



Arpel: ESG Compliance Workshop

Global Perspectives for the Energy Industry

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Overview: State of Play for the Energy Industry

- I. Compliance and Regulatory Requirements
 - I. Europe
 - II. North America
 - III. APAC
 - IV. Rest of World
- II. Emergence of “Stakeholder Capitalism”
- III. Competitive Differentiation for Energy Companies

State of Play: New era of regulatory, market and societal change influencing energy companies

Big Picture: Climate Change and Social Inequities ≠ Business as Usual

- ❑ Global endorsement of UN SDGs, Paris Agreement, Just Transition and other pledges addressing sustainable development.
- ❑ Lack of trust by civil society toward government institutions and large companies (oil and gas, specifically) to voluntarily act as good citizens.
- ❑ Mandating change through legislative and regulatory actions inconsistent and limited in scope.
- ❑ 'Stakeholder Capitalism' taking root with certain businesses and financial institutions.
- ❑ Capital markets and financial institutions imposing costs and valuation risks on carbon intensive businesses
→ corporate winners and losers.
- ❑ Emergence and convergence of global ESG reporting frameworks and climate disclosure standards.

These forces are yielding a mismatch of stakeholder expectations, investment horizons and vision of the Energy Transition. But...consumer trends, market competition and regional or national rules are in play driving change.

UK & Europe

- UK

- Financial Conduct Authority regulates TCFD-aligned disclosures for market institutions.
- Companies Act requires gender pay, GHG and energy-related disclosures.
- Modern Slavery Act

- Europe (EU)

- EU Energy Law and Non-Financial Reporting Directives
- Corporate Sustainability Reporting Directive starting in 2023.
- Proposed Directive on Corporate Sustainability Due Diligence (environmental and human rights, supply chain oriented).
- Green Deal → Green Taxonomy
- EU Emissions Trading System (ETS) and Carbon Border Adjustment Mechanism

- Europe (non-EU)

- EU Sustainable Finance Disclosure Regulation applies to both EU and non-EU market participants.
- Swiss Financial Markets Supervisory Authority requires ESG disclosures from 2022.



North America

■ Canada

- Canadian Securities Administrators (CSA) ruling for TCFD-aligned reporting from 2024.
- Based on EU's Green Taxonomy, likely to adopt the Canadian Transition Taxonomy.
- History of engagement with First Nations and other Indigenous Peoples of Canada.

■ USA

- Listed companies generally conform to “comply or explain” disclosure rules.
- In March, Securities Exchange Commission (SEC) proposed rule for climate and GHG-related reporting.
- Global NASDAQ listed company voluntary ESG reporting.
- Environmental Justice (Just Transition) reconciliation issues.



APAC

- **Singapore**
 - Singapore exchange requires certain ESG disclosures (comply or explain) by companies.
- **Korea**
 - Korean Financial Services Commission requires certain ESG disclosures by companies by 2025.
 - Independence and conduct of Board Directors is a key flash point of governance, resulting in the Commercial Act of 2021.
- **Japan**
 - Forthcoming rules on TCFD-aligned reporting and supply chain due diligence disclosures (likely to be comply or explain).
- **China**
 - Environmental Information Disclosure Act
 - Hong Kong exchange requires certain ESG disclosures (comply or explain) by companies.
- **Australia and New Zealand**
 - AUS GHG emissions and Modern Slavery disclosure rules.
 - NZ requires TCFD-aligned disclosures for corporates and financial market institutions.



Rest of World

- **South Africa**

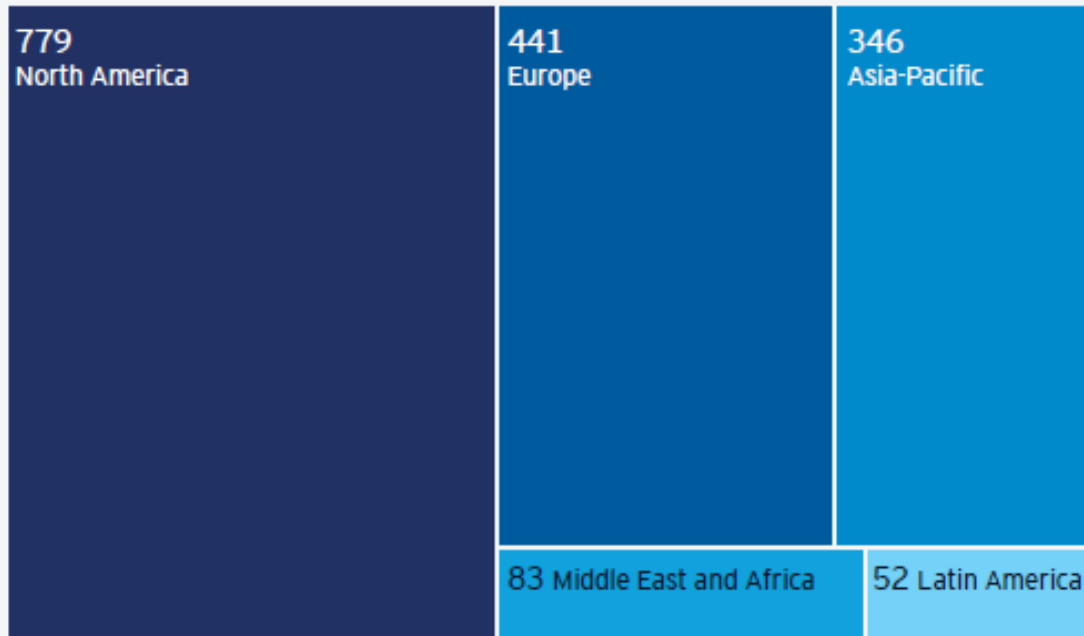
- Johannesburg Stock Exchange Sustainability and Climate Disclosure Guidance for listed companies.
- So-called King Codes or the Code for Responsible Investing in SA, voluntary initiative or “apply and explain” compliance.

