Sustainability Investment Leadership Council

ELEVATING THE CONVERSATION ON CORPORATE SUSTAINABILITY

SILC Club Newsletter Q1 2018

Dear Friends:

The **SILC Club** is kicking off a busy 2018 with exciting programming to elevate and catalyze corporate sustainability through empowering finance, accounting, legal and compliance professionals to create a stakeholder ecosystem founded on transparency, accountability and inclusivity.

We begin the year with "**Stranded Assets: An Open Discussion on Corporate Disclosure of Possible Hidden Losses Due to Climate Change**", a panel event on Wednesday, February 7 at 5:30 p.m. being generously hosted by **Thomson Reuters** and brought to you in collaboration with Thomson Reuters and the **Cambridge Institute for Sustainability Leadership** (CISL). Our speakers will include **David Parham**, Deputy Director of Research and Sector Analyst covering Non-Renewable Resources at the Sustainability Accounting Standards Board, **Laura Devenney**, Senior Associate on the Carbon Asset Risk Team at Ceres, and **Cynthia Simon,** Senior Manager – Investor Initiatives at CDP North America.

Our own **Shari Littan**, who is an Editor/Author for Thomson Reuters, and CISL US Ambassador will moderate the evening. Shari has said, "Severe weather events, such as hurricanes and fires continue to show the economic costs of climate change. At the same time, transformation of the economy to low or carbon-free energy also has its costs, even to the average investor saving for retirement. This is creating demands for relevant and reliable information for decision-making and new standards of disclosure." Please register here to join us for this interesting conversation.

The SILC Club has plans in motion to hold a meeting on Thursday, March 8, 2018 from 7:30-8:30 am at the offices of **Greenberg Traurig** to talk about **effective ways to make Community Relations work for enterprises of all sizes**. At the first two annual SILC Conferences, among the clear takeaways were:

1. Creating and enhancing reputation is an essential ingredient to sustainability;

2. among the many tools available, two have proven consistently effective (for business reasons, not altruistic ones): Diversity & Inclusion in Hiring and Promotion and Community Relations (emphasized in "Six Capitals" by Jane Gleeson-White).

Having this information in the tool kits of SILC Club members will prove practical. The panelists for this event will be announced later this month.

Last but not least, please check out our website at www.silcny.com or connect with us on LinkedIn, Twitter or Facebook where you can find more information about the SILC Conference and upcoming SILC Club events.

We look forward to seeing you at one of our events in the near future.

Sincerely,
Jeffrey Yin, President

Events Calendar

February 7, 2018:
| *Stranded Assets: An Open Discussion on Corporate Disclosure of Possible Hidden Losses Due to Climate Change*
click to learn more

February 8, 2018:
| *The Role of Lawyers in Climate Action (Hosted by Thomson Reuters Foundation and Dentons)*
click to learn more

February 15, 2018:
| *The Economist: Investing for Impact*
click to learn more

February 23, 2018:
| *NYU Social Innovation Symposium*
click to learn more

March 8, 2018
| *Effective Community Relations for Businesses at the offices of Greenberg Traurig, LLP*

March 22-23, 2018:
| *Community Development Venture Capital Alliance's 23rd Annual Conference*
click to learn more

May 2, 2018:
| SILC's 3rd Annual Conference
click to learn more

Q1 2018 Newsletter

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SILC Club News

SILC, Latham & Watkins and Mintz Group host Panel on Reputation and Sustainability | by Erin O'Brien

On November 9th, SILC hosted a panel discussion on the topic of Reputation and Sustainability along with Latham & Watkins LLP and Mintz Group, a global corporate investigations firm.

The panel featured Jim Mintz, private investigator and founder of Mintz Group, and Sara Orr, an environmental, energy, and natural resource attorney at Latham & Watkins LLP.

A Panel on Reputation and Sustainability. *L-R: DRIVEN Professionals Founder Deborah Goldstein, The Mintz Group Founder Jim Mintz, and attorney Sara Orr of Latham & Watkins LLP*

The panel was moderated by SILC's own Deborah Goldstein, founder of DRIVEN Professionals, an organization that advises companies on topics related to human capital.

