Audit Committee Leadership Network

April 2021

ACLN VIEWPOINTS

Investor perspectives on ESG reporting

Investors have long cared about the sustainability of their portfolio companies, and climate and diversity have concerned investment managers for many years. But recent social events and the onset of COVID-19 have sharpened their focus and spurred investors to demand action from the companies they hold. Many of the largest asset managers now assert that environmental, social, and governance (ESG) issues are an important driver of financial performance and that companies' ability to integrate ESG into strategy is key to creating long-term value for the investors' shareholder clients.[1] Actions today will affect companies' ability to respond to risks and to pursue transformative opportunities.

Consequently, investors are pushing both for quantifiable action on climate risk and diversity and for disclosures that reveal how companies are addressing these concerns. For those companies that fail to keep pace, investors are signaling their readiness to take action through votes on directors and shareholder proposals, or, if necessary, through divestment.

All of this is increasing ESG's importance on the agendas of public company boards. One audit chair said, *"Three years ago, we barely mentioned ESG; now we talk about it in every board and every audit committee meeting."*[2] For boards, managing the growing number of investor requests raises important questions about current reporting standards and frameworks, target setting, and engaging with investors on ESG matters.

On March 9, 2021, members of the Audit Committee Leadership Network (ACLN) were joined for a discussion of investor perspectives on ESG reporting and targets by Sandy Boss, BlackRock's global head of investment stewardship and member of BlackRock's global executive committee; Bill McNabb, former CEO of Vanguard; and Mark Mandel, vice chair and portfolio manager at Wellington Management.

Biographies of meeting guests are provided in Appendix 1 on page 13, and a list of participants is provided in Appendix 2 on page 15. For a list of discussion questions, see Appendix 3 on page 17.

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Executive summary

The conversation focused on four points: ESG disclosures, convergence in reporting, targets and commitments, and accountability.

- **Investors have specific expectations around ESG disclosures** *(page 3)*

  Investors are demanding concrete ESG disclosures that link to long-term financial performance. Amid the welter of reporting standards and frameworks, asset managers are coalescing around standards from the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). The endorsement of these standards signals a focus on climate risk and other sustainability issues, including diversity, equity, and inclusion (DEI).

- **Investors push for reporting convergence** *(page 5)*

  Convergence continues to evolve rapidly, with BlackRock and certain other investors endorsing the International Financial Reporting Standards (IFRS) Foundation's recent efforts to reduce the fragmentation in reporting standards. With all this activity, members emphasized the need to understand the quality and controls around the data, make determinations about board oversight based upon materiality, and integrate ESG with strategy, enterprise risk, and human capital management, rather than trying to anticipate where convergence will eventually land.

- **Investors want clear ESG-related commitments and targets** *(page 6)*

  Asset managers expect specific, time-bound targets for material change, as well as transition pathways that demonstrate a company's ambitions. In particular, they want to see goals around climate change and carbon emissions, along with workforce and board diversity. Additionally, investors want companies' strategic plans and claims around sustainability to align with their financial reporting.

- **Investors are holding companies accountable for ESG progress** *(page 8)*

  Increasingly, when companies do not make adequate ESG progress, investors are holding them accountable. If engaging with companies fails to yield sufficient change, investors may vote against directors and support more shareholder proposals, particularly around climate risk and diversity. Members raised questions about accountability and the amount of influence the largest investors should have on corporations' approach to ESG.

