



AFP 2022
OCTOBER 23-26 | PHILADELPHIA

Developing and Integrating ESG into Corporate Financing

John Garofano
Treasurer, Teranet



TERANET[®] RELIABLE DATA +
INSIGHTFUL SOLUTIONS

About Teranet

Leader in registry software and solutions

- International leader and pioneer in electronic registration systems and commercial solutions
- Exclusive provider of Ontario's Electronic Land Registration System; also owns and operates the land and personal property registry in the province of Manitoba
- Largest national Canadian provider of personal property search / lien registration, asset recovery, and insolvency management services / solutions to lenders
- Offers a complementary suite of innovative data, insights and workflow solutions for several key industries, including real estate, financial services, law, government and utilities



Employer of choice

- Headquartered in Toronto; over 1,300 employees in 16 offices across the world, servicing customers in Canada and across the globe
- Recognized as one of Greater Toronto's Top 100 Employers for six years in a row (2017 - 2022)



What is ESG – a primer

- An approach to evaluating the extent to which a corporation works on behalf of goals that complement its role of maximizing profits on behalf of shareholders
- Set of standards for a corporation's behaviour used by socially conscious investors to screen potential investments
- Evolved from Corporate Social Responsibility (CSR) initiatives started in the 1970s, but has gone beyond CSR to include measuring and monitoring actions and outcomes
- Components encompass:



Achieving Environmental Objectives

Climate Change | Natural Resource Use | Pollution and Waste | Environmental Management



Supporting Social Movements

Inclusion and Diversity | Health & Safety | Social Justice | Corporate Social Responsibility



Establishing Governance Structures

Corporate Governance | Enterprise Risk Management | Cybersecurity | Board Effectiveness and Diversity



Impetus for ESG at Teranet



Investors (Bond Program)

- Questions at investor conferences, at 1:1 meetings, and during recent bond refinancings
- Becoming a component of investor analysis (in its infancy)
- Material included in Teranet investor presentations (at high level)



Bank Customers

- Major Canadian banks are also customers; Teranet provides assistance in registration and recovery of major assets
- Surveys requesting detail on ESG activities
- Teranet response currently at high level only



- These requests from investors and other stakeholders expected to grow in number and scope
- The principles of ESG align well with Teranet's objectives in optimizing business outcomes with key stakeholders

Challenges for Teranet

Classification on the ESG spectrum

- Difficult company to classify by sector, grouped as an infrastructure credit with bond investors
- But minimal carbon footprint – “E” would not be the biggest lever in the ESG program
- Company has more social “S” focus due to its work with government and under frameworks which underpin the economy at large



Project Management / Implementation

- ESG is a transformative exercise – similar in scope to SOX implementation
- Not possible to create dedicated ESG team / personnel (unlike big companies)
- Needed engagement at the top – nodding heads vs actual commitment of resources

