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ESG Reporting for Life Sciences Companies (as if saving lives wasn't enough....)

Against a backdrop of climate change and sustainability concerns, investors are increasingly focusing on the ESG (environment, social, governance) elements of companies in which they invest.

While the Life Sciences sector may seem an obvious one to meet these credentials (saving lives or preventing disease is a huge social gain) investors and other stakeholders are looking beyond this obvious "tick" of the ESG "box". Adding ESG reporting to the list of governance tasks presents a challenge for smaller companies with limited resources.

In this article, we provide some guidance to get you thinking about how you might highlight the ESG elements of your business in your reporting and in communications with investors and the wider market.

What is ESG?

ESG factors are those relating to environmental, social and governance:

- **Environmental factors** typically include the sustainability of operations, carbon footprint, handling of waste, energy and water usage and recycling.
- **Social factors** can include diversity, human rights, health and safety, employment standards, native title and the impact on the supply chain and communities in which a company operates.
- **Governance** commonly covers the policies that a company has, its risk and compliance frameworks, executive remuneration, ethics and culture.

Who's talking about ESG?

ASX listed entities are familiar with reporting on their governance practices. They are also required to report on environmental compliance[1].. However, the areas of ESG interest are growing wider, for example:

- Recommendation 7.4 of the ASX Corporate Governance Council Principles and Recommendations states that an entity should **disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.**
- In the Biotechnology Blueprint released this year[2], AusBiotech notes *"ESG performance is a competitive advantage for attracting and engaging employees, investors, and consumers"* and *"Companies operating in the life science and medtech sectors are in a unique position where business foundations are often influenced by a strong purpose that has positive social impact. These companies therefore have an opportunity to infuse ESG into their business operations more organically and allow ESG focus and activity to evolve in natural alignment with company maturation."*

Where to begin?

A PwC report[3] noted that in a survey of ESG reports from life sciences companies, 77% focused on the "social" element of ESG, with 12% on Environmental and 11% on Governance, suggesting that even larger companies struggle to deal with the full range of ESG issues that might affect them.

One useful starting point is provided by the Sustainability Accounting Standards Board which publishes sector-specific guidance for ESG reporting for 77 different sectors[4].

Though expressed in rather prescriptive (and US-centric) language, these "standards" are intended to provide *"a minimum set of sustainability issues most likely to impact…the typical company in an industry, regardless of location"*.

The "Standards" of most relevance to life sciences companies are those for:

- Medical Equipment and Supplies
- Biotechnology and Pharmaceuticals

Key ESG issues for Medtech, Biotech and Pharma

Some of the key ESG issues highlighted by the SASB standards, and other guidance in this area, are:

- Safety of clinical trial participants; including adverse events during trials;
- Diversity of clinical trial participants;
- Product safety and affordability;
- Ethical marketing;
- Business ethics;
- Diversity in the supply chain (for example, contracting with smaller or minority owned suppliers or distributors);
- Efficiency in manufacturing to reduce waste and energy inputs;
- Recycling of single use products or packaging; and
- Privacy (particularly for medical device and diagnostic companies which collect and use data of users of their products).

Key ESG issues for digital health

As a starting point, we recommend that digital health companies consider the issues of:

- if conducting clinical trials: safety and diversity;
- privacy: the SASB standard on Health Care Delivery is relevant as it includes a focus on patient privacy and electronic health records; and
- social gains: in delivering greater affordability and access to healthcare.

What should life sciences companies do?

For ASX listed entities we have just published an article on the recent review of the Corporate Governance Principles and Recommendations and our suggestions for Board action: What does good governance look like?

As part of a general review of their governance framework, June year-end companies in "reporting season" could take the opportunity to expand their reporting by commenting on the ESG issues of highest priority to their stage of growth. For example:

- As many Australian companies in this sector are in the development phase, ESG in the context of clinical trials (safety, ethical conduct, diversity) will be of particular relevance;
- For companies starting to plan for manufacturing, scale-up, and / or the building of distribution channels, there is an opportunity to include ESG considerations (such as resource use efficiency and recycling) in plans and in negotiations with other parties; and
- Companies who are engaging with key investors or collaboration partners at this time could take the opportunity to ask what ESG issues are particularly significant from their perspective.

If you have any questions about ESG reporting or updating your policies and practices, please reach out to the authors of this article or to the corporate partner at Piper Alderman with whom you normally deal.

[1] Corporations Act s299(1)(f): entities whose operations are subject to significant environmental regulation, must disclose their performance in relation to those regulations.

[2] https://www.ausbiotech.org/policy-advocacy/biotech-blueprint

[3] “*ESG for Pharmaceutical and life sciences companies”* August 2021

[4] https://www.sasb.org/standards/