Edmonton Global

ESG as a catalyst for economic development

EDMONTON GLOBAL

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About Edmonton Global: The purpose of Edmonton Global is to radically transform and grow the economy of the Edmonton Metropolitan Region. We are a not- for-profit corporation representing 14 municipalities that make up the Edmonton Metropolitan Region. Our focus is attracting foreign investment, helping regional businesses export with the world, enhancing our region's global competitiveness, and bringing our region together with a unified voice to attract the attention and interest of investors the world over.

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Executive Summary

The use of Environmental, Social and Governance (ESG) metrics to evaluate the direct and indirect financial impact of the environmental, social and governance risks and opportunities of an investment is not new. However, ESG factors, data and reporting have increasingly been a topic of discussion among companies, governments and investors within recent years, with ESG increasingly being referenced following the global turmoil set off in 2020 by the COVID-19 pandemic and compounded by ongoing climate disasters, social unrest and the war in Ukraine.

Notwithstanding its prevalence, uncertainty remains as to how ESG is defined and what ESG means in practice for organizations. The various ESG reporting frameworks that have been created can seem overly complex or beyond the realities of smaller companies who may just be at the beginning of their ESG journey. In addition, an emphasis on the pressing environmental and social issues (the "E" and the "S") faced by organizations and global society has also sometimes resulted in governance factors (the "G") being underrepresented in ESG discussions and reporting, notwithstanding the foundational role good governance plays in achieving environmental and social goals and avoiding risks.

In order to receive the benefits of ESG incorporation while also reducing the risks created by collecting and reporting on ESG data, organizations must truly understand the meaning of ESG, including governance. Given their connectivity to individuals and companies in their jurisdiction, governments and agencies, including economic development agencies like Edmonton Global, play a key role in fostering this understanding and promoting the potential impact ESG can have on the economic, social and environmental vibrancy of their regions. This paper aims to facilitate these educational efforts by (1) providing a high level introduction to ESG, and governance in particular, (2) discussing why economic development agencies should be concerned about and attuned to ESG, and (3) canvassing some of the ESG efforts carried out by governments and economic development agencies to date, in the hope that what may have worked in other jurisdictions can be applied in the Edmonton region as well.

Introduction

The use of Environmental, Social and Governance (ESG) metrics to evaluate the direct and indirect financial impact of the environmental, social and governance risks and opportunities of an investment is not new. However, ESG factors, data and reporting have increasingly been a topic of discussion among companies, governments and investors following the global turmoil set off in 2020 by the COVID-19 pandemic and compounded by ongoing climate disasters, social unrest and the war in Ukraine. Between 2018 and 2020, sustainable investment assets in Canada grew by 48 percent, the largest increase in absolute terms as compared to Europe, the United States, Australia, New Zealand and Japan, all of which have also seen a substantial increase in sustainable investing.

Notwithstanding its prevalence, and indeed perhaps in part due to the sheer volume of material and information available on the topic, uncertainty remains as to how ESG is defined and what ESG means in practice for organizations. For many Canadian and Albertan companies in particular, questions arise regarding whether ESG is necessary or even meaningful in the face of the various reporting frameworks and standards that often seem directed primarily at large multinationals and distanced from the realities of business on the ground. For example, Canada West Foundation and The Canadian Energy and Climate Nexus found that while Canada's largest oil and gas and electric utility companies reported publicly on ESG, the number of companies with public ESG reports or metrics decreased substantially when smaller oil and gas, energy and utilities companies were considered, many of which are located in Alberta. Whether a company was public or private also had significant influence on the prevalence of ESG reporting and metrics among the companies surveyed.

In addition to the multiple and various frameworks and standards organizations may have to wade through in arriving at an ESG policy, there is an awareness that public statements and reports made with respect to ESG, particularly if not mandated, may create risk, rather than mitigate it. If statements are determined to have been misrepresentations or inaccurate or publicly disclosed goals and targets are not met, companies may expose themselves to regulatory or legislative consequences or shareholder lawsuits.

While the above are reasons organizations must be mindful when deciding to create an ESG policy or report on ESG factors, they are not an indictment of the established utility and value of incorporating ESG into an organization's planning and operations. Companies with strong ESG performance have been demonstrated to reap a number of operational rewards, including enhancing their reputation, attracting, retaining and motivating talent, improving overall performance by reducing waste and streamlining operations, and improving opportunities to attract capital.

However, in order to receive the benefits of ESG incorporation while also reducing the risks created by collecting and reporting on ESG data, organizations must truly understand the meaning of ESG, the nuances of ESG reporting, factors and frameworks in their industry and area, and then engage in the work necessary to embed ESG more broadly in their operations. Governments and agencies, including economic development organizations, will play a key role in promoting a greater understanding of ESG and its importance to companies in their jurisdictions and ultimately improving the attractiveness of the jurisdiction as a whole, not only from an economic standpoint, but, in certain cases, from a social and environmental perspective as well.

I. What is ESG and, in particular, the "G" in ESG?

What is ESG?

Broadly stated, ESG uses environmental (E), social (S) and governance (G) factors and data to assess the sustainability of a company and the impact that it has on its environment, stakeholders and the community in which it operates. ESG broadly encompasses the "holistic view that sustainability extends beyond environmental issues" and has a direct impact on the long-term wellbeing—financial and otherwise—of a company. When appropriately utilized, ESG equips stakeholders with the information required in order for them to understand how an organization is managing environmental, social and governance risks and opportunities.

While many of these criteria and categories have, in the past, been the focus of corporate social responsibility or impact investing initiatives, ESG-oriented investment and operations is an evolution from these and their primary focus on marketing efforts or merging financial return with moral or ethical issues. ESG can be pursued by investors and organizations whose sole purpose is profit—incorporating ESG factors into corporate and investment decisions is to recognize the role that the same play in effecting long-term and sustainable financial gains. It is increasingly becoming a core element in establishing a sound corporate or investment strategy.

When discussing the ESG framework, the "E" and "S" factors have typically been at the forefront of considerations, with the "E" often dominating ESG frameworks. Climate risk and societal implications are the most often cited and thought about considerations when developing sustainable practices within an organization. Given the various academic and industry reports available, a thorough recounting of the E and S elements of ESG is not within the scope of this paper. At a high level, the environmental lens of ESG provides a mechanism for measuring and reporting an organization's environmental impact and risk management practices, including for instance, its use and management of natural resources, control and reduction of emissions and waste outputs, and "overall resiliency against physical and climate risks." The social lens of ESG focuses on the direct and indirect impact organizations have on their various stakeholders, taking into consideration issues such as employee, customer and supplier

relations, diversity and inclusion initiatives, modern slavery, human rights, and health and safety.

What is the "G" in ESG?

Although the focus on environmental and social factors is understandable given the increasingly pressing, complex and interwoven issues organizations are facing in both areas, understanding governance risks and opportunities in organizational decision-making and policies is critical to securing sustainable growth. The "G" in ESG addresses these corporate governance factors, including an organization's business integrity, its alignment with shareholder rights and values, board independence, expertise and executive pay, and policies and practices relating to transparency and accountability.