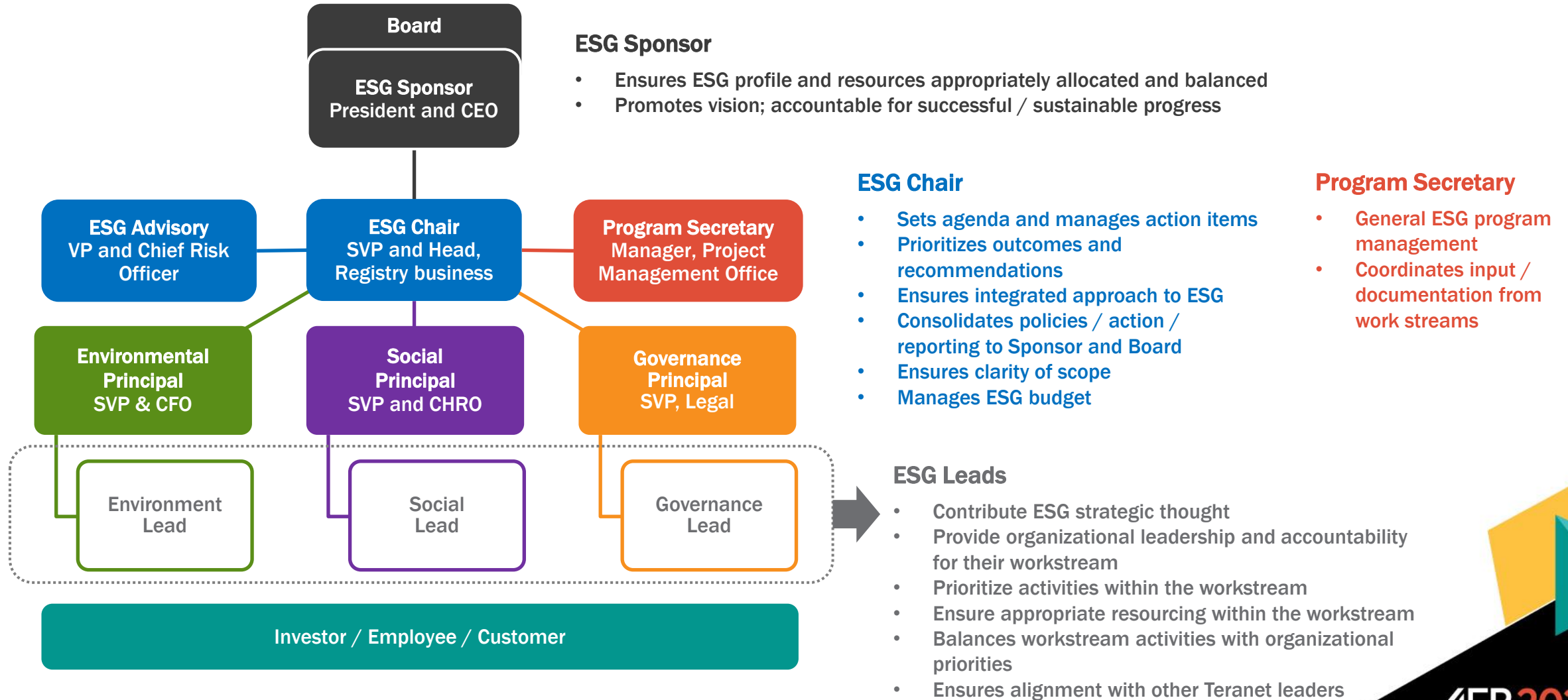


Teranet had to make some significant decisions upfront:

→ How to deploy resources toward the ESG effort

→ What those resources would focus on

ESG Committee Structure at Teranet



ESG Process at Teranet



Materiality Assessment

- Leaders of each pillar bring considerations to ESG Steering Committee
- Steering Committee decides and validates prioritization

Where are we now and where are we going?

What do stakeholders care about?

Where should we focus our efforts?



Integration with organizational objectives

- Ensured **mission / vision** broad enough to encompass ESG activities
- Will re-check alignment at conclusion of current strategic planning exercise



Integration with Budgeting

- Chief Risk Officer (ESG Advisor) attends each business unit / shared service budget meeting
- Role to question whether key business unit / company initiatives tie into ESG objectives

Teranet ESG efforts – developing the “E”



Accomplishments to date

- 4 offices (70% of total leased space) Gold LEED certified
- Lowered footprint (reduced energy consumption by 50%) at major office location
- Offices established in transit-friendly locations
- Camera off day (conserve bandwidth / electricity) on Earth Day



Teranet ESG efforts – developing the “E”



Ambitions for the future

- Continuing to right-size office footprint requirements
- Cloud Computing – reducing data center / server storage space requirements
- Re-opening contracts that currently specify mandatory in-office work activities
- Charitable donations review – potential for greater environmental support
- Provision of climate risk data



Teranet ESG efforts – developing the “S”



Accomplishment to date – Employee Resource Groups

- Established 3 Employee Resource Groups (ERGs), each with active committees, chairs, mandates, etc
- Creates a more inclusive and welcoming workplace; fosters greater employee engagement
- Each ERG has a separate “micro-site” within our internal website, with resources and information
- Each ERG plans activities and educational opportunities



ERG Group 1: GEL
Gender Equality & Leadership



ERG Group 2: BIPOC
Black, Indigenous & People of Colour



ERG Group 3: LGBTQ2S+ Allies
**Lesbian, Gay, Bisexual, Transgender,
Queer, Two-Spirit & Allies**

Teranet ESG efforts – developing the “S”



Other Accomplishments to date

- Creation and tracking of employee classification metrics (broad-based gender, ethnicity, disability, military etc)



- Social committees at all locations (especially challenging during the pandemic)
- Recognition of religious / cultural days and events
- Leadership ‘social sensitivity’ training

- New tool to identify language with gender bias
- New tool to facilitate pronunciation in auto-signatures



Teranet ESG efforts – developing the “S”



Ambitions for the future

- Trending of measured employee classification metrics (broad-based gender, ethnicity, disability, military etc)



- Micro-aggression training (unintentional exclusion)
- Allyship – ally vs passive supporter
- Prayer / reflection rooms (proper settings, cultural and religious appropriateness)
- Sickness vs mental health