- **Other**

- Minimal or no ESG regulatory rules.
- Loose alignment with foreign investment directives and development bank requirements (e.g., IFC Environmental and Social Performance Standards).
- Opportunity for asset owners (pension funds, SWFs) to work with capital market regulators to create reporting practices and ESG metrics to attract capital and enable SDG-aligned outcomes.

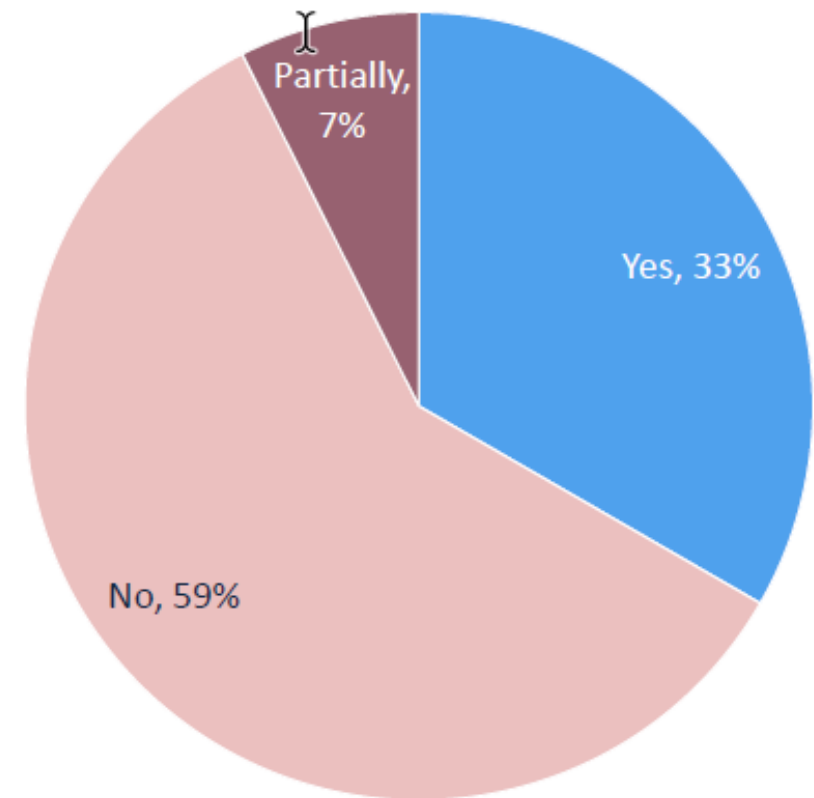
State of Play: Corporate Reporting

TCFD-aligned reporting, number of global companies



Source: Task Force on Climate-related Financial Disclosures: 2020 Status Report, October, 2020.
Available at: <https://www.fsb.org/wp-content/uploads/P291020-1.pdf>

Mandatory reporting by IPIECA-member companies



Source: IPIECA Reporting Survey, 2021

State of Play: ESG Risk Identification

IPIECA member companies ranked prioritization of ESG issues; a balance in reporting?

2020

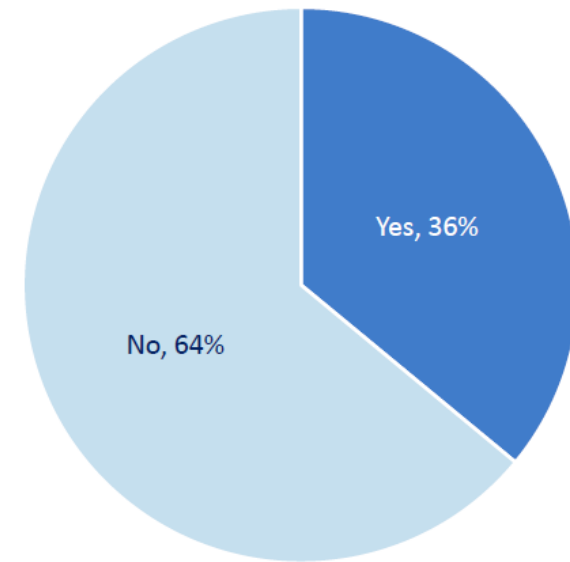
1. Climate
2. Workforce protection and safety
3. Human rights
4. Water management
5. Community relations

2019

1. Climate
2. Process safety
3. Community relations
4. Business ethics
5. Environmental management

Do you include stakeholder voices (interviews, direct feedback) in your sustainability/non-financial/ad hoc report?

64% of respondents (16) answered 'no'



Source: IPIECA Reporting Survey, 2021

Concluding Remarks

- ❑ Confluence of regulatory and market-based rules - both mandatory and voluntary – are influencing capital markets and corporate behavior, governance and responsiveness to ES and G issues.
- ❑ A convergence of rules and reporting frameworks broadly aligned with TCFD-related and social performance indicators (human rights, DE&I, Environmental Justice/Just Transition).
- ❑ Rules-making and reporting processes are continuously evolving, hopefully improving to serve a broader base of key stakeholders.