Sara Orr shared stories from her experiences working on environmental, energy, and natural resource-related projects, both in the US and Australia, and emphasized the importance of understanding all counterparties of a transaction. In particular, she noted the necessity of fully understanding the reputation of your local partner and the overall environment in which they do business when doing deals internationally. Jim Mintz spoke about the tools private investigation firms use to thoroughly vet both business counterparties and new hires and the ability to customize a search. Audience members raised thought provoking questions about the reputational risk of not performing sufficient due diligence and the cost-benefit analysis of sometimes pricey background checks.

Club Picks

BlackRock CEO emphasizes the importance of long-termism in annual letter to CEOs of public companies. "Your company's strategy must articulate a path to achieve financial performance. To sustain that performance, however, you must also understand the societal impact of your business as well as the ways that broad, structural trends – from slow wage growth to rising automation to climate change – affect your potential for growth." Read more on BlackRock's site.

First socially responsible robo-adviser launches – Wealthsimple. "Wealthsimple is the first of this kind of investor to offer an SRI (socially responsible investing) portfolio that matches the kinds of investments made with the kinds of social and political concerns likely to appeal to the young – environmental issues, fair employment and corporate governance." Read more on the New Statesman.

Private equity giant KKR warns that misconduct scandals in 2018 may have grave implications for corporate reputation and investment outlooks. "One thing investors can do, though, is use corporate governance criteria and examine companies' history in dealing with personnel issues and harassment allegations. Social media has served as an effective conduit to expose harassment scandals, and will continue to do so, KKR said in its 2018 market outlook." Read more on CNBC.

Member Spotlight

Benjamin Overton
Program Officer, Thomson Reuters Foundation

At the Thomson Reuters Foundation, I connect nonprofits and social enterprises to lawyers around the world for pro bono assistance. My background is in the nonprofit sector, where I worked previously in the field of human rights and foreign policy. I get most excited by cross-sector partnerships that leverage the collective power of the private, public, and voluntary sectors to create positive impact on our communities and the world. This connects closely to my work at TRF and with the SILC Club, where we raise awareness and build support in the legal, accounting, and investor communities for solutions to the most pressing social and environmental challenges we face today. I was thrilled last year when we had a packed house at Deloitte for one of our first brainstorming sessions as a group, and envision the SILC Club in the future as the catalyst for numerous important partnerships between sustainability professionals from a wide diversity of sectors.

Book Review: "Double Entry" is a War Cry to Accountants

by Jaishree Singh

In "Double Entry," Jane Gleeson-White argues that the way humans currently measure and report business value is dangerous for human life and the planet. For instance, a cost-benefit analysis by the Ford Motor Company in 1977 found that the cost of adding a safety device to their Pinto vehicles was greater than the benefit of preventing human deaths; the safety device was omitted and at least 500 people burned to death in Pinto cars between 1971-77 (pg. 250-1). Under current GDP calculations, countries become richer in the short-term by cutting down their forests for timber and polluting their soil for intensive agriculture (pg. 238) Quoting Bobby Kennedy in the preface, "…[W]e seemed to have surrendered personal excellence and community values in the mere accumulation of material things…the [Gross National Product] measures everything…except that which makes life worthwhile" such as health, education quality, or political integrity (pg. 1-2). Gleeson-White says that while accounting tools are used by governments, managers, policymakers and shareholders to make decisions these tools do not convey the actual state of businesses; in fact, modern accounting figures are "arbitrary [and] illusory" (pg. 5). "Double Entry" shows the birth and development of double-entry bookkeeping, an accounting tool that could be the determining factor as to whether humans "make or break the planet" (pg. 3, 8).

