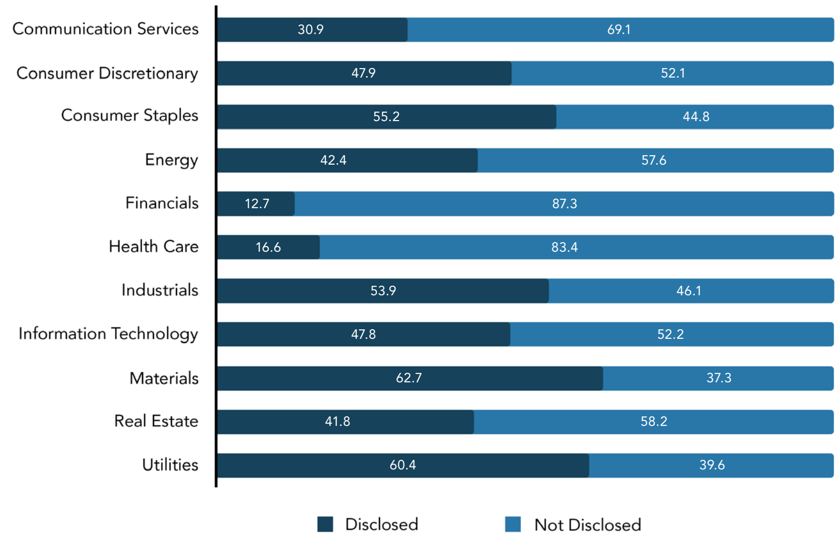
24 Anuj Saush et al., "Supply Chain Resilience," The Conference Board, June 2021, p. 6.

25 Data from The Conference Board ESG Advantage Benchmarking Platform.

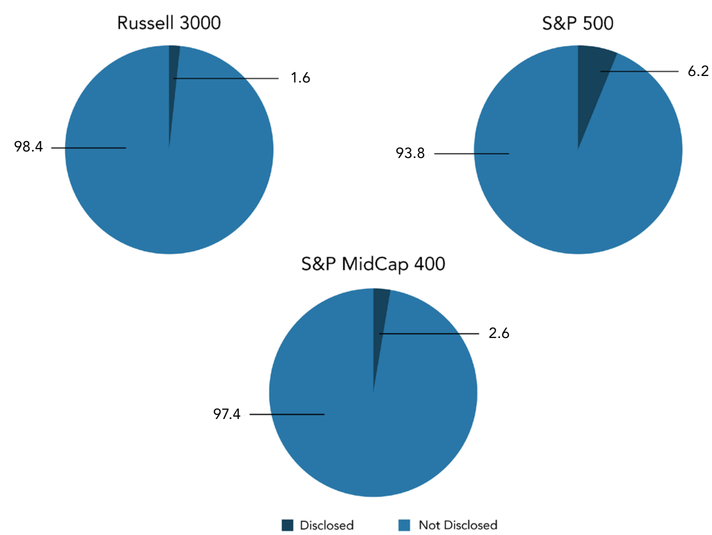
## Environmental Supply Chain Policy, by Business Sector (2021)
Russell 3000
(Percent of total)




Source: ESGAUGE, 2021

But quantitative details on companies' supply chain practices are largely missing. For example, only 6 percent of S&P 500 companies disclose the share of new suppliers that are screened using social criteria, and 5 percent disclose the share of new suppliers screened using environmental criteria.

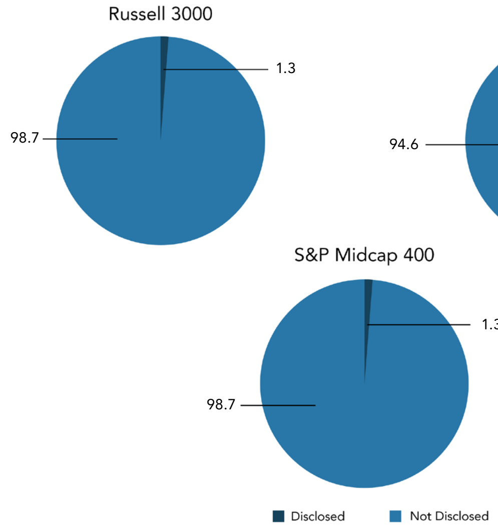
## New Suppliers Screened Using Social Criteria—Disclosure Rate, by Index (2021)
(Percent of total)