Investors have specific expectations around ESG disclosures

Investors are focused on disclosures because they believe that actions on ESG can materially impact long-term financial performance. *"That's why we care,"* Mr. Mandel said. *"It's about trying to find factors that might not be captured in traditional GAAP reporting that could affect financial outcomes and shareholder value."* Ms. Boss added, *"We observed that during 2020, 81% of a globally-representative selection of sustainable indexes outperformed their parent benchmarks. Corporate sustainability disclosures allow us to assess companies' long-term prospects and also to construct sustainability-oriented products."*

Investors' demands for meaningful ESG information have led many organizations to develop disclosure standards and frameworks. The result has been a complex and evolving landscape of reporting initiatives, with different standards and frameworks aiming to please different audiences. *"It's a kind of an alphabet soup,"* said Marc Siegel, an EY partner and member of the Sustainability Accounting Standards Board (SASB). *"This is what happens when a market-driven approach is trying to fill a void."*

Sustainability Accounting Standards Board

Because its intended audience is investors, "SASB identifies financially material issues, which are the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors."[3] It has issued a set of 77 industry standards with disclosures that are most likely to be significant to investors.[4] *"We find SASB disclosures are financially material, decision-useful, cost-effective, industry-specific, evidence-based and are informed by market practitioners,"* Ms. Boss told audit chairs. Use of SASB standards has increased in recent years: in 2020, 547 public companies reported using SASB metrics, up from 118 in 2019.[5]

Task Force on Climate-related Financial Disclosures

The TCFD is a Financial Stability Board-led framework, structured around the core elements of governance, strategy, risk management, and metrics and targets.[6] TCFD focuses on the risks of climate change, addressing both the direct physical impact of environmental effects and the economic consequences of efforts to lower carbon emissions, such as carbon taxes. *"TCFD has successfully emerged as a globally accepted disclosure framework with many practitioners,"* Ms. Boss said. *"It's important to us that we are asking for something where there is broad agreement from regulators and corporate governance practitioners."* Over the past year, support for the TCFD—both the number of companies reporting in line with its recommendations and the number of investors demanding TCFD-aligned disclosures—has grown dramatically.[7]

Global Reporting Initiative (GRI)

GRI is the oldest and still the most widely used set of standards. Targeted to a broader range of stakeholders than SASB or TCFD, the GRI prides itself on maintaining "the world's most comprehensive sustainability reporting standards."[8] The standards cover issues as diverse as climate, corruption, and occupational health and safety. In late March 2021, GRI leaders met with the European Financial Reporting Advisory Group to discuss collaboration on the latest sustainability mandate from the European Commission: the establishment of a new, EU-wide sustainability reporting framework, which has a clear alignment with the GRI's standards. Most companies that follow the EU's current nonfinancial reporting directives use GRI standards.[9]

Using frameworks and standards in combination results in better disclosures

There are important differences between the frameworks promulgated by organizations such as TCFD and standards developed by groups like SASB or GRI. *"Frameworks are the high-level concepts which describe a way of thinking about the issues but do not lay out disclosures,"* said Mr. Siegel. Standards, however, do recommend specific disclosures. *"These are more aligned with what you are used to from the accounting standard setters and the SEC."* Consequently, Mr. Siegel told audit chairs, *"It's complementary to have an overarching framework and then standards to fill out and operationalize that."*

Major asset managers, including BlackRock, State Street, Vanguard, and Wellington, have all endorsed both SASB and TCFD. Ms. Boss told audit chairs, *"We are looking for a TCFD-aligned report with substance, covering the four pillars of the framework: risk management, governance, strategy, and metrics and targets. We also ask that companies provide disclosures aligned with the SASB metrics."* For companies that are currently using GRI, Ms. Boss said, *"We ask that they map existing reporting to the metrics that SASB has identified as being relevant to investment-decision making."*

Recent developments at the SEC may affect ESG reporting requirements

On March 15, 2021, acting SEC chair Allison Herren Lee said, "No single issue has been more pressing for me than ensuring that the SEC is fully engaged in confronting the risks and opportunities that climate and ESG pose for investors, our financial system, and our economy."[10] Following the recommendations of the ESG Subcommittee of the Asset Management Advisory Committee, which urged the adoption of standards by which corporate issuers disclose material ESG risks in December 2020, Ms. Lee said in early 2021, "I am asking the staff to evaluate our disclosure rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information on climate change."[11]

