

Enbridge Inc.

Report: 2021 Water Metrics and ESG Reporting Summary

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1.0 Introduction

Around the world, the concept of “ESG” (Environmental, Social, and Governance) has thoroughly permeated discussions and actions amongst the public, regulators, governments, investors, and operating companies. The ESG space is evolving rapidly, with new proclamations, regulations, and investment decisions arising almost daily. With events such as COVID-19 and the response to the climate crisis acting as accelerants, ESG is a trend with material implications for businesses which cannot be ignored.

WaterSMART Solutions Ltd. (WaterSMART) has been engaged by Enbridge Inc. (Enbridge) to document our observations of emerging trends within the ESG movement, particularly related to water and water metrics. These observations are drawn from our ongoing consulting practice in North America, which builds on extensive prior work on water metrics, water reporting, and water strategy development. They have also been informed by the insights of our global team of Special Advisors. This report summarizes select highlights and global trends for water in the ESG context, and explores the response to these trends by investors, operating companies, and the ESG marketplace. Building from this exploration of the current and emerging state of water for ESGs, we provide commentary on its future, as well as key takeaways. Given the complex and rapidly evolving nature of the global ESG conversation, this report serves as a snapshot in time focused on key elements and is not intended as an all-encompassing and timeless compendium.

2.0 Key Developments for Water in ESGs

2.1 Global ESG trends

The events of the last two years have helped cement ESG as a familiar topic across the world, from corporate boardrooms to legislative assemblies to kitchen tables. In particular, the “E” and the “S” have recently emerged to dominate the scene:

- **Environmental:** as highlighted by COP26, the climate crisis is being discussed with increasing urgency. For example, United Kingdom Prime Minister, Boris Johnson, noted, “Humanity has long since run down the clock on climate change. It’s one minute to midnight on that Doomsday clock and we need to act now¹.” With society, governments, and now investors increasingly demanding action, climate change mitigation (i.e. emissions abatement) is a top priority for companies, as illustrated by the quantity of net zero pledges being made. However, as noted below, the various issue surrounding water are rapidly gaining the attention of key stakeholders. Ironically, water has been identified as a concern to businesses for many years, but only recently is climbing in

¹ Reuters, 'We have to make a choice' - what they're saying at U.N. climate talks, published [online](#) November 2, 2021.

prominence in the ESG dialogue.

- **Social:** COVID-19 and civil rights protests in the United States helped to highlight the human side of capitalism, with stakeholders, investors, employees, and customers increasingly demanding that companies take serious action to protect their employees and improve their diversity. The social side of ESG has demonstrated that companies must develop an understanding of the market implications of ESG issues; connecting ESG concerns with financial elements will be a game changer.

The appropriate role of governments and regulators in the energy transition and ESG more broadly is very much in flux, with competing groups advocating for market-based or regulation-based solutions to pressing environmental and social challenges. While such fundamental questions are debated, governments and regulatory bodies in North America and Europe have made it clear they are ready and willing to play a bigger role in the ESG space through disclosure regulations, tax measures, and taxonomy development². The European Commission, for example, has legally required large companies to disclose their social and environmental impacts since 2014³, and is now developing a taxonomy for environmentally sustainable activities to help direct the flow of capital to activities which will enable achievement of the European Union’s climate goals⁴. Work is also underway in Canada on a transition taxonomy to facilitate investment in “transition-oriented” actions to reduce the carbon emissions and environmental impacts of existing activities⁵. In the United States, President Biden made action on ESG a key platform issue during the election and was vocal at COP26, but recent and ongoing actions on pipelines in the United States indicate there is still a gap between purely environmental policy and integrated ESG thinking.

The current focus of the global ESG conversion is undoubtedly on carbon and climate change mitigation. However, the value of other environmental factors, such as water and biodiversity, is starting to emerge. For example, the importance of clean water and sanitation was highlighted by the COVID-19 pandemic, during which handwashing was a primary defense against the virus. In addition, water and biodiversity

² For example, the United Kingdom published requirements in November 2021 for financial companies to publish net-zero transition and decarbonization plans: S&P Global Market Intelligence, *UK to mandate financial firms to publish plans on transition to net-zero*, published [online](#) November 5, 2021. Note that some stock exchanges are also requiring listed companies to disclose on ESG issues, for example by using to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

³ European Commission, *Corporate sustainability reporting*, available [online](#).