Corporate governance is by no means new, but its inclusion as one of the pillars in ESG recognizes the fact that it is key to an organization's ability to actually establish and effect its social and environmental policies. Research has shown that companies that "rank well below their respective industries' average on good governance characteristics are particularly prone to mismanagement and risk their ability to capitalize on business opportunities over time." Corporate governance is significantly interwoven with social and environmental policies—a failure to effectively promote good corporate governance has knock-on effects on an organization's ability to put in place and comply with environmental or social policies.

Despite its foundational importance to any ESG efforts, there are often challenges associated with defining exactly what the "G" in ESG should encompass. The CFA Institute simply describes "governance" as the "standards for running a company," stating further that "[t]here is not a standardized approach to the calculation or presentation of different ESG metrics." It is necessary for this definition to be broad, as it is recognized that encompassing governance factors in ESG-related practices can manifest in a number of forms and can vary based on a multitude of factors, including the nature and size of the applicable organization.

At its broadest, governance deals with decision-making and how rights and responsibilities are allocated among the various groups that form an organization (including its board of directors, executive, shareholders and stakeholders). In the context of ESG specifically, governance can generally be divided into 2 categories: (1) corporate governance, including board policies, board remuneration, ownership structures and corporate structure, and (2) corporate behaviour, including anti-competitive practices, transparency and anti-corruption. As noted, at a practical level, incorporating the "G" in ESG-driven policies will look different between industries and organizations. The key to achieving good governance in the context of ESG is not for companies to review or seek to apply each principle or set of standards in a uniform manner, but instead to conduct an inward evaluation of items applicable and relevant to the organization, to recognize which risks are within the organization's control, and to manage them accordingly.

There are likely to be substantial differences between how a private company and public company will approach governance in the context of their ESG journey. This is particularly relevant to companies operating in the Edmonton Metropolitan Region, the majority of which would be privately held. Private organizations, for the purposes of this discussion, encompass closely-held organizations, where the ownership belongs to founders, management, a group of private investors, and/or employees who have been issued equity. Conversely, a public company is, broadly, an organization that has sold all or a portion of its ownership interests to the general public and whose equity is typically listed on a stock exchange. While many of the requirements of corporate and securities laws are applicable to corporations more broadly, whether private or public, public companies are subject to enhanced, mandatory disclosure and reporting obligations and their operations tend to have a broader societal impact. Such organizations are therefore more heavily scrutinized, have less discretion in determining which governance factors are most relevant to them, and potentially also have less certainty regarding the scope of ESG reporting and action required of them.

The application of governance factors, and the level of diligence required in integrating sound corporate governance policies, can be thought to exist on a spectrum. Governance requirements will generally become more extensive and stringent the larger and more widely held a company becomes, even if the ownership structure technically remains private. Regardless, governance is relevant to and should be considered by organizations of all sizes. Widely held companies need to ensure that their governance structures are sustainable as they operate and grow, and can address the evolving opportunities, risks and requirements such organizations face. Smaller, privately-held companies must consider their governance structure in the context of attracting investment and obtaining debt financing in the hope of maintaining sustainable growth, including in the context of responding to ESG reporting obligations passed onto them by any larger entities they interact with.

In addition to the size of an organization, corporate governance considerations may differ significantly depending on the industry or sector in which the company operates. Organizations that rely heavily on sourcing materials from outside jurisdictions or outsourcing workflow and services may need greater oversight controls and internally developed policies to manage the various legislative frameworks they are required to comply with. Companies operating in resource heavy industries, like mining, oil and gas or energy, may be more concerned about ensuring that they have strong governance policies and action around things like responsible resource use, conflict minerals and emissions, while those in people-focused industries may be more concerned about ensuring that structures around pay equity, modern slavery and diversity and inclusion are more robust.

As discussed later in this paper, various financial institutions and organizations have developed standards and frameworks with a view to how ESG can be consistently and accurately integrated into an organization’s policies. Canada does not have specific ESG legislation, but ESG-related obligations can be found in various Canadian statutes and in

the common law, including with respect to corporate governance and directors' duties. This review and subsequent discussion attempts to provide an overview of the common themes arising out of such various standards, frameworks and legislative requirements. However, as noted above, merely checking off each item is not sufficient. Organizations and entities must carefully consider and understand how the various governance factors relate to their operations and translate the relevant factors into practice. It is this practice that, in part, differentiates ESG from earlier corporate social responsibility movements.

Corporate Governance Factors

Board Independence and Separation Between Chair of the Board and Chief Executive Officer

It is recommended that at least a majority of the board of directors of an organization should be independent, and that certain standing committees, such as audit committees, compensation and nominating committees, should be comprised entirely of independent directors. In a similar vein, the inherent differences between the roles of chair of the board of directors and chief executive officer necessitates a degree of separation between the two. Board independence and a division between the roles of chief executive officer and chair of the board facilitates an appropriate balance of decision-making power by ensuring that management is subject to adequate board oversight, while also promoting effective board processes, free from undue influence from management. Increasing the number and type of people involved in decision-making for an organization also assists in avoiding issues being missed or unaddressed due to "groupthink," where the board or executive share similar backgrounds and are shielded from outside opinion. This is of particular relevance when new opportunities or risks arise, such as those presented by ESG, that an organization may not be attune to without prompting from independent voices at the board table.

Board independence and separation of powers also assist in ensuring that executive and director compensation structures are clear and restrained. Compensation schemes that are transparent, independently-evaluated and tied to clear metrics that reflect the performance of the organization are recommended, as they can have significant influence on long-term value creation and avoid impediments to sourcing capital or financing. In addition to policies addressing compensation, organizations should maintain and enforce policies relating to board and executive conduct, including around conflicts of interest.

Many private companies, and smaller private companies in particular, are managed by a select group of individuals who may sit at both the executive and board levels. For such organizations, establishing a complete separation between the executive and the board of directors may not be practical, advisable or feasible for a multitude

of reasons, including financial capacity. While the governance risks that stem from a failure to maintain board independence will be less significant for a closely-held company, this topic should be consistently reviewed by the board and executive to address any potential arising risks as an organization grows and hires additional members to manage its operations. Smaller organizations can also consider arranging for annual oversight by independent parties over specific areas of operations, such as an ESG audit, to ensure that key items are not missed and that authority is not overly concentrated in a few select individuals. For larger organizations that have more sophisticated board structures and a larger separation of responsibilities amongst executives, these factors should be top-of-mind. Separation of authority will ultimately make investment more palatable to outside parties, investors and borrowers, as both the board and management sides can work to hold each other accountable if ESG policies are not translated into practice.

Consideration of Stakeholders and Long-Term Interests

Historically, the duty of a board of directors has been framed as being primarily to maximize shareholder value. The difficulty with a shareholder primacy approach to directors' duties to act in the best interests of a corporation is that it can in certain instances lead to corporate short-termism – an excessive focus by boards and management on short-term financial results and shareholder returns at the expense of long-term planning and sustainable growth. In the context of ESG specifically, it may mean that a company declines to incur a short-term cost or decrease in profitability and ultimately fails to address an environmental, social or governance risk or opportunity that ultimately proves existential for the organization when not acted on.