Humans began "accounting" or measuring and recording their wealth since 7000 BC in Mesopotamia using fired clay tokens (pg. 11-13). In 500 BC, Greece and Rome used more sophisticated accounting records and accounting information was considered necessary to maintaining Athenian democracy (pg. 15). Luca Pacioli was a Franciscan monk who published several books on mathematics, the most famous of which was the "*Summa de arithmetica, geometria, proportioni et proportionalita*" published in 1494 (pg. 29, 79). A small portion of *Summa* entitled, "Particulars of Reckoning and Writings," was the first published work on double-entry (or Venetian) bookkeeping and led to this style of bookkeeping becoming standard among 15th century European merchants (pg. 29, 92).

Gleeson-White says that while double-entry bookkeeping allows us to quickly assess commercial activity using figures related to cost-benefit and profit, this profit-hungry mindset causes great harm to human beings and the planet as a whole (pg. 175).

Double-entry bookkeeping allowed business owners to distinguish capital and income in order to calculate profit (pg. 147). German economist, Werner Sombart (author or *Der moderne Kapitalismus*), argues that double-entry bookkeeping led to the birth of capitalism and commercialism (a.k.a. continuous and systemic acquisition of profit) (pg. 162, 166-7, 171). Gleeson-White says that while double-entry bookkeeping allows us to quickly assess commercial activity using figures related to cost-benefit and profit, this profit-hungry mindset causes great harm to human beings and the planet as a whole (pg. 175).

The United States and Britain created national accounts in the 1930s-40s in order to assist their governments in making economic decisions during the Great Depression and World War II. Since then, national accounting figures (e.g. GDP) guide policymakers in making decisions that affect their nation's populations. However, according to Simon Kuznets, GDP is flawed in that it does not include household production, the costs of economic development, and other non-market activities. Hence, Gleeson-White argues, GDP is not meant to indicate or guide the economic condition of a nation (pg. 227-9).

Speaking of non-market activities, economists recognize the role that the environment plays in facilitating economic activity; the environment helps produce raw materials, purify water, decompose waste, maintain soil, pollinate flowers, control pests, absorb carbon, defend coasts, reduce pollution, and regulate climate (pg. 236-8). Current GDP calculation excludes natural resources (e.g. water, soil, forests, clean air), for example, because natural resources were assumed to be infinite (and free) (pg. 230-1, 237). Economists now realize that natural resources are finite and depreciate just like human-made capital (e.g. machinery) (pg. 230-1). In total, Sir Partha Dasgupta of Cambridge University remarks that GDP measures economic flows while ignoring capital stocks (e.g. social, human, and natural resources); moreover, the current GDP leads policymakers to make decisions that focus on the short-term and ignore long-term consequences (pg. 230-1). According to Klaus Toepfer, the former Executive Director of the U.N. Evironmental Programme, if we do not begin valuing capital stocks such as natural resources in our economics, we will bear the cost of losing them in the future. Earth's ability to support human beings can fade or become less predictable (pg. 238-9). According to the UN-supported Millennium Ecosystem Assessment in 2005, humans are destroying 60% of the earth's "ecosystem services." Dasgupta calls the need to put prices on local and global ecosystems an urgent task (pg. 239).

Commissioned by France's former President, Nicholas Sarkozy, economists Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi published a report in 2009 that proposed new measures be established in order to assess the progress of nations: these included health, education, environment, employment, material wellbeing, interpersonal connectedness, political engagement, equity, and economic/environmental sustainability (pg. 243). Economists Paul Ormerod and Amartya Sen believe that altering national accounting methods would inspire changes in government policies and thus improve the quality of life on earth. For instance, the inclusion of non-market factors in national accounts would put a price value on items such as trees, health, and education and thus force policymakers to seriously consider these items when constructing policies related to pollution, urban planning, education, and healthcare (pg. 244-5).

While accountants must wrestle with how to define, measure, and value natural capital, bodies such as the EU Environmental Agency and its partners are taking steps to do so. Moreover, the UN's Conference on Sustainable Development in 2012, which was supported by G20 leaders, discussed creating an institutional framework for sustainable development—this important discussion suggests international momentum with respect to revising the GDP measure (pg. 248-9). Jonathan Watts argues that accountants are key to changing the discourse on the global capitalist economy. In other words, accountants should advocate for altering accounting procedures so that they reflect our values on protecting humanity and the planet on which we depend (pg. 249).

