

OSSERVATORIO ESG

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Date 26 November 2020 n. 129
<https://www.aiaf.it/osservatorio-esg-1-1>

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When it comes to sustainability reporting, you get the feeling of drowning in an alphabet soup of frameworks and standards. The acronyms of the sustainability refer to the many different organizations and initiatives trying to shape how companies must measure and report their sustainability performance for investors and other stakeholders according to the increasing Sustainable Finance EU regulatory framework.

THE ESG ALPHABET SOUP NEEDS A NEW RECIPE

Introduction

To date, the majority of environmental, social and governance (ESG) reporting by companies has been voluntary, focused on companies' annual sustainability and/or integrated reports. Non-financial statements are an effective tool for ESG disclosure, and companies are under increasing pressure to integrate their financial reporting, thereby treating ESG issues as a core part of business strategy.

There are several main reporting standards and frameworks, including GRI, SASB, CDP, IIRC and TCFD recommendations, that aim to guide companies on how to measure, assess and report on their ESG initiatives, risks and opportunities¹.

Aside from the risks of greenwashing, based on observations of misleading disclosures, incorrect product labeling and doubts with the reliability of ratings, the landscape is even more muddled, unproductive and inadequate in addressing the growing needs around the complex and critical areas of sustainability and climate-related risks, including climate change and biodiversity loss.

The multitude of voluntary reporting standards and the fact that these have different target, users and scope, as well as using different formats and metrics, can make it difficult for investors to compare such information across the different voluntary frameworks. Corporates complain with the frustrations, complexity and costs of having to disclose against namely multiple and diverse sustainability frameworks and standards and a lack of common definitions of sustainable activities which often add nothing to the quality of data or information being provided.

There is, therefore, a need to coordinate, rationalize and consolidate the many existent non-financial reporting initiatives, create a core set of global metrics for non-financial information and also provide an effective connection between financial and non-financial reporting, aiming to assess the aptitude of companies to create profit and secure the future of people and planet. The quickest progress could be made by building on the best of non-financial information frameworks and standards to facilitate a high-quality and consistent sustainability disclosures.

The need of a non-financial standard reporting

At the beginning of 2018, global sustainable investment reached \$30.7 trillion in the five major markets with a 34% increase in two years ([GSIA](#)). All of this is unexpected considering that there isn't even a commonly accepted definition of what constitutes a green financial product.

In this context, with trillions of dollars in assets, the financial industry is able to guide major changes by moving money to sustainable investments as, e.g., Larry Fink, CEO of BlackRock, announced in his annual letter 2020 to CEOs "[A Fundamental Reshaping of Finance](#)". BlackRock intends to place sustainability at the center of their investment approach in line with the recommendation of the Task Force on Climate-related Financial Disclosure (TCFD) and the concepts of the UN's Principles for Responsible Investment (PRI) adopted from over 3.300 asset owners, asset managers and service providers.

In the world of capital markets, asset management, investors, financial security regulators, industry lead groups, financial standard setters and policymakers there is a growing demand to improve the consistency and

¹ G&A Institute announced in its annual S&P 500 sustainability reporting 2019 analysis that 90% of the S&P 500 reports annual on their ESG efforts, with 65% of those responding to CDP, 51% using the Global Reporting Initiative (GRI), 25% using the Sustainability Accounting Standards Board (SASB), and 16%

using the Taskforce on Climate-related Financial Disclosures (TCFD).
<https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html>

comparability of the figures, data and information disclosed in sustainability reporting.

This fragmented reporting landscape means there is a clear lack of consistency and comparability. The proliferation of frameworks and standards aiming to report non-financial information has overloaded users, who need standards for the non-financial information they are already using, and preparers, who need standards for the non-financial

information they are already reporting. Most of these activities are not coordinated globally, which can lead to additional risks and costs.

