Reuters Events Sustainable Business

Corporate Sustainability Reporting Directive Playbook

How businesses can keep up and stay ahead

A White Paper from Reuters Events Sustainable Business

BY RICHARD HOWITT

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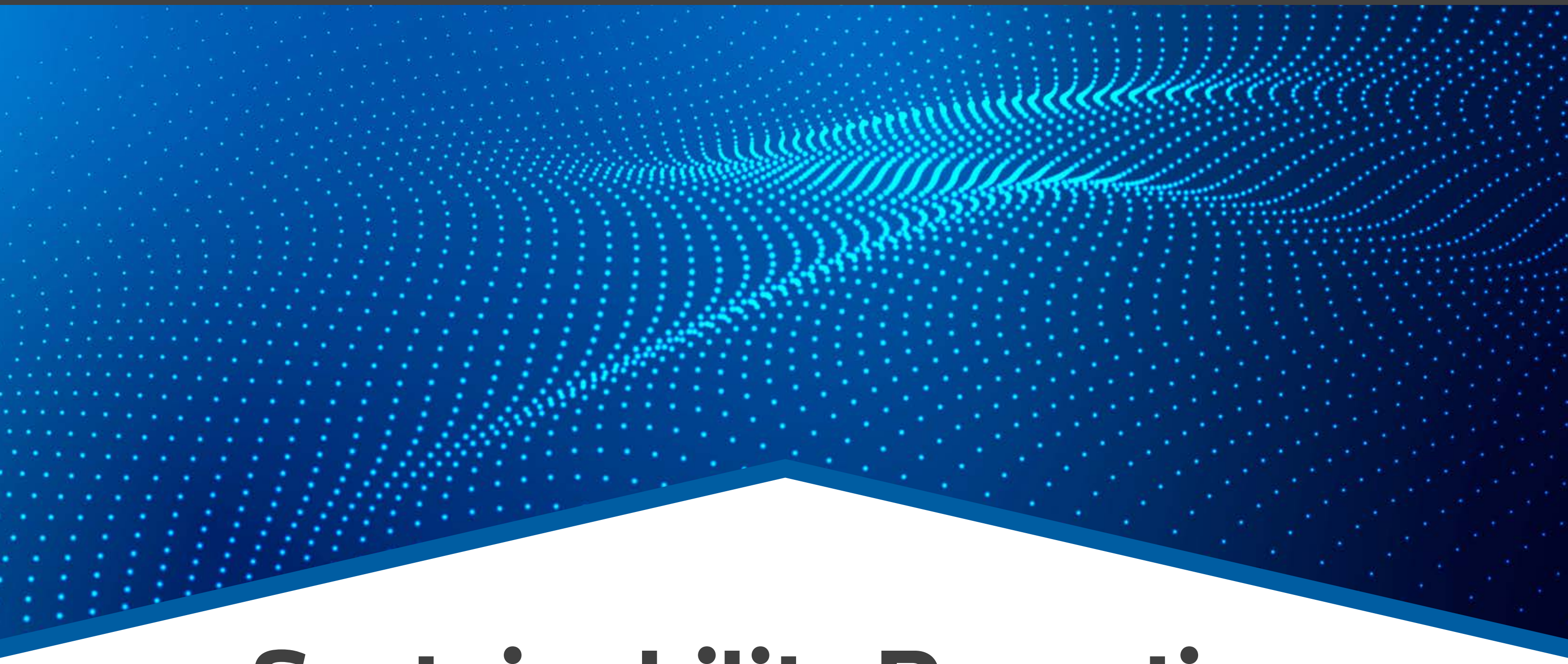

Sustainability Reporting Europe 2023

Shaping the Future of Business Strategy

6-7 September, London

KEY METRICS

300+
Attendees

60+
CEO & Executive Speakers

65%
Senior-Manager Level & Above

70%
Corporate Attendance

OUR 2022 SPEAKERS INCLUDED:

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GRI

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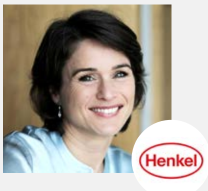
Chief Sustainability Officer
Microsoft

PATRICK DE CAMBOURG
Chair of the EFRAG Sustainability Reporting Board
EFRAG



ULRIKE SAPIRO
Chief Sustainability Officer
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1 Introduction

Is sustainability reporting by companies an expensive sideshow, a necessary evil or will it save capitalism and even the planet on which we all live?

Your answer to this question will determine how you respond to the current rapid changes in the sustainability reporting landscape, with the move to standardisation in Europe, the United States and at the global level, backed by regulators, investors and by governments.

When history is written about business in the 2020s, it will record a decisive steepening of the change curve, as companies take part in a transformation from high to low carbon and inequitable to socially just business models.

Some argue that this isn't a single curve but a reinvention of the entire system. We may need a whole new paradigm, in relation to which currently most businesses would fall short, being seen as adopting incrementalist rather than transformative change strategies.

> **When history is written about business in the 2020s, it will record a decisive steepening of the change curve**

There are different historical roots to corporate sustainability, starting with the rise of enlightened employer behaviour and business philanthropy in the early years of the original Industrial Revolution; through to the public debates arising from the first "Earth Day" and the U.N.'s "Limits to Growth", report which led the first multinational companies to produce environmental reports in the 1970s; to the development of methodologies such as triple bottom line and the Global Reporting Initiative for what had become sustainability reporting by the 1990s.

What had been 12% of the top 100 companies in major markets in 1993, and 18% by 2003, has now increased to 79% undertaking sustainability reporting, as catalogued by the longest timeline of research on the subject, produced by the accountancy company, KPMG.

Nevertheless, consistent concerns about the quality and lack of comparability in the reporting, the absence of verification and the failure of the reporting to meet the needs of investors in particular, have led to current developments

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towards sustainability reporting within far greater regulatory and standardised frameworks.

Meanwhile, new debates about corporate purpose, on the concept of stakeholder capitalism and on supply chain due diligence, have been accompanied by fast-developing methodologies for measuring impact of the company on society and the environment, in an era of rapid digitalisation. These are increasingly questioning whether the existing reporting is adequately meeting the challenges of our times.

The call from the UNIPCC to halve carbon emissions by 2030 is a further 'ticking time bomb'

The call from the U.N.'s Intergovernmental Planet on Climate Change to halve carbon emissions by exactly the same 2030 deadline required for the U.N. Sustainable Development Goals, is a further "ticking time bomb", which requires urgent action to ensure that the corporate contribution to meeting these goals has a chance of being met.