In Canada, precedent supports the notion that in considering what course of action is in the best interests of the corporation, a board may, but is not obligated to, consider the interests of the stakeholders who are affected by its decision. Stakeholders do not need to be treated equally, but are entitled to expect to be treated in a fair and equitable manner, "commensurate with the corporation's duties as a responsible corporate citizen." For corporations incorporated under the Canada Business Corporations Act (CBCA) the need for a board to assess whether stakeholders interests should be evaluated in arriving at a decision is not only a matter of common law, but legislation as well. The CBCA explicitly authorizes, but does not mandate, directors and officers to consider the interests of its stakeholders, including shareholders, employees, consumers and governments, the environment and the longer-term interests of the corporation when acting in the best interests of the corporation.

The above common law, and, for certain corporations, legislative, context authorizes board of directors and management of Canadian corporations to consider ESG factors in determining what decision or course of action is in the best interest of the corporation. While as noted above, the language in both the relevant caselaw and the CBCA is permissive, it may raise the expectation from shareholders, investors,

and other stakeholders that such factors be a part of boards' and management's decision-making processes, failing which, directors may risk being alleged to have breached their fiduciary duties or to have failed to treat stakeholders fairly. Boards and management can demonstrate their consideration of the various stakeholder interests and longer-term interests of the corporation implicated by their decisions by having and documenting discussions with respect to the same, and obtaining independent, expert advice where warranted.

It is worth noting that permissive phrasing in the relevant caselaw and legislation will not necessarily always remain permissive and boards of directors may eventually be mandated to consider various factors in determining how the best interests of a corporation are to be achieved. In the United Kingdom, for example, directors must, in determining what would be most likely to promote the success of the company for the benefit of its members as a whole, have regard to the impact of the company's operations on the community and the environment and the desirability of the company maintaining a reputation for high standards of business conduct, among other things. Both of these factors fall squarely within ESG.

Board Composition, Quality and Structure

Board and executive composition should be demonstrative of the corporation such individuals serve and the community within which such company operates. This means that boards and executive teams should have a reflective amount of diversity (racial, gender, educational and otherwise), including an appropriate, well-rounded mix of expertise, backgrounds and competencies. As noted above with respect to maintaining a division between the board and the executive, maintaining a diverse board and executive not only facilitates the consideration of the interests of a variety of stakeholders, but can also serve to avoid groupthink.

Board and executive diversity is not only good practice and increasingly demanded by institutional investors, but for certain companies in Canada, a legislative compliance consideration. In 2020, Canada became one of the first jurisdictions to require companies to make disclosures with respect to diversity beyond gender when it obligated public companies governed by the CBCA to report the representation of four specified groups (women, Indigenous peoples (First Nations, Inuit and Métis), persons with disabilities and members of visible minorities) on their boards and management teams. Disclosure obligations with respect to the presence of women on boards and executive officer positions also pre-existed these amendments for reporting issuers by virtue of Canadian securities law requirements. There is a possibility that these securities disclosure requirements may be extended beyond women to other minority groups. The federal government is also evaluating the expansion of similar diversity disclosure requirements from the CBCA to federally regulated financial institutions.

Both of the above current disclosure obligations are structured as "comply or explain." Companies are not only required to disclose this information, but must also either disclose information about their policies and targets for the representation of these groups or explain why they lack such policies or targets. While "comply and explain" laws do not obligate companies to make or achieve diversity targets, such soft laws are often a starting point for future legal obligations. In addition, companies which fail to comply with the disclosure requirements, or which make statements or commitments in their disclosure which are either inaccurate or not followed up on, are at risk of being subject to enforcement measures or actions brought by shareholders.

In line with encouraging board diversity, there is growing recognition that good board composition can foster improved processes that are more efficient and effective. Organizational policies that promote turnover of board members with independent actors, if implemented intelligently and appropriately, can allow for new and different ideas. A track record of board nominations that exemplifies predictability or nepotism can cause concern for potential investors who are seeking sustainable growth in rapidly evolving markets; however, studies indicate that the criteria used to nominate board members is still relatively narrow. The amendments to the CBCA and the securities law disclosure requirements set out above recognize the impact that excessive tenure of directors can have on precluding new ideas or the inclusion of new members on the board, and require affected companies to "comply or explain" with respect to policies around term limits and other mechanisms for board renewal.

Although board renewal is important for diversity of membership and thought, definitive succession planning for executives and directors is also central to ensuring that an organization's long-term plans, including with respect to its sustainability and ESG efforts, are carried out. Ideally, board turnover policies should be complemented by transparent, and preferably independent, nomination procedures and developed succession plans that consider nominee merit in an objective manner.

Diverse board composition may be somewhat more relevant to larger entities that have the wherewithal to hire a greater number of outside individuals to the Board and to public companies that are subject to comply and explain diversity reporting obligations. However, even for smaller entities, research has shown that companies with diverse leadership outperform those with less diverse boards. As investors, governments and regulatory bodies continue to focus on this issue, companies, regardless of size, which put policies in place to ensure that their affairs are managed by individuals with a diverse skillset. Additionally, they should ensure that they are actively seeking guidance and consultation with various individuals with differing backgrounds. This will have a competitive edge, both with respect to attracting capital and meeting regulatory obligations, over those who do not.

Corporate Behaviour

In addition to ensuring that good corporate governance policies and procedures are in place, some of which were discussed above, governance is also relevant to the behaviour and external impact of an organization. Corporate governance can be thought of as the mechanism for managing internal controls within an organization, whereas corporate behaviour is how those internal controls actually influence the operations of the organization and, in turn, the environment within which it is operating. The two are somewhat different, but intertwined—good governance, from a corporate behaviour perspective, is related to positive corporate governance practices.

Policies and Business Ethics

Organizations should now be well-aware of the need to have robust policies, procedures and practices in place to address corporate behaviour risks. Corporate policies serve as a guide for members of the organization to uphold strong values of honesty and integrity, including with respect to prevalent concerns such as anti-corruption, conflicts of interest, related-party transactions, insider trading and whistleblower protection. Ideally, an organization will develop a code of business conduct and ethics, which is reviewed often and amended, in consultation with subject matter experts, as societal norms, legislative and regulatory requirements, and industry practices evolve. A code of business conduct and ethics, when appropriately enforced and acted upon by a board and executive which is complying with good corporate governance practices, sets the expectations for staff, officers and directors of an organization with respect to compliance with defined corporate values and practices.

Key topics in such a code can include:

- compliance with the law;
- workplace harassment;
- inclusion and diversity;
- Indigenous reconciliation;
- occupational health and safety; and
- sustainability, including human rights and community engagement.

Creating a policy statement and set of standards applicable to all levels of an organization can help ensure that an organization is collectively positioned to take

advantage of ESG opportunities and to mitigate ESG-related risk factors.