⁴ European Commission, *EU taxonomy for sustainable activities*, available [online](#).

⁵ CSA Group, *Defining Transition Finance in Canada*, available [online](#).

focused initiatives and organizations, such as the Water Pavilion at COP26⁶ and the Task Force on Nature-related Financial Disclosures (TNFD), have built significant momentum through 2021. Although carbon dominates the ESG narrative, global water organizations are increasingly inserting water into the ESG conversation. A few notable examples include:

- **World Water Council (WWC):** while fulfilling their mission to “mobilize action on critical water issues” via political avenues, the WWC has highlighted the importance of balancing water for the environment with water for people/development and the need for cross-cutting solutions to challenges which exist at the nexus of water, electricity, food, health, and education⁷.
- **World Water Forum:** hosted every three years by the WWC, the World Water Forum is a collaborative event intended to catalyze regulatory and policy action. The 9th Forum is planned for Dakar, Senegal in 2022, with 200 organizations participating with four priority areas (water security and sanitation, rural development, cooperation, and means and tools).
- **World Water Week (WWW):** the WWW is an annual conference focused more on technology and practical implementation, as opposed to the WWC. The 2021 WWW theme was “Building Resilience Faster”, which explicitly linked water resilience to climate change adaptation⁸.
- **World Economic Forum (WEF):** although not a water-focused organization, for the past several years, and again in 2021, the WEF has identified water-related risks (e.g. extreme weather events) as top global risks in terms of likelihood and severity⁹.

As water continues to feature in the ESG landscape, the following key trends have been observed:

- **Water is a unique and context-based resource:** while carbon is a global problem with common contributors and solutions, water is unique and deeply local. Water challenges, and their solutions, are specific to each watershed, and can vary widely even within a single region or jurisdiction (e.g. compare water-scarce southern Alberta to water-rich northern Alberta). The context-based nature of water makes broad water performance comparisons difficult, and the existence of multiple, competing demands for water makes solving water challenges complex. Perhaps in part due to its challenging nature, water has historically been regarded in a simplistic manner in most ESG conversations. However, we have recently observed the emergence of

⁶ Over 30 global water organizations collaborated on the Water Pavilion at COP26 to “deliver cutting-edge, science-based advice”, published [online](#) October 29, 2021.

⁷ World Water Council, *2020 Annual Report*, published [online](#) July 2021.

⁸ Stockholm International Water Institute, *World Water Week Thematic Scope Summary 2021*, published [online](#) in 2021.

⁹ World Economic Forum, *The Global Risks report 2021*, published [online](#) January 19, 2021.

context-based thinking for water (e.g. the Carbon Disclosure Project (CDP) Water survey distinguishes between water stressed and non-water stressed regions, and the World Wildlife Fund released guidance on how to include water context in corporate water strategies and disclosure¹⁰). This mainstreaming of water context builds to some extent upon prior work by select organizations, such as the Alliance for Water Stewardship, for which context is the core to their approach. This concept of assessing water risk through a water context lens is at the core of WaterSMART's approach to watershed management, water strategy, and water metrics.

