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REPORTING STANDARDS: THE IMPORTANCE OF DISCLOSING ACCURATE/ASSURED ESG PERFORMANCE

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ESG REPORTING REGIMES

CDSB Climate Disclosure Standards Board

GRI

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

IR

CDP™
DISCLOSURE INSIGHT ACTION

SASB
SUSTAINABILITY ACCOUNTING STANDARDS BOARD

GLOBAL REPORTING INITIATIVE (GRI)

- International Corporate Social Responsibility (CSR) disclosure framework, with disclosures in three general categories:
  - Economic (covers issues ranging from economic performance to anti-corruption activities)
  - Environmental (materials, energy, water, biodiversity, emissions, effluents and waste, environmental compliance, supplier environmental assessment)
  - Social (covers issues ranging from employment to human rights)
- Cited in the EU's non-financial reporting directive as an approved framework
- GRI is the most widely used reporting framework for sustainability reporting

CARBON DISCLOSURE PROJECT (CDP)

- Began as a framework for disclosing climate-related information
- Now seeks information through three annual questionnaires related to:
  - Climate change
  - Forests
  - Water
- Issued a report in March 2018 based on collected data, concluding that
  - "there continues to be a noticeable gap between identifying and owning climate-related risks and opportunities, and acting strategically to tackle them"

CLIMATE DISCLOSURE STANDARDS BOARD (CDSB)

- Consortium of eight organizations, including:
  - CDP (which is the Secretariat); the Climate Group, the Climate Registry, the International Emissions Trading Association, the World Resources Institute, the World Business Council for Sustainable Development, and the World Economic Forum
- Created a framework for reporting environmental information and "natural capital" in mainstream reports, such as annual reports, Form 10-K, or integrated reports
  - Framework covers environmental policies, strategy, targets, risks, opportunities, governance, impacts, comparative analysis, outlook, reporting policies, conformance, and assurance
- Teamed with Ecodesk to create "The Reporting Exchange," which seeks to compile information on all sustainability reporting regimes, with an eye toward harmonization

SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

- Started in 2011 to develop and disseminate sustainability accounting standards for U.S.-based companies
- Encourages disclosure of material sustainability information in Form 10-K
- Standards cover five sustainability "dimensions":
  - Environment (corporate impacts on the environment)
  - Social Capital (perceived role of business in society)
  - Human Capital (management of a company's human resources)
  - Business Model and Innovation (impact of sustainability issues on innovation and business models)
  - Leadership and Governance (management of issues in conflict with interests of stakeholders)

INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

- Envisioned to be a report that covers all other reporting and has set a goal to "become the corporate reporting norm"
- Seeks reporting of interconnection of "capitals," the capacity of the company to respond to stakeholder needs, the organization's business model and strategy in relation to its external environment, risks and opportunities, and activities and performance related to capitals
- The "capitals" include:
  - Financial (pool of funds available to the company)
  - Manufactured (manufactured physical objects available to the company)
  - Intellectual (knowledge-based intangibles)
  - Human (people's capabilities and experience)
  - Social and relationship (institutions and relationships within and between the company and communities and stakeholders)
  - Natural (renewable and non-renewable resources and processes)

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

- Task force created by the G20 FSB
- Seeks disclosure in public financial filings or in other annual report of climate-related risks and opportunities in the following categories:
  - Governance (around climate related risks and opportunities)
  - Strategy (actual and potential impacts from climate change and strategy for mitigation)
  - Risk Management (process used to identify and manage climate-related risks)
  - Metrics and Targets (related to climate change risks and opportunities)
- Seeks for companies to undertake and disclosure climate scenario analysis
- Cites to CDP, CDSB, OECD Principles of Corporate Governance, GRI, IIRC as allowing for implementation of TCFD

EFFORTS AT HARMONIZATION, CONTINUED DISCONNECT

- All of the above involve separate standards, though CDP, SASB, and GRI have signed MOUs aimed at harmonization; others have issued joint reports also aimed at harmonization
- GRI and IIRC reporting includes international ESG standards, meant to cover broad ranges of ESG and financial issues; SASB is focused on disclosures in U.S. financial reporting
- TCFD, CDP, and CDSB are meant to apply internationally and focused on climate change disclosures, but state that climate change is a systemic risk that will affect many ESG and other issues
  - All reporting regimes are seeking to incorporate the TCFD's recommendations but may not do so consistently
- IIRC wants to change the entire reporting landscape (both voluntary and mandatory)

EVOLVING CLIMATE DISCLOSURE POLICY IN THE EU

- EU Non-Financial Reporting Directive (Directive 2014/95/EU) has been implemented by all 28 Member States (some Member States have more stringent requirements); Required disclosures include:
  - Environmental matters (pollution prevention and control, energy use, greenhouse gas emissions, use of natural resources, waste management, environmental impacts from transportation or disposal, green products and services)
  - Social responsibility and treatment of employees (covers issues ranging from diversity to worker health and safety)
  - Respect for human rights (covers human rights issues in supply chain as well as other topics)
  - Anti-corruption and bribery issues (covers management of anti-corruption and bribery matters as well as occurrences)
  - Diversity on board of directors (age, gender, educational and professional background)
- Companies can report using GRI, the UN Global Compact, OECD Guidelines, and ISO 26000, among other frameworks
- On March 8, 2018, the European Commission published an action plan to overhaul disclosure policy by 2020 to achieve the EU's 2030 climate and energy targets

LEGAL CONSIDERATIONS FOR ESG REPORTING

- After reporting, companies lose control of the data
  - Many different data gatherers, bench-markers, and data miners, each relying on different criteria and focusing on different data
  - Regimes and data requests should be vetted before reporting, including how data has been used in the past
- Despite ongoing efforts, complete harmonization is likely not possible
  - Different regimes are concerned with different issues (E.g., all ESG vs. climate change); mandatory reporting is tied to country-specific priorities
- Inconsistent reporting, over-reporting, or under-reporting, each create risks:
  - Shareholder activism risks
  - Litigation/investigation risks (if mandatory reporting, or if company fails to adequately report or misrepresents material information)
  - Reputational risks

THANK YOU

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