Ms. Lee's comments followed developments in March that include the creation of the SEC's Climate and ESG Task Force. The Task Force will examine "disclosure and compliance issues related to investment advisers' and funds' ESG strategies," and "material gaps or misstatements in issuers' disclosures of climate risks under existing rules."[12]

Gary Gensler, recently nominated as chair of the SEC, has also signaled a more active role for the SEC on ESG issues. During a Senate committee nominating hearing in March, he said, "the SEC has a role to play to bring some consistency and comparability to [ESG disclosure] guidelines."[13]

Investors push for reporting convergence

ACLN members expressed frustration with the absence of common ESG reporting standards. *"I feel a little unprepared because of the multiplicity of standards and a lack of clarity about what is helpful to investors,"* said one. Multiple standards increase the reporting demands on companies. *"Right now it's a scramble,"* an audit chair said. *"We are trying to be responsible, but you can't measure everything."* Investors also support convergence and harmonization. BlackRock, for instance, recently called for a "convergence of the different private sector reporting frameworks and standards to establish a globally recognized and adopted approach to sustainability reporting."[14]

In response to companies and investors' demands to simplify and focus reporting, a number of efforts to harmonize and standardize ESG reporting have emerged, including one from the IFRS Foundation, which in September 2020 published a consultation paper on sustainability reporting to determine the need for global sustainability standards, what role the foundation should play, and what the scope of that role could be.[15] By February 2021, it had received over 500 comment letters, broadly supportive of the foundation's proposals.[16] BlackRock stated that it "strongly agrees that there is a need for a global set of internationally recognized sustainability reporting standards. We believe the IFRS Foundation has a central role to play in setting such standards."[17] Subsequently, the IFRS announced the creation of a working group to accelerate convergence in global sustainability reporting standards. The working group is composed of members from TCFD, the International Integrated Reporting Council, SASB, the World Economic Forum, and the Climate Disclosure Standards Board. This group will engage with other initiatives, including the GRI, to reduce the fragmentation in reporting standards.[18]

Despite recent convergence efforts, Mr. Siegel told members to expect *"a fog of activity for the next few years."* He added that ultimately, *"it's probably going to look like financial reporting, with required metrics supplemented by voluntary disclosures—a GAAP and non-GAAP equivalent for ESG … It will be a bumpy ride, though."*

One member wondered how companies are supposed to *"get a stable platform on which to collect and report data when the standards are in flux."* Other members emphasized the need to concentrate on the integrity of reporting data, despite rapid change: *"It's probably less important for us to try and forecast where this convergence is going to land and more important … to understand the controls around the data of what is being reported."* Another audit chair noted, *"Whatever data you put out, you'll have to live with it, so it must be accurate and married to your strategy."*

Investors want clear ESG-related goals and targets

Although companies are augmenting their sustainability disclosures, investors do not yet have all the information they are seeking. Of the current companies that align with TCFD, Ms. Boss said, *"The depth and quality of TCFD reporting is still highly variable. Very few have everything we are looking for, particularly around targets and metrics."* Some issuers hesitate to set concrete sustainability targets. One member's company has made a commitment to report against the TCFD framework *"except for the forward-looking aspect of the framework. The concern is tied to the prospect for liability around making forward-looking statements. If you could get some kind of safe harbor, like we do with financial statements, more companies might be willing to make those kind of commitments."* This view is not unusual. *"Of the 1,000 carbon intense companies in our focus universe,"* Ms. Boss said, *"more than 300 have yet to set targets for greenhouse gas emission reduction, according to MSCI data."*

"How do investors evaluate the company based on the disclosures and targets they see?" one director asked. *"What, in their opinion, does 'good' look like? We can set goals, and we do, but what is the gold standard? How much is enough?"*

