AIRPORTS COUNCIL INTERNATIONAL

Environmental, Social, and Governance (ESG) Management

Best Practice
First Edition

Airports Council International (ACI) advances the collective interests and acts as the voice of the world's airports and the communities they serve, and promotes professional excellence in airport management and operations.

DISCLAIMER

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1. INTRODUCTION

Globally, airports have a long history of making commitments and taking direct action to ensure they design, construct, and operate in a way that is economically sustainable, inclusive, and socially and environmentally responsible. This body of work is most often highlighted in airport annual reports, climate action plans, and websites. But increasingly, airports are working strategically, and intentionally, to meet their investors' dynamic needs and to address growing investor requests for information on capital project-specific and organization-wide performance and risk mitigation, by adopting an ESG (environmental, social, and governance) reporting framework. ESG offers an inclusive institutional framework to hold airports, and other ESG adopters, accountable for practices and projects that achieve good governance, compliance, and stewardship, which is why ESGs are now, and are increasingly expected to be, nationally mandated[1].

However, clear and concise practical guidance on how an airport could adopt, or strengthen, an ESG or integrated reporting structure within standardized bond disclosure documentation does not currently exist. This ACI World publication seeks to reduce that gap as airports actively work to recover from the pandemic and economic crisis to best position themselves for future growth, airport improvements and/or development that will require private capital. To that end, this document seeks to answer common questions among airports looking to start, improve, or expand their ESG reporting, including:

1. What is ESG reporting and how does it vary from sustainability reporting?
2. How are airports reporting?
3. Why are investors interested?
4. Where does my airport start?

In addressing these questions, airports can learn, develop, and adopt ESG commitments around transformative practices, while closely examining and adjusting key financial disclosures to identify and clearly acknowledge systemic risks important to their organization and investors alike. In doing so, airports can define and report key ESG factors that anticipate and respond to financial markets, customers, and community demands, who dictate that these factors be increasingly reported, forecast, and abated before they materialize. Growing areas of ESG interest include, but are not limited to, public health, climate, diversity, equity, and inclusion. A pre-emptive ESG focus and embodiment within financial disclosure documents by airports can help standardize factors important to our capital projects and operational activities, allowing our organizations to set, and to continuously track and report, on these internally agreed-upon metrics, versus responding to the growing and varied requests from investors, accounting and/or auditing agencies.

While many airports already report ESG performance, a strengthened approach on new ESG factors can offer airports a pathway for pandemic recovery and, ultimately, resilience, serving as recognition that material topics are not static and that airports cannot be socially,

[1] European Commission Sustainable Finance Disclosure Regulation, effective March 2021, accessible at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

environmentally, or economically complacent. The response to the current crisis must continue, while past and future risks should be kept under careful consideration as well. This stronger foundation for rebuilding airports and economies meets ESG investors' heightened interest in solutions that act with urgency to combat climate change and social inequities that were amplified during this global pandemic. Airports should seek to define and provide the detailed, data-focused ESG disclosures that investors, credit rating agencies, and accounting firms are increasingly requiring. Failing to do so could limit an airport's future investor demand in the capital markets.

2. WHAT IS ESG INVESTING AND HOW DOES IT VARY FROM SUSTAINABILITY REPORTING?

Investment that has a scope beyond traditional cost/benefit or financial returns and considers social, ethical, governance, and environmental factors is called ESG investment. It is an umbrella term, created by the 2005 United Nations Principles for Responsible Investing (UNPRI) that establishes principles for investors to standardize their capital allocations as its primary goal. ESG can draw and align with other related frameworks, such as: Global Reporting Initiative (GRI); socially responsible investing (SRI); impact investing; corporate social responsibility (CSR); triple bottom line; integrated reporting; and sustainable investing.

While ESG disclosures can serve as both a screening method and driver for investors, they can also support airports in achieving the following outcomes:

- Increase efficiency – Developing an airports' ESG framework will allow them to observe operations and identify new ways to increase efficiency, streamline, and build cohesive teams that align around key reporting metrics.
- Facilitate compliance, while building trust with the government and community – The foundation of ESGs are process controls to facilitate regulatory compliance, while tracking and ensuring a response plan for future requirements to mitigate adverse impacts or high fees associated with noncompliance.
- Identify and mitigate risk – Defining strategies for long-term preparedness can support current and future operational and business continuity for an airport.
- Enable mirroring – Allowing airports to review and reflect upon internal and external industry best management practices, policies, and strategies that can help illuminate gaps or blind spots in the organization's competencies and help set future ambitions.
- Integrate purpose into corporate positioning and/or communications – Assisting the airport to better understand its social and environmental interdependencies, passenger experience, and infrastructure impacts from climate change, and ways to best protect assets and create new sources of value to a broader range of stakeholders.

Growth in the demand for ESG and adjacent frameworks can be attributed to the rise in data and ESG product availability, as well as broader societal and media attention placed upon improper governance, or response to social and environmental issues. The availability of accurate ESG data and information, vetted by asset owners and allocators, was a key driver in investment decision-making for 26% of funds under management in 2019, up from 21% in 2015[2].

What is the difference between sustainability/CSR reporting and ESG reporting?