Source: ESGAUGE, 2021

## New Suppliers Screened Using Environmental Criteria—Disclosure Rate, by Index (2021)

(Percent of total)




Source: ESGAUGE, 2021

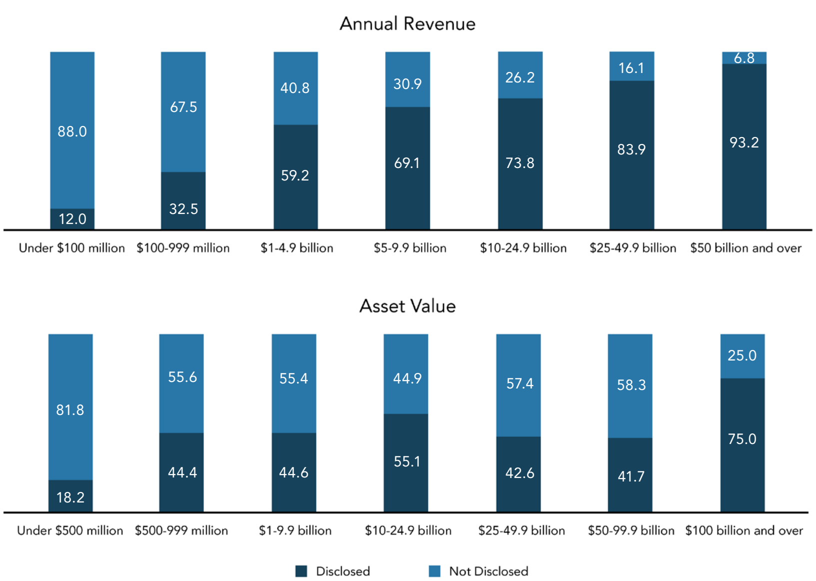
Among the companies disclosing this information, on average 88 percent of new suppliers are screened for social criteria, and 92 percent are screened for environmental criteria.

Stakeholders are also turning their focus to companies' human rights initiatives, including due diligence processes and assessments of human rights risks in the supply chain. While 80 percent of S&P 500 companies have a human rights policy, less than two-thirds (63 percent) of S&P MidCap 400 companies do. The data reveal these policies are far more common among larger companies.

## Human Rights Policy, by Company Size (2021)

Russell 3000

(Percent of total)




Source: ESGAUGE, 2021

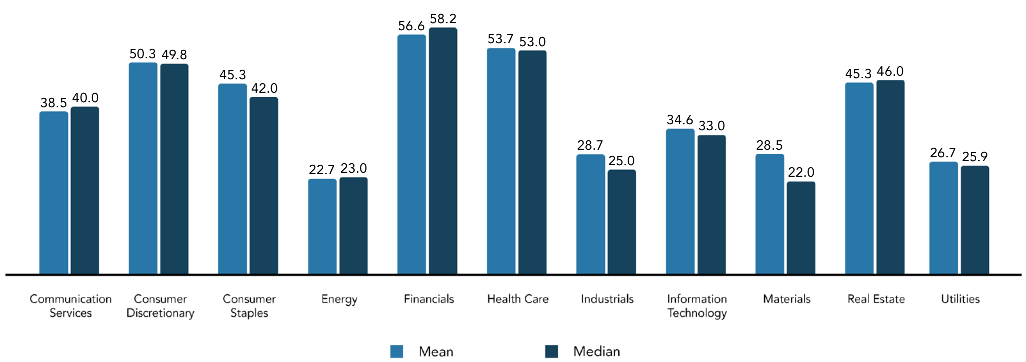
## Board and workplace diversity is likely to be a focus of scrutiny at companies large and small.