As with the corporate governance factors previously discussed above, developing and implementing well-thought out corporate policies or a sophisticated code of business ethics will potentially look very different between organizations based on their size. The greater the dispersion of responsibilities between employees, the greater the controls that should be defined and in place. In addition to the size and sophistication of the organization, corporate policies should also be geared towards and tailored based on the industry or sectors in which a company operates. Organizations largely reliant on labour and services, including those who use labour in less-developed jurisdictions, are likely to be more concerned about how their operations are addressing social concerns, such as human rights issues and indirect environmental impacts. Organizations that are heavily reliant on the energy sector or resource development may be more focused on environmental stewardship, biodiversity and resource conservation in general. In Canada specifically, organizations engaged in the resource development sector must have an acute recognition of their impact on constitutionally protected Treaty rights and Indigenous relations. Companies who establish policies that fail to adequately address the distinct issues the organization faces or to mitigate the risks associated with such issues will be more susceptible to regulatory risk, lost opportunity and financial loss than those which are implementing, applying and enforcing policies in a consistent and tailored manner.

Anti-Corruption and Corporate Integrity

Corporate integrity, which focuses primarily on anti-corruption (including bribery, fraud and money-laundering) and ethics, "is core to every aspect of the ESG agenda… and foundational to the realization of both the E and S." Although the primary focus of ESG has been, in recent years, on the E and S factors, corruption is "intricately intertwined" with ESG risks. An absence of corporate integrity promotes short-term, personal profit-driven decision-making which will call into question the reliability and accuracy of an organization's pursuit and reporting of its ESG efforts. Corruption also exacerbates environmental and social problems when legislation is improperly or corruptly enforced, often in exchange for bribes, or company executives are financially incentivized to ignore or direct funds away from environmental or social issues in the communities they operate in.

With respect to ESG in particular, many high profile examples exist of companies being alleged to have put out false, misleading and/or unsubstantiated claims with respect to ESG factors (often referred to as "greenwashing" or "ESG-washing") in an effort to capitalize on the sustainable investment movement. These types of behaviours expose an organization to not only potential legislative or regulatory consequences, but also to blacklisting and inability to obtain capital, whether through investors or financial institutions. The public fallout from corrupt or unethical behaviour also exposes an organization's partners and stakeholders to financial and reputational risk. In January

2022, for example, Keurig agreed to settle a claim relating to misleading claims made about the recyclability of its single-use coffee pods. Airlines, drink manufacturers and beauty companies have all, in recent years, faced class-action lawsuits over claims made with respect to their environmentally responsible or sustainable practices and it is expected that this type of litigation will continue to grow.

Given the above, a successful ESG program cannot ignore corporate integrity and anti-corruption efforts. If organizations fail to put in place corruption prevention policies and programs themselves, they may be forced to do so by, or forego investment from, asset owners who are increasingly concerned about efforts in this area. For example, Norges Bank Investment Management (NBIM), the manager of the assets of the Norwegian Government Pension Fund, has published an expectation document that is primarily directed at corporate boards of directors and sets out the ways in which NBIM expects the companies it invests in to address corruption.

Tailored anti-corruption corporate policies and procedures developed by organizations based on introspection and the consideration of the corporate integrity metrics which are most significant for them are an essential starting point for addressing integrity and ethical challenges. However, effective mechanisms for dealing with these issues typically also involve strong oversight and controls with respect to corporate decision-making. For smaller entities, this may mean ongoing self-diligence of the organization and its partners to identify corruption risks, anti-corruption training for the board, management and employees, and dedicated compliance personnel who can monitor the implementation of policies and report issues. For larger organizations or those operating in areas or industries where corruption is of particular concern, effective oversight may warrant engaging an independent audit committee to assess the organization's decision-making and reporting, financial and otherwise, in order to ensure that it is meeting stakeholder commitments and ethical standards. Independent oversight can serve as both a proactive and reactive means of identifying and deterring corrupt behaviour by seeking to discourage the behaviour from occurring in the first place and then bringing it to the company's attention when it occurs. Independent oversight is also likely to engender stakeholder legitimacy and trust, as it mitigates against the risk that an organization, by reason of failed corporate integrity efforts, misrepresents its success in this area.

As noted above and with respect to other governance factors, corporate anti-corruption and integrity practices are likely to vary significantly based on an organization's size, industry and scope of operations. Companies that, for example, have strong reliance on sourcing materials from or engaging labour in jurisdictions with little regulatory oversight or lax enforcement of laws regarding human exploitation or corruption are exposed to greater risk in this area and should be keenly attuned to it. However, no company is completely immune to the potential consequences, including financial and reputational, resulting from a failure to root out corrupt behaviour. What is instead required is that investors, regulators and ratings agencies take a nuanced approach

to efforts in this area and make an attempt to understand the reasoning for an organization's policies and procedures.

Disclosure of Information, Transparency and Retention of Records

Related to the above, accurate and timely disclosure of material information to shareholders is essential to maintain accountability to shareholders and key stakeholders generally and in the context of ESG specifically. Effective evaluation, both internal and external, of corporate behaviour and performance is largely reliant on the policies and procedures an organization has in place in relation to disclosure of information and retention of records. The greater an organization's transparency with respect to its ESG data and efforts, including the methodology and rationale for the same, the more accountable the organization is to its stakeholders, the more faith such stakeholders can put in the information provided and the more likely shortcomings can be identified promptly and appropriately remedied. Obscuring how ESG data is obtained or tracked not only puts companies at risk of being unable to convey to investors why they should be included in sustainable investment portfolios, but also at risk of having the veracity of their ESG programs questioned.

It is important to note that this does not mean that companies should make public ESG commitments or report ESG data for the sake of doing so. In fact, it is quite the opposite. While beyond the scope of this paper, companies expose themselves to legal risks if they make misrepresentations, inconsistent statements or fraudulent statements in their ESG disclosures. Transparency in how such disclosures are arrived at, including robust oversight of the disclosure process by the board of directors and management, mitigates against these risks.

Conclusion

While the definition of governance, with the context of ESG, is broad and largely dependent on a number of variables, such as an organization's size, industry and area of operations, and whether it is public or private, there are a number of consistent governance factors that are relevant to all organizations in their corporate and ESG journeys. These include board and executive composition, succession, and, perhaps most significant in the context of ESG, corporate transparency, integrity and accountability. Although the focus of ESG reporting has, of late, been primarily on environmental and social risks and opportunities, good governance is key to an organization's ability to effectively identify and manage those risks and opportunities. Governance is the foundation upon which a company's ESG strategy can be established and is crucial to its data, disclosures and efforts in this area being accurate and trusted by investors.

II. The Importance of ESG to Economic Development

Voluntary and Mandatory Implementation of ESG Reporting

The rise of interest in ESG has been coupled with, and in part propelled by, increasing divestment from, or reassessment of, investments in companies, sectors and broader geographical regions by major global institutional investment funds due to ESG concerns.