Investors are translating their emphasis on ESG into concrete expectations for companies' strategies and operations, establishing often quantifiable goals for emission reductions and for workforce and board diversity. Ms. Boss said that BlackRock's approach is not one-size-fits-all: *"We are looking for transition pathways that are appropriate to companies, being thoughtful of sector, context, and geographic location of the company."*

Addressing climate risk continues to be a priority

Investors have been most vocal about specific targets for greenhouse gas (GHG) emissions, often using the 2015 Paris Agreement as a standard for setting climate-related targets. *"We are looking for companies to disclose a business plan aligned with the goal of limiting global warming to well below 2ºC, consistent with achieving net zero global GHG emissions by 2050,"* Ms. Boss told audit chairs.

State Street, while not specifying its own targets, became a signatory of Climate Action 100+ in late 2020. This initiative, founded in the wake of the Paris Agreement's commitment to net-zero emissions by 2050, is composed of 545 owners and managers with $52 trillion in assets.[19] Climate Action 100+ provides a benchmark framework that calls for portfolio companies to establish and disclose short-, medium-, and long-term emissions reductions targets en route to the 2050 goal.[20]

"How do you make the judgement as to whether companies are evolving at the right pace?" one audit chair asked. Ms. Boss said that for now, *"the data is still not good enough to do comparisons across companies and sectors, so it is still very qualitative."* But by next year, *"our intention is to have the ability, using tools we are building now, to assess the temperature alignment and transition pathways of a company and to compare across peer groups."*

Investors focus on the social agenda

Climate outcomes and GHG emissions may have been an early focus for investors, but social and human capital issues are now coming to the fore. BlackRock is asking companies to disclose the steps being taken to advance diversity, equity, and inclusion (DEI) at the board level.[21] *"This year,"* said Ms. Boss, *"we have strengthened our focus on ethnic and gender diversity on large company boards, with an eye toward more voting action against boards not exhibiting diversity in 2022."* Vanguard has similarly urged boards to step up their efforts on board diversity, disclose diversity measures, interview diverse pools of directors, and invest in a prospective-director pipeline.[22]

Mr. McNabb, former CEO and chairman of Vanguard, said, *"We took a very practical approach as early signers on the 30% Club [a global campaign to increase gender diversity at board and senior management levels]. The same is true of other aspects of diversity. We are looking for greater diversity of race, ethnicity, national origin, and age, and making it a strong point of engagement."* Ms. Boss agreed: *"We have been engaging and voting on gender diversity for years. This year, we have raised our expectations, in the context of regional norms, on board and workforce ethnic and gender diversity. In the US, we are asking companies to disclose, amongst other things, data on the race and ethnicity of their board members to enable investors to make informed diversity assessments. We have signaled to companies that we will begin to vote on this issue on larger boards next year."*

Despite numerous corporate commitments to improving diversity, progress has been uneven. Mr. Mandel reminded members that *"while there has been progress on gender diversity, there is still more to be done,"* especially in terms of racial and ethnic diversity, where *"the numbers are sobering."* One member said, *"We need to be more realistic. All this patting on the back on board gender diversity … 96 percent are white women."* This is partly due to limitations in the approach to sourcing candidates, Mr. McNabb noted. *"A number of companies still restrict those who can go on a board to C-suite individuals. To make progress, we need to look one level below, where there is some incredible talent."* Despite ad hoc efforts to put together lists of diverse, eligible individuals, a narrow view of the typical director career path has led to a small pool of diverse candidates who then get tapped for multiple board positions. One result, Mr. Mandel pointed out, has been that *"votes against directors for overcommitment disproportionately hit directors who are diverse."*

Ms. Boss added, *"We have also raised our expectations that companies take action to advance DEI within the workforce and make the relevant SASB-aligned disclosures. We want to understand what companies are doing to create an engaged, diverse, and inclusive workforce. In the US, we are asking companies to disclose the diversity of their workforce, including demographics such as race, gender, and ethnicity, through the disclosure of EEO-1 [Equal Employment Opportunity] data."* Ms. Boss said that in Europe, where it is more difficult for companies to collect equivalent data, *"we ask companies to disclose DEI actions as companies aim to develop workforces that more closely resemble the customers and communities they serve."* Mr. McNabb asked, *"What are companies doing to ensure that diversity is not just a buzzword at the board but is actually making its way through the culture?"*