What is clear is that the new changes in sustainability reporting requirements are being introduced to meet this very combination of pressures from different directions today. It does represent a huge change – a transformational change – in practice, which will challenge existing leaders in the field as much as companies near or at the beginning of the process.

In this White Paper, we will analyse these changes in detail. We will see how the consequences of these changes go far beyond the finance or communications functions within the company, normally responsible for business reporting. If the aim of these changes is not simply to change the content and structure of reports but to affect the whole business model of the organisation, this is vital knowledge for everyone in the company, from board members to frontline staff and to all of its business partners.

We will introduce you to the major current changes for sustainability reporting, explain what they might mean for your company and suggest ways in which you might respond.

In the world of business sustainability, we have discovered that not all roads lead to Rome.

But to wait for new sustainability standards to be published and then simply to seek to apply them, may also be a route to failure.

Ultimately, companies operate in complex, dynamic and interconnected environments, in which it is important to be informed by external developments, but where successful companies anticipate change and find their own solutions.

We hope that this White Paper will assist you to do just that.


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2 Start not with 'what' but 'why'?

Before entering into the detail of the reporting process, it is important to consider further your own organisational mindset in relation to what may be needed.

The importance of an organisation's mindset is clearly evident from a recent survey of global sustainability practitioners carried out by Reuters Insight. It indicates that organisations that self-identify themselves to be leaders in sustainability are far more likely to adopt positive sustainability behaviours (e.g. early carbon-neutral targets, science-aligned goals, renumeration based on sustainability metrics) than those who self-identify their organisation as adaptive or reactive.

No skill in report-writing or perfection in a data system can hide unsustainable business practices within the company, where they exist.

This is not to suggest that companies should wait to change sustainability practices, before they can have the confidence to communicate externally on what they are doing. No such one-off changes are possible in any case, in the face of the scale of change which confronts us all.

However, it is to suggest that it is adaptive, resilient companies who are the ones that will be successful in the new era of reporting. Understanding a core set of values which drive the company can guard against the temptation to climb on every new bandwagon, and for the company to understand its own priorities in meeting sustainability challenges that are right for it.

Reporting itself is an outcome of purpose and strategy.

No company files its annual accounts and would claim that this automatically leads to future financial success. That is dependent on business strategy, investment and a myriad of day-to-day business decisions based on the health of its financial systems.

Similarly, an excellent sustainability report is the product of a business that is already systematic in successfully building sustainability perspectives into its strategy, investment and governance.

Most of all, it is a business that will have addressed its own corporate purpose.

Definitions of corporate purpose suggest that this involves a vision or mission for the company. It certainly involves a collective endeavour, which is set by the company board and executives, but is also shared with and inspires all employees and is embodied in the company's culture.

It may but does not necessarily encompass sustainability challenges. Any attempt simply to do this by importing generic sustainability language into the company's purpose statement, risks being viewed as inauthentic.

However, the link to sustainability, and to sustainability reporting, is that corporate purpose is intrinsic to the relationship with stakeholders. Employees want to work in companies in which they can believe. Investors are increasingly looking for the company's prospects for the long term. Many consumers are choosing to make their purchases on ethical grounds. External interests consider how company activities benefit or potentially negatively impact them.

A company that identifies its purpose specific to its history, its culture, and its relevancy to its market and competitive strategy and to its stakeholders, will be likely to be regarded as authentic.

How this is then communicated to stakeholders is a crucial element in building trust in the company, and thus is vital for the sustainability report.

There are many good sources to consider issues of corporate purpose further, but the purpose of this opening section itself is to suggest that before entering into any reform in sustainability reporting, companies consider first why they are doing it.

To adapt recommendations from the World Economic Forum's Strategic Intelligence:

- Ensure the decision to reform your company's sustainability reporting is considered across and at all levels of the company.

- Ask afresh which are the most salient sustainability issues for your company and consider how their importance could better be reflected in your reporting.

- Don't assume an "off-the-shelf" data solution will answer all your sustainability requirements; consider whether there are measurements in the environmental, social and governance (ESG) sphere that you already do or could make, which genuinely aid your business decision-making.

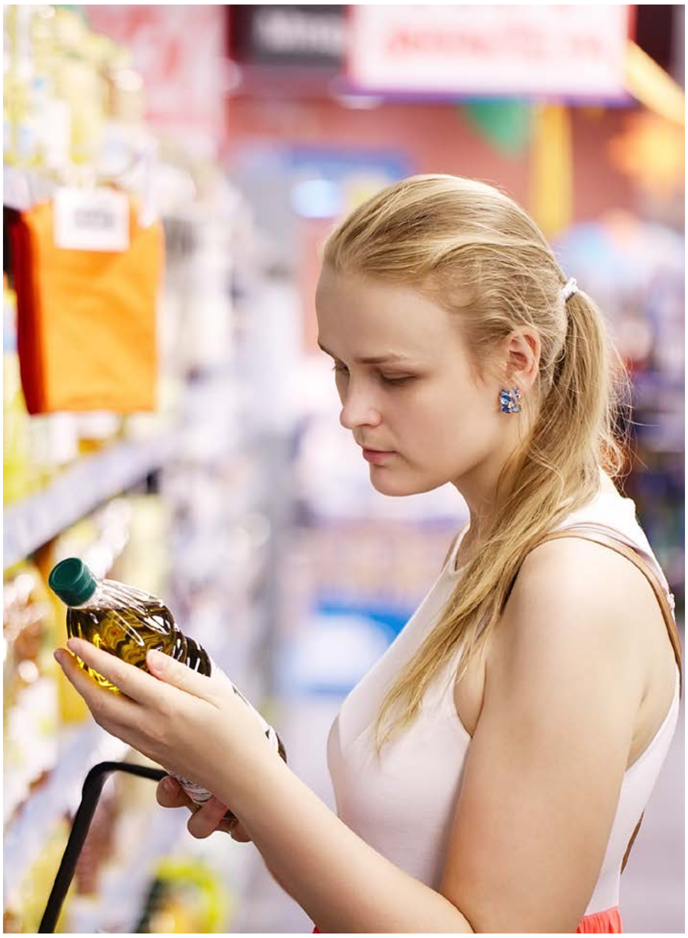
- Don't be frightened to check out what your competitors are doing and discuss collaborative strategies for reforming your sustainability reporting with them; understand that sector-wide and systemic change is more likely to be successful and appreciated by stakeholders.