In 2020, BlackRock, Inc., the world's largest asset manager, announced that it believed sustainability should be its standard for investing, in part due to the potentially significant reallocation of capital faced by sectors with elevated ESG risks, and further indicated that it would be continuously evaluating the risk-return profile of such sectors. Two years later, in his 2022 letter to chief executive officers, BlackRock's chief executive noted that companies, cities and countries that failed to work toward decarbonization "risk being left behind" and losing jobs to those places who have engaged in appropriate long-term planning on this front. He suggested that "the next 1,000 unicorns won't be search engines or social media companies, they'll be sustainable, scalable innovators." For BlackRock and investors like them, sustainability and ESG are not about politics, morals or ideology, but a recognition that in an increasingly interconnected world "a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders."

Also in 2020, Stichting Pensioenfonds ABP (ABP), one of the world's largest pension funds, stated that it would aim for a 40 percent CO2- reduction of its equity portfolio, double the real estate assets in its portfolio that have a green building certificate, and invest in more companies that contribute to people's basic needs.

That same year, the CEOs of Canada's eight largest pension plan investment managers, including AIMCo, issued a joint statement recognizing that the pandemic and other events of 2020 had "revealed pre-existing business strengths and shortcomings with respect to social inequity, including systemic racism and environmental threats" and calling on companies to foster resiliency "by placing sustainability at the centre of their planning, operations and reporting." The joint statement continued on to request that companies report and disclose ESG data that was material and industry-relevant using the Sustainability Accounting Standards Board (SASB) standards and TCFD framework, indicating that they expected companies with "ESG-astute practices" would outperform others in the long term.

In its 2022 letter to CEOs, one of the United States' oldest financial services firms, State Street, noted that ESG issues were "matters of value, not values—opportunities for companies to mitigate downside risk, innovate, and differentiate themselves from competitors." For State Street, like Black Rock, ESG is about positioning a company best to profit where others falter.

Although, as discussed previously, the concepts underpinning ESG are not new, the rise of ESG has largely been driven by institutional investors, such as those set out above. Portfolio managers and analysts are increasingly incorporating ESG factors in their investment analyses and processes.

Financial organizations, such as the Global Reporting Initiative (GRI), the International Sustainability Standards Board (ISSB) and the SASB responded to investors' and analysts' calls for greater guidance on the integration of ESG factors into investment analyses by deriving ESG reporting standards. Further, a number of key organizations, such as the Climate Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC) and the Task Force on Climate-Related Financial Disclosures (TCFD) have developed broader contextual "frames" for information that should be analyzed and disclosed. In 2021, the CFA Institute published the first-of-its-kind Global ESG Disclosure Standards for Investment Products, a set of voluntary disclosure standards aimed at assisting stakeholders to understand, compare and fairly evaluate how an investment product considers ESG in its objectives, strategies and stewardship activities. In 2021, the IIRC and SASB merged to form the Value Reporting Foundation and in 2022, CDSB and the Value Reporting Foundation were consolidated into the IFRS Foundation, signaling an eventual move toward more unified, global sustainability disclosure standards under one umbrella.

Organizations like the CFA Institute recognize that the explosion of interest in ESG, combined with the use of inconsistent terminology and a variety of approaches for considering ESG issues, has increased the possibility that disclosures or advertising will intentionally or unintentionally mislead investors about the ESG aspects of a business or investment product. These developing standards seek to facilitate more accurate and consistent disclosure of data and insights into a business' or investment product's consideration of environmental and social issues, as well as corporate governance activities.

A demand for enhanced reporting is reflected in both Canadian and international markets. In 2020, 71 percent of companies listed on Canada's S&P/TSX Composite Index released an ESG-related report. In the same year, 96 percent of the world's 250 largest companies issued reports related to their ESG-related performance.

On top of voluntary reporting, the list of jurisdictions implementing mandatory reporting frameworks which address ESG factors continues to expand, with mandatory reporting requirements forthcoming or already in place:

- **Canada**: Canadian regulations may soon require further mandatory disclosure of ESG information. Currently, a reporting issuer in Canada is required by continuous disclosure and other applicable disclosure rules to provide information about ESG factors in its regulatory filings if that information is material to the issuer. The Canadian Securities Administrators (CSA), after reviewing the current public disclosure practices of large Canadian issuers and investigating mechanisms for establishing mandatory climate-related disclosures for publicly traded Canadian companies, issued Proposed National

Instrument 51-107 Disclosure of Climate-related Matters (NI 51-107), which specifically targets climate-related disclosure and makes reference to the recommendations of the TFCD. If NI 51-107 becomes effective, reporting issuers in Canada will be required to start disclosing information on governance, strategy, risk management and metrics and targets with respect to climate-related risks and opportunities, with disclosure requirements being phased in over a one year period for non-venture issuers and a three year period for venture issuers.

• In addition to the climate-related disclosure requirements proposed by the CSA, the Canadian government plans to bring mandatory climate-related risk and exposure reporting requirements to federally regulated financial institutions (FRFI), such as banks, trust companies, loan companies and insurance companies, via a phased approach beginning in 2024. The guidelines will be based on the TFCD framework and developed by the Office of the Superintendent of Financial Institutions (OSFI) in consultation FRFIs. Although the guidelines will be applicable to FRFIs, OSFI will expect FRFIs to collect information on climate risks and emissions from their clients.

• **United States:** Similar, but more expansive, climate-related disclosure rules to those proposed by the CSA were proposed in the U.S. by the Securities and Exchange Commission (SEC) recently and would apply to all U.S. issuers and foreign private issuers that do not report through the multijurisdictional disclosure system. Although at the time of the writing of this paper the rules remain open to public comment, the rules as proposed would require a registrant to disclose information about its governance of climate-related risks and risk management processes, how identified risks have had or are likely to have a material impact on its business and financial statements, how identified risks have affected or are likely to affect its strategy, business model, and outlook, and the impact of climate-related events and transition activities on the registrant's financial statements, and estimates and assumptions contained in the same. In addition, registrants would be required to disclose information about their direct greenhouse gas emissions, indirect emissions from purchased energy and, in certain cases, emissions from their supply chains and other indirect sources (so-called Scope 3 emissions). The disclosure of Scope 3 emissions remains one of the most contentious aspects of the proposed rules, including due to the potential burden it may place on small companies within a major reporting issuer's supply chain. This further underscores the impact that ESG reporting and frameworks can have on companies broadly, and not only those that have publicly listed shares. The current timeline for the proposed rules to be implemented is currently unknown as the rules continue to be finalized based on industry feedback.

• **Germany:** In Germany, the Act on Corporate Due Diligence in Supply Chains (the Diligence Act) is set to come into effect in January 2023 and will initially apply to German-based companies with 3,000 or more employees, as well as foreign-based companies of the same size which have offices or branches in Germany. In January 2024, companies with 1,000 or more employees will also become subject to the rules.

As with the proposed SEC rules, companies that do not meet these thresholds may nonetheless be impacted by the new legislation if they are within a larger organization's supply chain. The Diligence Act requires affected companies to take appropriate measures to respect human rights and the environment within their supply chains, including by establishing a risk management system and due diligence procedures for their suppliers. Companies who fail to satisfy the Diligence Act's requirements may be subject to significant fines based on a percentage of average annual global sales/turnover or excluded from winning public contracts in Germany for up to three years. Equivalent legislation is anticipated for the European Union after 2024 and compliance with the Diligence Act is expected to offer German companies an opportunity to stand out from competitors, while also being well-prepared for the new EU laws.