According to a recent article published by ICF: Charting the evolution of environmentally focused corporate citizenship, CSR refers to any effort a company makes to conduct their business in a

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[2] Jefferies ESG Primer. Accessed August 31, 2021 at https://www.jefferies.com/CMSFiles/Jefferies.com/Files/PrimeServices/JefferiesESGPrimer.pdf
McKinsey & Company. Accessed August 31, 2021 at: https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal

way that is ethical, taking account of their social, economic, and environmental impact, and consideration of human rights[3]. Coined by Howard Bowen in the 1950's, the term or concept was widely used to demonstrate an organization's commitment to sustainability and development of a corporate sustainability strategy. In developing a corporate sustainability strategy, organizations consider and prioritize material topics across the triple bottom line or three pillars of sustainability which must reflect the organization's economic, environmental, and social impacts, and that substantively influence the assessment and decisions of stakeholders[4]. Sustainability or CSR reporting is often used for the purposes of reporting out on/communicating the management and results of the organization's corporate sustainability strategy in the form of an annual report to various stakeholders including the local community, business partners, and government officials. Reporting frameworks such as the GRI, the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) are among the several sustainability reporting frameworks utilized for sustainability reporting and will be discussed further in this paper.

While sustainability or CSR reporting is widely used to report out on an organization's sustainability initiatives/programs/performance, ESG reporting is rather used to report inwards by disclosing the effectiveness of corporate efforts across environmental, social, and corporate governance impacts. ESGs create a more uniform means for investors to compare an organization's ESG impacts, whereby rating agencies score an organization's performance across an alphanumeric scale for comparability. Similarly to what was previously mentioned, the creation of ESG scoring arose from an increase in investor focus on sustainable and social impact investments and in the strengthened need for consistency in reporting (for the purpose of comparison).

The key takeaway is that sustainability/CSR and ESG inform one another, and the GRI framework is thought to be the foundation of the ESG framework. While sustainability/CSR reporting is intended to reflect or report out on an organization's sustainability strategy to its community and various stakeholders, ESG data is an inward view to report out on and demonstrate how an organization is managing and mitigating ESG risks to inform investors of the organization's sustainability, or CSR performance relevant to the investor's needs.

[3] https://www.icf.com/insights/workforce/charting-evolution-corporate-citizenship
[4] GRI Standards Glossary

3. WHAT ARE AIRPORTS REPORTING ON?

As part of gaining a wider understanding of the sustainability and ESG reporting global landscape, ACI World administered a survey to airports globally. The survey consisted of 10 questions and covered a range of topics, including: disclosing the reporting framework; the purpose of reporting; and the target audience, followed by several questions around materiality. The survey received a total of 50 responses covering the North America, Latin America and the Caribbean, Asia-Pacific and Europe regions. For Africa, a desktop research was performed. Overall, the majority of respondents informed using sustainability reporting frameworks such as GRI, SASB, and B Corporation, and aspect specific tools such as the Airport Carbon Accreditation, and the Carbon Disclosure Project (CDP) for reasons such as annual reporting, stakeholder/investor engagement, and communicating their corporate strategy.

Target audiences of reporting included key stakeholders with an emphasis on investors, the public, and government. Reporting to this range of end users can be expensive, as key messages and metrics vary widely. The majority of respondents rated the use of these frameworks and tools as effective but noted that the existing frameworks needed to be further developed. Specific gaps and challenges identified in implementing the frameworks and tools included:

- The need for airport specific benchmarking
- Further development on the existing rigidity and narrowness of the frameworks
- A need for updating sector-specific frameworks
- Further guidance for selecting material aspects

In terms of performing airport-specific materiality assessments, the majority of respondents replied that they had indeed performed a materiality assessment, with several indicating the use of GRI-specific guidance to assist with the assessment. In addition to this, members disclosed their most recently identified material topics. In response to the membership's request for further guidance on materiality, the survey data has been complemented by a desktop research across all regions and used as part of an ACI World guidance document for a Sustainability Strategy for Airports Globally, published in November 2021.

4. WHY ARE INVESTORS INTERESTED?

Evaluate performance and reduce investment risks

ESG criteria are increasingly used by investors to evaluate performance and avoid investing in companies that might pose a greater financial risk from unsustainable or unethical practices. These investor evaluations are equally applicable and relevant to other entities, including airports. Assets under management for investment companies globally that incorporate ESG criteria, have surged from $6.5 trillion in 2006 to $80 trillion in 2019. The growing impact of ESG reporting can be seen through the rise in sustainable, responsible, and impact investment (SRI) indices in the investment marketplace, though ESG-specific reporting frameworks are difficult to source, making it challenging for airports to define where to start. There are various ways to report ESG metrics—in fact, studies suggest there are nearly 150 providers engaged in research, rankings, ratings, or indices that cover over 50,000 companies. While ESG rating companies and sustainability reporting frameworks are separate entities, they are a part of the same system and indirectly impacted by each other (see section below – Where does my airport start?).