About the Author

Jaishree Singh, MSPH, is a graduate of Johns Hopkins School of Public Health and an active member of the SILC Club. She has conducted health research for numerous non-profit organizations, including the Rockefeller Foundation, PRASAD, and ECHO. Ms. Singh is interested in refining impact measurement tools and reporting in order to help investors source profitable and health-positive business opportunities.

Stranded assets: Balancing the books in light of climate change

by Shari Littan

A warmer future means industries from agriculture to retail need to understand the concept of a "stranded asset."

As organizations worldwide step up their attention to **climate change** and the transition from fossil-fuel energy to renewable sources such as **solar and wind**, businesses and their investors have expressed concern about **stranded asset** risk.

What are stranded assets?

The term "stranded assets" lacks a precise technical meaning in terms of accounting rules.

Ben Caldecott and a team of leading researchers on stranded assets at the **Smith School of Enterprise and the Environment**, at the University of Oxford, have broadly defined stranded assets as "assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities and they can be caused by a variety of risks." Specifically, the term is often used to describe financial losses from the diminished value of conventional energy producers' reserves of coal, oil, gas, and similar hydrocarbon properties.

The assets listed on the financial statements of energy producers reflect a portion of this value. Another portion, which represents expectations about cash flows from future production, is not reported on the balance sheet. This expectation, however, is reflected in the price of the energy producer's securities. As expectations of future profitable production diminish, properties become subject to impairment and abandonment, and financial losses may result.

How do energy prices affect stranded assets?

Over the last decade, the overall market price of fossil fuels has declined for a variety of reasons, including efforts to increase efficiency and respond to climate change through the reduction of greenhouse gases. Reduced demand affects the long-term market price and the viability of conventional energy-producing assets. If prices remain at historic lows, the investments may increasingly become at risk.

How much is at risk?

Given the risks, investor groups, NGOs, and certain government and banking entities around the world have begun to sound alarms.. Using the phrase "unburnable carbon," in 2013, the **Carbon Tracker Initiative** concluded worldwide efforts to limiting global warming to 2 degree Celsius could result in significant losses to current worldwide investment in conventional energy companies, $4 trillion in market value of equity investments and $1.27 trillion in debt. Financial leaders including Henry Paulson Jr. and Mark Carney, governor of the Bank of England, began warning the financial markets to pay attention. The actions taken toward meeting or exceeding the 2015 Paris Accord targets could accelerate impairment. More recent publications by CTI, moreover, alert investors not only about existing operational assets, but hydrocarbon production projects that are planned but not needed.

SILC Club Features

How can information help identify stranded asset risk?

Estimating potential stranded assets and related losses is a challenge. It requires assessing expectations about future energy use, prices and regulatory initiatives. These drivers affect projections of not only the amount but also the timing of when particular fossil-fuel assets may lose viability.

The Financial Stability Board has established a **Climate-related Financial Disclosure Task Force**, which is developing enhanced disclosure guidelines regarding climate change. Sensitivity analyses that reflect a range of scenarios, including a 2 degree Celsius limit, are described as critical for identifying stranded asset risks.

Is stranded asset risk limited to energy companies?

An abandoned excavator is partially covered by coal waste at a coal mine of the state-owned Longmay Group on the outskirts of Jixi, in Heilongjiang province, China, October 24, 2015.

The need for these stress tests is not limited to energy producers. Entities up and down the energy supply chain, such as equipment and transportation companies and utilities, are similarly at risk. A broad range of other industries, such as agriculture, leisure and retail may also be climate-dependent or have operations concentrated in energy-producing regions. Data-based stress tests can help companies meet increasing demands for climate-risk disclosure, which can enable investors to make informed decisions.