As evidenced by results from the 2021 proxy season, board and workplace diversity remains a key focus of shareholders. In 2021, there were almost four times as many filed proposals on board diversity as there were in 2020. Ten of the 26 proposals went to a vote, compared to a single proposal in 2020. Of the 10 voted proposals on board diversity, three received majority support.[26] And of the 10 voted proposals on workplace diversity, four proposals passed.[27] Going forward, companies should expect a continued push by shareholders on these topics, especially since the SEC's proposed rules on human capital management (HCM) disclosure, which may include requirements for companies to publicly disclose data on workforce gender and diversity, will likely take effect after 2022's proxy season.

Investors' continued focus on diversity is warranted: company-reported data on board and workplace diversity reveal some notable gaps in the representation of women and minorities.

For example, among Russell 3000 companies, 1 in 3 managers is a woman, despite women representing 43 percent of the workforce at those companies. The analysis by sector reveals even wider gaps: among financials companies, women hold 37 percent of management positions, despite accounting for more than half (57 percent) of the workforce at those companies.

### Women in the Workforce, by Business Sector (2021)
Russell 3000
(Percentage)

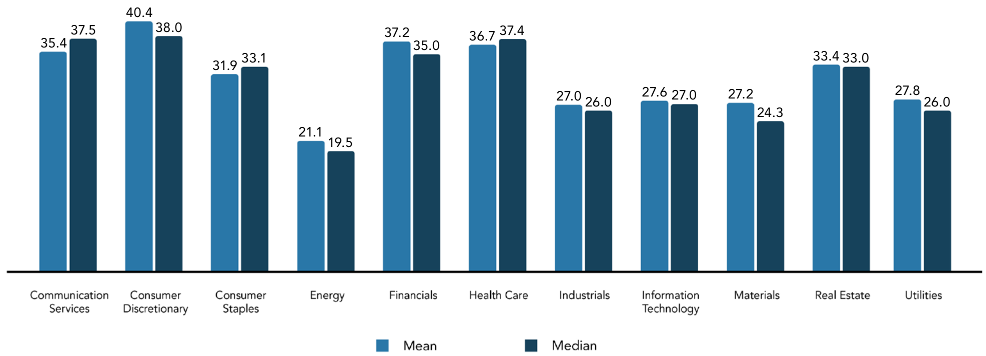



Source: ESGAUGE, 2021

26 "ESG Alert: Diversity and Disclosure Drive Shareholder Human Capital Management Agenda; Proceed with Care in Linking Compensation to ESG," The Conference Board, October 8, 2021.

27 Data from The Conference Board ESG Advantage Benchmarking Platform.

## Women in Management, by Business Sector (2021)
Russell 3000
(Percentage)

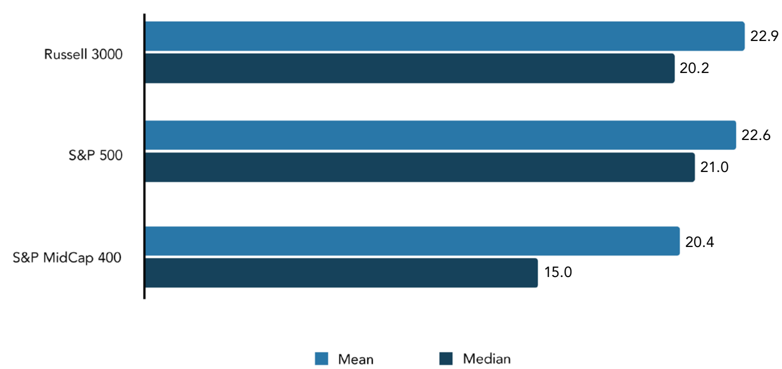



Source: ESGAUGE, 2021

A similar gap is observed at health care companies. By contrast, the energy sector reported the lowest percentage of women in management positions (21 percent), but women also represent a relatively low share of the overall workforce at these companies (23 percent).

