

# What is ESG?

A factsheet

Prepared by the CPA Australia  
ESG Centre of Excellence

# 1 Introduction

Environmental, Social and Governance (ESG) refers to the three key elements used by society to measure the sustainability and ethical impact of an organisation as well as the processes by which an organisation is directed and controlled.

It is also a generic term used in capital markets to evaluate the corporate behaviour of organisations in conjunction with determining their future economic performance.

This fact sheet aims to provide members with a brief overview of the elements of ESG to be considered in decision-making.

Directors and officers of Australian companies are legally required to discharge their duties “in the best interests of the corporation”. This includes acknowledging a range of environment, social and governance factors in their decision-making



# 2 ESG dimensions

## ENVIRONMENTAL

Description	<p>Increasing regulatory and societal pressures are driving businesses to adopt environmental initiatives such as divesting from fossil fuels, preventing pollution, developing environmentally friendly products and helping other organisations in their supply chains to become more sustainable.</p> <p>In November 2021 the IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB). This is a welcome move towards the urgent need for a single set of globally accepted sustainability reporting standards that are integrated, consistent and of a comparable standing with financial reporting standards.</p> <p>The ISSB has recently released exposure drafts:</p> <ul style="list-style-type: none"> <li>• S1 General Requirements for Disclosure of Sustainability-related Financial Information; and</li> <li>• S2 Climate-related Disclosures</li> </ul> <p>The ISSB have advised that it expects to issue S1 and S2 towards the end of Q2 2023.</p>	
Key considerations	<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Waste and pollution</li> <li>• Resource depletion</li> <li>• Sustainability reporting</li> <li>• Sustainable Development Goals</li> <li>• Sustainable supply chains</li> </ul>	<ul style="list-style-type: none"> <li>• Greenhouse gas emissions</li> <li>• Deforestation</li> <li>• Circular economy</li> <li>• Net Zero transition</li> </ul>

## SOCIAL

Description	<p>Social refers to an organisation's networks and relationships with individuals, groups and society and the impact of its policies and actions on these stakeholders in the community in which it operates. This includes but is not limited to diversity, equity and inclusion (DEI), OHS, human rights, ethics, privacy and community relations.</p>	
Key considerations	<ul style="list-style-type: none"> <li>• Employee relations</li> <li>• Employee health and safety</li> <li>• Training and development</li> <li>• Diversity, equity, and inclusion</li> <li>• Modern slavery</li> <li>• Community support and relations</li> </ul>	<ul style="list-style-type: none"> <li>• Privacy issues</li> <li>• Product safety</li> <li>• Animal testing</li> <li>• Public positions on social issues</li> <li>• Human rights</li> <li>• Ethics</li> </ul>

## GOVERNANCE

Description	<p>Corporate governance may be described as a system of rules, practices, and processes by which an organisation is directed and controlled. Corporate governance essentially involves balancing the interests of an organisation's numerous stakeholders including providers of capital including shareholders, employees, customers, suppliers, Government, and the wider community. The board of directors is the apex of this system.</p> <p>The 4<sup>th</sup> edition of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (ASX Governance Principles) advocates eight principles on which an organisation's corporate governance practices should be built representing best practice that may be adapted to most organisations.</p>	
Key considerations	<ul style="list-style-type: none"> <li>• Board structure and composition</li> <li>• Board committees</li> <li>• The role of the chair</li> <li>• Directors' duties</li> <li>• Conflicts of interest</li> <li>• The company secretary</li> <li>• Board evaluations</li> <li>• Skills matrices</li> <li>• KPIs and dashboards</li> </ul>	<ul style="list-style-type: none"> <li>• Director induction</li> <li>• Whistle blower policy</li> <li>• Anti-bribery and corruption policy</li> <li>• Governance vs advisory boards</li> <li>• Board reports, papers, and portals</li> <li>• Risk appetite statements</li> <li>• Risk management frameworks and policies</li> <li>• Risk reporting</li> </ul>

# 3 The importance of ESG

The increasing focus and expectations around ESG by companies, directors and various stakeholders will continue to see significant changes to reporting obligations and corporate behaviours.

As the roles of finance and accounting professionals continue to evolve through legislative change, automation, artificial intelligence and changes to operating models such as outsourcing, a new world of opportunity is emerging for members to leverage their technical accounting skills, strong ethical foundation, enquiring minds and independent thought to analyse ESG impacts, develop scenarios and models, test assumptions, craft sustainability reports and audit disclosures.

It is a rapidly changing environment that finance professionals will need to keep abreast of. CPA Australia and its ESG Centre of Excellence will provide training opportunities and resources to members to assist with the transition.

As the range of considerations around ESG becomes formalised through the evolution of frameworks, the adoption of ESG practices, processes, reporting and assurance will continue to provide opportunities to our members and the broader profession.

**"Finance people realise this is about writing the next generation of accounting in many ways".**

**Emmanuel Faber, ISSB Chair.**



# 4 References

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