The above examples, which by no means cover all regulations or ESG frameworks proposed by a multitude of jurisdictions, demonstrate that ESG increasingly serves as a framework for stakeholders to assess, understand and manage risks, while simultaneously promoting sustainable practices and growth in organizations and investments. With rapidly evolving global sustainability challenges, societal expectations and regulatory pressures, organizations, their investors and their stakeholders must acknowledge the acceleration of ESG-related investment criteria, frameworks and legal requirements that, if ignored, threaten the future performance of companies and their ability to remain competitive in sourcing capital, winning work and preparing for challenges ahead.

Impact on Economic Development Organizations

While it is clear, based on the above, that ESG is of increasing importance for businesses and their investors and other stakeholders, what exactly does all of the above mean for economic development organizations and why should economic development organizations care about ESG? If not already obvious, there are several benefits to governments and economic development organizations being well-versed in and attuned to developments in ESG. It is generally recognized that the primary benefits can be subdivided into two categories: (1) the enhancement of economic development in a region through increased institutional investment, and (2) the promotion of prosocial activities that preserve future generations. The Canada West Foundation has previously conducted an extensive examination of the reasons governments should care about ESG and a number of the points made in their June 2022 publication, ESG | Why should governments care and what can governments do, are summarized at a high level below.

1. Promotion of Economic Development in Local Regions

Beyond the effects ESG investing has on the promotion of protecting people and the environment, as discussed in further detail below, ESG can have significant impacts on the economic development in local regions through both the ability to obtain capital investment and financing.

As previously covered in this paper, professionally managed assets are increasingly subject to ESG factors and large multinational corporations that are continuously pressured to report on their ESG performance will undoubtedly influence local markets and the organizations therein. Local or privately-held organizations who are competing for capital or are in the supply chains of larger companies subject to mandatory reporting requirements will eventually have no choice but to adapt and to create attractive investment vehicles or products and services that account for ESG factors. The prevailing view today is that ESG investing will exceed $50 trillion by 2025, representing one-third of the total managed global assets. This upswing in capital investment embodies the notion that so-called sustainable or ESG-oriented investing will drive local markets and private organizations. As such, local jurisdictions and the organizations within will have to differentiate themselves by offering services that integrate ESG to gain a competitive edge. The adoption of ESG practices by companies not only benefits the financial performance of the companies themselves, but the regions in which they operate as well – an increase of companies' "ESG performance in a country is associated with a positive, statistically significant effect on living standards in that country, as measured by GDP per capita" and their "average social performance has a statistically significant positive effect on growth in GDP per capita."

Building on this, over the last few years major credit rating and investment researchers have started to distinguish the influence ESG factors play in determining creditworthiness for both governments and organizations. ESG factors have surfaced as indicators of whether a borrower has the capacity and willingness to meet financial commitments. Concerns such as stranded assets linked to climate change, labour and employment relations challenges or overall transparency issues can result in unexpected losses, expenditures, litigation or reputational impacts. As a result, where ESG factors are not considered at the organizational level, credit rating agencies will correspondingly respond where significant risk factors may materialize. This factor can be compounded with the Canadian government's plan to bring mandatory reporting requirements to FRFIs, which will have a ripple effect on all industries across the country. It is expected that financial institutions will increasingly require their customers and potential lenders in all sectors to provide ESG-related information.

The growing adoption of ESG integration amongst institutional investors and analysts, in addition to mounting regulatory oversight related to ESG-related disclosure could be the beginning of a paradigm shift in ESG-related reporting requirements. The Canadian government has not indicated that these mandatory requirements will be expanded to private sectors; however, the currently proposed requirements will undoubtedly have knock-on effects at the local and private level, and may have more dramatic effects on resource intensive industries, such as oil and gas, agriculture and mining sectors. Large organizations will continuously face added pressure to review ESG-related credentials of vendors in their supply chain, which will naturally have an impact on supplier or contractor bid processes, where the key differentiating factor in the selection process may be a supplier or contractor's ESG performance.

Organizations must be alive to this growing movement and recognize the value that ESG-related reporting can have in developing long-term, sustainable growth. Governments, economic developers and organizations must weigh the impacts of ESG-related risks and opportunities and recognize the positive outcomes of adapting to and addressing the same.

2. Promotion of the Protection of People, Society and the Environment

ESG largely intersects with the growing need to preserve future generations' ability to grow and prosper. Large-scale observed changes in the climate and their attribution to human influence is unequivocal. Increased temperatures, volatile weather patterns, extreme weather events and rising sea levels are just some of the indicators of the impact of human influence on the changing climate. Such changes in the climate will continue to persist and intensify over the coming decades, which will have adverse impacts on the economic and social well-being of future generations.

The Government of Canada and local governments across the country have committed to transitioning to a cleaner and more sustainable economy for long-term preservation. The Government of Canada has joined over 120 countries in committing to net-zero emissions by 2050. This commitment was enshrined by law in June 2021 through the Canadian Net-Zero Emissions Accountability Act. In April 2022, the federal government released its Budget 2022, which includes significant measures by the Canadian government to invest in its Net-Zero Economy, part of which is the discussed move towards mandatory reporting of climate-related financial risks across the Canadian economy.

It is recognized that the ambitious targets set by the Government of Canada will require an infusion of capital beyond government and taxpayer investment. Institutional investors and the private sector must form part of the solution by changing the financial ecosystem to one that focuses on decarbonization and sustainable growth. ESG investing, in particular, is expected to play a large role in meeting future climate change goals, and mandatory climate risk disclosure and voluntary private sector environmental risk disclosure will serve as a fundamental part of the long-term preservation of the environment going forward.

In addition to the environmental risks that ESG investing can tackle, it will also be critical in managing the social impact of businesses on the regions in which they operate. Institutional investment and the private sector serve as key drivers that can create awareness and effect change with respect to companies' relationships with its employees, customers and suppliers, including in relation to human rights, labour practices, health and safety, and Indigenous engagement. ESG metrics enable capital markets and stakeholders to confront issues directly; for example, if institutions and consumers directly address how an organization acquires profits, whether racialized,

marginalized or vulnerable populations are exploited in the process, or whether diversity and inclusivity suffers at the expense of an organization's operations, long-term change can be effected.