Less than 1 in 10 Russell 3000 companies report the number of minorities in management positions. Of those that do, on average minorities represent 23 percent of management positions at both Russell 3000 and S&P 500 companies.

## Minorities in Management, by Index (2021)
(Percentage)

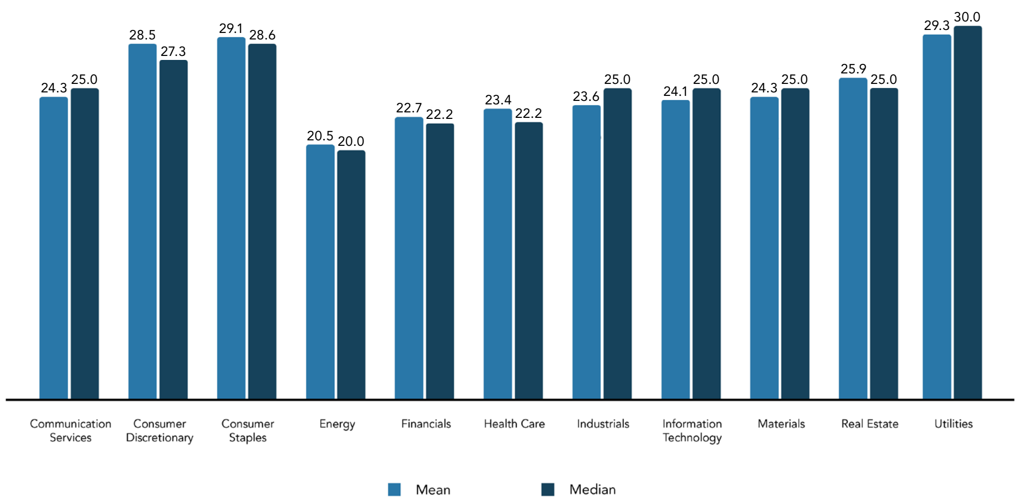



Source: ESGAUGE, 2021

The consumer discretionary sector stands out for its highest average share of minorities in management (33 percent), while the energy, materials, and financials sectors report the lowest figures (though, with the exception of the financials sector, the number of companies reporting these figures is very low).

Data on board gender diversity show that women hold 24 percent of board seats among Russell 3000 companies, and 30 percent of board seats among S&P 500 companies. This is a notable increase from 2016, when these figures stood at 15 percent and 20 percent, respectively.[28] By sector, women hold the greatest share of board seats (29 percent) at companies in the utilities, consumer staples, and consumer discretionary sectors.

