

DIGGING DEEPER: UNDERSTANDING THE DISCLOSURE DISCONNECT IN THE MINING SECTOR

THE MINING ASSOCIATION OF CANADA AND MILLANI INC. ROUNDTABLE

The Mining Association of Canada (MAC) and Millani have been working together for the last several years to foster increased dialogue between mining issuers and Canadian institutional investors, with the aim of aligning issuers' ESG disclosure with the expectations of investors, and to help investors refine how they take into account the risks and opportunities for value creation related to ESG. This white paper is the result of the most recent dialogue that took place in December 2020, which highlighted the challenges of incorporating social and community-based metrics into effective disclosures. MAC and Millani intend to continue this dialogue, with a focus on the incorporation of Indigenous aspects into effective ESG disclosure.

THE CONTEXT

As the ESG space becomes more sophisticated, ESG disclosure becomes more complex. With a staggering number of reporting frameworks, initiatives and questionnaires, issuers and investors alike are struggling to understand how these elements interact.

In April 2020, Millani conducted a perception study of Canadian institutional investors to understand their view on the potential impact the COVID-19 pandemic would have on ESG. The study predicted that ESG will be here to stay. It specifically emphasized that markets were seeing the connection between financial value and the social topics that were rapidly being brought forward by the pandemic, and that investor engagement on these topics would likely increase, to better understand the strategy and management of these topics. During the summer of 2020, MAC conducted a similar survey with its members. Mining companies agreed that there is

a growing interest from investors on social topics and believed that their current operational approaches to these topics were effective. The survey also underscored a lack of alignment on the level of disclosure being provided: investors are requesting additional context to social disclosure but are facing challenges taking into account data provided by mining companies, which is often facility and issuer-specific.

Part of the disconnect between investors and mining companies seems to stem from the fact that the former seeks the "Why?" behind the data, whereas the latter had previously been focused on providing the "How?". As investors are implementing more and more proprietary models to assess ESG topics, the need for raw data from corporate issuers is growing. That being said, investors are also looking for context to understand the trends behind the data. This context helps investors understand why the topic itself and the data being measured are important to the company – in other words, why they are material.

As part of an ongoing roundtable series, Millani Inc. and MAC brought mining companies and a group of Canadian institutional investors together to dig deeper on the perceived disconnect between issuers' disclosure, and investors' disclosure needs.

“There is a continuing disconnect, generally-speaking, between what investors are seeking in terms of “ESG” and what companies are focused on managing on the ground [...] This disconnect has to be bridged from both the investors side and the company side.”

Craig Ford, Yamana Gold Inc., Senior Vice President, Health, Safety and Sustainable Development

The roundtable was held in December 2020, in response to a rising need for mining companies and their financial stakeholders to collaborate and solidify a mutual understanding of what effective ESG disclosure should look like within the mining industry. The purpose was to hear from MAC members on the ESG issues that they believe should receive more attention; to hear from investors as to why or why they may not be assessing these issues and to have a two-way dialogue to articulate key questions that investors could be asking mining companies on what is perceived as material by both parties, thus getting the appropriate context to investors.

THE RESULTS

The disconnect between issuer and investor

Both parties agreed that while environmental disclosure is crucial, so too is social disclosure. There was clear agreement that effective environmental and social management are vital to obtaining and maintaining a license to operate. The challenge that surrounds the “S” in ESG is that despite the recognition of its materiality, it remains unclear how to adequately assess its financial value and disclose on it, compared to “E” data that has been formalized and regulated in recent years.

The disconnect arises with each party's respective perspectives and priorities, further complicated by a lack of alignment on what is considered “decision-useful information”. Investors want synthesized, comparable, and historical information that speaks to value creation. Issuers require a wide range of detailed, decision-useful information in order to build and maintain complex relationships with a range of communities-of-interests, such as human rights risk assessments, stakeholder maps, security assessments, conflict assessments, and information on community concerns. The challenge lies in distilling this information into the “big picture” findings that investors find useful.