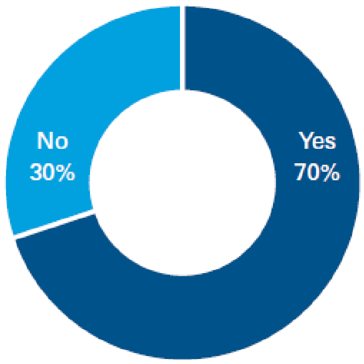
Rising demand in ESG reporting

While the survey results revealed the target audiences as being the public and governments, a key and emerging emphasis was placed on the investor community. In view of the increasing demand for reporting out to investors, ICF (Inner City Fund), a global consultancy and advisory provider, with the support of ACI World, conducted interviews with the global financial community to: (1) understand how the COVID-19 crisis has impacted their approach to investment and sustainability in the aviation sector; and (2) gain a general understanding of their use of ESG metrics as part of their broader investment decisions. Interviewees included representatives of lenders, advisors, investors, and relevant government and intergovernmental departments, who noted the challenge of varied reporting mechanisms as a key insight.

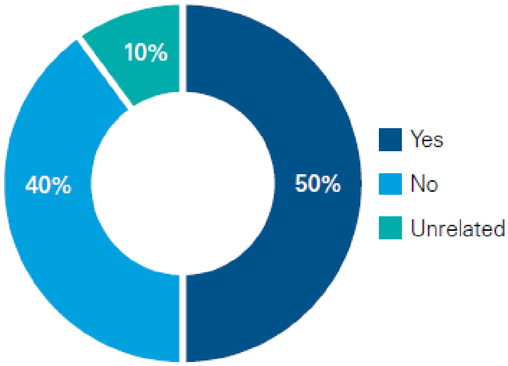
Requirement for ESG criteria to inform investments expected to increase

The interviews revealed that prior to COVID-19, 70% of the stakeholders required or referred to ESG-related criteria during the investment process. A key observation was that the application of ESG criteria to investment decisions was not consistent across the board. The respondents noted the need for greater uniformity or standardization of ESG metrics as well as their application to making investment decisions.

Prior to COVID 19, did you require or refer to any sustainability related criteria to inform your decisions around investments?



Do you believe that COVID 19 has escalated climate change as a risk to investment in general?



Looking ahead, the interviewees universally expected ESG or climate change-related criteria to persist. While half of the respondents felt that the pandemic did not directly escalate the consideration of climate change as a risk to investments, they believed this would occur regardless of COVID-19, and the increase in sustainability or ESG reporting requirements should be considered distinct from the pandemic. Furthermore, they also noted that climate change as a risk was more relevant when looking at organizations with longer investment horizons, such as airports.

Overall, the respondents felt that with the continued pressure from the public, governments, and other stakeholders, sustainability, ESG reporting, and climate risks would gain greater focus, as is already being seen among bond or credit rating agencies. Investors heavily rely upon these bond rating agencies to perform research to determine the creditworthiness of an organization and its ability to fulfil commitments to pay interest and repay debt principal[5]. This is captured, and assigned to the organization, via a bond rating. Recently, these agencies have shown an elevated interest in the growing credit risks due to climate impacts at airports in the United States, including Moody's Investors Service[6] and Standard & Poor's (S&P) Global[7], indicating that this may have some bearing on future ratings. Therefore, airports, via ACI World and regions directly, are heavily engaging in, and responding to, requests for comments from rating agencies to ensure there is mutual, cooperative, and transparent development in the methodology for rating securities for our sector.

ESG reporting, and related risks, are increasingly being demanded by progressive investors and companies seeking capitalistic reforms and shortcomings in market valuation of the direct, and co-benefits of, societal and environmental goods. Recent movements that advocate for greater focus on ESG in investing and reforms include, but are not limited to:

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[5] Forbes Advisor. Accessed August 31, 2021 at https://www.forbes.com/advisor/investing/bond-rating-agencies/
[6] Moody's. Accessed August 31, 2021 at: https://www.moodys.com/research/Moodys-US-airports-face-growing-climate-risks-but-business-model--PBM_1251121?cid=7QFRKQSZE021
[7] S&P Global Ratings. Accessed August 31, 2021 at: https://www.spglobal.com/_assets/documents/ratings/research/100047938.pdf

- 2017 release of the Task Force on Climate Related Financial Disclosures (TCFD)[8] to ensure consistent reporting on its four pillars (governance, strategy, risk management, metrics, and targets) to investors, lenders, insurers, and other stakeholders, to better demonstrate responsibility and foresight in their consideration of climate issues, leading to more efficient allocation of capital
- 2017 launch of Bain Capital "Double Impact" debut focused on the "lower middle-market companies that are mission oriented" in sustainability, health care, education, and workforce development (the portfolio doubled in its 2020 round)[9]
- 2019 issuance by the Business Roundtable, representing CEOs of the US' largest companies (Walmart, Wells Fargo), of a Statement on the Purpose of a Corporation[10]
- 2019 "Letter to CEOs" by Black Rock's Larry Fink focused on "Profit and Purpose"[11] as a call to action for corporate responsibility to serve workers, customers, and the environment, and not just shareholders
- 2020 report from the UNPRI, which boasts 7,000 signatories, targeting investors with $100 trillion in assets under management[12]
- 2021 commitment to the International Business Council (IBC) Stakeholder Capitalism Metrics by 60 World Economic Forum members on disclosures focused on people, planet, prosperity, and governance[13]

Ensuring reporting robustness and compliance

Beyond the simple metric of the bond rating, investors also rely upon third-party vetting of disclosures and reporting by accounting firms. Versed in auditing based upon a common set of criteria to measure a company's performance, relationships, and governance models, accounting firms help investors standardize and validate ESG reviews as well. To that end, there has been a rise in accounting firm leadership, including by the "Big Four" (Deloitte, PwC, EY and KPMG) in late 2020 with the introduction of ESG standards[14].

