

## OBJECTIVES

Companies and investors need to sustain a stronger dialogue on extra-financial reporting. This is especially important, now that European regulations are increasingly tackling data issues: review of Directive 2014/95/EU (also known as the Non-Financial Reporting Directive), preparation of the new EU Taxonomy Regulation setting a framework to promote sustainable investment...

Asset management companies must currently wade through a wide array of extra-financial information which is neither standardised, comparable, stable over time nor audited. This hinders ESG<sup>1</sup> investments' development, as investors and companies are unable to rely on a common framework. Therefore, amid the increasing volume of company-reported ESG data, a reference list of extra-financial indicators is urgently needed. The objective is twofold: determining which extra-financial information is needed to assess a company, to avoid getting bogged down in an "information overload"; and forging a dialogue with companies, to build a reporting framework complying with regulatory requirements.

AFG was keen to contribute to these objectives, and set up a dedicated working group in March 2020.

Its initial objective was to **identify which essential cross-sector extra-financial indicators could be used to assess companies of all sizes.**

AFG set a goal to identify a maximum of 10 cross-sector indicators for each of the following pillars: Environment, Social / Human capital, Societal and Governance. In doing so, it defined a minimum set of corporate disclosures. However, the intention is absolutely not for companies to scale back on the information they already disclose, and which fosters trust with their partners. On the contrary, this list is intended as a starting point to open up a dialogue with companies. It is adaptative, and can be completed, if needed, with sets of sector-specific indicators. Furthermore, it is not exhaustive, and should not restrict the disclosure of information that a company deems paramount to understanding its business model and development.

Since the point of the exercise was not to normalize the indicators, the AFG working group did not seek to agree on universal definitions. This is not a task for asset management companies, but could be tackled in a second phase, as part of a dialogue with companies and auditors.

## WORK METHOD

A preliminary survey of asset management companies pursuing responsible investment strategies focused on the indicators that they felt were essential for their company analysis from an extra-financial angle. These indicators were classified under the following fourpillars: Environment, Social / Human capital, Societal and Governance. 16 asset management companies took part in the survey in February 2020 and submitted around 450 indicators: around 140 environment indicators, 85 human capital indicators, 55 societal indicators and 160 governance indicators. These 450 indicators were gathered into approximately 100 themes and categorised into 26 sub-themes.

Two layers of information were ultimately selected: firstly, a maximum of 10 essential extra-financial indicators were defined for each pillar to help asset management companies make consistent company assessments (*list of "essential indicators"*). Secondly, other themes in which investors need transparency were then also identified, to be used to open up a dialogue with companies (*list of "transparency indicators"*).

AFG identified areas to be addressed jointly by companies and investors. Finally, a first version of the guide was presented to companies in July 2020. This dialogue led to a change in the essential and transparency indicators.

<sup>1</sup>) The acronym "ESG" refers to the Environmental, Social and Governance (ESG) criteria that combine the three pillars of analysis of a company's extra-financial disclosures and are taken into consideration in responsible investing and sustainable finance.

## ESSENTIAL INDICATORS

We have listed below the essential cross-sector extra-financial indicators to assess companies of all sizes.

PILLAR	THEME	ESSENTIAL ESG INDICATORS
ENVIRONMENT	Climate / Carbon footprint	Carbon footprint scopes 1, 2, 3 upstream and downstream
	Climate / Green share	Share of green revenue in the taxonomy
	Resources / Waste	Volume of waste produced (tonnes)
		Recycled volume, waste recovery rate
	Resources / Water	Volume of water consumed
		Volume of water recycled or used
	Resources / Energy	Total energy consumption
Low-carbon energy consumption and renewable energy consumption		
Resources / Biodiversity	<i>To be defined at a later stage</i>	
HUMAN CAPITAL	Internal climate	Departure rate ex-seasonal by average workforce
		Absenteeism rate
	Upskilling	Total training budget by legal entity
		Rate of employees having followed / received training by legal entity
		Number of training hours per employee by legal entity
	Workforce management	Involvement of women in the management of the company: - number of members of the management committee and number of women in the management committee - number of members in the supervisory workforce, and number of women in the supervisory workforce - total workforce and number of women
		Average compensation paid to women relative to men: - within the management committee - in senior and middle management - in the total workforce
		Rate of employment of people with disabilities
		Health / Safety
		Accident severity rate
	Number of fatal accidents	
SOCIETAL	Customers	Number of controversies (in terms of legal action taken by a group of customers)
	Businesses and their local communities	Amount of donations / grants / sponsorship in favour of civil society
	Tax policy	Overall tax rate
	Subcontractors and suppliers	Do you request a minimum set of environmental and labour-related criteria for your suppliers?
		% of suppliers whose labour and environmental policies are audited annually
	Cybersecurity	Investment in cybersecurity
Number of tests performed and number of cybersecurity training sessions per employee		
Digital	<i>In progress</i>	
GOVERNANCE	Board of directors and committees	Number and percentage of independent directors
		Number and percentage of women on the board
	Business ethics	Number of legal proceedings under way relating to business ethics as at 31/12 of the previous year
		Fines paid relating to controversies
	Compensation policy	Compensation fairness information: - amount of the remuneration of the executive members of the management committee, in year N and N-1 - raw data of the company's performance - median and average compensation of total workforce, in year N and N-1
		Target achievement rate and variable pay allocation rate
Sharing of value creation between employees and shareholders		