The context informs the numbers

The roundtable participants agreed on one element - context is vital when providing ESG data. There was agreement between issuers and investors that effective management of social topics is financially material. However, due to the differences in location, structures and processes of companies, there was some misalignment on what kind of “S” data to report, and how investors can digest information that varies between companies. It was made apparent that leveraging appropriate frameworks is needed to ensure that the right information is being captured, reported and understood by all relevant stakeholders, and that there is space to provide the context behind the numbers.

Rather than simply providing the numbers, investors are interested to know why a particular program is in place. What is the strategic value to the issuer? Who is accountable for ensuring the program takes place?

What are the positive impacts of the initiative on the company and its multiple stakeholders? This allows investors to understand the value behind the action and understand the data better. Issuers typically have access to this information, as they continuously track multiple information sources in order to make informed decisions. However, data may be reported in different forms and documents, which can make it difficult for investors to understand the true context and the connection to value creation.

Structuring and disclosing on social topics

The Task Force on Climate-related Financial Disclosures (TCFD) recommendations play an important role in climate disclosure for both companies and investors. They allow companies to showcase strategic and tactical advancements around climate action and demonstrate alignment with a transition to a low-carbon future. This provides investors with the context needed to appropriately price risk and ensure a forward-looking, consistent approach to evaluating a company's distinct risks and opportunities. By disclosing climate-related information through the four pillars of the TCFD – Governance, Strategy, Risk Management, and Metrics & Targets – companies are able to take a proactive approach to climate disclosure. The framework was explicitly developed with a future-forward approach to disclosure, consistently taking into consideration both risks and opportunities, helping reporters to develop an effective climate strategy that takes into account short, medium and long-term implications. By keeping pathways to targets top-of-mind throughout the recommendations, and by encouraging companies to back these strategies up with metrics, targets and data, the TCFD framework provides an opportunity for both the “Why?” sought out by investors and the “How?” presented by companies to be appropriately addressed and properly interpreted.

One of the key outcomes of the roundtable discussions was an interest in finding an equivalent framework to report on social topics. Rather than directing issuers and investors to yet another reporting framework, participants believed the structure of the TCFD could also be used to report on social topics, following the structure of Governance, Strategy, Risk Management and Metrics and Targets.

The *Towards Sustainable Mining* (TSM) framework, launched by MAC in 2004, was also put forth as a possible tool to help guide issuers on effectively reporting on their social topics. The TSM framework was created, in part, to communicate what mining companies are doing with regards to community and Indigenous relationship building, tailings management, climate change and biodiversity, among other topics. It is overseen by an independent Community-of-Interest Advisory Panel, externally assured and backed by several distinct protocols that aim to guide companies in their disclosure of certain key social and environmental high-impact areas.



Agnico Eagle offers several educational, training and skills development initiatives to encourage Nunavummiut to improve their skills and employability status (credit: Agnico Eagle - Meliadine Mine/by Mathieu Dupuis)

MAC is “committed to supporting an orderly transition toward a lower carbon future, and to being a constructive partner in the fight against climate change. MAC supports climate action that is consistent with the ambition of the Paris Agreement to limit global warming to well below 2 degrees Celsius (above pre-industrial levels) to ensure the long-term sustainability of our shared planet.” As such, MAC has recently developed a TSM Climate Change Protocol that is aligned with the TCFD recommendations. In translating this to social topics, TSM’s Indigenous & Community Relationships Protocol applies a similar, risk-based approach to the TCFD, by requiring mines to work collaboratively with affected communities to identify, prioritize and mitigate risks. This enables a similar future-forward approach to disclosure built into the TCFD.

TSM also has a stringent assurance process – currently rare in the ESG space. What’s more, MAC is working to broaden the TSM to a global scale, to further consolidate the mining industry’s disclosures. TSM is now being implemented in nine countries on six continents, including key mining jurisdictions such as Australia and Brazil.