- Corporate Donations guideline / framework



Teranet ESG efforts – developing the “G”



Accomplishments to date - Policies

- Comprehensive review and gap assessment – what is missing from all policies from ESG perspective
- Centralization of all policies, including identification of ownership
- Policy assistant AI, including policy ‘auto-reminders’



Accomplishments to date – Board Diversity

- Teranet Board now includes 3 women (including Board Chair and Audit Committee Chair) and 1 person of colour (out of 7)

Teranet ESG efforts – developing the “G”



Accomplishments to date - Data

- Tool and framework for the management and stewardship of data throughout the organization
- Identification and empowerment of data owners
- Classification of data
 - Restricted e.g. payment / credit card information
 - Confidential e.g. other customer data (health card)
 - Protected e.g. operational data
 - Public e.g. job description on website
- Data retention schedule and methodology
 - What are we obligated to keep or delete
 - Time period of disposal
 - Ongoing monitoring – deleting what we should be
 - Legal hold – ensure deletion turned off, but only as appropriate



Teranet ESG efforts – developing the “G”



Ambitions for the future

- **Implementation of tool to centralize and manage policies**
 - Facilitates internal audit / risk management function
 - Ensures compliance with PCI legislation
 - Policy storage, management and governance
- **Review and optimization of supplier assessment process**
 - Facilitates vendor risk management
 - Automation and standardization
 - Consolidation – implementation corporate wide
- **Maturity of Enterprise Risk Management and Data Governance Program**



Teranet ESG efforts – future general considerations



Reporting Framework

- Wide variety of sustainability reporting frameworks
- Landscape changing – some ‘competing’ organizations starting to collaborate
- Jurisdictional considerations - intended alignment with Canada / Ontario govts



Development of Organizational Targets

- Must be relevant to Teranet AND meaningful to investors
- Balancing act in selecting appropriate target levels:
 - too lofty / aspirational – potential to backtrack / not meet target
 - too conservative – easily meet but no ‘teeth’ in investors’ eyes



Data and Management Reporting

- Development of new data (e.g. employee classification metrics)
- Process to collect new data / management information system
- Embed into regular organizational routines

Investor trends

Dedicated ESG personnel

- Most investors (two-thirds in Canada) have separate team(s) of ESG analysts
- Can use credit analyst **and** ESG analyst in evaluation of issuer / offering
- ESG data growing in importance alongside traditional financial / valuation metrics



ESG performance assessed across three pillars: current operations, ESG controversies, and future positive impact



Current Operations

How well is a company managing the current ESG impacts of its existing operations?

- Where is ESG responsibility held at the company?
- What are the policies, procedures and initiatives in place to mitigate ESG risks?
- How does the company engage and consult with communities?



ESG Controversies

How are controversies impacting ESG ratings and perception?

- Has the company been involved in any significant ESG controversies?
- If so, what initiatives were undertaken to prevent future ones?
- Are there industry-specific controversy risks that are difficult to mitigate?



Future ESG Opportunities

How is the company positioned to capture opportunities with positive environmental / social impacts?

- How is the company preparing for changing perceptions, regulations and legislation related to ESG?
- Has the company set targets related to ESG performance?
- How is the company approaching clean technologies, diverse talent and socioeconomic inclusion?

Investor Evaluation Criteria

What makes a good ESG program in the eyes of investors?



Strategy

- Assessment of what ESG factors drive most value in the company
- Integration into and across the entire organization



Transparency & Reporting

- Does organization have the data by which investors can monitor progress on ESG strategy
- Selection of reporting framework



Target Setting

- Establishes accountability: quantifiable and time-stamped metrics
- Provides a mechanism for investors to have checkpoints along the ESG journey



ESG Ratings

- How are external providers assessing company's ESG efforts
- Expansion beyond traditional (i.e. S&P, Moody's, etc) credit rating agencies – detail on separate slide



Governance

- Assessment of ability to transition throughout organization
- Skin in the game: compensation tied to ESG data and targets

Rating agency considerations

Traditional agencies incorporating some ESG visibility into their credit analysis

- S&P – develops a score for each pillar on a five-point scale, not reflected in credit profile
 - Moody's – similarly uses five-point scale, used as inputs (diverges from S&P approach)
 - DBRS – no scoring methodology, uses more analytical judgement
- Generally low / no impact on credit rating unless material to the credit / issuance