3. What Can Economic Development Organizations Do?

Regional economic development organizations will be essential to encouraging, attracting and advocating for the type of investment contemplated above and for governments to put in place clear and effective laws, regulations and incentives in order to support the sustainable growth of communities in Canada. In the Edmonton Metropolitan Region, this may include continued and expanded efforts by economic development organizations to:

• promote Edmonton's positioning as a leader in Canada in clean energy technologies, including in the hydrogen, solar, wind and carbon capture and storage industries;

• promote the significant amount of legislation and regulations in Alberta which, while not directly targeted at ESG, address ESG factors and provide certainty for investors with respect to the legal requirements for companies, including expansive environmental, occupational health and safety and employment laws;

• stay abreast of the rapidly evolving ESG landscape in Canada and internationally in order to be apprised of trends and developments in other areas and look for opportunities to create the right environment to attract investment in the area;

• advocate for alignment among regulators, industries and investors with respect to ESG and the manner in which it is addressed via policies, legislation and regulations;

• consider developing or advocating for the development of supplemental materials in order to guide Edmonton area companies in applying global ESG standards that may not address specific issues or local topics that are of key importance to them, including Indigenous rights. This would not entail preparing a new ESG framework, nor would a new ESG framework be recommended given the plethora of internationally recognized standards already in existence. Rather the intention is to ensure that an existing standard can be meaningfully applied by companies;

• advocate for levels and agencies of government to align their existing and future ESG data reporting requirements, where possible, in order to remove the burdens placed on companies who are required to report to multiple governmental authorities in multiple formats;

• support efforts by the Government of Alberta to benchmark, improve and report on the province's ESG performance and plans via the ESG Secretariat, as highlighted in the section below, with the aim of improving Alberta's ESG reputation and marketability;

• organize or advocate for government agencies to organize ESG-relevant information and data produced by government agencies in Alberta in a way that makes the information useful and digestible by those who are interested in understanding the ESG performance of an industry, company or the Edmonton region broadly; and

• make ESG data and performance metrics, including the existence of the ESG Secretariat, readily available to investors and use the same to market Alberta, and specifically the EDMONTON METROPOLITAN REGION, and "demonstrate credible ESG performance in the province."

III. ESG Promotion Efforts—A Cross Jurisdictional Scan

ESG in Alberta

ESG Secretariat

The Alberta government established an ESG Secretariat in March 2021 to coordinate and strategize all ESG-related activities at the government level. Recognizing the distinct industry challenges and significant reliance on the energy market in the province, the government developed a unique jurisdictional ESG framework based on other frameworks and the UN's Sustainable Development Goals. The ESG framework is intended to inform policy and identify areas of performance and potential investment in various categories. It is also intended to identify any unique ESG integration risks or opportunities available to organizations across all sectors in Alberta, rather than specifically focusing on individual corporations or the government.

The jurisdictional framework developed by the ESG Secretariat serves as an example of how various jurisdictions and organizations can employ tailored ESG criteria, which remains based on recognized international frameworks, to attract investment. It is based on an understanding that Alberta has the opportunity to broaden its energy market and become a leader in diversified energy production. The framework also recognizes that the unique reliance in Alberta on the energy sector is an ESG-related risk factor—failures to employ ESG-related policies in the energy sector and to respond to increasing calls for climate action will invariably threaten future investment from institutional investors, organizations and financial institutions. Establishing incentives for energy companies to invest in new technologies, including cleaner fuel sources and production and carbon capture and sequestration, and supporting them in their ESG

efforts may be critical to Alberta remaining a leader in energy production in the years ahead.

Alberta's ESG initiative just serves as one example of how a growing movement can be employed in a distinct jurisdiction, and could be applied at a more local or regional level where appropriate. Various stakeholders from jurisdictions around the world are identifying how they can leverage their particular opportunities and risks to establish ESG frameworks for attracting investment and securing future economic development. Organizations across local markets should understand this growing movement and look to the various strategies employed elsewhere that may be suitable for applications in their areas as well. Each company, regardless of their size or industry, that choose to implement an ESG strategy as part of its operations should ensure that it is tailored to its particular circumstances by focusing on what is material to its business, industry and stakeholders.

Indigenous Investment

Although not specifically created to target ESG per se, the Alberta Indigenous Opportunities Corporation (AIOC) is a first-of-its-kind Crown corporation created to provide third-party legal, technical and financial advice and up to $1 billion in investment support to Indigenous communities to facilitate their equity investment in natural resource, major agriculture, telecommunications and transportation projects and related infrastructure. Indigenous consultation and engagement is a unique component of ESG efforts in Canada. The economic support offered by the AIOC will make Alberta more attractive for those companies and investors who wish to commit to reconciliation through increased partnership and collaboration with Indigenous communities on relevant projects.

ESG in British Columbia

ESG Series

The Business Council of British Columbia recently conducted the ESG in BC series to canvas the breadth and depth of embedding, measuring and reporting on ESG risks and opportunities for businesses. The series was conducted in order to examine how British Columbia can differentiate itself in attracting capital through focusing on credible and impactful ESG considerations.

The ESG in BC series surveyed the global ESG landscape and recognized that British Columbia has a number of unique ESG factors that are material to their economic growth, such as:

• Indigenous involvement, ownership and partnership in natural resources and infrastructure development projects;

• building on their choice as global supplier of lower carbon natural resource products, inputs and solutions; and

• continuing to be a location for investments in technologies and infrastructure that reduce global greenhouse gas emissions.

The series recognized the unique position of Indigenous peoples in Canada. Socio-economic conditions of Indigenous peoples in British Columbia are well-below that of non-Indigenous peoples and this presents a critical ESG factor in securing sustainable growth across the province. Investors are aware of the unique challenges and tensions that are present across the province of British Columbia with respect to Indigenous relations; establishing clarity and certainty through policies that meaningfully engage Indigenous perspectives helps to promote economic development in Indigenous communities and the province in general. Developing policies at the government level or adopting practices within an organization to address this unique issue will undoubtedly be recognized by ESG investors at all classes.

Further, British Columbia is at the forefront in climate change innovations and carbon footprint reduction. Advancing a low carbon industrial strategy based on the province's low-carbon energy and electricity resources will continue to position the province as a supplier of choice for low-carbon goods, services and technologies in all markets. As such, as institutional investors continue to push organizations to incorporate ESG strategies, British Columbia will distinguish itself as a distinct supplier in advancing such strategies.

Targeted Investment

In addition to the above, British Columbia recently established InBC, a Crown corporation created to invest in companies that have include ESG factors in their business plans, including equity, diversity and inclusion, Indigenous reconciliation and the environment. InBC uses a triple bottom line approach of "People, Planet and Profit" and looks for investments which address impact objectives, have a connection to British Columbia and benefit its economy.

InBC's first announced investments were made in a trio of venture funds targeting clean energy, Indigenous enterprises and intelligent technologies. InBC's mandate allows the Crown corporation to simultaneously stimulate the local economy by directly investing capital, while also supporting the government's ESG goals and making investment in the province more attractive.

ESG in California

California is a leader in encouraging investors and investment managers to consider ESG factors in investment decision-making and analyses. The California Roadmap (the Roadmap) was created in collaboration with the Principles of Responsible Investment and the Climate Risk Initiative at UC Berkely School of Law's Center for Law, Energy & the Environment, and establishes a set of recommendations for public and private-sector actions to advance ESG integration in California. Although the recommendations may not all be suitable for areas outside of California, the initiative can serve as a guidepost for key actors in other jurisdictions to respond to, and stay competitive with, competing jurisdictions in attracting outside investment.