SILC EVENT

SILC Presents: A Discussion on Stranded Assets and Corporate Disclosure

Wednesday, February 7, 2018
5:30 PM – 8:00 PM EST

Thomson Reuters
3 Times Square
Carnegie Hall Room
New York, NY 10036

The SILC Club is excited to announce an upcoming discussion on the topic of stranded assets in collaboration with Thomson Reuters and the Cambridge Institute for Sustainability Leadership (CISL).

Please join us as we discuss stranded assets and corporate disclosure of the possible hidden financial risks arising from climate change.

Click here to register

About the Author

Shari Helaine Littan, CPA-JD, is a full-time editor and author for GAAP Reporter, available on Thomson Reuters Checkpoint, which helps professionals understand and stay current on financial reporting guidelines. In 2015, she completed the Postgraduate Certificate in Sustainable Business, with commendation, from the University of Cambridge Institute for Sustainability Leadership. Her interest area is the convergence of various sustainability reporting frameworks and integration with traditional financial accounting. Ms. Littan holds a JD from Boston University School of Law and a BS, magna cum laude, from the School of Management at Binghamton University. Ms. Littan is also an active member of the SILC Club.

The Missing Ingredient: Why Trust is Vital To A Cohesive Workplace

by Deborah Goldstein

The 21st-century corporate workplace invokes various images for different people. Some imagine instability (rumor has it millennials tend to job hop). Others foresee the mainstreaming of folks working remotely (as more and more currently do). Visions of teamwork and community — like pool tables and community spaces — are commonly projected as the means to derive optimal creativity and increased profits. After all, diversity and collaboration inspire optimum outcomes.

While this makes sense on paper, reality indicates that companies are missing the mark. Diversity may rise to the top of firms' agendas, but too often, inclusion eludes them.

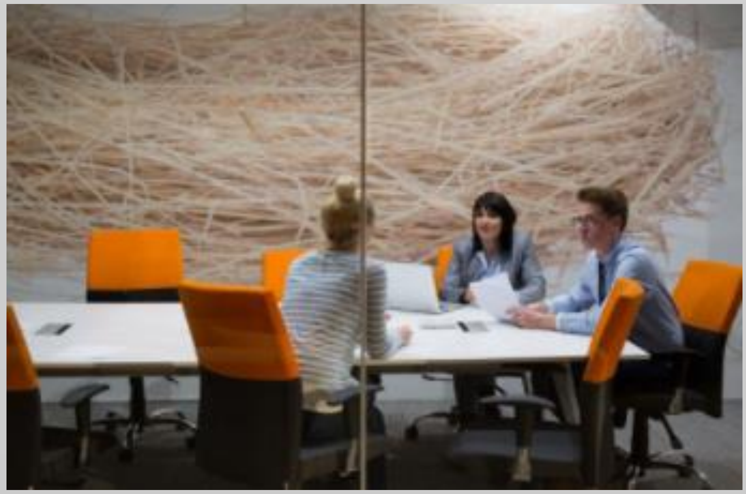

Photo by Shutterstock

The missing ingredient to these professional visions of grandeur is trust. Call it one small word with enormous implications, which include mindful communications skills, emotional intelligence, and a company-wide commitment to cultivating a trusting atmosphere. Holistically, trust must be exhibited from the top down through an organic process that takes time to permeate a company's culture. But we, as individuals, can initiate our own frontiers of trust, empowering ourselves to cultivate reliable workplace relationships from the middle, outward.

This, of course, takes patience and calculated insight. As the participants of my recent workshop that explored how to build an aura of corporate trust can attest, it's all within reach, evidenced by their powerful epiphanies, energy shifts, and motivations to make a change. Here were their four most enlightened breakthroughs about workplace trust.

We've all been there.

As the workshop participants introduced themselves, they each shared an anecdote about questioning another's breach of trust at their own workplace. Recognizable patterns soon emerged, and many stories resonated as the same scenario with different characters. Empathetic heads were nodding, as to indicate "been there" and "you're not alone." There was a mutual compassion in the room and a communal sense of being heard.