In the last five months, we have seen a growing number of key deals in the sustainability area and the most relevant ESG-related international third-party activities are indicated below:

Table 1: Non-financial reporting standard

	Date	Organization	Description	Stakeholder
1	6/2020	EFRAG	EU instruction to EFRAG to launch a technical preparatory work to develop recommendations for a common set of non-financial reporting standards by European companies, taking into account the existing requirements of the Non-Financial Reporting Directive (NFRD). <i>EFRAG project task force for the elaboration of possible EU non-financial reporting standards.</i>	investors / issuers
2	7/2020	SASB, GRI	SASB and GRI's joint work plans to help make the two sets of standards easier to use together	data
3	9/2020	CDP, CDSB, GRI, SASB, IIRC	The four ESG standard-setters (CDP, CDSB, GRI, and SASB) adopted from the majority of ESG disclosures and IIRC who provides the framework for how to connect ESG disclosure to reporting on six capitals (Financial, Manufacturing, Intellectual, Human, Social and Relationship, Natural) presented jointly a " <i>Statement of Intent to Work Together towards Comprehensive Corporate Reporting</i> ". These organizations participate to the Better Alignment Project of the coalition Corporate Reporting Dialogue (CRD).	issuers
4	9/2020	WEF_IBC/Big4	World Economic Forum International Business Council (IBC), comprising 130 multinational corporations, released its white paper " <i>Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation</i> " prepared in collaboration with the Big4 accounting firms.	issuers
5	9/2020	IFRS Foundation	The Trustees of the IFRS Foundation published " <i>Consultation Paper on Sustainability Reporting</i> " to assess demands for a global set of internationally-recognized sustainability standards.	issuers
6	10/2020	SASB, PwC	SASB Standards serve well to structured reporting using XBRL language and can form a powerful tool for the collection, analysis, and assurance of sustainability information. SASB engaged PwC to support the development of a SASB XBRL taxonomy, under SASB's guidance.	data
7	11/2020	IIRC, SASB	The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced their intention to merge into a unified organization, the <i>Value Reporting Foundation</i> , providing investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance.	investors / corporates

It is relevant to act in concert with all these organizations as each one has already achieved significant progress towards establishing a standard even if the role of accountants, auditors and standard setters is different from the role of security regulatory bodies that focus on the materiality of ESG climate-related factors on a specific issuer's business.

Securities regulators do not pursue an explicit remit to promote sustainability issues, or sustainable finance or specific investments and in their view, sustainability topics in general, and climate-related matters in particular, pose clear challenges in achieving their institutional objectives - investor protection, market efficiency and mitigation of systemic risk - making these topics relevant therefore from a regulatory perspective.

The time for standardization has come

Sustainability matters are not yet fully reflected either in the investment decisions and business strategy and the big challenge for any non-financial reporting standard is their effectiveness and usefulness in the financial decision making by investors and managers.

Therefore intangible value and the need for "data-driven sustainability information" is key, for investors and managers alike: it is essential for it to achieve a status that is comparable to that of "financial data" and also guarantee its relevance and quality.

To ensure availability of high quality and comparable ESG data, on 9 June 2020, six Europe's prominent financial associations wrote the joint letter to European Commission Deputy Director-General John Berrigan "Call for EU Action: a centralized register for environmental, social and governance (ESG) data in the EU" to meet the EU sustainability objectives both under the Action Plan on Sustainable Finance and the EU Green Deal.

As a first activity, the European data register should focus on ESG disclosure in line with the NFRD, the EU Taxonomy regulation to define which economic activities contribute to climate change mitigation and adaptation objectives as well as ESG data necessary to financial market participants to comply with the SFDR regulation. Finally, to consolidate technical content, it is essential to make the interoperable building blocks more easily accessible through a digital language.

European Commission references

- **Delegated Regulation ACT** supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for

determining whether that economic activity causes no significant harm to any of the other environmental objectives (Ref. Ares(2020)6979284 - 20/11/2020)

- **Directive 2014/95/EU** of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and group
- **European Commission**, Communication from the Commission. Guidelines on non-financial reporting (methodology for reporting non-financial information) (2017/C 215/01)
- **European Commission**, Communication from the commission. Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01)
- **EU Paris Agreement**, https://ec.europa.eu/clima/policies/international/negotiations/paris_en
- **EU Platform on sustainable finance**, https://ec.europa.eu/info/publications/sustainable-finance-platform_en
- **Regulation (EU) 2019/2088** of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
- **Regulation (EU) 2020/852** of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
- **Technical Expert Group on Sustainable Finance**: Report on climate-related disclosures

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- **Lab@EFRAG** 2/2020, "How to improve Climate-related Reporting"
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- **World Economic Forum**, 9/2020, "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", white paper
- **XBRL international**, <https://www.xbrl.org/>