- **Water scarcity is situation-specific:** linked to the context-specific nature of water, there is growing appreciation for the nuances around water scarcity being situation-specific. Analysis of water scarcity is moving beyond simply assessing the volume of water to be managed in a location (i.e. either water available for use or water which must be treated or disposed of), and towards considering the volume, timing, location, and quality of the water for its intended purpose. Linked to this is economics; water may be considered scarce in situations where the cost to access it is too high (e.g. due to treatment and/or conveyance costs).
- **There is a link between carbon and water:** the management of water resources is increasingly being linked to climate change, in terms of both climate change mitigation and adaptation.
 - Mitigation: the intense focus on climate change mitigation means that water managers are being driven to account for, and reduce, the emissions associated with their operations. From municipal utilities to oil sands water treatment plants, new projects and technologies are regularly being funded based on their emissions reduction potential first, with water benefits being considered second. For example, the UK Water Industry Research (UKWIR) group recently engaged Stantec and Mott MacDonald to help them understand the carbon emissions associated with water utility infrastructure construction and operations¹¹. In addition, many municipal water utilities are making carbon neutral pledges similar to those issued in other industries¹².
 - Adaptation: climate comes to ground in water, and the extreme weather events increasingly being linked to climate change are manifest through water. Therefore, there is a growing recognition of the need for immediate, adaptive actions to reduce the impacts of having either too much or too little water.
- **There are opportunities for value creation:** water has historically entered the ESG conversation from the perspective of risk mitigation, which is appropriate given the intrinsic role of water for the core activities of many companies, as well as the potential impacts all companies can have on

¹⁰ World Wildlife Fund, *Putting Water Strategy into Context*, published [online](#) March 2021.

¹¹ Stantec, *UKWIR appoints Stantec and Mott MacDonald team to recommend the way forward for calculating Whole life/TOTEX Carbon*, published [online](#) November 11, 2021.

¹² Global Water Intelligence, *Is net zero now water's biggest priority?* published [online](#) August 12, 2021.

water. With water risk management increasingly recognized as a de facto requirement for companies, the accepted definition of good corporate water management is now expanding to include value creation. Increasingly, investors are asking whether additional enterprise value can be generated from good management of water resources, such as water quality credits or assigning an internal cost for water for the purposes of internal economics. Although markets for water-related credit trading are nascent, leading companies are seeking and creating opportunities to generate enterprise value, and thus higher investment returns, via water. Water reuse and cross-sectoral cooperation are examples of these opportunities (e.g. treated produced water for aquifer recharge).

- **In Canada, Indigenous rights are increasingly impacting water:** consistent with, and building upon the government of Canada's passing of the *United Nations Declaration on the Rights of Indigenous Peoples Act*, Indigenous water rights are taking an increasingly prominent role in water-related decision making. For example, there is work underway to establish the Canada Water Agency and update the *Canada Water Act*, which includes a strong focus on Indigenous water rights, Traditional Knowledge, and Indigenous inclusion in water-related decision making. Another example is the June 2021 ruling by the British Columbia Supreme Court in favour of the Blueberry River First Nation's claim that the provincial government had violated their Treaty 8 rights to trap, hunt, and fish without interference by allowing industrial development on their traditional lands¹³. This precedent-setting ruling gives the First Nation decision-making power with respect to land management in their traditional territory, which will inevitably impact water use decisions. In addition, there is increasing participation by Indigenous Peoples in water projects, such as in the current planning of the flood mitigation onstream structures for the Bow River Basin upstream of the City of Calgary.

2.2 Investor activities

Through initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), which represents over \$130 trillion of private capital committed to the net zero transition, the investor community has made a clear declaration that ESG issues are being taken seriously¹⁴. Investors of all types and sizes are increasingly utilizing responsible investment (RI) approaches to inform decision making. In Canada alone, over \$3.2 trillion dollars of assets under management, representing 61.8% of the investment industry, fell

¹³ The Narwhal, *Blueberry River First Nations win precedent-setting Treaty Rights case*, published [online](#) June 30, 2021

¹⁴ Glasgow Financial Alliance for Net Zero (GFANZ), *Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition*, published [online](#) November 3, 2021.

under the umbrella of RI as of Q4 2020¹⁵.

Responsible investment strategies include impact investing, shareholder engagement, thematic ESG investing, positive screening, ESG integration, negative screening, and norms-based screening¹⁶. In this context, open and verifiable corporate ESG reporting is now expected as part of normal business, with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and Sustainability Accounting Standards Board (SASB) framework emerging as the de facto leading disclosure approaches. Furthermore, in the absence of disclosure, investors and third-party data providers will “make it up” as best as they can to inform investment decisions. Given the risk of inaccurate estimates and/or unintended interpretations, companies have additional incentive to disclose in a meaningful way.