## Women on the Board, by Business Sector (2021)
Russell 3000
(Percentage)



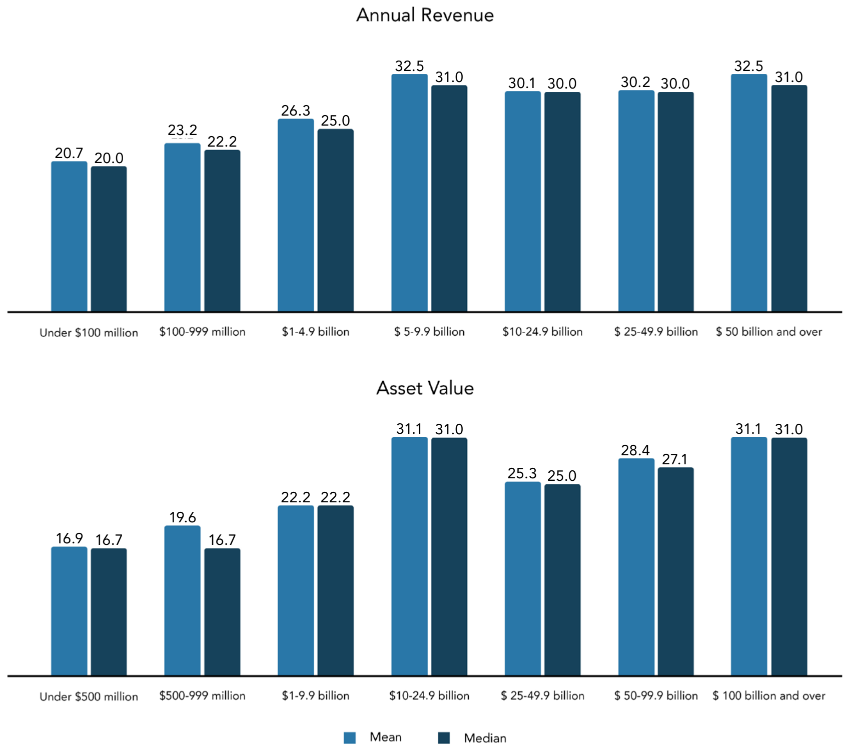

Source: ESGAUGE, 2021

By contrast, the only two sectors with majority-women workforces—financials and health care—have among the lowest representation of women on the board.

The analysis by company size reveals that, on average, the largest companies have more than 1.5 times as many women on their boards as the smallest companies. For example, at companies in the largest revenue group ($50 billion and over in revenue), women hold 1 in 3 board seats. By comparison, women hold about 1 in 5 board seats at the smallest companies (under $100 million in revenue).

28 Matteo Tonello and Paul Hodgson, "Corporate Board Practices in the Russell 3000, S&P 500, and S&P MidCap 400: 2021 Edition," The Conference Board, October 2021, p. 11.

## Women on the Board, by Company Size (2021)
Russell 3000
(Percentage)




Source: ESGAUGE, 2021

Significantly, a separate analysis by The Conference Board found that as many as 14 percent of companies in the smallest revenue group continue to have all-male boards.[29]

29 Tonello and Hodgson, "Corporate Board Practices: 2021 Edition," p. 14.

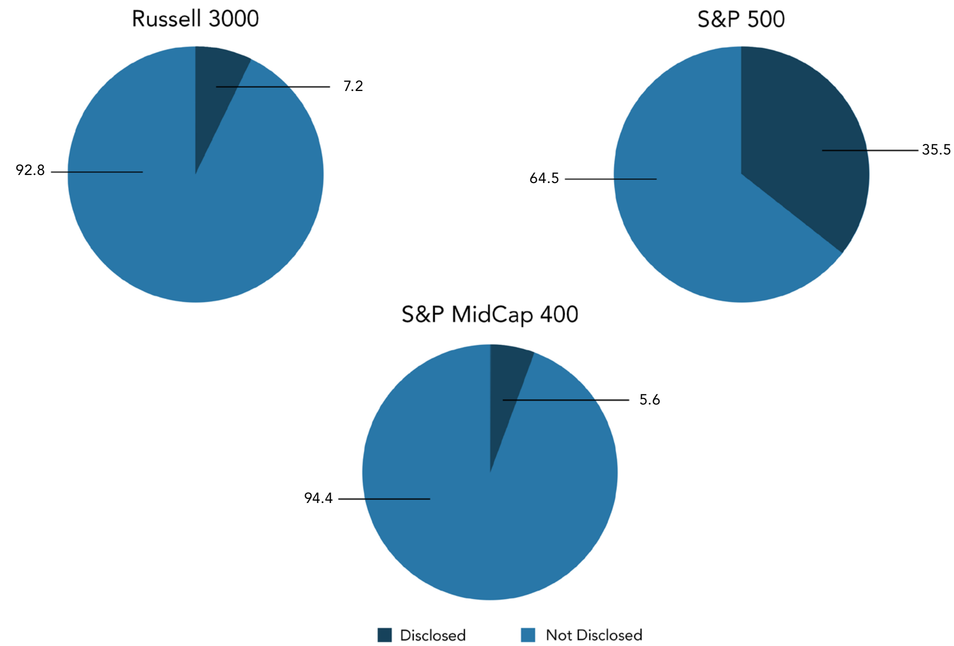
## Investors, lenders, credit rating agencies, ESG ranking firms, business partners, and regulators will increasingly expect companies to verify their sustainability information through external assurance.