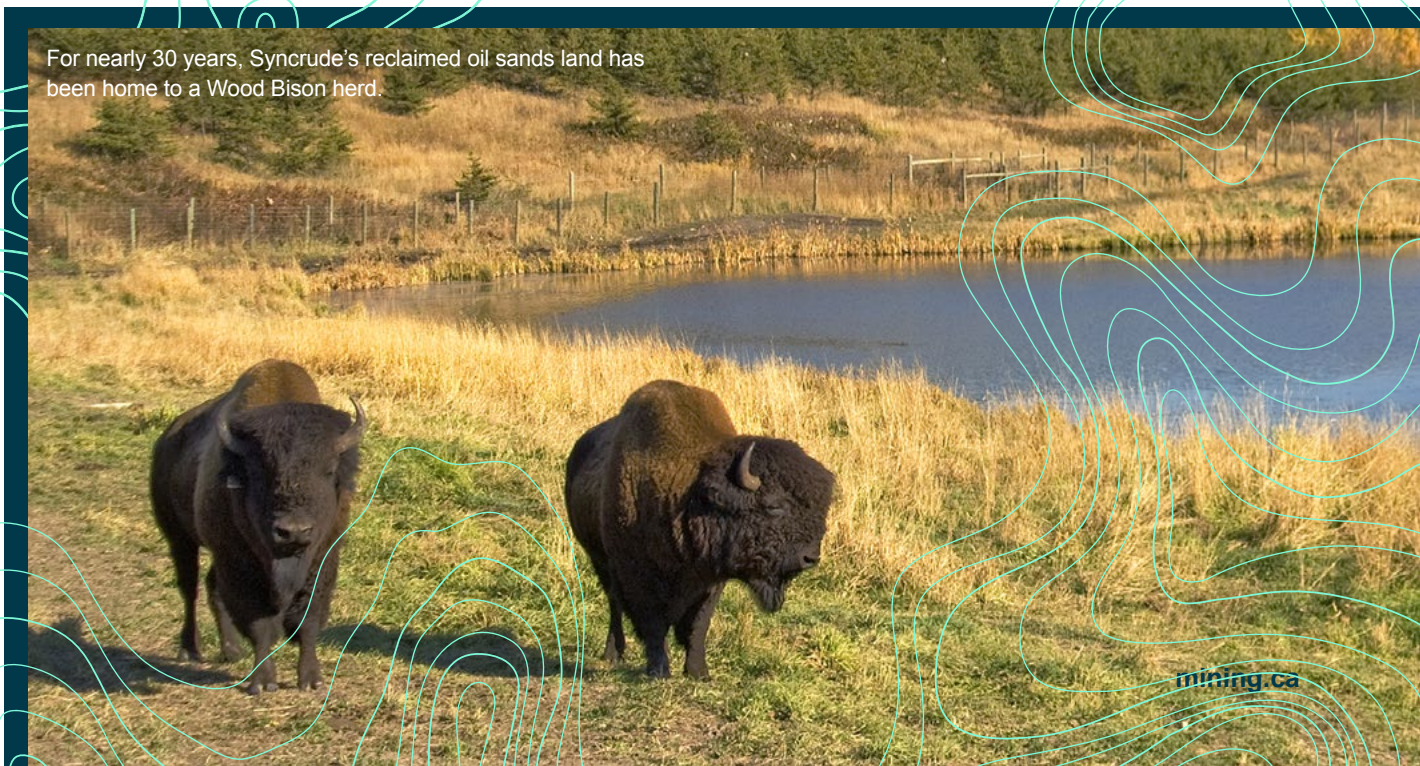
Using established frameworks, such as the TCFD and the TSM, to disclose on social topics may help bridge the gap between what issuers are disclosing and how investors digest this information.

ESG issues are dynamic

The operational context of mining companies is dynamic, which impacts the degree to which its various ESG topics are material. What may be considered immaterial today may quickly become financially material tomorrow. 2020 was a great example of how issues can move from relevant to highly material in a short period of time. The COVID-19 pandemic demonstrated how the effective management of social topics, such as labor rights and employee health and wellbeing, can significantly affect company valuations.