Some members stressed that commitment to diversity must go beyond the board or even the internal workforce. One said, *"When it comes to doing business with people of color, the numbers are dismal, if companies even report them. Investors should pay more attention to this and put pressure on companies here."* Another agreed, adding, *"Increasing diversity in the supply chain is a real opportunity for wealth building."*

Investors are holding companies accountable for ESG progress

Investors are increasingly taking action—or pledging to do so—when companies do not meet their expectations. While passive funds depend primarily on engagement and proxy voting to exercise influence, active funds can sell shares if portfolios companies do not make progress on ESG issues. Wellington will "avoid companies that we deem deficient [on ESG] … We would not invest in a manufacturer that failed to prioritize safety or treated its line workers poorly, or an insurer that neglected to consider the impact of climate change on future claims."[23] Ms. Boss said, *"BlackRock is implementing a heightened-scrutiny model to manage exposures in our active portfolios. Where we identify insufficient progress, and where engagement with a company isn't producing an appropriate pathway, we will flag these companies for potential exit in our discretionary active portfolios."* Over the last year, several other investors have pledged to divest from companies that fail to address ESG issues. For instance, the world's largest sovereign wealth fund—Norway's $1 trillion Government Pension Fund Global, better known as the "oil fund"—announced in late 2020 that it would increasingly divest from companies that perform poorly on ESG issues. During 2019 it sold out of 42 companies for using or producing coal or violating the fund's standards for human rights or anticorruption.[24]

Investors continue to engage with companies on setting ESG priorities

Investors are reaching out to companies to help them progress on ESG and meet their short-, medium-, and long-term commitments. BlackRock's engagement activities reached their highest levels in 2020, with over 3,500 engagements, a 35 percent increase against 2019.[25] BlackRock's engagements focused on environmental risks and opportunities and human capital management increased significantly in 2020, and BlackRock expects that to continue into the 2021 proxy season.[26]

Ms. Boss told audit chairs, *"We are looking to engage with companies across the piste. Typically, our engagement conversations cover multiple ESG topics and companies select the most relevant individuals to address these topics."* On board-level engagement, Ms. Boss said, *"We often engage with heads of sustainability committees, but there are companies where the audit chair is the most appropriate person to have the conversations."* More typically, the firm engages with CEOs, board chairs, lead independent directors, and investor relations teams.

Expect increased voting action in 2021 and beyond

BlackRock has declared that it will "take a firm line in holding accountable the management and boards of directors" of companies that do not respond to engagement or that fail to make sufficient progress.[27]

Ms. Boss made it clear to members that BlackRock will be analyzing targets within sectors and judging companies based on those targets. *"If we feel that a company is making insufficient progress on issues central to long-term value creation we are taking votes against directors. We did that last season."* In the last year, BlackRock voted against or withheld votes from proposals to re-elect individual directors 5,450 times, more than ever before. While many of those votes were driven by long-standing governance issues such as lack of independence or director overcommitment, some were also linked to directors failing to meet expectations around pathways on climate risk and board diversity.[28]

In 2020, BlackRock placed 191 companies "on watch" for inadequate commitments to addressing climate change. These companies "risk votes against directors in 2021 unless they demonstrate significant progress on the management and reporting of climate-related risk, including their transition plans to a net zero economy."[29]

Focusing on diversity at S&P 500 companies, State Street recently announced that it will begin voting this year against chairs of nominating and governance committees at companies that do not disclose the racial and ethnic makeup of their boards. In 2022, the ethnic and racial disclosure requirement will extend to the entire workforce, as captured in government reporting data, and State Street will also vote against the nominating and governance chairs at companies whose boards do not include at least one director from an underrepresented community.[30]