Insurance and reinsurance markets are also paying attention to the growing ecosystem of risks warranting corporate and organizational disclosure. Risks of particular importance include those arising from external stakeholder pressure to both report and manage growing environmental exposures from climate change, and social and reputational risk factors that can erode an organization's customer and employee base. Last year alone, North America, Asia and Europe experienced a surge in natural and catastrophic disasters fuelled by a changing climate.

[8] Task Force on Climate Related Financial Disclosures. Accessed August, 30 2021 at: https://www.fsb-tcfd.org/about/

[9] Private Equity News. Accessed August 30, 2021 at: https://www.penews.com/articles/what-you-need-to-know-about-bains-800m-impact-fund-20210420

[10] Business Roundtable. Accessed August, 30 2021 at: https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

[11] Black Rock. Accessed August, 30 2021 at: https://www.blackrock.com/americas-offshore/en/2019-larry-fink-ceo-letter

[12] United Nations, Principles for Responsible Investment. Accessed via web August, 30 2021 at: https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment

[13] World Economic Forum. Accessed August 30, 2021 at https://www.weforum.org/press/2021/01/global-business-leaders-support-esg-convergence-by-committing-to-stakeholder-capitalism-metrics-73b5e9f13d

[14] Insider. Accessed August 31, 2021 at https://www.businessinsider.com/big-4-deloitte-pwc-ey-kpmg-announce-esg-reporting-standards-2020-9

Insurance markets are slow to respond as mispricing climate risks can cause an overexposure to insured and bond-funded assets, and can lead to unanticipated/premature write-downs, devaluations and, in some cases, conversion to liabilities[15].

Challenges

Airports should be aware of the growing challenges related to the use of ESG information because there is no unified and harmonized system of ESG reporting, resulting in the reporting of varied metrics that may be perceived as self-serving to the reporting entity, as also acknowledged in the ICF/ACI survey. The lack of standardized ESG information in investment decisions still drives a relatively low rate of penetration within investors, but some use it to generate investment themes and ideas and select individual assets to their portfolio as well as decide on weights within their portfolio for certain type of assets. Airports should seek alignment with a sustainability reporting framework they can consistently report upon to uphold the rigour of its metrics and create an ability to cleanly compare future data against past performance. In doing so, airports will be prepared for an ESG future that is mandatory, based upon transparency, stakeholder engagement, defined standards, and that will be audited, which will be a reckoning for this sector not unlike that experienced for the more global financial reporting industry[16].

[15] Environmental Analyst. Accessed August 31, 2021: https://environment-analyst.com/global/107087/insurers-eye-opportunities-in-esg-risk-and-regulation
[16] Harvard Business Review. Accessed August 30, 2021 at https://hbr.org/2021/03/an-esg-reckoning-is-coming

5. WHERE DOES MY AIRPORT START?

Define your audience and drivers – Get an organizational sense of why you are interested in preparing an ESG/integrated report. Are you updating a financial disclosure in preparation of a new bond issuance? Are you responding to a rating agency's request for information or data? Are your stakeholders, community, or passengers increasingly asking you for more specific information regarding your sustainability program? Narrow and target your responses accordingly, recognizing that this is not a sustainability report but rather an investor disclosure.

Establish relevant material topics and key performance indicators (KPIs) – As mentioned, ACI World released the Sustainability Strategy for Airports Worldwide, in an effort to identify material topics at the global level that are common to airports, and to assist airports with the design and implementation of their sustainability strategy. As part of this document, ACI World performed an assessment across 80 airports globally to provide the top five most reported material topics across the three pillars of sustainability (economic, environmental, and social). Each topic was accompanied by a brief introduction, its relevance to sustainability at an airport level, its contribution to the UNSDGs and key examples of leading initiatives undertaken by airport operators. Case studies supporting these initiatives were also included to give further context for the actions that airports can take to mitigate their impacts across the three pillars of sustainability. The top material topics are as follows:

Economic	Social	Environmental
Direct economic impact	Community and noise	Climate change
Indirect and induced economic impact	Service quality	Energy and emissions
Market presence and connectivity	Employment	Water and effluents
Sustainable supply chain	Health and safety	Waste management
Anti-corruption	Diversity and equity	Biodiversity

As defined in ACI World's Sustainability Strategy for Airports Globally, in the context of sustainability reporting, materiality is concerned with identifying the most relevant topics reflecting an organization's environmental, social, and economic impacts, often referred to as the triple bottom line. This allows an organization to identify and focus its sustainability efforts on those areas where it can have the greatest impact or influence. While the report identified the five top material topics across each pillar, it is anticipated that each individual airport will go beyond this list and disclose material topics relevant to its unique regional differences and challenges faced, based on size, geographic location, political circumstances, and other differences. Based on the global sustainability and ESG survey administered by ACI World, the GRI framework was the most widely used framework for performing individual materiality assessments along with the GRI specific airport sector disclosure guidance document. It is worthwhile noting that GRI recently updated its disclosures to change the materiality definition, which will impact how its framework is applied at airports.