In relation to the materiality of reporting, we often distinguish between "outside-in" (financial materiality) and "inside out" (impact materiality). What this section argues is that companies should start with "inside" on its own.

Reject the "compliance" approach, which is simply about meeting the rules and undertaking reporting for someone else – the regulator.

Instead, use the challenge of changes to sustainability reporting to reflect on where the company is in your own sustainability journey. Ask what are the best next steps for the company, in its mission and for its stakeholders.

Address purpose first in the process and make sure it guides everything that you do.



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Corporate purpose is intrinsic to the relationship with stakeholders; many consumers are choosing to make their purchases on ethical grounds

WHAT TO DO IN 2023:

- Review your aims in developing your sustainability reporting and how this can benefit the business, its purpose and its stakeholders.

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3 Horizon-scanning: sustainability reporting in 2023

Regulation does not happen in a vacuum. It is the product of processes in which analysis, advice and consultation with companies themselves are paramount. It establishes minimum requirements, not best practice.

Therefore, the logical next step in addressing sustainability reporting reform is not to start with the regulation, but to ensure that you are aware of the latest innovations and can benchmark against some existing best practices in changes that your company may seek to make.

What are some of the key innovations if we undertake a horizon-scanning exercise on sustainability reporting in 2023?

Perhaps the best place to start is with "corporate purpose" itself. Many companies are including purpose statements in their reporting. A key is not simply to include purpose in a separate section, but to cross-reference it appropriately throughout the sustainability report, to demonstrate how it genuinely informs all objectives and activities of the company. This can help achieve that magic ingredient of authenticity. Home improvement retailer Kingfisher revised the targets and key performance indicators (KPIs) in its reporting following the adoption of the company's own purpose statement, as part of its Sustainable Growth Plan.

> **The logical next step is not to start with the regulation, but to ensure that you are aware of the latest innovations**

A key area of the improvement has been to report sustainability indicators not as a static set of metrics in which the company can be rated good or bad, but with a "dynamic focus" on where the company can improve its sustainability performance and then to report on a year-by-year basis on how this is being achieved.

The real estate company JLL, for example, began reporting its water consumption in water-stressed areas, which then led it to develop water management plans for its sites, which had not been used before. Drinks manufacturer Diageo has set a target to replenish all water used in stressed areas by 2026. Health technology company Royal Philips has started reporting the resource circularity of each of its products, which has incentivised better sustainability in its innovation of new products in subsequent years.

There will be a renewed push on the U.N. Sustainable

Development Goals this year, with the high-level review taking place, to mark the halfway point for the 2030 agenda. There is reference to the SDGs across many sustainability reports, but South-East Asian chemicals company PTT, in particular, shows in its sustainability report how SDG impact is built into the company's materiality matrix.

A crucial question in relation to the SDGs, as well as more generally, is whether the company is willing to address and report on negative impacts. The KPMG research shows that currently only one-in-10 companies does so. This question is sure to be a future focus for attention.

Meanwhile, there is a continuing debate on how far small and medium-sized business enterprises (SMEs) have the capacity to engage in sustainability reporting, in contrast to larger companies. Italian toolmaker Dellas Spa has a strong history in the practice. Despite its size, the company has adopted the United Nations Conference on Trade and Industry (UNCTAD) core indicators for sustainability reporting, with an emphasis on future capacity to create sustainable value, using the "multi-capitals" of the international integrated reporting framework.

A crucial question in relation to the SDGs is whether the company is willing to address and report on negative impacts

The core indicators were further developed last year in a project undertaken by the U.N.'s Research Institute for Sustainable Development, to contextualise the company's sustainability performance and to measure its capacity to transition. Germany's GLS Bank produces an exemplar report in this respect, seeking to put its sustainability performance in context, measured against environmental and social thresholds.

Supply chain reporting remains a challenging area for some companies, but far greater transparency and incorporation of data from the supply chain is also an important current trend. European textile companies OVS and H&M top the independent Fashion Revolution transparency index, ranking supply chain transparency in their sustainability reporting. Sourcing of palm oil remains controversial for concerns about impact on forests and affected communities. Longstanding sustainability reporting leader and major palm oil user Unilever not only publishes its full list of suppliers, but also grievance reports to show how complaints have been handled. This "access to remedy" component drawn from the U.N. Guiding Principles on Business and Human Rights is likely to be even more important in sustainability reporting in the future.

A further key element for supply chain reporting is disclosure of Scope 3 (indirect) carbon emissions, on which latest data from Reuters Insight shows that 68% of companies already report, or will do so within the next two years. U.S. pharmaceutical firm Pfizer was one of the early companies to seek to introduce this, and includes the results of its engagement and target-setting in its annual ESG report. The company is part of the Science Based Targets initiative (SBTi), in which its climate transition is externally verified for alignment with the Paris Agreement goal of limiting global warming to within 1.5 degrees Celsius. Car manufacturer Ford's integrated report is another leading example of where car companies are including Scope 3 in their science-based targets, innovative in Ford's case as it begins to address use of its cars not simply their manufacture. Shipping company AP Moller Maersk's report has been rated highly for its net zero reporting, with comprehensive Scope 1, 2 and 3 emissions reporting and explanation of its strategy, including significant investment in alternative green fuels.

Following the agreement of the Montreal Biodiversity Framework at the end of last year, we can expect major innovations for going beyond climate, to address biodiversity in corporate sustainability reporting. The U.K.-based utility company Severn Trent Water was a clear winner in this category in the latest Reuters Events Responsible Business Awards, commended for being willing to partner with scientific expertise in its efforts and to report on actual outcomes in its report. Swedish energy company Vattenfall's report shows how it has fully mapped its value chain for biodiversity impact, setting targets to preserve and regenerate nature around its facilities and, crucially, building this into future research and investment.

Report preparers always contemplate the question of how far to use metrics and how much these should be put into context through narrative. Some argue that we can go as far as to calculate impact on society and the environment


WILLY KURNIAWAN/REUTERS

entirely in financial metrics, which can be maximised and traded off in business decision-making alongside financial goals. The latest version of the Value Balancing Alliance's methodology, which incorporates this approach, includes more advanced social goals and assessment of downstream impacts (the usage of products and services).

Luxury group Kering has used its participation in the alliance to develop its "Environmental Profit and Loss account" in which all values are monetised. It reports how this has helped the company change the way it sources its materials, reducing its environmental footprint per unit of revenue by 14% in one year.