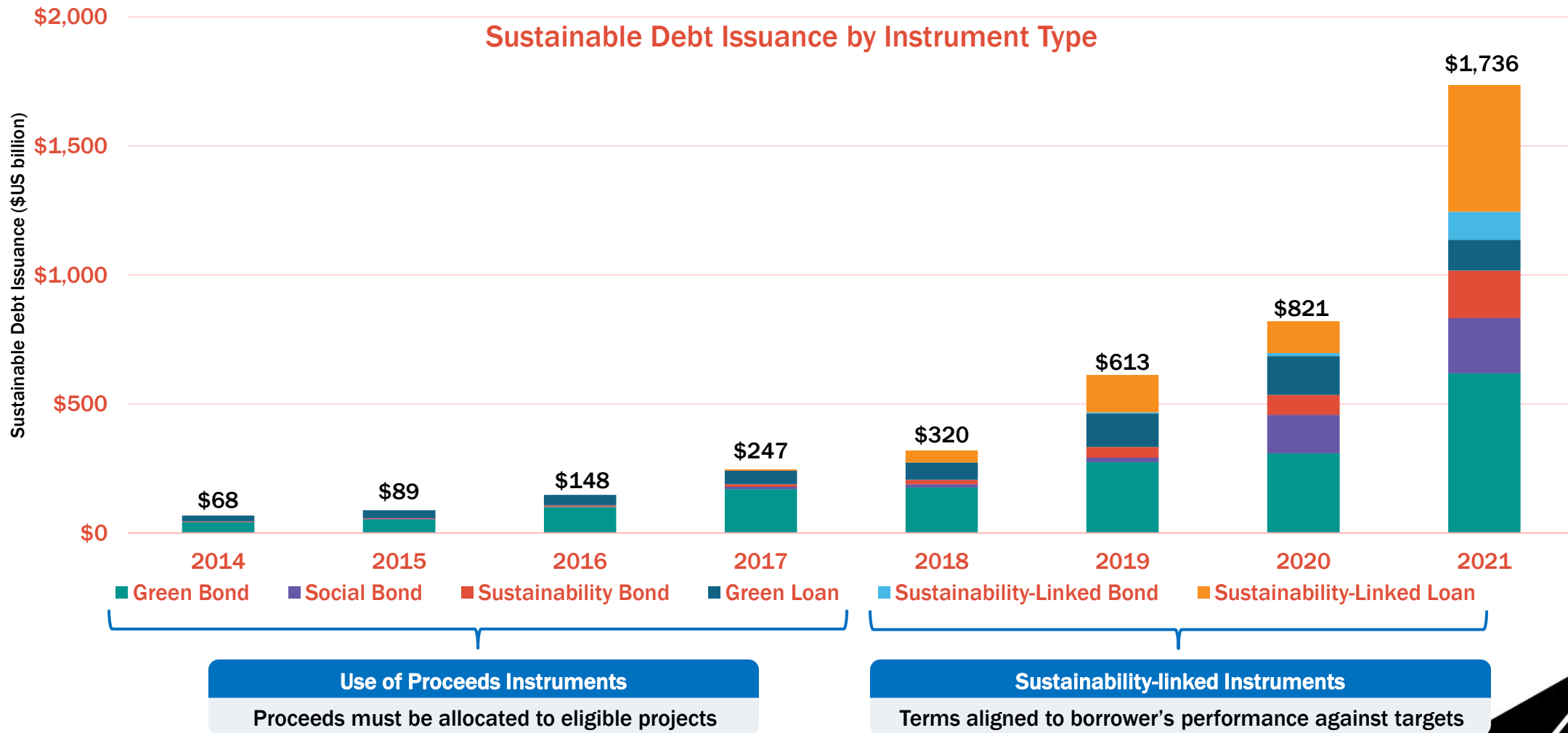
Separate sustainability rating businesses have emerged that issue standalone ESG ratings

- Acquisitions in last few years: S&P (RobecoSam), Moody's (Vigeo Eiris), Morningstar (Sustainalytics)
 - Other new entrants: MSCI (large index provider) has developed widely-used ESG rating framework
- Distinct differences to traditional credit ratings:
- Companies rated on performance against ESG factors – credit analysis not part of evaluation
 - Not standardized – widely differing methodologies and scoring systems
 - ESG ratings paid for by investors (not issuers)
 - ESG analysis uses publicly available information only (not information provided by issuers)