External sustainability assurance is an independent verification of a company's reported sustainability information that provides conclusions on the quality of that information. Sustainability assurance has emerged as a response to more companies disclosing sustainability information, and expectations from investors, ESG rating firms, and other stakeholders that this disclosure be reliable, consistent, and of high quality, and that it adhere to stringent criteria that are widely accepted (such as science-based targets). A recent survey found that rating agencies and investors are the top drivers of companies' decision to obtain assurance.[30]

More than one-third (36 percent) of S&P 500 companies obtain external assurance for at least some of their sustainability information. By comparison, 6 percent of S&P MidCap 400 companies do so.

### Report Verification & Assurance, by Index (2021)

(Percent of total)




Source: ESGAUGE, 2021

Companies in the consumer staples and materials sectors are most likely to obtain external assurance for their sustainability data—about 1 in 5 companies in these sectors do so.

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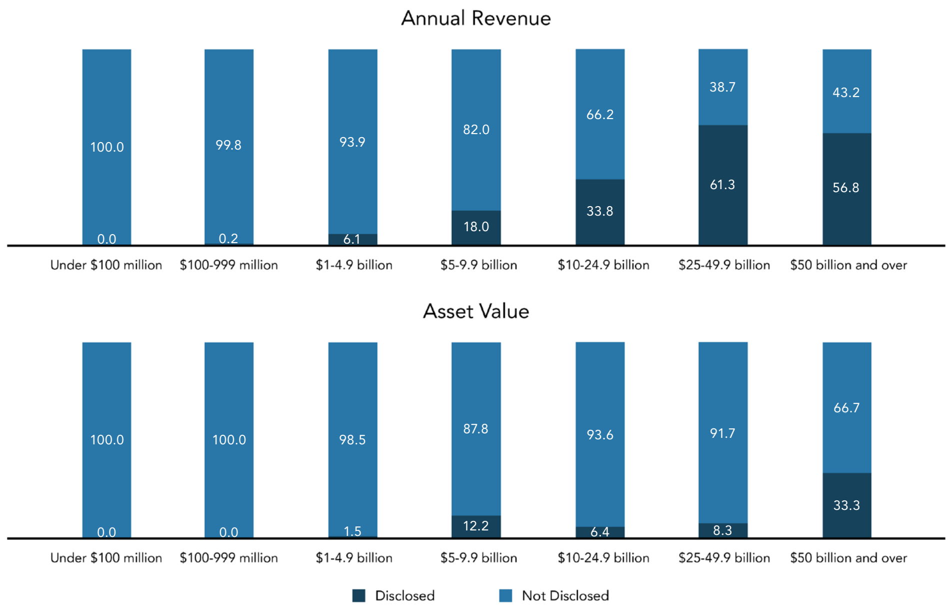
30 Thomas Singer, "Telling Your Sustainability Story: Practical Guide 3," August 2021, p. 3.

While the use of sustainability assurance is becoming more prevalent, the data reveal that this remains primarily a practice of larger companies, likely because of the additional cost and internal resources required to obtain assurance. For example, almost 60 percent of companies with revenues of $25 billion or more obtain external assurance, whereas one-third of companies with revenues between $10 billion and $24.9 billion do so. The figure drops significantly for companies in lower revenue groups.

## Report Verification & Assurance, by Company Size (2021)

Russell 3000

(Percent of total)




Source: ESGAUGE, 2021

Assurance gives investors confidence in the accuracy of reported data, and it can improve a company's external ratings. External assurance can also strengthen a company's internal controls and reporting systems, and drive better decision-making.[31] And some companies, particularly those with operations in Europe, need to prepare for new rules requiring external assurance: the EU's Corporate Sustainability Reporting Directive (CSRD) will require companies in scope to obtain limited assurance of their sustainability information, beginning in 2024 for FY2023 data. Further, at COP26, the International Financial Reporting Standards (IFRS) Foundation announced the creation of the International Sustainability Standards Board (ISSB) to develop sustainability reporting standards. Based on a consultation paper by the IFRS, and subsequent feedback, external assurance may be a feature of the new standards.[32]

31 Singer, "Practical Guide 3," p. 7.

32 See: IFRS Foundation, "Consultation Paper on Sustainability Reporting," September 2020, p. 14; IFRS Foundation, "IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting," April 2021, p. 30.