Sustainability reporting is most widely used for reasons such as annual reporting, stakeholder/investor engagement and communicating a corporate strategy. As such, it is important to consider key stakeholders' views when performing a materiality assessment. This will ensure that airports are reporting the relevant material that key stakeholders seek for their intended purposes. For example, in terms of securing investments, it is important to gain an understanding as to what investors require in order to make informed investment decisions. As previously noted, since there is no standardized ESG reporting framework, a huge emphasis is placed on other sustainability metrics and reporting frameworks. As such, when reporting out on sustainability, an organization should consider including its investors as a key stakeholder, to further satisfy its ESG reporting requirements that align with its pre-established KPIs and/or material topics.

Navigate through different frameworks – As the world is moving towards a sustainable future, it is crucial for stakeholders to measure and report on sustainability, considering that together with ethical motives, financial motives play a crucial role for ESG evaluation. Furthermore, in several countries, companies and financial institutions feel increasing pressure to disclose the ESG related impacts of their activity.

In order to comply with national sustainability standards, acquire green financing, improve the image of a company, as well as mitigate some of the long-term cost, companies around the world have to disclose ESG-related information. However, the objective is to find its way through numerous sustainability reporting frameworks that currently exist on the market, some of which can be costly to adopt and implement. Confusion about what information should be disclosed, and the cost to do so, can lead to a number of issues, for instance, misperception and false reporting of the data. Another relevant concern is the appropriateness of certain reporting standards to an industry or a company.

On the other side of the equation sits an investor that has to estimate the applicability of the company's ESG parameters to its portfolio. While investors can perform their own analysis, often they follow research executed by some of the rating agencies which include ESG factors in their estimation of a company's performance, and/or the opinions and assessments of other ESG evaluators.

In the light of the mentioned facts, an attempt to study existing reporting frameworks as well as existing ESG evaluators, and other providers, was undertaken. It is essential to note that this document focuses on the best-known and most frequently applied standards and evaluation systems. As is reflected on the chart that illustrates the relationship between reporting frameworks and ESG evaluation systems, there is an indirect interplay between both components. The clearest distinction between reporting frameworks and ESG evaluation systems is the primary user; while reporting standards are used by the first-person company or airport to publish their ESG metrics and related impacts (e.g., greenhouse gas emissions, human rights policies), the evaluation systems are usually used exclusively by investors to rate and estimate the ESG value in their portfolios.

Graphic: Relationship between ESG Reporting Framework and ESG Ratings

In order to gain insights into the specifics and differences between various sustainability reporting standards, this section will provide a brief summary on the following frameworks: UNPRI, GRI, TCFD, SASB, CDP, IIRC (some of which are defined below). The document provides links so that readers may access and review these reporting tools and rating frameworks and highlight if there are any costs involved. Future updates to this document are expected to include more details on cost and the interval or schedule at which each is updated, and to inform airports, individually or collectively, when it is best to consider, adopt, and/or engage further with the reporting entity or rating agency.

Sustainability and ESG reporting

The Global Reporting Initiative (GRI) is one of the most widely used frameworks to disclose a company's impact on ESG aspects because it takes a multi-stakeholder consultative approach. In fact, it has remained the dominant global standard for sustainability reporting (via KPMG) for years. This aligns with the findings of ACI's survey regarding primary ESG reporting tools used by airports. According to the recent analysis, in 2020, 67% of the world's largest companies (N100) and 73% of Global Fortune 250 (G250) use GRI guidelines to report their companies' sustainability impact. GRI standards are structured in four key groups starting with universal standards, including governance aspects which can be applied to any type of organization, as well as three specific standards covering economic, environmental, and social topics. Additionally, GRI is supported by continuously developing and updating its four groups of sector-oriented programs, which, in practice, has informed ESG disclosure guidance for certain applicable industry. This includes GRI's Airport Operators disclosure guidance, developed as a part of the G4 Sector Program, and which will most likely be updated in a few years.. For examples of GRI at airports, please see Sydney's Annual Sustainability Reports[17] and Royal Schiphol Group Investor Annual Reports[18].

Similar to GRI, the Sustainability Accounting Standards Board (SASB) provides its own sustainability accounting set of standards, which predominantly focuses on disclosing ESG matters with material impact only. SASB provides ESG disclosure frameworks in their own 77

[17] Sydney Airport Sustainability Reports. Accessed October 13, 2021 at: https://www.sydneyairport.com.au/corporate/sustainability/annual-performance/sustainability-reporting
[18] Schiphol Royal Group Annual Report. Accessed October 12, 2021 at: https://www.schiphol.nl/en/schiphol-group/page/investor-relations/

industry-specific classification systems across 11 sectors. The wide range of sector-specific frameworks does include transportation sectors, but there are no specific guidelines for airports.

The International Integrated Reporting Council (IIRC) aims to help companies link their strategy, management, and financial performance to an ESG context for investors. Unlike GRI and SASB, IIRC does not issue guidelines on how to report ESG performance of a company but encourages each company to develop relevant KPIs in order to track ESG aspects of its activities. While IIRC has no distinct separation into industries, the airport operator Airports Company South Africa (ACSA) is implementing IIRC in their reporting as it is a widely used reporting framework in South Africa[19].