This approach also mitigates against the danger of avoiding negative outcomes in the reporting process. The Partnership for Carbon Accounting Financials has developed a specific methodology for financial services companies to measure the carbon impact of investment and lending. Triodos Bank utilises this in its report to break down its lending, showing financial amounts, corresponding emissions and therefore carbon intensity across all the funds it provides.

Report preparers always contemplate the question of how far to use metrics and how much these should be put into context through narrative

Such precision on measuring the impact of carbon emissions, is one example of the advances being made in measuring the external impact of the company more generally.

This has been advanced by recent work undertaken by what is now called the Impact Management Platform. For companies, this methodology can be attractive in opening opportunities to gain access to and exploit the rapid rise in impact investment.

Tech company Salesforce calls its sustainability report a "stakeholder impact report" and produces statistics for consumer outcomes from use of its services and a calculation of social value arising from its community support activities.

A further methodology that has been developed in this area is that of impact-weighted accounts, at the Harvard Business School. Technology company Intel for example, has been shown to achieve an equivalent increase in its "profits" of $3.6 billion in the U.S. because of its positive employment impact.

Continuing debate about how well-developed social indicators are in comparison to environmental measures has moved to the next stage with the publication of the World Benchmarking Alliance's Social Transformation Framework. Spanish telco Telefonica's Consolidated Management Report is rated highly for reporting on social KPIs, including in relation to promotion of decent work and ethical conduct.

Nevertheless, there appears to be room for further development of social indicators: latest data from Reuters Insight indicates that organisations consider themselves as less effective at managing social data (39%) than environmental data (48%) and report less frequently on social measures than on environmental measures.

The practice of separate human rights reporting has continued for many, mainly larger companies. Soft drinks giant PepsiCo's human rights report covers both human rights risks and the actions taken to address them. It cites actual cases, for example where concerns about excessive use of contract workers had seen the company transfer people affected into permanent jobs.

Next, there is accelerated progress towards what can be called structured digitalisation, in which ESG data from companies is fully machine as well as human readable, integrated from different sources, consistent and accessible, (See section 7 for more detail).

U.S.-based online retailer Etsy has produced its sustainability report written fully in standardised XBRL format, which will be required in future in global, European and U.S. regulation. The company sees it as essential for fully integrated financial and ESG reporting.

A further interesting technological development in recent years has been moving from annual sustainability reports to ESG information being produced continuously and in real time. Typically, this has involved technology companies. Interestingly, a Swedish drinks company Systembolaget has now begun environmental reporting in real time, also including its principal suppliers.

The examples given in this section are inevitably subjective and cannot include many other examples from different companies that are equally innovative in these areas and in other ways.

However, it is hoped that the practices chosen among the company sustainability reports identified, provide a useful set of topics for all companies to consider in relation to their own reporting and provide examples that can potentially help in pursuing areas for improvement.

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WHAT TO DO IN 2023:

Review your own reporting in the light of the following questions:

- Is corporate purpose integrated in your sustainability report, informing targets and KPIs chosen?
- Are actions taken to respond to challenges previously identified and then reported in a continuous way?
- Does the report disclose negative impacts by the company and describe how these are mitigated, including in relation to the U.N. Sustainable Development Goals?
- Do you analyse your company's performance in relation to "sustainability context", reporting indices measured against societal and environmental thresholds?
- Are your environmental targets verified by the Science Based Targets initiative and aligned to the Paris goals?
- Can you extend transparency in disclosing information about your company's supply chain and in Scope 3 emissions in particular?
- Is it possible to give greater focus to external impact of the company, potentially moving towards the adoption of greater impact valuation?
- Have you reviewed the new WBA Social Transformation Benchmark and considered adapting your social indicators in response?
- Is sustainability reporting fully addressed in your company's digitalisation strategy? Are there elements that could be disclosed on a real time not simply an annual basis?

ALEXANDER SUPERTRAMP/SHUTTERSTOCK

4 The far-reaching impacts of the new era of standardisation

This year, 2023, is when final versions of new standards for sustainability reporting will be published.

The first global standards published by the International Sustainability Standards Board (ISSB), whose establishment was first announced in November 2021 and which works under the auspices of the International Financial Reporting Standards (IFRS) Foundation, are expected to be published by the end of June this year.

The first European sustainability reporting standards (ESRS), prepared first by a project task force set up in September 2020 and now by a Sustainability Reporting Board working under the auspices of the European Financial Reporting Advisory Group (EFRAG), are also due to be published by the European Commission in June.

There will be 12 sets of European standards ranging across all ESG issues, also including general requirements and climate standards

The ISSB will publish two sets of standards, on general requirements and on climate-related disclosure. There will be 12 sets of European standards ranging across all ESG issues, also including general requirements and climate standards but extending to other specialist areas, from water to workers in the value chain to responsible business conduct.

Meanwhile, the Securities and Exchange Commission (SEC) in the United States is due to publish rules on climate risk disclosure, also using the term standardisation and representing a major move that will fundamentally affect sustainability reporting by U.S.-listed companies.

The timetable for the rules first proposed in March 2022, and due to be finalised by October last year, has slipped owing to the weight of public comment and arguably political division over the proposals. Nevertheless, at the time of writing, the rules are still expected to be issued this spring.

Both the ISSB and ESRS require companies to begin collecting information in 2024 for the first reports to be published according to the new standards in 2025. As previous announcements from the SEC suggested, the first

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reports under its proposed rules would be in 2024, it is also a reasonable assumption that it will require first reports under its rules in 2025, too.

Large companies in the European Union not in the scope of the previous reporting rules (the Non-Financial Reporting Directive) will have an extra year, with publication of their first reports in 2026; listed SMEs are able to opt out from doing this until 2028.

Nevertheless, it is understandable that many companies may look at these separate but overlapping standard-setting initiatives and react negatively to apparent inconsistencies and to the swift timetables for implementation.

There is no doubt that companies are at what can be called a transformational moment in the way in which sustainability reporting is conducted and face significant challenges in being able to implement this.

However, this White Paper invites companies to carefully consider their own mindset in addressing the issue.

Ever since the first sustainability reports were published, there has been caution in the business community about moving this into the regulatory sphere.

Of course, some of this has been motivated by an initial business response, which is often to question whether the time and cost associated with any regulatory proposal is really justified.

However, in relation to sustainability reporting specifically, there was also a fear that the innovation and creativity in what was a relatively new area of action for companies would be stifled.

Businesses representatives were concerned that standardisation would lead to the danger of "boiler plate" or "tick box" reporting, which would lead companies simply to seek to comply with the rules, the "compliance mentality", rather than actively to pursue sustainability goals.