## Access Our Online Dashboard

*Sustainability Disclosure Practices in the Russell 3000, S&P 500, and S&P MidCap 400: 2022 Edition* highlights key findings from an analysis of the disclosure of environmental and social metrics by companies that were included in the Russell 3000 Index. For comparative purposes, the study also includes companies in the S&P 500 Index and companies in the S&P MidCap 400. The analysis is based on companies' publicly reported sustainability information, including information found in annual reports, proxy statements, sustainability/CSR reports, and company websites. The sample is based on 2,534 Russell 3000 companies that filed their disclosures by August 31, 2021.

Data from *Sustainability Disclosure Practices in the Russell 3000, S&P 500, and S&P MidCap 400: 2022 Edition* can be accessed and visualized through an interactive online dashboard. The dashboard is organized in three parts and includes data on 90+ metrics:

**Part I: Environmental Practices** contains information on disclosure related to environmental metrics in the following subjects: atmospheric emissions; energy; waste & material use; water; and environmental policy & compliance.

**Part II: Social and Human Capital Management Practices** contains information on disclosure related to social and human capital management metrics in the following subjects: diversity, equity & inclusion; employee health & safety; labor practices and supply chain; and charitable & political contributions.

**Part III: ESG Reporting Practices** contains information on disclosure related to reporting and incentives, such as: use of GRI Standards; use of external assurance; references to UN SDGs; and inclusion of ESG metrics in executive compensation.

Data on sustainability disclosure practices are segmented according to the business sector and the size of companies. The industry analysis aggregates companies within 11 groups (Exhibits 2 and 3), using the applicable Global Industry Classification Standard (GICS). For the company-size breakdown, data are categorized along seven annual-revenue groups (based on data received from manufacturing and nonfinancial services companies) and seven asset-value groups (based on data reported by financial services and real estate companies, which tend to use these types of benchmarking criteria). Annual revenue and asset values are measured in US dollars (Exhibit 4).

Comparisons with the S&P 500 and the S&P MidCap 400—other commonly followed equity indexes—are also included to offer an additional perspective on the difference between large, midsize, and small firms (Exhibit 1). However, figures and illustrations refer to the Russell 3000 analysis unless otherwise specified.

Unless otherwise specified, figures included in the tables and charts of the report refer to mean (average) values.

Access the dashboard at: conferenceboard.esgauge.org/sustainabilitypractices

### Exhibit 1—Sample Distribution, by Index (2021)

| Index | 2021 |
|---|---|
| | n= |
| Russell 3000 | 2534 |
| S&P 500 | 386 |
| S&P MidCap 400 | 304 |

Source: ESGAUGE, 2021

### Exhibit 2: Sample Distribution, by Business Sector (GICS) (2021)

| Business Sector (GICS) | 2021 | |
|---|---|---|
| | n= | Percent of total |
| Communication Services | 97 | 3.8% |
| Consumer Discretionary | 282 | 11.1% |
| Consumer Staples | 87 | 3.4% |
| Energy | 85 | 3.4% |
| Financials | 518 | 20.4% |
| Health Care | 529 | 20.9% |
| Industrials | 321 | 12.7% |
| Information Technology | 314 | 12.4% |
| Materials | 102 | 4.0% |
| Real Estate | 146 | 5.8% |
| Utilities | 53 | 2.1% |