The Task Force on Climate-related Financial Disclosures (TCFD), unlike some of the other sustainability reporting frameworks, puts its focus on disclosure of the information on climate related issues. Established by the Financial Stability Board (FSB), the goal of TCFD was to allow investors to receive a full picture on climate-related risks exposure of a company. While the TCFD was established to encourage voluntary reflection on climate impact, such reflection has become a compulsory action for companies in various countries across the world. The TCFD's framework gives guidance on disclosures related to climate change governance, strategy, risk management, and metrics. An advantage of the TCFD is that it focuses on both resilience and adaptation, taking into account different climate-related scenarios, and its efforts regarding the transition to a low carbon economy. Currently, the TCFD does not have separate guidance for specific industries, however, some airports have received the TCFD approval in the past, including Taoyuan International Airport, Sydney Airport, and Manchester Airports Group.

The Carbon Disclosure Project (CDP) is somewhat similar to the TCFD in terms of its concern with the environmental aspect of ESG, however, with a deeper focus on curbing carbon emissions. Its disclosures are specifically targeted on key measures that include the organization's impact on forests, climate change, climate risks, water, and cities. Unlike other previously mentioned ESG disclosure frameworks, CDP, in addition to providing a guidance on reporting climate-related performance, presents a frequently updated list of the most successful companies, according to CDP's own estimation, which successfully tackle climate-related issues, giving them a grade from A to D.

The Science Based Targets initiative (SBTi) is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature/ World Wildlife Fund (WWF). It aims to enable the private sector to set science-based emissions reduction targets. However, the transportation sector has been facing reporting and technical challenges with this framework, in particular with the scope of emissions ownership, inconsistent application of the framework across the sector, and the lack of recognition of the aviation sector's particularities.

Here is a brief overview of ESG Reporting Standards:

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[19] About Our Integrated Annual Report. Accessed March 4, 2022 at: https://airportsir2021.co.za/about-our-integrated-annual-report/

	Key highlights	ESG metrics	Industries	Cost	Users	Link
UNPRI UN Principles for Responsible Investing	Principles developed in collaboration between **investors**	**Environmental** (climate change, waste, pollution) **Social** (human rights, child labour) **Governmental** (corruption, tax	No specific separation	Free Framework, Cost to become a signatory (here)	Applied to investors	unpri.org/
GRI Global Reporting Initiative	Most widely used, **40% of S&P 500** companies cite GRI in sustainability reports	36 standards, 4 groups: Universal, **environmental, social, economic**	GRI develops sector programs	Free Framework Membership Fee & Paid Services	Directly used by companies (asset owners)	globalreporting.org/standards/
TCFD Task Force on Climate-Related Financial Disclosures	Concerned with climate change, backed-up by **Financial Stability Board**, 80% of the TCFD's 50 metrics are covered by CDP, GRI and SASB indicators	Governance, strategy, risk man., metrics and targets around **climate-related risks & opportunities**. Focuses on climate resilience & transition to low-carbon economy	No specific separation **Taoyuan International Airport** has recently passed TCFD verification	Free Framework	Companies, cities	fsb-tcfd.org
SASB Sustainability Accounting Standards Board	Includes only ESG factors that have material effect on a firm' s performance Led by VRF-Value Reporting Found (also oversees the IIRB-International Integrated Reporting Board)	Industry-specific disclosures, **similar to GRI**	Sustainable Industry Classification System – 77 industries across 11 sectors: sector for transportation, excl. airports	Free Framework Credentialing Fee	Used by companies	sasb.org/standards/
CDP Carbon Disclosure Project	Concerned with climate change and potential regulations to curb carbon emissions, also used as a tool for disclosing information	Climate related (program to reduce **GHG emissions**, mitigate climate change risk)	Areas of focus: forests, climate change (+climate risks), water, cities	Free Framework Submittal & Membership Fees		Cdp.net
IIRC International Integrated Reporting Council	Formed by the Prince of Wales. Accounting for Sustainability Project, the GRI and the International Federation of Accountants, links the organization' s strategy, governance, and financial performance and the ESG context Overseen by the IIRB/VRF	Focuses on all three ESG aspects, including external (environmental) risks, **but companies need to develop their own relevant KPIs** IIRC does not publish direct disclosure guidelines like GRI. IIRS' s role is to encourage integrated reporting	No specific separation from the aviation sector, **ACSA** is using it as IIRC is widely used in South Africa	Free Framework and Tools	Applied to investors	integratedreporting.org/resource/international-ir-framework/

ESG Ratings

Moving forward to ESG evaluation systems, it is crucial to highlight that rating agencies rarely publicly disclose their methodology. Their applied ESG metrics is considered proprietary information. This is another distinct feature of ESG scoring companies compared to ESG reporting guidelines. To prepare their ratings, the ESG evaluators use various data collection methods to gather insights on ESG performance of companies. This includes analysis of publicly available information, ESG reports, which are usually prepared using ESG reporting guidelines described above, as well as by directly interviewing companies of their interest. Considering there are numerous competing ESG scorers on the market, this section of the paper will focus on several well-known entities, with some of the other ESG scoring companies being presented in a summary table below.