"Let a thousand flowers bloom," was the refrain from those sceptical of standardisation.

However, there were key drivers both inside and outside of the business that have now changed that argument.

As the practice of sustainability reporting has spread, business leaders have themselves learnt from addressing the challenges and appreciated the need for business collectively to do more – much more.

As increasing amounts of resources began to be devoted to the task, companies started to want greater certainty about their sustainability reporting and to be able to access authoritative advice about how different sustainability issues could be addressed.

The other refrain was to end the "alphabet soup" – the proliferation and fragmentation of voluntary sustainability reporting frameworks (each with their own acronym), in which companies increasingly felt pressured to meet conflicting and time-consuming demands from multiple (and multiplying) sources. At one point, the International Trade Centre recorded some 2,500 private and voluntary initiatives in corporate social and environmental sustainability, each with different requirements.

There was much talk and effort towards convergence between the existing international voluntary sustainability reporting frameworks, and some genuine progress was achieved. But ultimately it has needed regulatory intervention to make this finally happen.

Confusion and the case to move towards standardisation


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Whatever the debates about going beyond financial materiality, there is no doubt that ESG is now a capital markets issue

was also increasingly felt by those outside business, by report users.

Many stakeholders raised concerns that lack of enforcement in voluntary frameworks, allowed misrepresentation or greenwashing.

Perhaps most important as a driver for change was dissatisfaction specifically within the investment community. Previous attitudes that sustainability was a niche not relevant to investment decisions became increasingly challenged by the phenomenal rise in ESG investment.

The recommendations of the Task Force for Climate-related Financial Disclosure (TFCD) set up by central banks in 2015, represented a seminal moment to establish that climate risk is a financial stability issue, relevant for all investors.

Annual investor surveys by both PwC and by EY began to show that three-quarters of investors wanted ESG information to be standardised if it were to become decision-useful. Repeatedly, investor concerns were expressed about a lack of consistency, reliability and of comparability in corporate ESG disclosure.

It is no coincidence that key roles are being played by the International Organization of Securities Commissions in endorsing the ISSB; by the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union in bringing forward ESRS; and by the Securities and Exchange Commission in the United States, in bringing forward climate disclosure rules.

Whatever the debates about going beyond financial materiality, there is no doubt that ESG is now a capital markets issue.

In turn, this has clear consequences for business.

Cumulative issuance of green or sustainable bonds alone has now reached more than $3 trillion worldwide. In the near future, companies who want to gain access to what is now called sustainable finance will not simply need to report sustainability performance, but to do so authentically in investors' eyes. In itself, this is a safeguard against the risk of "boiler plate" reporting.

An analysis of no fewer than 2,000 academic studies also finds that companies with higher ESG scores on average enjoy a 10% lower cost of capital.

The cost-benefit analysis for the European Commission also suggests that, although new disclosure requirements will create some short-term cost to business, standardisation is actually a cost-saver for companies over the longer-term. It finds that the ESRS on average will generate a cost saving of up to 41,700 euros per company each year, in streamlining requests for sustainability information to the business from other sources.

With such evidence, the soup can has gone into the bin.

Moreover, the watchword of the new standard-setters is "interoperability". Extensive efforts are taking place between the different standard-setters to remove unnecessary inconsistencies between themselves and to try to promote as far as possible a common language for sustainability reporting standards.

In terms of complexity, the EFRAG Sustainability Reporting Board responded to comments from companies and others in its public comment period by reducing the number of disclosure requirements from 136 to 84 and the number of datapoints from 2,161 to 1,144, in the final recommended standards compared with the exposure drafts.

All of this should put into context any concerns companies may have about changing their reporting, to meet the challenges that arise from the introduction of sustainability reporting standards.

There will certainly be transition costs. Intensive work will need to be done and the numbers of skilled people to undertake the work are probably in too short supply. The timetables are tight.

But a company entering into the new era of standardisation with a positive mindset, it can be argued, has little to fear.

Under the predecessor to the Corporate Sustainability Reporting Directive (CSRD), which is the EU legislation that mandates the European standards in some countries including Germany, board members could be held criminally liable in their responsibilities for what was previously called the Non-Financial Statement.

There will certainly be transition costs and intensive work ... But a company entering into the new era with a positive mindset has little to fear

However, research into the enforcement of the directive suggests that the maximum enforcement to which a company was subject, was a letter requesting explanation from the relevant supervisory authority. Even here, there appear only to be a handful of such cases since the directive was agreed in 2014.

Recent high-profile cases that have seen potential or actual legal actions against companies by supervisory authorities over sustainability issues, have not involved non-compliance with reporting requirements but knowing misrepresentation of findings to regulators and to the public.

In the United States too, the first action to which a company may be subject would be a comment letter from the SEC, giving the opportunity for the company to provide an explanation and/or to amend its reporting accordingly.

The SEC's Enforcement Task Force has identified 16 such cases on ESG issues since 2008 under existing rules, which again suggests enforcement action at a very low number of companies.

Meanwhile, the ISSB standards are all subject to adoption by national jurisdictions, similar to the current practice for financial reporting standards.

The ISSB has already set up an Advisory Forum with different jurisdictions and a Partnership Framework to build capacity in an effort to ease future adoption of the standards.

On the question of enforcement, it is important to note that countries have the right to amend standards and to determine their own rules for enforcement under national rules. There is no reason to believe that enforcement provisions will be any more onerous than at present.

Of course, there will be those who argue that enforcement procedures should be more rigorous in future, to incentivise companies to move further and faster in sustainability actions.

Nevertheless, if a company enters into the new reporting processes with that positive mindset; if it seeks to address the challenges to the best of its abilities and to act in good faith in its endeavours, there seems little risk that it will become subject to non-compliance actions.

Regulators and stakeholders generally want the rules to be adhered to, precisely to support sustainability efforts by business to help meet global challenges. The role of regulations in incentivising sustainability efforts is examined in more detail in this Reuters Insight report. There is no great interest in prosecuting companies for non-compliance for its own sake, which is a failure not just for the company, but for the system.

Most of all, what combines those inside and outside of business in mobilising support for the new standards, is the sheer urgency for these efforts to succeed.