Sharing these experiences brought everyone closer together and revealed the secret causes behind waning trust. This opening exercise ultimately served to simulate the trusting atmosphere these professionals envisioned for their companies and set them on a path toward managing trust in the future.

Assume positive intent.

One of my clients, Carol, had a lesson-worthy experience with her boss, Bob, which we used as a case study to scrutinize aspects of trust. In a nutshell, during her annual review, Carol had asked Bob what it would take for her to be promoted to managing director at the accounting firm where she was employed. Bob shared three specific goals Carol needed to reach, and Carol fulfilled each of these challenges over the course of the fiscal year. The next year, Carol went in for her annual review prepared with her "case" for promotion. Bob stopped Carol before she could even lay out her case and told her that she wouldn't be promoted that year. Carol felt completely duped.

At first, the story sounded alarming to our workshop group. They felt as if it could have happened to them. Then, when they analyzed their emotional responses (pounding hearts, confusion, lightheadedness) and their suspicions (Bob was out to get Carol!), they became outraged.

It wasn't until we paused and posed some questions that their emotions began to ease. As more of the story was revealed, so were participants' blind spots, allowing grave misunderstandings and assumptions to be pinpointed. Bob wasn't out to get Carol; she'd, in fact, jumped to conclusions about Bob's otherwise innocuous intentions. This was then superimposed over CEO of PepsiCo Indra Nooyi's advice to "assume positive intent." In our group's estimation, if Carol had followed that advice, she could have preserved a higher level of trust with Bob instead of flying off the rails.

> "Holistically, trust must be exhibited from the top down through an organic process that takes time to permeate a company's culture. But we, as individuals, can initiate our own frontiers of trust, empowering ourselves to cultivate reliable workplace relationships from the middle, outward."

The marquis is "all me."

As we tracked the course of Carol's poor assumptions, it became clear that in focusing on a specific goal, she had narrowed her vision. She was all about herself, and the brain science backs it up: When we're in an unsafe environment, hormones dash through the body, and the brain becomes fogged. As one participant put it, "It seems that things go dark in sticky situations."

I contributed the analogy that we're all starring as the main character in our own movie — the movie of life. When there is no stress, we have many co-stars in our movie, all sharing the billboard in big letters. But when stressful times arise, our vision of those co-stars fades, and they're downgraded to extras.

This is when another participant shared the poignant image of a man climbing a ladder and beginning to remove the letters of our co-stars' names from the marquis. It's a cautionary example of how the erosion of trust can recast well-meaning colleagues as nobodies, or even worse, as villains.

Assess before you're triggered.

Our group agreed that a person's trustworthiness can be considered *before*our assumptions are triggered. In her heated moment, if Carol had taken a deep breath to reground herself with respect to Bob's known trust factor, the misunderstanding could have been averted.

The Trust Equation, a powerful tool explained in David Maister's book, *The Trusted Advisor*, was employed to get a clear pulse on Bob's strengths and weaknesses. Once that baseline was applied, it became obvious that Carol did herself a disservice by believing her assumptions. If she had downplayed a few things Bob said, factored in his scatterbrained tendencies, and acknowledged his "me first" self-orientation, she'd be looking at a promotion instead of composing an apology.

Upon reflection, our group surmised that change is a process. Once basic brain chemistry and pre-trigger protocols are grasped, we must put our knowledge into practice in order to make the transformation to a trusting work environment, never losing sight that we are *all* works in progress.

About the Author

Deborah Goldstein is the founder of DRIVEN Professionals (DRIVEN) and an active member of the SILC Club. DRIVEN Professionals assists evolved companies in providing their employees the tools necessary for career success. DRIVEN workshops and coaching focuses on Corporate Emotional Intelligence, Network and Business Development Strategies and Intentional Productivity. DRIVEN addresses motivated professionals holistically and supports their clients in leading "richer" lives. Deborah is DRIVEN's own best student, constantly learning and sharing life's best practices and integrating work and personal life.