Bloomberg ESG scoring database offers ESG-related disclosures of over 11,500 companies across more than 80 countries around the world. In addition to its own estimation of ESG performance of companies, Bloomberg provides third-party scores. Even though the company does not publicly provide their scoring methodology, it explicitly states which ESG aspects are covered within its estimation. With hundreds of ESG metrics computed to form a company's grade, a Bloomberg ESG score includes a comprehensive list of metrics related to all three pillars of ESG.

S&P Global, a well-known credit rating company, in addition to providing financial-related performance assessments, includes the impact of ESG factors on credit scoring, both qualitatively and quantitively. S&P Global regularly publishes ESG report cards for 70 sub-industries, including airports.

The Dow Jones Sustainability Index (DJSI), being a part of S&P global, partnered with RobecoSam to apply their ESG analysis in order to publish DJSI benchmarks for top companies across the world as well as across various regions and industries. DJSI estimates a score based on all three pillars of ESG which are assessed based on an industry-specific questionnaire. Some of the privately owned airports worldwide were historically included in DJSI benchmark.

Sustainalytics provides scores for industry-based comparison, diversifying the importance of certain ESG pillars across various industries. The opinion system is focused on two main dimensions: exposure to ESG risks as well as readiness, and capability of a company to manage a certain risk. Sustainalytics provides a separate ESG benchmark of several airports and airport operators.

Unlike the above-mentioned ESG scoring companies, Corporate Knights Global 100 provides a detailed list of ESG metrics deciphered in their methodology booklet, which is updated on an annual basis. The score of this ranking system is based on a number of KPIs related to industry relevant ESG performance of an enterprise.

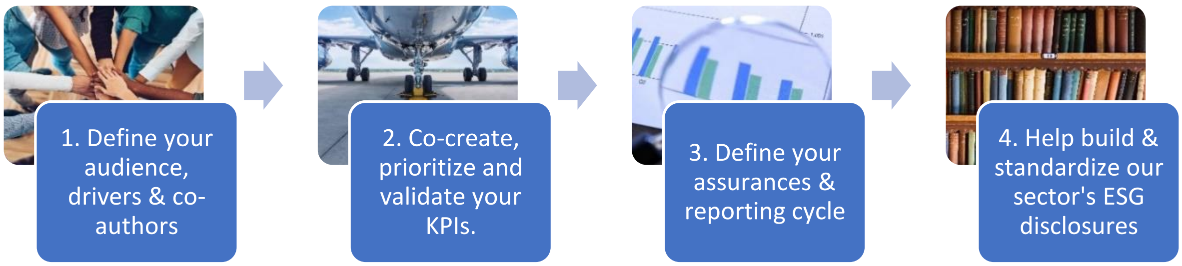
Here is the overview of the key ESG ratings:

	Usage and reputation	ESG metrics	Cost	Airports	Link
Bloomberg ESG SASB Index	Database includes 11,500 + companies Bloomberg also provides scores from third party rating agencies	Carbon emissions, climate change effect, pollution, waste disposal, renewable energy, resource depletion, supply chain, political contributions, discrimination, diversity, community relations, human rights, cumulative voting, executive compensation, shareholders' rights, takeover defence, staggered boards, and	Fee-based	Most likely yes	Product list accessed here
Corporate Knights Global 100	Out of the top 10 corporations listed on the 2017 " Global 100" , 4 out of 10 companies had published a press release regarding this listing Each year announced at the World Economic Forum	21 KPI (energy productivity, carbon productivity, pension fund, safety performance, CEO to average worker pay etc.) Disclose methodology in detail	Open-source; No cost	+, in 2017 Fraport AG was included	Scorecard Free here
Dow Jones Sustainability Index (DJSI)	Part of S&P Global Partnered with RobecoSAM Out of 10 Industry Group Leaders listed on the 2016 DJSI, all 10 companies published a press release regarding this listing Broken down into: DJSI World, DJSI Regions and DJSI Country	Industry specific questionnaire, covering relevant economic, environmental and social factors	Open-source; No cost	+, historically Auckland airport was included, AOT (Airports of Thailand)	Website here
Institutional Shareholder Services (ISS)	Acquired Ethix SRI and partnered with RepRisk to provide ESG and SRI research Used by institutional investors	Carbon Risk rating (climate related performance of a company, 100+ indicators) ISS Quality Score: Covers board structure, compensation/remuneration, shareholder rights, and audit & risk oversight	Fee-based	Not clear	Website here