As with BlackRock, the Roadmap recognizes that "responsible investment is not the same as socially responsible investment or impact investing… responsible investment can and should be pursued even by the investor whose sole purpose is financial return, because to ignore ESG factors is to ignore risks and opportunities that may have a material effect on the returns delivered to clients and beneficiaries." It further acknowledges, as we have discussed previously, that the materiality of environmental, social and governance factors, and the approach to the same, may vary significantly across industries.

Among other recommendations, including voluntary recommendations and those that will require legislative or regulatory mechanisms, the Roadmap suggests that:

• the State should convene a task force on responsible investment which is tasked with developing a suite of recommended actions to be taken by the legislative, administrative and private sectors in order to standardize and harmonize ESG reporting and further integrate ESG into investor decision-making;

• the State Treasurer, the State Controller, the Department of Finance, and the state pension funds could create an education campaign with respect to the integration of ESG considerations in investment decisions for investors, asset managers and pension funds;

• institutional investors should, as much as possible, integrate material ESG factors into their investment decisions and processes, including, where necessary, collaborating with larger investors or networks in order to complete their ESG analysis; and

• public pension funds should develop governance structures, including board education and having ESG expertise as part of a board's skills matrix, to encourage better ESG integration.

In addition to the above, California has established policies for renewable energy standards, mandated the reduction of carbon emissions, established cap-and-trade

and climate investment programs, and established zero-emission vehicle standards for vehicles sold in the state. In September 2019, California increased focus on the State's ability to leverage its investment portfolio, transportation spending, real estate and other physical assets. The Governor of California directed (1) the Department of Finance to create a Climate Investment Framework including a climate risk investment strategy for state pension funds; (2) the State Transportation Agency to align capital investments with state climate goals; and (3) the Department of General Services to align vehicle fleet, real estate and goods procurement with climate goals and developed new strategies to adopt zero-emission vehicles. This initiative can serve as a valuable reference point for local governments across Alberta to correspondingly investigate ways their governments can leverage their respective assets and finances to achieve regional goals.

Apart from aggressive greenhouse gas emissions reduction efforts, the California government has additionally tabled legislation and regulations to strengthen the consideration of ESG factors across a number of industries in the State, including:

• in 2011, California Insurance Commissioner Dave Jones launched the Insurance Diversity Initiative. The Initiative encouraged insurers to diversify their governing board and their suppliers, which established reporting requirements as to the number and percentage of diverse suppliers, and the diversity of their governing boards. Additional legislation in 2018 directed state pension plans to disclose and monitor climate-related financial risk; and

• in 2018, California legislation was enacted to require corporate boards of California-headquartered companies to include female directors.

ESG in Toronto

ESG Targets and Reporting

The City of Toronto (the City) has taken an integrated ESG approach in its operations and reporting policies. Recognizing that ESG factors can create both risks and opportunities for the City, it has committed itself to building a sustainable foundation for delivering its services and carrying out its operations, including investment management, debt issuance, infrastructure investment, financial planning, procurement and internal operations.

The City has identified material ESG factors unique to its specific challenges and opportunities and seeks ESG integration in reference to these identified factors, including, among others, climate change, social empowerment and advancement, and responsible procurement and supplier diversity. Its integration efforts includes preparing an annual ESG report which is based on the frameworks set out by SASB, GRI, IIRC

and the United Nations Sustainable Development Goals (the SGDs) and addresses the City's objective and performance metrics with respect to certain ESG targets. Through the identification of ESG challenges or opportunities specific to the City, it can correspondingly tailor its operations in a manner that addresses such ESG factors and advances the City's overall ESG plan.

Investment Portfolio and Debt Issuance

The City has a significant investment portfolio and its investment activities are governed by applicable Ontario regulations and investment policies approved by City Council. In generating an investment policy that integrates ESG factors, the City has committed to incorporating the SDGs into its investment decisions, in part because it is of the view that well-managed companies are those that demonstrate high ethical, governance, environmental and social standards and also because it recognizes that these factors contribute to sustainable financial performance. All of the City's external investment managers are signatories to the United Nations Principles for Responsible Investment. The City is in the development stage for tracking and monitoring the ESG performance of its long-term investment portfolio for future ESG reports.

The City has expanded its incorporation of ESG factors and sustainability to the issuance of conventional debentures by the City, aligning such issuances with the City's corporate strategic plan and intention to enhance ESG outcomes across the City. At the end of 2021, the City had outstanding "green debentures" in the total amount of $780 million. The proceeds of which are used to finance or refinance capital projects approved by City Council that satisfy the City's environmental objectives, including resource recovery, pollution prevention and control, and mitigation or adaptation of the effects of climate change.

In addition to the green bonds, as of January 2022, the City remained the only Canadian government to issue "social bonds" and one of only three local governments globally to issue a social bond in accordance with the ICMA Social Bond Principles, with a total amount of $200 million outstanding as at the end of 2021. Proceeds of social bonds are used to finance capital projects approved by City Council that satisfy the City's socioeconomic objectives, including social and affordable housing development, affordable basic infrastructure and socioeconomic empowerment and advancement more broadly.

While Toronto is the fourth largest city in North America and positioned differently than the EDMONTON METROPOLITAN REGION, the above efforts by Toronto demonstrate how a city or region can embed ESG broadly into its long-term planning and operations in an effort to improve the region's sustainability, financial viability and attractiveness to both investors and people generally.

Conclusion

The above examples are a select few items that demonstrate how local governments and organizations across Alberta can establish strategies to promote ESG integration by organizations in their jurisdiction. Although, as demonstrated, ESG efforts by governments or economic development agencies may vary significantly based on the needs, risks and opportunities presented by the applicable area, promoting or mandating ESG integration can be an effective tool to ensure that the companies operating in the region, and even the region itself, do not succumb to an inability to adapt and be resilient in the long-term. With competition for financial capital, human capital, and talent, likely to continue and mandatory ESG reporting likely to expand, local governments, companies, and their stakeholders must recognize that failure to address ESG factors will mean foregoing the measurable and positive financial impact that comes from incorporating the same into policies and reporting.

The implementation of ESG integration is a shared responsibility between government, economic developers and industry. At the government and policy-making level, the focus should largely fall on developing a climate that attracts stability and certainty for investors to feel comfortable with investing capital in the Edmonton and surrounding area. In addition to the potential avenues of action identified in this report, this may include a number of solutions, such as:

• creating regulatory certainty across all levels of government,

• establishing aggressive incentives that serve as a catalyst for promoting innovative solutions;

• investing in ESG-driven infrastructure at the local level;

• developing open-sourced data collection and management systems in relation to ESG factors to facilitate transparency and assist decision-making;

• collaborating with Indigenous communities and providing support for their participation in land-based activities; and

• continuing to market initiatives to attract outside investment from around the globe.

At the organizational level, the initiatives largely remain the same. ESG should be at the forefront of decision-making for any organization seeking long-term and sustainable growth. Organizations must be proactive in identifying opportunities or material risks that effect their operations and respond accordingly.

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