Quo vadis, ESG reporting?

TOP-CLASS EXPERTS
IN THE CCR ADVISORY BOARD

The Advisory Board of the Center for Corporate Reporting (CCR) enables the organized knowledge sharing of diverse experts on the latest trends and developments in reporting. The CCR Advisory Board is involved strategically in the thematic management of the Center for Corporate Reporting, and actively takes part in CCR projects and event formats. A further role of the CCR Advisory Board is the fostering of knowledge exchange and broadening the network of experts and personalities on an international level.

Read more about the CCR Advisory Board at corporate-reporting.com

ESG (Environmental, Social, Governance) reporting is shaped by numerous initiatives and standards. The International Business Council (IBC) of the World Economic Forum (WEF) has recently criticized this reality, indicating that consistency and comparability suffer as a result. The five leading frameworks and standard setters have also recognized the challenge and have stated their intention to work together towards a comprehensive corporate reporting framework.

By Tjeerd Krumpelman

TJEERD KRUMPELMAN
is a recognized specialist in ESG issues. As Global Head of Advisory, Reporting & Engagement, he leads a part of the Group Sustainability team at ABN AMRO Bank. He is also Chair of the International Integrated Reporting Council (IIRC) Special Interest Group on Integrated Thinking & Strategy, is a member of the Global Steering Committee of the Partnership for Carbon Accounting Financial (PCAF) and a member of the Advisory Board of the Center for Corporate Reporting (CCR).

Parallel to the quality and quantity of ESG data there are growing expectations for transparency and comparability in sustainability reporting. While protecting nature and biodiversity are at the heart of "E" discussions, "S" issues are gaining in importance among investors and in political discourse worldwide. There are several reasons for this dynamic in the development of ESG reporting. The capital market plays a key role. Investors are increasingly demanding more information on ESG issues. A second reason is ascribed to regulatory authorities and politics where demands on ESG reporting are also mounting. And NGOs, customers and employees also need a well-defined response to ESG questions. This reinforces the call for sustainability standards and fuels the debate on transparency and comparability of ESG data.

Transparency and comparability are essential

Historically, a wide range of diverse sustainability standards developed over time, such as CDP, CDSB, GRI, IIRC, SASB, TCFD and the UN SDGs. They all have different origins and orientations. In the meantime, there are efforts to better align these different frameworks and standards and to facilitate the comparability of ESG data with a standardization of ratings. This development has triggered a consolidation process. An early example of this is the declared merger of the IIRC and SASB to form the Value Reporting Foundation. It is interesting to note that new players have emerged alongside the previously dominant ESG rating agencies. For example, the WEF has announced its intention to publish a standard set of sustainability indicators. Regardless of the different currents, however, it is expected that several frameworks and standards will continue to exist – simply because the variety of expectations and needs within organizations and among different stakeholders also argues against a single unified framework in the future. There will not be one ESG standard that reconciles all interests. For example, when comparing companies within a sector, investors will need specific information beyond a standard set of criteria to meaningfully assess opportunities and risks.

Influence of politics on the rise

In ongoing developments, the EU plays an important role with the "European Green Deal" launched in late 2019. The goal of reducing net greenhouse gas emissions in the European Union to net zero by 2050, thus becoming the first continent to become climate neutral, will generate a series of initiatives. CO2 emissions are likely to continue to play a significant role in the future. More progress has been made in this area than in any other ESG issues. This also means that politics will have a direct impact, such as regulations on maximum values or specifications for reduction targets. It can be expected that this development will steadily continue in all other ESG areas.

Increasing attention to "S" criteria

Indeed, the balance between the "E", "S" and "G" factors is a delicate but relevant one. At present, the pendulum is swinging more towards the "E" aspects. At certain times in the past, greater attention was paid to "G" issues. From that point of view, it is good that now, in addition to "E" and "G", "S" issues are also garnering attention, which could indicate that attention to social aspects is growing in line with their actual importance for sustainable processes. This is also why an integrated approach to reporting is so important. For one thing, it helps avoid an outperformance in the environmental area being offset by an underperformance in the social area. It is definitely a positive sign that a corresponding trend is apparent in recent legislation. Human rights due diligence is close to becoming standard practice. The Corona crisis has also clearly shown how important the social element is for the well-being of people and society as a whole. Nevertheless, even though there is greater awareness of "S" aspects, there is still a lot of work to be done before we have standardized disclosure with comparable measurement methods.

Financial market as a driving force

The investor perspective has a key role to play in further anchoring ESG aspects in reporting. Companies are expected to have meaningful ESG reporting that leads to real improvements in business processes. Large institutional investors, such as pension funds and insurance companies, as well as political influence on the financial markets, are playing a more prominent role. And last but not least, financial service providers are important. Now, when a bank lends money to customers it already takes ESG criteria into account when granting a loan. So-called sustainability-related loans are also more frequently granted. This involves setting specific sustainability criteria and KPIs that the borrower must meet. The same observation can be made among investors, who are making an investment conditional on a company making improvements in terms of certain ESG aspects.