## TRANSPARENCY INDICATORS

The transparency indicators are listed below. They supplement the list of essential extra-financial indicators and / or are difficult to align. They can be useful when investors are looking for more specific information. A dialogue with companies is paramount in such cases also.

PILLAR	THEME	TRANSPARENCY INDICATORS
ENVIRONMENT	Climate / Carbon footprint	Carbon reduction goals
		Participation in the CDP (yes / no)
	Climate / 2 °C trajectory & associated risks	Commitment/ Objectives on alignment towards carbon neutrality, 2 °C or even 1.5 °C (Science-Based Targets)
		Measure of engagement
		Exposure to / management of physical risk / TCFD disclosures
	Climate/ Green share	Exposure to / management of transition risk / TCFD disclosures
	Environmental impact	Transparency of the classification of green taxonomy
		Existence of policies for managing and measuring environmental impacts
Resources / Energy	Share of eco-designed products	
Resources / Biodiversity	Energy consumption by energy type	
HUMAN CAPITAL	Internal climate	Preservation of biodiversity: impact of the business
		Existence of annual internal surveys (yes / no)
		Frequency of internal surveys
	Upskilling	Definition of how the value creation is shared
	Health / Safety	List of major training topics
Employment	Review of social benefits (health insurance, retirement, etc.)	
	Age pyramid	
	Net job creation and details	
SOCIETAL	Businesses and their local communities	% of temporary / fixed-term / contract workers, for the company and by division
		Turnover breakdown by SDG
		Share of sales of products to disadvantaged populations
	Tax policy	Share of turnover from operations relating to tobacco, alcohol, weapons, nuclear power, coal, GMOs and pornography
		Do you have a tax code of conduct / tax principles?
	Cybersecurity	Do you have activities in non-cooperative countries and territories in the fiscal sense (NCCTs)?
Role of the company	How are cybersecurity risks managed?	
GOVERNANCE	Business ethics	Existence of a mission statement
	Remuneration policy	Signatory to an international pact such as the Global Compact
		Amount of fixed and variable compensation and other benefits paid to key executives
		Compensation policy linked to sustainability criteria (yes / no)
	Measurement of the compensation policy tied to sustainability criteria:	
	- board of directors	
	- middle and senior management	
	- total workforce	

Source: AFG

## THEMES NECESSITATING CONCERTED ACTION

Some themes are, in our opinion, essential when it comes to assessing a company. However, since some themes are only in the early stages of their development, we are unable, for the time being, to define one or more related essential indicators. These themes will require concerted action with companies going forward.

In the Environment pillar, biodiversity is one particular theme in which concerted action would be useful. Biodiversity is a critical issue but needs to be developed further. Investors need indicators showing how a company takes biodiversity into account, such as an indicator relating to land use (land on which premises are built and/or developed land), or an indicator relating to soil remedia-

tion (land surfaces for which soil remediation plans have been prepared).

In the Societal pillar, concerted action by companies and investors would also be useful relating to customers in their capacity as stakeholders. The essential indicator that we are proposing could be useful until the definition of a more relevant alternative. We believe that this is an essential theme, and we are keen to open up a dialogue with companies to give it the attention it deserves.

Still in the Societal pillar, companies have proposed including the digital topic in their assessment. The indicator relating to this theme is therefore in the process of being defined.

## NEXT STEPS

This work is the result of reflection between asset management companies and companies. The next steps are to continue the dialogue with companies, to forge a dialogue with auditors and with the relevant national and European authorities.

Sector-based essential indicators/transparency indicators may be added in.

Efforts may also be made to align these indicators (definition).

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**The Association Française de la Gestion Financière - AFG** (French Asset Management Association) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments, managing more than €4,000 bn, i.e. a quarter of continental Europe's assets under management.