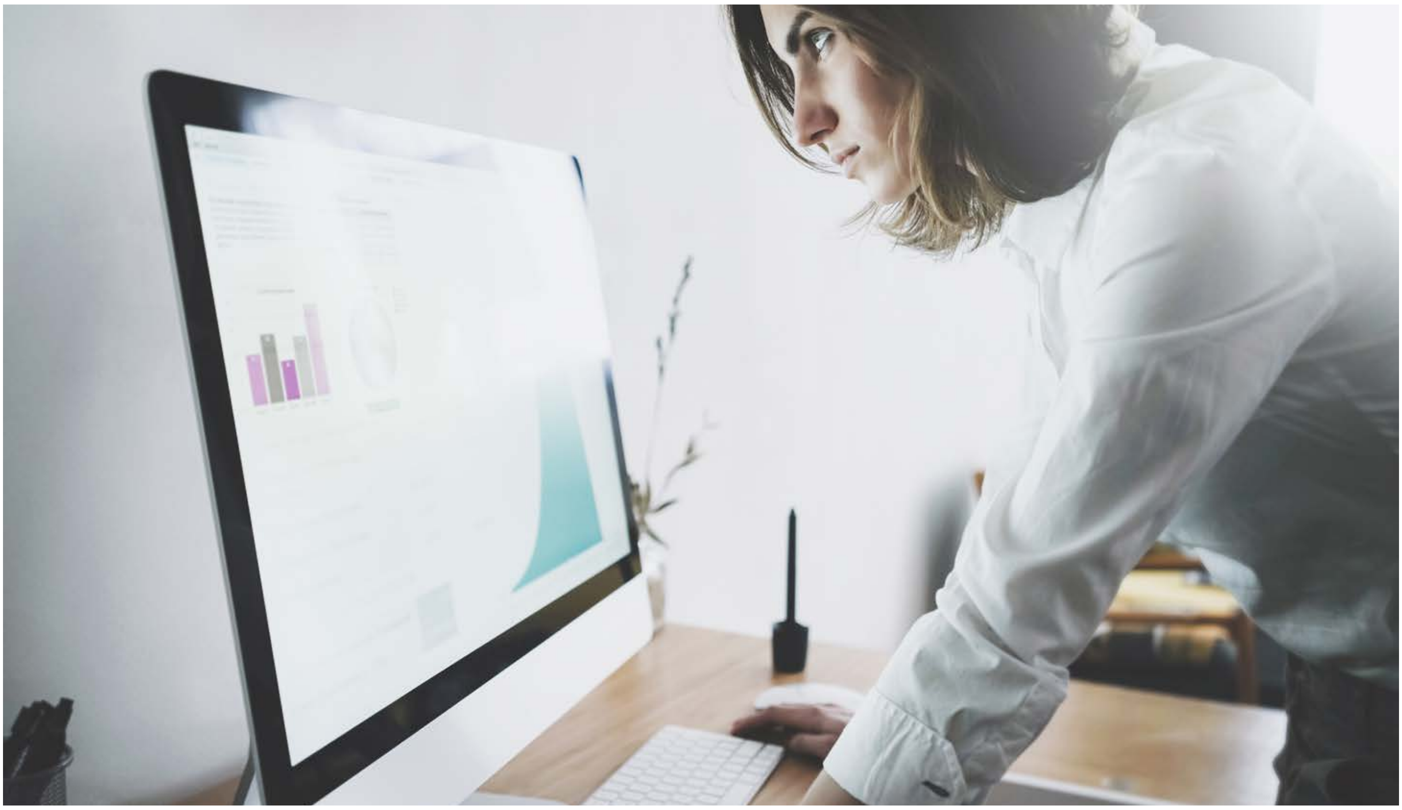
This year's high-level United Nations review of the Sustainable Development Goals is highly likely to determine that the world is slipping backwards on many of the goals. The U.N. also says that the world is still on track for a temperature rise of between 2.4C and 2.6C, well beyond the threshold to forestall catastrophic impact on human life and on the ecology of the planet.

The standard-setting processes have shown remarkable speed compared to any historical comparisons to get to where we are today. They have done so for good reasons.

It could be said that the over-riding imperative is now for companies to do the same.

WHAT TO DO IN 2023:

- Ensure internal discussion that puts the move towards standard-setting in context for all internal stakeholders and which seeks to engender a positive mindset towards developing your sustainability reporting in response.
- Recognise the dangers of switching to a compliance mentality and seek to sustain an open, ambitious approach.



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5 What companies need to understand about the new sustainability reporting standards

There is a danger that companies can get lost in the complexities of the different standards' documents. The ESRS numbers 650 pages, the SEC proposal 490 pages and the first two ISSB standards, a mere 112.

Therefore, the approach taken in this White Paper is not to seek to describe each proposal in totality, but instead to seek to demystify some of the key elements of the proposals that will be relevant to all levels of the company; to analyse the inter-linkages between the proposals to give maximum opportunity for the company to choose approaches that are reflective of two or three of the standards together; and to explain some of the key thinking behind elements of the reporting requirements, to help put them into context.

SCOPE

The changes in sustainability reporting requirements are aimed at listed companies by both the SEC and the ISSB, but go much further in Europe compared with the U.S.

In the United States there are around 12,000 companies registered with the SEC, all of whom will be expected to comply. In the European Union the figure is higher, even taking into account the slightly bigger population in Europe and partially balanced against the average higher level of capitalisation of companies in the United States.

In all, 50,000 companies are expected to fall within the scope of sustainability reporting in Europe, covering all listed companies (except micro-enterprises) and all large companies as well. The definition used for a large company is meeting two out of three from: net annual turnover of 40 million euros, assets of 20 million euros and having 250-plus employees. (The former rules set this at 500-plus employees and covered around 11,000 companies).

There are around 6,000 companies listed in the European Union, so a big proportion of the increase in scope is in unlisted large companies.

Given the involvement of securities commissions and the assumption that the investor is the prime user of the report, it is clear that the main intention behind ISSB standards is restricted to listed companies, similar to the United States. However, by definition, as different countries will have discretion in applying the scope for which ISSB standards will apply in their own jurisdiction, there may be some variation in terms of numbers of companies affected.

Despite these differences in numbers of companies falling within the scope, it is important to note that there are 8 million businesses in the United States and 26 million in

Europe. So the rules only apply to the top 0.1% of businesses at most on either continent; moreover, these are the very companies who have the most capacity to meet them.

Listed small and medium-sized enterprises are brought into the scope of the European rules for the first time and simplified voluntary standards for SME reporting are also being produced.

However, given the fact that all of the proposals require a level of reporting on the company's value chain, (with the suggestion that this might be restricted to where there is a higher level of "control" in the ISSB proposals), the contribution of and impact on small businesses very much remain part of the debate.