	Usage and reputation	ESG metrics	Cost	Airports	Link
Sustainalytics	Members of PRI, UNGC	Measures **risks company is exposed to and management response to the risks** (policies, certifications) 20 material ESG issues (human rights, emissions, carbon, land use biodiversity, resource use etc.), 300 indicators, gives comparison of peer companies (airports) **High-level disclosure of methodology**	Fee-based	+, have rating for airports **(Sydney, ADP, AENA, Shanghai, Airports of Thailand),**	ESG Ratings here
Morgan Stanley Capital International (MSCI) ESG + Climate Rating	One of the largest providers, used by institutional investors	MSCI ESG Research looks at 35 ESG key issues, divided into three pillars (**environmental, social and governance**) and ten themes: climate change, natural resources, pollution & waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance, and corporate behaviour	Fee-based	Probably included, but not explicitly stated	ESG & Climate Ratings & Indexes here
S&P Global Corporate Sustainability Assessment (CSA)	Includes ESG factors to their credit ratings	**Qualitatively** explore the relative exposures (average, below, above average) of sectors to environmental and social credit factors over the short-, medium-, and long-term **Environmental risks**: GHG emissions, including carbon dioxide, pollution, and waste, water and land usage, and natural conditions **Social risks** **Governmental risks** **No detailed disclosure of methodology**	Invitation-based	Publish ESG Report Cards (70 sub-industries (incl. Aviation within Transportation) **Degraded airports' credit ratings because of the COVID** Publishes reports on some companies (airports)	Scores here
RepRisk	Partnered with the UN supported Principles of Sustainable Investment Institutional investors, including Amundi and APG Partnered with Institutional Shareholder Services Inc. Use third parties' data	95 ESG factors, which map onto the **Ten Principles of the UN Global Compact + Sustainability Accounting Standard Board** Key ESG categories: pollution and climate risk, human rights, occupational health, corruption (bribery), supply chain issues **No detailed disclosure of methodology**	Fee-based services/platform	Covers all sectors, 40,000+ infrastructure projects	Website here

6. NEXT STEPS

Equipped with a clear understanding of ESG motivators, stakeholders, standards, and rating systems, your airport can now develop an integrated reporting roadmap that aligns with your operating context and responds to your airport's key drivers. Here are some simple process steps to support your development.



1. Define your audience, drivers, and co-authors

Defining the right path for your airport starts by collaborating with key stakeholders, and confirming with organizational leaders, who this report is for and where their interests and priorities lie. Discussing and refining disclosures to ensure your ESGs adequately and accurately depict your organization's efforts on key issues and topics is essential. Note that different audiences—like employees versus investors—will be interested in different aspects of your ESGs, and your disclosure must be tailored to provide relevant information for the selected group accordingly. The ESG ratings and frameworks, as outlined in the section above, offer both data-driven and story-focused templates for you to consider. For example, many frameworks focus on capturing and analyzing data to provide your organization with a score or rating. These are best for investors and governments. In contrast, others focus on how best to structure a narrative arc for your past, current, and future ESG progress. These are most often important for employees and customers. Select the best fit for your audience, ideally through a multi-stakeholder process that leverages and engages airport social, environmental, and financial subject matter experts, and through leaders. Once engaged, also use your ESG/disclosure team to consider the motivations, drivers, and risks of selecting, or not selecting, a given rating system or framework.

2. Co-create, prioritize and validate your key performance indicators (KPIs)

Define what ESG factors are important to the audience, and which are deemed material and should be documented, included and/or omitted from your financial statements or other integrated reporting. Per US Generally Accepted Auditing Standards, which will vary by geographic region, factors are considered material if they could "reasonably be expected to influence the economic decisions of users made on the basis" of these statements. Consider one or more of the sector-specific materiality frameworks available to guide your stakeholder discussions, audits, and research (example – SASB Materiality Map). Note that standards for materiality will vary in different contexts (e.g., legal, audit, accounting) and should be considered accordingly based upon your noted audience. It is ideal to vet these with your target audience to understand that there is alignment on the approach, selected KPIs, and reporting framework and/or validating dataset.

3. Define your assurances and reporting cycle

Aligned with common and standardized practices for traditional financial reporting, ESGs and related disclosures should undergo an independent examination of the airport's processes and controls by qualified practitioners. While the rating agency itself will analyze ESGs and issue findings along agency-defined risk themes that align with its companies' interests, it is important for the airport to also define a repeatable ESG and KPI reporting approach established through its own stakeholder consensus process. To that end, the disclosure should define a comprehensive risk picture and offer visibility into the effectiveness of your airport in addressing its own risk management. An important aspect of this step is also identifying and securing the resources required to collect, report and/or implement ESGs, and noted KPIs, over time. Taking stock of resources and personnel should be part of the strategy development itself, as it can help narrow or scale the scope of what can be achieved for the airport now and moving forward. With all this in mind, airports should take advantage of the contents of this document, and others more specific to their region, to prepare their ESG/integrated report that defines a panoramic view of their critical risks and related risk mitigations.

4. Help build and standardize our sector's ESG disclosures

Finally, once the airport has acted internally and built its own ESG-focused disclosure, it is encouraged to share its approach to help enhance risk anticipation, deepen insights, and build collective assurances for the airport sector. Through ACI World and Regions, it is recommended that airports collaborate to respond to both rating agency and reporting framework organization's calls for comment and/or outreach directly to support development of, or revisions to, sector guidance. Building a collective voice and prioritization of key measures for airport reporting, will be increasingly important as investors and rating agencies develop lateral, and likely divergent, disclosure standards. Owning and shaping this narrative and response can only occur if airports are proactive, credible, and aligned, which can be achieved through direct and consensus-driven partnership with ACI. Related work streams and task groups are likely to emerge at the ACI World and regional levels and should include in their scope periodic updates and additions to this document.

ADDITIONAL RESOURCES

Harvard Business Review – ESG Reckoning in Coming
Reuters – ESG Fever
Forbes – After Pandemic ESG Investing Trends for 2021
Harvard Law – Materiality Matters
Jefferies – ESG Primer
Goby – ESG Matrix
SASB – Materiality
GRI – Getting Started with Reporting

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