While Vanguard has not made specific commitments regarding voting, it said that beginning with 2021 annual meetings, it may vote against directors at companies where "board diversity falls behind market norms and expectations," paying particular attention to boards with no gender, racial, or ethnic diversity or which lack an adequate diversity disclosure or policy.[31] Similarly, Wellington Management will vote against nominating and governance chairs at companies whose board composition does not meet local market standards, which in the United States means a minimum of one woman on the board.[32]

Investors plan to use shareholder proposals to push ESG progress

The 2020 proxy season saw a record number of environmental and social proposals achieve majority support.[33] BlackRock's most frequent course of action is to hold the responsible directors accountable, but Ms. Boss added that BlackRock *"sees support of shareholder proposals playing an increasingly important role in our stewardship efforts around sustainability."* Until now, BlackRock's practice has been to given management ample time to correct issues addressed in shareholder proposals, but "the need for urgent action on many business-relevant sustainability issues" means that the firm will be "more likely to support a shareholder proposal without waiting."[34] Ms. Boss pointed out that BlackRock has been engaging with companies on climate-related disclosures for several years now, and in January 2020 explicitly asked companies to demonstrate how they were adequately managing climate and other sustainability-related risks by reporting in line with the TCFD framework and SASB standards. Ms. Boss added, *"so this year, we feel comfortable holding companies to our expectations, especially the biggest companies where the business model means they should be especially attentive to climate risk."*

Similarly, Vanguard has declared that it will be more likely to support shareholder proposals that "seek reasonable and effective disclosure of greenhouse gas emissions or other climate-related metrics. The funds may also support proposals that ask companies to pursue climate risk mitigation targets, such as those aligned to the goals of the Paris Agreement."[35] Wellington Management's proxy voting guidelines note that it will "generally support shareholder proposals asking for improved disclosure on climate risk management and we expect to support those that request alignment of business strategies with the Paris Agreement or similar language."[36] In the first half of 2020, State Street voted in favor of 61% of shareholder proposals calling for climate change reporting and for 33% of proposals calling for the establishment of emissions reductions targets.[37]

Directors are mindful of investors' influence around ESG

One member questioned how the largest investment managers should use their influence in ESG matters. *"BlackRock is now so big and so successful that it has the capacity to lead, and it has to be responsible to its own stakeholders. The question that is less clear is, How much power and influence should asset managers have on this subject?"* In response, Ms. Boss pointed to BlackRock's efforts at pursuing standards that have broad support from other investors. She also noted, *"We are very mindful that everything we do needs to be in the interest of our clients, but we are attentive to the*

Directors are mindful of investors' influence around ESG

fact that everyone considers themselves a stakeholder in BlackRock. We hold ourselves to a high bar on transparency. We are constantly communicating and reporting on our stewardship activities because we want our clients, the companies we invest in on their behalf, and other stakeholders to see where we are engaging and how we are voting in alignment with our conviction that sustainability risk, and climate risk in particular, is investment risk."

Conclusion

While disclosures continue to evolve toward convergence, with many of the largest asset managers now coalescing around SASB and TCFD, members urged fellow audit chairs to focus on controls and quality of reporting, rather than trying to forecast harmonization. Guests and members agreed on the need to integrate ESG into operations, risk management, and strategy. To this end, Mr. Mandel emphasized a *"focus on what is material to the business, strategy, and outcomes."* Investors expect ESG to be integrated. *"I don't see ESG as a separate undertaking from strategy,"* Mr. Mandel added. *"It should be discussed as a strategic issue, not as a marketing tool or investor relations issue."* Mr. McNabb agreed: *"ESG is not an add-on; it's an integrated way of thinking about how you are creating long-term value for shareholders."*

About this document

The Audit Committee Leadership Network is a group of audit committee chairs drawn from leading North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

Appendix 1: Biographies of guests

Sandy Boss is global head of investment stewardship for BlackRock and a member of BlackRock's global executive committee. She is responsible for leading BlackRock Investment Stewardship in all its activities as it engages with companies to promote effective governance and create value for clients.