This makes even more important the familiar argument between companies employing a "contractual approach" ending relationships with suppliers who cannot comply; or the alternative "developmental approach", where larger companies maintain business relationships over a sustained period, to help their suppliers to be able to comply.

It is a cornerstone of responsible business practice that the developmental approach is chosen.

Elements of phasing-in in each of the sets of different standard-setting proposals, make this very possible.

The desire to help all companies to transition, makes it very desirable.

MOVING FROM A 'PRINCIPLES-BASED TO A RULES-BASED' APPROACH

To date, most sustainability reporting has taken a "principles-based" approach, subject to voluntary guidelines which are higher level, more general and focus on the intention of the reporting. In contrast, there have been arguments to move to a more rules-based approach, one that moves from evaluative and behavioural terms (for example "fair" and "reasonable") to more prescriptive ones, with a much greater emphasis on quantitative measures.

There is no doubt that the current developments in sustainability reporting represent a shift towards more rules-based reporting.

The ISSB standards probably represent the most principles-based and the ESRS the most rules-based, with the SEC proposals somewhere in the middle.

However, this should not be exaggerated. Many ESRS remain principles-based.

One practical example is that the ESRS and ISSB standards both require the use of scenario analysis for climate disclosure, (forecasting and planning for different future pathways dependent on different degrees of success in fighting climate change), whilst the SEC proposal only requires disclosure of whether or not this is used.

Nevertheless, the general move to use more quantitative measures, means that there is an immediate priority for companies to reassess their data management requirements, given lead-in times to set up systems and the necessity to start collecting information from the beginning of 2024. (See section 7 for more detail).

INCLUSION IN THE MANAGEMENT REPORT OR FINANCIAL FILING

Only the SEC proposal requires climate risk information to be included in the financial filing. Already under existing rules, the latest White & Case annual study of Fortune 100 companies finds as many as 89 already provide ESG information in financial filings, evenly divided between the Form 10-K and the Proxy Statement.

This suggests that objections citing undue exposure to legal liability from the proposed SEC rules, which have been expressed by some in the United States, may also be being exaggerated.

Both the European and global standards represent a major push to integrate ESG in the company's annual report.

Inclusion in the management report is required by the European proposals, suggesting a separate section is provided. The proposals also allow for inclusion elsewhere in the report, including in the management commentary or narrative section of the report.

> **The move to use more quantitative measures means there is an immediate priority for companies to reassess their data management requirements**

The ISSB proposals also require inclusion in the annual report, but are more flexible in allowing for cross-referencing to information outside of it.

Common to all three proposals is the requirement to publish the information at the same time as financial statements. The ISSB is phasing in this requirement.

The author of this White Paper is long associated with the argument for "integrated reporting". This is not simply about the format of the report, but the objective to connect financial and ESG information for companies to be able to use integrated thinking to make business decisions that drive value creation not just for the enterprise but for all stakeholders.

Producing ESG information separately and at a different time to financial information is a strong barrier to being able to achieve this.

However, this move towards more integrated reporting, is a long way from pronouncing the death of the corporate sustainability report.

The Global Reporting Initiative (GRI) remains the leading methodology used by companies for sustainability reporting and is increasingly arguing that companies should use ISSB standards for financially material reporting and the GRI for what it is now frequently describing as impact reporting. Although a voluntary framework, it is important to note that the GRI is already operating as a standard-setter, albeit not one backed by regulatory mandate.

The GRI chose not to merge with the ISSB at this stage, when other international reporting frameworks did so, and it will be interesting to see what its collaboration with both the European and global standards (it has memoranda of understanding with both) yields for future developments.

In any case, companies are agile in presenting information to different audiences in different ways and there is no reason why sustainability information in the annual report cannot also be presented in different and more attractive ways for report users and for the public.

Nevertheless, the key conclusion remains that the new era of standardisation is marked by a very significant shift to mainstreaming ESG with the company's financial reporting.

MATERIALITY

There has been more debate than anything else on the materiality definitions adopted by the ISSB and SEC of "financial materiality" or "enterprise value creation" for the reporting; and the alternative approach in ESRS of "double materiality", both financial materiality and materiality based on the external impact of the company on stakeholders, society and the environment.

There is a cogent argument that financial materiality aligns sustainability with financial reporting and maximises the incentive for companies to act (and for investors to make decisions), because of the clear impact on the company's bottom line, now and in the future.

However, the argument for double materiality is that the true objective of the reporting is to affect sustainability performance in terms of impact in the world, to create value and manage trade-offs in respect of all stakeholders, and to end the prevailing situation where there are grave externalities that do not affect the company in sufficient time for the company to act to influence them, ("the tragedy of the horizons").

It is not proposed to rehearse all the arguments here, which are well-aired elsewhere. The author of this White Paper has written earlier for Reuters Events Sustainable Business, arguing that investors increasingly want impact materiality in any case and that the two definitions are likely to merge in the future.

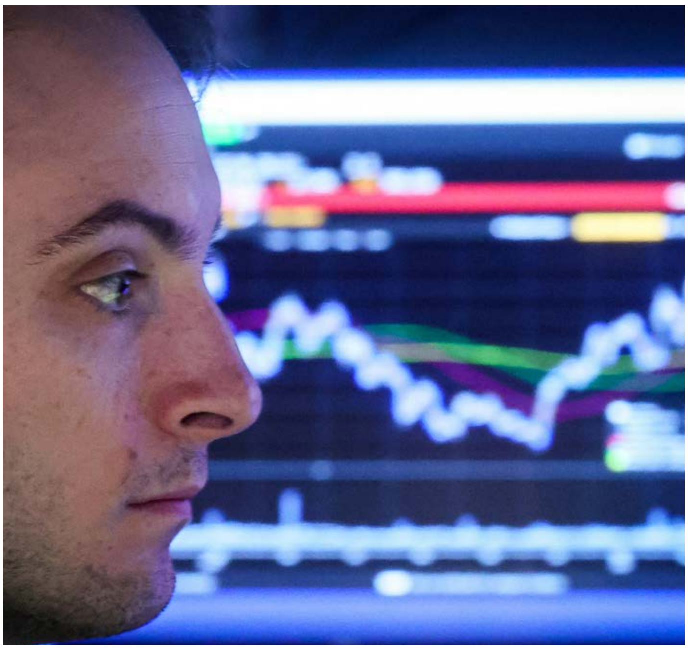
However, it is suggested that companies review this question to determine their own appetite towards the arguments, in determining the best approach for their own materiality assessment process.