Source: ESGAUGE, 2021

### Exhibit 3—Business Sectors, Industry Groups and GICS Codes

| Business Sector | GICS Code | Industry Group | GICS Subcode |
|---|---|---|---|
| Communication Services | 50 | Media & Entertainment | 5020 |
| Communication Services | 50 | Telecommunication Services | 5010 |
| Consumer Discretionary | 25 | Automobiles & Components | 2510 |
| Consumer Discretionary | 25 | Consumer Durables & Apparel | 2520 |
| Consumer Discretionary | 25 | Consumer Services | 2530 |
| Consumer Discretionary | 25 | Retailing | 2550 |
| Consumer Staples | 30 | Food & Staples Retailing | 3010 |
| Consumer Staples | 30 | Food, Beverage & Tobacco | 3020 |
| Consumer Staples | 30 | Household & Personal Products | 3030 |
| Energy | 10 | Energy | 1010 |
| Financials | 40 | Banks | 4010 |
| Financials | 40 | Diversified Financials | 4020 |
| Financials | 40 | Insurance | 4030 |
| Health Care | 35 | Health Care Equipment & Services | 3510 |
| Health Care | 35 | Pharmaceuticals, Biotechnology & Life Sciences | 3520 |
| Industrials | 20 | Capital Goods | 2010 |
| Industrials | 20 | Commercial & Professional Services | 2020 |
| Industrials | 20 | Transportation | 2030 |
| Information Technology | 45 | Semiconductors & Semiconductor Equipment | 4530 |
| Information Technology | 45 | Software & Services | 4510 |
| Information Technology | 45 | Technology Hardware & Equipment | 4520 |
| Materials | 15 | Materials | 1510 |
| Real Estate | 60 | Real Estate | 6010 |
| Utilities | 55 | Utilities | 5510 |

Source: MSCI, Inc., 2021.

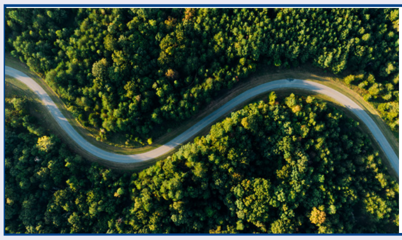
## Exhibit 4—Sample Distribution, by Company Size (2021)

| Annual Revenue | 2021 | |
|---|---|---|
| (All companies except Financials and Real Estate) | n= | Percent of total |
| Under $100 million | 367 | 19.6% |
| $100 million to < $1 billion | 615 | 32.9% |
| $1 billion to < $5 billion | 544 | 29.1% |
| $5 billion to < $10 billion | 139 | 7.4% |
| $10 billion to < $25 billion | 130 | 7.0% |
| $25 billion to < $50 billion | 31 | 1.7% |
| $50 billion and over | 44 | 2.4% |

| Asset Value | 2021 | |
|---|---|---|
| (Financials and Real Estate companies) | n= | Percent of total |
| Under $500 million | 22 | 3.3% |
| $500 million to < $1 billion | 27 | 4.1% |
| $1 billion to < $10 billion | 410 | 61.7% |
| $10 billion to < $25 billion | 98 | 14.8% |
| $25 billion to < $50 billion | 47 | 7.1% |
| $50 billion to < $100 billion | 24 | 3.6% |
| $100 billion and over | 36 | 5.4% |

Source: ESGAUGE, 2021.

Data and analyses included in this report are descriptive, not prescriptive, and should be used only to identify the latest practices and emerging trends. The Conference Board, Heidrick & Struggles, and ESGAUGE recommend that disclosure practices be adopted after careful consideration of the specific circumstances the company faces in the current marketplace, including its strategic priorities and investor relations.



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**Thomas Singer** is a Principal Researcher in the ESG Center at The Conference Board, where he leads research on corporate sustainability issues. Singer is the author of numerous publications, including "Organizing for Success in Corporate Sustainability" and "Purpose-Driven Companies: Lessons Learned." Prior to joining The Conference Board, Singer worked with Blu Skye Sustainability Consulting and SustainAbility, helping clients embed sustainability into their core business. He began his career as a management consultant with Kaiser Associates, advising clients on white space opportunities, competitive analysis, and benchmarking. Singer holds a BA from Tufts University and a MSc from the London School of Economics.

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