Growth in ESG products

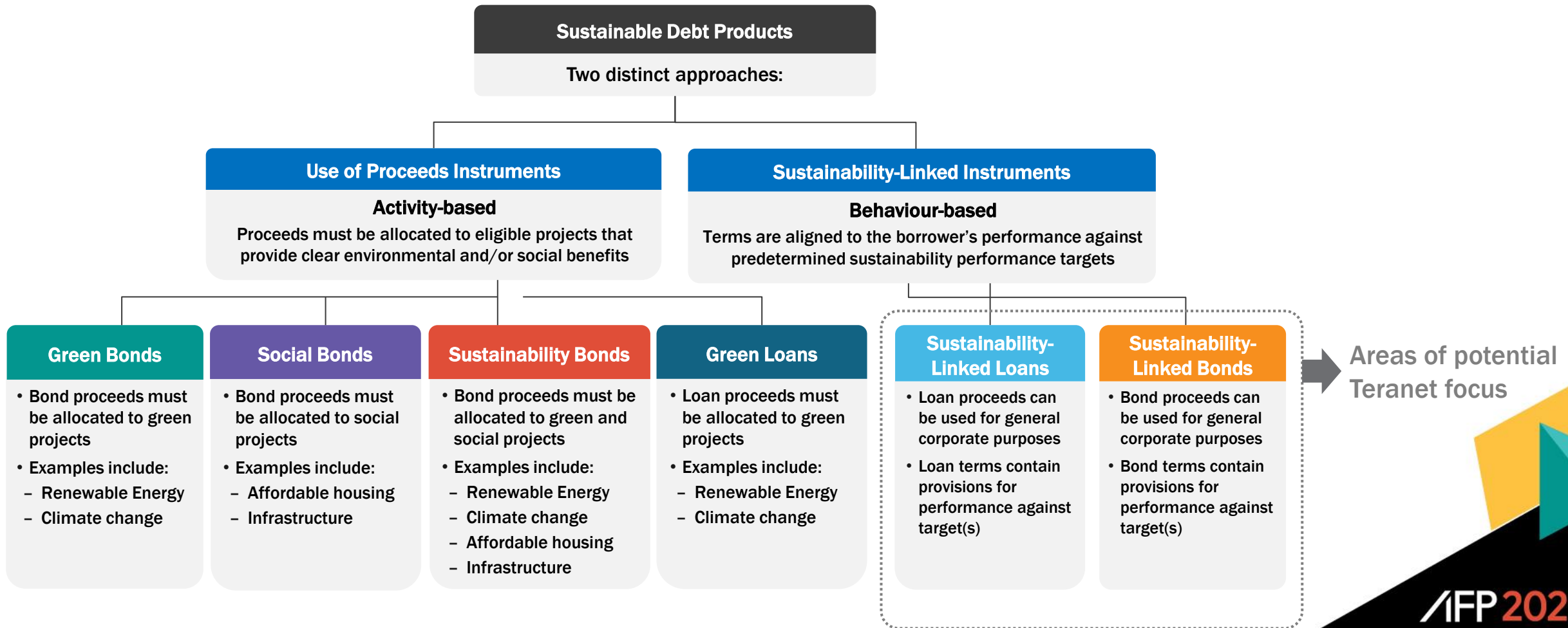
Growing corporate interest in financing sustainability strategies with labelled bonds and loans



Types of ESG products

Sustainable Debt Products

The evolution of the sustainable debt market provides opportunities for issuers with a broad range of sustainability goals



Guidelines / features of Sustainability-Linked Debt

General Principles

Issuers should incorporate the following five core components into their Sustainability-Linked Bond or Loan Framework legal documentation in a readily accessible format to investors

1

Selection of Key Performance Indicators (KPIs)

- Relevant, core & material
- Consistently measurable
- Externally verifiable
- Able to be benchmarked

2

Calibration of Performance Targets

- Material improvement
- Compared to benchmark
- Consistent with ESG Strategy
- Predefined timeline

3

Bond or Loan Characteristics

- Financial and/or structural impact
- Trigger event(s)
- Potential variation of; coupon (bond) or drawn margin (loan)
- Meaningfully set

4

Reporting

- Provide lenders with information on performance against targets
- Report performance publicly
- Either in annual report or separate sustainability report

5

Verification

- Obtain independent and external verification
- Against each target at least once a year
- Should be publicly available as appropriate

Key Characteristics

- Used for general corporate purposes
- Performance target(s) can ratchet bond coupon or loan interest rate up or down depending on performance against target
- Negotiated between the borrower and lender group, often with assistance of a “Sustainability Coordinator” or “Sustainability Structuring Agent”
- Sustainability-Linked Bond: potential ‘greenium’ between 2-7bp, generally ratchet up if performance target not met on observation date(s)
- Sustainability-Linked Loan: no ‘greenium’ at inception but pricing adjustment(s) generally 5bp (not cumulative) at observation date(s)

Questions?

