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The development of sustainability reporting and harmonization between the frameworks

Sustainability reporting has seen a significant uptake over the past decades. Figures from KPMG’s research on the state of sustainability reporting shows that of the largest 250 global companies (based on Fortune’s list) 92% reported on sustainability by 2014, up from 35% in 1999.

For the 100 largest companies in the countries researched, the same comparison shows 24% in 1999 versus 73% by 2014.

Despite this significant rise, the percentage of reporting companies is still low when comparing it with mainstream annual reporting. The total number of companies worldwide is estimated at well over 100 million, of which approximately 50,000 are listed companies, the GRI has approximately 10,000 companies in its database (both listed and unlisted).

Part of this relatively low percentage can be explained from the relatively short-term focus of some companies and, also related to that, the limited understanding of the importance to and impact of sustainable development issues on the business.

However there is an increasing attention for sustainable development also from a direct business-impact perspective and the companies’ value creation. This has resulted in a number of new (global) initiatives over time. The Global Reporting Initiative (which can be seen as the founder of sustainability reporting) was founded in 1997. In 2000 the Carbon Disclosure Project followed with a specific focus on climate change. The Carbon Disclosure Standards Board was then established in 2007. In 2010 the International Integrated Reporting Council was officially started and in 2011 the initiative was taken in the United States to establish the Sustainability Accounting Standards Board. Finally, most recently the Task Force on Climate-related Financial Disclosures was formed, in 2016.

The existence and initiatives of the various reporting organisations has resulted in confusion amongst both users and preparers in terms of uncertainty about which framework to apply, increased complexity due to the different reporting requirements and a perceived too high reporting burden and even perceived or real competition or conflicts between the frameworks.

In reality the frameworks named above serve different mostly purposes or complement each other rather than competing with another. For example, the GRI and SASB serve different purposes: whereas GRI focuses on transparency about sustainable development for wider stakeholders, SASB focuses on the financial risks for a company from sustainability issues, with investors at the primary audience. Equally CDP serves the information needs of institutional investors via a dedicated questionnaire-based reporting process, whereas CDSB addresses reporting on climate change as part of a company’s annual reporting.

A group of eight standard setters have recognised the challenges in reporting and entered into a dialogue platform convened by the IIRC, the Corporate Reporting Dialogue.

The Corporate Reporting Dialogue is established in 2014 to facilitate further dialogue and alignment between the frameworks. Following a number of meetings, the group has achieved better understanding amongst them of each of the framework’s purpose and direction and have delivered first
products of alignment, for example on materiality. The group will seek further alignment in near future on reporting requirements, for example with respect to metrics, and the vision on the future of reporting. With that the Corporate Reporting Dialogue is a powerful initiative to facilitate further alignment, noting that such alignment will be different from ‘creating one framework’ as some have suggested; the governance structures as well as the different purposes of the different frameworks will not allow for that in foreseeable future.

Assurance of sustainability reports

Assurance of sustainability reports is as old as twenty years now and has seen growing interest over the past decade. Increasingly professional audit firms are providing such assurance – approximately 70% of sustainability reports is audited by these firms. The percentage of reports subject to assurance is still relatively low and stays at approximately 40% or reports over the past 5 years for the Top 100 companies in countries researched according to KPMG’s Survey of Corporate Responsibility Reporting 2015.

The increasing integration or incorporation of sustainability information in annual reports as a result of the integrated reporting developments as well as the rising understanding and recognition by investors that sustainability issues drive or impact a company’s performance and value have resulted in increasing interest for assurance very recently.

As investors want to base their decisions increasingly on sustainability parameters, they show an interest to be comfortable that these data are reliable and thus audited. Also the annual report ‘environment’ creates increased attention for both internal and external assurance that the information reported is of high quality, sufficiently accurate and complete, as the annual report has a different legal status than other non-mandatory reports such as sustainability reports.

From a practitioner’s perspective, we experience that companies are looking more and more for assurance to support internal governance and control around sustainability information. Better governance and control forms not only the basis for better, more accurate information, but also for better performance management by the company on business-relevant sustainability issues.

Climate-related financial disclosures

One of the most significant risks that organisations face today relates to climate change. Many organisations incorrectly perceive the implications of climate change to be long term and not relevant to decisions made today. For investors, climate changes poses both significant challenges and opportunities. As the transition to a lower-carbon economy requires significant and, in some cases, disruptive changes across sectors and industries in the near term, financial policymakers are interested in the implications of climate change for the financial system, especially in terms of avoiding financial dislocations and sudden losses in asset values. The Financial Stability Board identified that better information is needed to support investors decisions. For that reason the Task Force on Climate-related Financial Disclosures was established early 2016.

The work of the members from both financial and non-financial sectors, investors as well as preparers, has resulted in 11 key recommendations in 4 categories that are requested to be included in financial annual reports. It is important to stress that the Task Force focuses on the financial implications of
climate change, i.e. rather than interested in the impact of companies on climate change it focuses on the impact of climate change on companies – the opposite direction from most existing sustainability reporting.

The key recommendations can be summarised as follows:

**Governance:** disclose the organization’s governance around climate-related risks, including the board’s oversight and management’s role in assessing and managing these risks

**Strategy:** disclose the actual and potential impacts of climate-related risks on the organization’s business, strategy and financial planning. This includes describing the risks as identified over the short, medium and long term, describing the impacts of such risks and disclosing the resilience of the company’s strategy under different climate-related scenarios (including a 2-degree or lower scenario)

**Risk management:** disclose how the organisation identifies, assesses and manages climate-related risks, including a description of the processes for identifying risks, processes for managing the risks and an explanation how these process are integrated in the organisation’s overall risk management.

**Metrics and targets:** disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, including greenhouse gas emissions and their related risks.

The recommendations regard all companies, however the Task Force has identified four priority financial sectors and four non-financial sectors that are suggested to report against the recommendations: banks, insurance companies, asset managers and asset owners (financial) and energy, transportation, materials&buildings and food, agriculture & forest products (non-financial). These sectors are provided with additional guidance to support them in implementing the recommendations.

The Task Force’s recommendations aim to be ambitious but also practical for near-term adoption. The Task Force expects to advance the quality of mainstream financial disclosures with respect to the impacts of climate change and to increase investor engagement with boards and senior management.

The Task Force recognises the challenges associated with disclosures on the recommendations and foresees a journey of disclosure that will ultimately support more appropriate pricing of risks and allocation of capital in the global economy.