Taking a proactive approach to ESG management can strongly support financial and reputational safeguarding, in turn potentially affecting both short and long-term valuations and multiples. Vale SA was exposed to major financial and reputational loss when its tailings dam in Brumadinho, Brazil, collapsed in 2019, killing 270 people. This event came less than four years after Vale and BHP’s joint venture, Samarco, suffered a dam collapse in Mariana, Brazil in 2015. As of October 2020, Vale still had the lowest EBITDA-based valuation among top global miners and continues to recover reputationally from the incident. What’s more, several funds, like JGP Wealth Management, whose main position at the time was Vale, were also negatively affected by the lack of ESG analysis of their primary stocks. It is therefore essential for investors and issuers to properly assess the materiality of such topics and put in place the processes to effectively manage an issue before it becomes potentially damaging.

For nearly 30 years, Syncrude’s reclaimed oil sands land has been home to a Wood Bison herd.



The power to influence a topic's materiality

The Sustainability Accounting Standards Board (SASB) reporting standards remain the reference for many corporations and investors when it comes to identifying and disclosing material ESG issues. A poll sent to investors prior to Millani and MAC's roundtable showed that two-thirds of respondents use SASB "a lot" and one-third use it "a moderate amount". What's more, Millani's ESG Sentiment Study of Canadian Institutional Investors, (a follow-up to Millani's April study) showed that 81% of investor participants refer to SASB in their analysis of issuers.

SASB actively invites stakeholder commentary on the materiality of topics and will consider a topic to be material – and hence consider adding it to its framework – if there is demonstration of its materiality by the market. SASB can be made aware of a topic's materiality through investor outreach, dialogue with companies, academic research

and discussions with subject matter experts. Following the tailing incidents in Brazil, SASB has included tailings management in a draft document out for public comment to review and update the SASB Mining Standards.

Participants of the Millani and MAC roundtable have an opportunity to actively push forward topics deemed material in the mining sector that may not yet be covered by the SASB standards, further helping to align investor and mining company needs. The results of recent and future Millani and MAC roundtables can serve as a catalyst to both identify top issues that may not yet be perceived as financially material and prevent previously unforeseen issues from becoming material. By using a unified voice to bring more focus to topics that are considered material – or that may become material, stakeholders have a real opportunity to advance the management and disclosure of highly material topics, from tailings management to social topics.

WHAT'S NEXT?

- Globally recognized and existing frameworks and standards, such as TSM and the TCFD, can be leveraged and adapted to structure disclosure on social topics in mining. Leveraging the dialogue between MAC members and investors, possibly through a working committee, to advance discussions on adequate social disclosure could be beneficial to multiple stakeholders, as it would help further align the mining industry.
- Joint engagement efforts from MAC members and investors with SASB to highlight important issues that can be included in their materiality map of ESG topics for the mining sector. Small actions, such as engaging in dialogue and responding to consultations can deliver significant benefit to companies and the investors that assess them in terms of breadth and depth of disclosure.
- Participation in events that drive dialogue between investors and issuers on topics can have great impact. Millani and MAC's next roundtable will focus on the complex relations that issuers manage with Indigenous groups in Canada, and how existing frameworks can be leveraged to further support this engagement. MAC members and investors are welcome to get in touch for details on how to attend.



About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 13 years, Millani has become the partner of choice for institutional investors. By providing advisory services on integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure to financial stakeholders and optimize their market value. For more information, contact us at: info@millani.ca or visit our website: www.millani.ca.



About MAC

The Mining Association of Canada is the national organization for the Canadian mining industry. Its members account for most of Canada's production of base and precious metals, uranium, diamonds, metallurgical coal and mined oil sands, and are actively engaged in mineral exploration, mining, smelting, refining and semi-fabrication. Please visit www.mining.ca.

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