Ms. Boss served at the Bank of England as an external member of the Prudential Regulation Committee and the senior independent member and risk committee chair of the Board that oversees the system used to make high-value payments and implement monetary policy.

Ms. Boss is a former senior partner at McKinsey & Co., where she focused on financial institutions, capital markets, and risk management in Europe and the United States. At McKinsey, Ms. Boss was a strategic adviser to executives and boards of global companies in banking, insurance, asset management, financial technology, and a wide range of other industries. She joined McKinsey in 1994 and was elected partner in 2000 and senior partner in 2004. Prior to joining McKinsey, she worked for Merrill Lynch & Company and Trammell Crow Company.

Ms. Boss has served as non-executive director at two public companies: Elementis Global and Enstar Group and has held several other advisory and non-executive roles. She was a member of the Cross-Border Resolution Working Group of the Institute of International Finance's Special Committee on Effective Regulation. She was also a trustee for the McKinsey Master Retirement Trust and chair of the Edith Wharton Restoration charity.

Ms. Boss received an MBA from Harvard Business School in 1994 and a BA from Stanford University in 1989, majoring in American studies and economics.

Mark Mandel is an equity portfolio manager on the Global Stewards Fund at Wellington. Global Stewards employs a concentrated, long-term-oriented investment strategy that puts a heavy emphasis on material environmental, social, and governance (ESG) factors. Portfolio companies are selected for their potential to sustain or expand high relative returns on capital and for their leading corporate stewardship.

Mr. Mandel is a member of the firm’s compensation committee and new partner advisory committee and is an ad hoc member of the investment stewardship committee.

As vice chair, Mr. Mandel meets with a variety of clients, consultants, and prospects to represent the firm and to discuss global capital markets, investment opportunities, risks, and potential solutions.

Mr. Mandel joined Wellington in 1994 as a global industry analyst covering the nonbank financial services sector. He also served as director of Global Industry Research at Wellington for 15 years. Prior to joining Wellington, he worked in the corporate finance group at Advest, Inc.

Mr. Mandel earned his MBA from Dartmouth College's Tuck School of Business and his BA in economics from Bates College. He recently was awarded the Fundamentals of Sustainability Accounting credential from the SASB. He is a member of the CFA Institute and a trustee at Bates College, and he serves on the Strategic Investor Initiative's advisory board.

Bill McNabb is the former chairman and chief executive officer of Vanguard. He joined Vanguard in 1986 and became chief executive officer in 2008. In 2010, he became chairman of the board of directors and the board of trustees. He stepped down as chief executive officer at the end of 2017 and as chairman at the end of 2018. Earlier in his career, he led each of Vanguard's client-facing business divisions.

Mr. McNabb is active in the investment management industry and served as the chairman of the Investment Company Institute's board of governors from 2013 to 2016. A board member of UnitedHealth Group, IBM, and Axiom, he is also chairman of EY's Independent Audit Committee.

In January 2021, he joined the board of Tilney Smith & Williamson, a UK wealth management and professional services group, as a non-executive director. He is a board member of CECP: The CEO Force for Good, a board member of the Philadelphia School Partnership, and the chairman of the board of the Zoological Society of Philadelphia. In addition, Mr. McNabb is the executive in residence at the Raj & Kamla Gupta Governance Institute at the LeBow College of Business and a member of the advisory board of the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School. He is a senior fellow of the Wharton Center for Leadership and Change Management. He also serves on the Dartmouth Athletic Advisory Board.

Mr. McNabb earned a BA at Dartmouth College and an MBA from the Wharton School of the University of Pennsylvania.