Although asset managers in Canada and around the world are increasingly requiring corporate disclosure and deploying RI strategies, it must be noted that positive financial returns remain a top priority for investors, rather than ESG performance. Indeed, portfolio managers from leading fund companies have acknowledged that ESG data is one dataset, amongst many, which gets integrated into their proprietary decision-making processes¹⁷, which are heavily weighted towards anticipated return on investment. Frequently, ESG trends are used to identify opportunity areas¹⁸ and ESG data may be applied to filter or hone analysis, but investment decisions are ultimately made based on anticipated returns, which are linked to company management and potential upside, among other factors. In many cases, issues with the quality, consistency, and comparability of ESG data can limit its integration into investment decisions. This is especially true for water, which is complex, context-specific, and underdeveloped relative to carbon and for which large gaps exist between what investors desire for decisions and what companies are disclosing.

Given the current water data challenges and limitations of leading water disclosure approaches, investors are generally adopting an enterprise value perspective, instead of comparing companies strictly using ESG data. The enterprise value approach primarily captures risks, which can erode enterprise value, but it also considers opportunities for companies to create enterprise value, such as by generating environmental credits on a project and selling them. With the enterprise value lens, investors are hungry for information to help them understand corporate water risks and their potential financial implications. As such, companies are encouraged to disclose verifiable information which demonstrates they have identified

¹⁵ Responsible Investment Association, *2020 Canadian RI Trends Report*, published [online](#) November 2020.

¹⁶ Ibid. page 8.

¹⁷ Responsible Investment Association, *ESG Product Knowledge for Retail Advisors: Fall Edition*, [online](#) conference, September 2021.

¹⁸ For example, the push towards electric vehicles may make companies within the battery supply chain more attractive for investment.

and are managing their water risks (e.g. scenario analysis). In this case, water risk is being considered from a double materiality perspective; that is, companies must understand both the risks to their operations from water (or the lack thereof) and the risks that their operations pose to the watersheds in which they operate. Value creation opportunities are then considered in addition to risk management.

2.3 Company activities

Given the increasing pressure from investors, regulators, and stakeholders to improve ESG disclosure and performance, companies are increasing both the extent and sophistication of their management and reporting of ESG data. Several trends have emerged in recent years:

- As noted in Section 2.2, TCFD and SASB are emerging as the leading approaches, although many frameworks and protocols are seeing increased use. For example, disclosures using CDP Water increased 20% in 2020¹⁹.
- Although the ESG marketplace remains fragmented and complex, companies are better off starting their disclosure journey now than waiting for clarity on the “one” approach that will win out. As many investors and corporate sustainability managers have noted, companies must not let perfect stand in the way of good at this critical time.
- Companies are starting to publish corporate water neutrality or water positivity targets to parallel net-zero carbon targets²⁰. This practice is nascent, with most corporate water targets being set within the tech industry and by consumer-facing brands.
- Although the concept of integrated reporting is not necessarily new, companies are increasingly disclosing the financial impacts of ESG factors. This is consistent with investor expectations, especially in water, to understand the potential impacts to enterprise value from ESG risks and opportunities (as discussed in in Section 2.2).
- Impact reporting is also becoming increasingly popular, where companies discuss the positive impacts they are having on ESG factors.
- The gathering, management, and disclosure of ESG data is increasingly underpinned by tools and third-party providers. For example, the World Wildlife Fund (WWF) Water Risk Filter is being used for both double materiality assessments and scenario analyses.
- Requirements for improved ESG performance and disclosure are being pushed down through global supply chains, particularly in consumer-facing industries such as agri-food²¹ and fashion.

¹⁹ Carbon Disclosure Project, *A Wave of Change*, published [online](#) March 2021.

²⁰ For example, [Microsoft plans to be water positive by 2030](#), “meaning [they] will replenish more water than [they] use... by putting back more water in stressed basins than [their] global water consumption across all basins”

²¹ For example, [Walmart](#) requires suppliers to “design and operate systems to properly manage wastewater, storm water, waste, air emissions, and recyclable materials”

This can result in a layering of requirements upon suppliers and operators who are “on the ground”, such as farmers and manufacturers. Generally, the deployment of ESG-focused practices and disclosure throughout supply chains is facilitated by linking such efforts to a compelling business case for implementors (e.g. preferential purchasing and/or pricing for suppliers adhering to a certain protocol).

Given the intense pressure on companies and the myriad of approaches available in the ESG marketplace (discussed in Section 2.4), a strategic approach to ESG disclosure is required, particularly for water. Companies must first invest time and resources to understand the watershed context(s) of their operations, including shared water quality and quantity challenges, stakeholder priorities, risks, and opportunities. From this context, water specific goals and targets can be established which align with a company’s broader corporate strategy, including mission, values, and purpose. The goals and targets will in turn inform what should be measured and managed, in the form of metrics, which can then be utilized internally for continuous improvement and disclosed externally as appropriate. In this way, a strategic approach links ESG-based activities to operational resilience and enterprise value, which will both improve company performance and satisfy the needs of investors for decision-useful disclosure.

2.4 ESG marketplace activities

In recent years, there has been an explosion of service providers and frameworks across all levels of the ESG disclosure value chain, leading to a so-called “alphabet soup” of acronyms and requirements. This proliferation has been largely commensurate with the increasingly urgent global activity on climate change²² and the trends discussed in this report, and it has been enabled in part by the advancement of technologies for data collection and management, including hardware (e.g. sensor equipment, satellites) and software (e.g. machine learning, cloud computing, artificial intelligence). The players in the ESG disclosure marketplace can be grouped into broad categories, which, while not necessarily exhaustive, are illustrative of the complexity and busyness of this space:

- Voluntary disclosure frameworks (e.g. CDP, Global Reporting Initiative [GRI], CEO Water Mandate).
- Disclosures as part of broader efforts (e.g. Alliance for Water Stewardship).
- Disclosure guidance frameworks (e.g. SASB, Integrated Reporting, TCFD).
- 3rd party aggregated frameworks and ratings agencies (e.g. Bloomberg, MSCI, Sustainalytics [a Morningstar company], Euronext, Dow Jones Sustainability Index, etc.).
- Specialized ESG data providers, typically leveraging machine learning and/or artificial intelligence (e.g. Qube methane monitoring).
- “One stop shop” ESG platforms for data collection, aggregation, reporting, and internal

²² Verdantix, *COP26 Validates EHS Software Vendors’ Aggressive ESG Focus As They Gear Up To Play A Leading Role In Corporate Initiatives*, published [online](#) November 18, 2021

management (e.g. Sphera, SAP).

- ESG consultants, either pure play (e.g. ERM, Green Diamond) or as an offering of a larger firm (e.g. Deloitte, PwC, E&Y).

The saturation of offerings within the ESG marketplace is starting to result in meaningful consolidation and collaboration. Within the data and consulting fields, there is an active mergers and acquisitions market (e.g. Sphera was bought for \$1.4 billion USD in July 2021²³), while many of the large framework organizations are working together to reduce complexity. For example, CDP, the Climate Disclosure Standards Board (CDSB), GRI, the International Integrated Reporting Council (IIRC), and SASB announced in September 2020 a shared vision for comprehensive corporate reporting and plans to work together to reduce complexity in the marketplace²⁴. More recently, SASB and IIRC completed their merger in July 2021 to form the Value Reporting Foundation, which also emphasises the growing interest in creating enterprise value through ESG-related activities, in addition to managing risks²⁵.

Although extensive development has occurred, some if it related to water and water risk²⁶, the ESG marketplace remains largely focused on climate change mitigation and carbon emissions. Although there is, broadly speaking, demand for better water disclosures from the investment community, leading approaches in the ESG marketplace continue to struggle to add significant value in the water space, confronted with a lack of high-quality data and the challenge of devising globally comparable metrics for such a context-specific resource.

Given the range of options within the ESG marketplace and the difficulties associated with water data, metrics, and disclosure, companies must use a strategy-based approach to identify and implement tools and frameworks which suit their needs. Generally speaking, this should include a double-materiality risk assessment, as discussed in Section 2.2, to inform a risk management system which aligns with corporate goals and satisfies investor and stakeholder requirements.