Appendix 2: Participants

The following ACLN members participated in all or part of the meeting:

- Alan Bennett, Halliburton and Fluor
- Barbara Byrne, ViacomCBS
- Pam Craig, Merck
- Pam Daley, BlackRock
- Dan Dickinson, Caterpillar
- Dave Dillon, 3M and Union Pacific
- Bill Easter, Delta Air Lines
- Lynn Elsenhans, Saudi Aramco
- Fritz Henderson, Marriott
- Bob Herz, Morgan Stanley
- David Herzog, MetLife and DXC Technology
- Charles Holley, Amgen and Carrier Global
- Michele Hooper, United Airlines
- Hugh Johnston, Microsoft
- Akhil Johri, Cardinal Health
- Mike Losh, Aon
- John Lowe, Phillips 66
- Edward Ludwig, CVS
- Brad Martin, FedEx
- Suzanne Nora Johnson, Pfizer
- Chuck Noski, Wells Fargo
- Leeny Oberg, Adobe
- Louise Parent, FIS
- Peter Porrino, AIG
- Paula Price, Accenture
- Tom Schoewe, General Motors
- Leslie Seidman, GE
- Gerald Smith, Eaton
- Tracey Travis, Facebook
- Jim Turley, Citigroup and Emerson Electric
- John Veihmeyer, Ford
- Robin Washington, Salesforce.com
- David Weinberg, The Coca-Cola Company
- Maggie Wilderotter, Hewlett Packard Enterprise

The following European Audit Committee Leadership Network (EACLN) members participated in part or all of the meeting:

- Alison Carnwath, BASF and Zurich Insurance
- Margarete Haase, ING
- Liz Hewitt, National Grid
- Dagmar Kollmann, Deutsche Telekom
- Kalidas Madhavpeddi, Glencore
- David Meline, ABB
- Bernard Ramanantsoa, Orange
- Sarah Russell, Nordea
- Guylaine Saucier, Wendel
- Erhard Schipporeit, RWE

EY was represented in all or part of the meeting by the following:

- Kelly Grier, EY US Chair and Americas Managing Partner
- John King, EY Americas Vice Chair of Assurance Services
- Steve Klemash, EY Americas Leader, Center for Board Matters

Appendix 3: Discussion questions for audit committees

- ? How are your companies meeting the challenge of heightened disclosure expectations despite the lack of standardization?
- ? How have your companies selected standard(s) for ESG reporting?
- ? Have investors engaged with your companies on ESG reporting issues?
- ? Have investors encouraged your boards to set specific targets related to ESG issues such as diversity or reduction of greenhouse gas emissions or other climate-related goals? Have your companies established any targets or made specific commitments?
- ? Have your boards faced any adverse votes from shareholders on ESG-related proposals or director elections? If so, what specific issues were involved?
- ? Where does primary responsibility for ESG oversight lie on your boards? What committee or committees have responsibility for which aspects of ESG?
- ? How have your board or committee structures evolved in recent years to more effectively oversee ESG-related issues?
- ? What role does the audit committee play? What should be its role?

Endnotes

[1] Jamie Smith, "What Investors Expect from the 2021 Proxy Season," EY, February 2, 2021.

[2] *Viewpoints* reflects the network's use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from conversations with network members and guests in connection with the meeting.

[3] "Materiality Map: Why Is Financial Materiality Important?" Sustainability Accounting Standards Board, accessed February 18, 2021.

[4] "Standards Overview," Sustainability Accounting Standards Board, accessed February 18, 2021.

[5] "Global Use of SASB Standards," Sustainability Accounting Standards Board, accessed February 18, 2021.

[6] Task Force on Climate-Related Financial Disclosures, *Recommendations of the Task Force on Climate-Related Financial Disclosures* (Basel: Financial Stability Board, 2017), iv.

[7] Task Force on Climate-Related Financial Disclosures, *2020 Status Report* (Basel: Financial Stability Board, 2020) 5.

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