²³ Verdantix, *Blackstone Acquires Sphera For \$1.4 Billion Signalling A Strategic Push Into ESG Digital Solutions*, published [online](#) July 6, 2021

²⁴ CDP, *Five global organisations, whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting, announce a shared vision of what is needed for progress towards comprehensive corporate reporting – and the intent to work together to achieve it*, published [online](#) September 11, 2020

²⁵ Value Reporting Foundation, *IIRC and SASB form the Value Reporting Foundation, providing comprehensive suite of tools to assess, manage and communicate value*, published [online](#) July 9, 2021

²⁶ For example, CDP reported a 20% increase in companies reporting to CDP water from 2019 to 2020

3.0 The Future of Water in ESGs

Climate change has been, and continues to be, the primary focus within the ESG space, as the urgency associated with events such as COP26 demonstrate. However, from the shadow of climate change mitigation (i.e. carbon emission reductions), discussions around climate change adaptation are emerging, with a focus on water. Although water's context-specific nature and associated complexities make data collection and metric comparisons difficult, water risks are becoming increasingly difficult to ignore. As such, we expect to see water-specific disclosure and risk management becoming more prominent in the future as water's complexities become better understood, although carbon will dominate the ESG space for many years to come. While the development of water for ESG plays out, companies will benefit from linking their water and carbon disclosures to demonstrate that strategic actions to mitigate water risk and watershed impacts can also reduce carbon emissions. For example, it is estimated that 70% of large water utilities in high-income countries will soon set a target date for achieving net zero carbon status, in many cases as early as 2040 or sooner²⁷.

An example of current best practice in water disclosure are the Corporate Sustainability Goals of Ecolab Inc. (Ecolab), which include both water withdrawal and greenhouse gas emissions targets, as well as disclosure on their water stewardship journey²⁸. Ecolab has performed a risk assessment of the watersheds in which they operate to identify high-risk locations. Within these stressed watersheds, Ecolab has taken action on water use efficiency, water quality, flooding, and wetland erosion via implementation of the Alliance for Water Stewardship standard. Their disclosure includes performance against water goals, such as water use efficiency, and a commitment to addressing local (i.e. watershed context specific) shared water challenges.

4.0 Key Takeaways

As the preceding sections summarize, thoughtful corporate disclosure on water in the ESG context is becoming increasingly important, as companies face growing operational, regulatory, investor, and societal pressures, especially in oil and gas. Through our recent and ongoing work with operating companies, investors, and thought leaders in the ESG space, the following key takeaways have been observed:

- There is a strong and increasing focus on ESG, with pressure on companies to disclose ESG information coming from investors, regulators, and society. Currently, climate change remains the clear focus.

²⁷ Global Water Intelligence, *Is net zero now water's biggest priority?* published [online](#) August 12, 2021.

²⁸ Ecolab has extensive [online](#) information for multiple ESG aspects, including water.

- Recognition is increasing of the importance of water for businesses, people, and the environment, resulting in efforts to increase water specific ESG disclosure. Water disclosure is several years behind carbon disclosure and gaps remain in water data and context-based metrics for comparisons. While carbon continues to dominate, it will remain important to establish the carbon/water link in ESG disclosure.
- The growing emphasis on water means that water-specific requirements are being pushed through supply chains, with implications for those “on the ground”, especially in agri-food.
- There is a strong and growing link between water disclosures and water strategies – meaningful disclosure cannot occur in a vacuum and actions must be proactively directed by corporate priorities, rather than reactive to external requests for increasing disclosure.
- Companies throughout the oil and gas value chain are under intense pressure to disclose verifiable and material ESG-related information and demonstrate performance improvements. To survive, companies must strategically take meaningful action to reduce both their risks and impacts while generating enterprise value, and effectively communicate these actions.
- Even companies that do not directly use large volumes of water (e.g. pipelines) must consider their water risks through a double materiality lens; simply being in a watershed means that a company will have impacts which must be understood, managed, and communicated about. In Canada especially, this links to Indigenous rights, which adds an important layer to double materiality risk assessments.