Is the company striving to provide too broader information, creating excessive cost and risking losing clarity in prioritising actions to be taken from the information which is generated?

Or is the company failing to provide information that is sufficiently comprehensive, exposing the company to risks it may be unaware of and cannot manage, and inhibiting the company from actively contributing to meeting social and environmental goals?

The answers to these questions have a direct impact on the materiality determination your company will use.

For eligible European companies, the double materiality approach remains obligatory.



BRENDAN MCDERMID/REUTERS

It should also be noted that the SEC proposal is based on strict financial materiality considerations. In the United States, the materiality definition for all reporting is based on the US Supreme Court judgment on the likelihood that a reasonable investor would consider it important. The SEC already made it explicit that this applies to climate risk in 2010 guidance and has underlined its importance in publishing a sample letter to companies on this in 2021. It will remain at the heart of the SEC proposals.

WHAT ARE THE CORE CONCEPTS TO BE REPORTED?

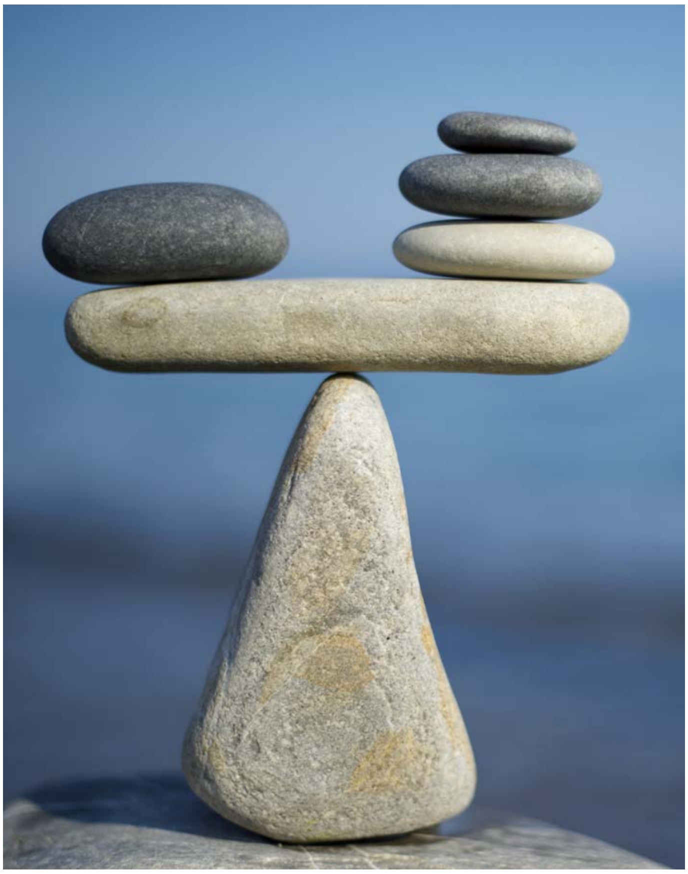
As proposed European standards for General Requirements (ESRS S1) and by the ISSB for General Disclosure (IFRS S1) have both been published, it is possible to get a good insight into the general, overarching approaches adopted by the two standard-setters and to identify core concepts common to both.

The good news for companies is that EFRAG has said: "The disclosures prepared under ESRS are expected to be capable of corresponding to disclosures required by IFRS S1 (for the general disclosure)." A specific reconciliation between the two was undertaken in July last year, with European standard-setters committing to adapt their proposals on a number of issues.

Indeed, there is huge commonality in the general requirements between European and global standards.

Both address prior concerns about quality of sustainability information by putting emphasis on fundamental accounting principles, both defining this as "relevance and faithful representation … comparability, verifiability and understandability", (ESRS S1 paragraph 25, IFRS S1 paragraph 47).

There is understanding of the challenges for companies in being able to be fully confident about metrics reported and business concerns that these may be challenged, to question


SMILESTUDIO/SHUTTERSTOCK

the credibility of the reporting as a whole. Both sets of standards refer to "measurement uncertainty" and say that this should be dealt with by the estimation being "accurately described and explained".

Sustainability reports have often been criticised for lack of balance, describing the positive, but sometimes accused of underplaying the negative impacts of the business. Metrics reported have also often been said to not be sufficiently robust.

It must be said that some of this criticism is unfair, ignoring the sincere attempts of sustainability professionals to undertake their work within companies, over many years.

However, the new requirements to adhere to accounting principles, including provision of a clear statement of compliance in the report, together with requirements for assurance, all represent a hallmark of the new era for sustainability reporting.

Next, both sets of standards require companies to consider enterprise value creation, asking for forward-looking information in the short, medium and long term. This is a radical change compared with financial reporting, which has typically been historical (backward-looking) in its approach.

Both sets of standards require reporting on how sustainability risks and opportunities impact the business model and company strategy. There is a common approach to requiring both qualitative and quantitative information, the ISSB putting emphasis on the trade-offs in decision-making and ESRS highlighting the need to show outcomes.

Both sets of standards require reporting on risk management processes, how sustainability risks are identified, assessed and managed. The ISSB also asks for information on how this is integrated in the company's general enterprise risk-management approaches. The ESRS put emphasis on opportunities as well as risks.

From both sets of standards, it is clear there is a move away from company-specific indices towards common metrics, which will necessarily mean changes in data management for the business. The ESRS suggest complementary frameworks may be used in addition to the standards, but ask companies to phase out entity-specific metrics over two years. The ISSB allows for management judgement in determining additional metrics, but requires them to be "relevant, faithful and neutral" and not in contradiction to its own guidance including the Carbon Disclosure Standards Board (CDSB) Framework and the Sustainability Accounting Standards Board (SASB) standards and that "of other standard-setting bodies".

Both sets of standards require consistency in the reporting of metrics, both in themselves and with financial data elsewhere in the report. Consistency is also required between different reporting periods, with strict conditions for how any changes are introduced and a requirement to correct reporting errors in prior reporting periods.

The ISSB puts specific emphasis on explaining the "connectivity" between sustainability information and the rest of the report, including financial plans and statements, but also with "narrative information on "governance strategy and risk management". (IFRS S1, paragraph 43).

"

Sustainability reports have often been criticised for lack of balance, describing only the positive. Some of this criticism is unfair

Although in December 2022, the ISSB moved much closer to defining value creation with reference to stakeholders, it is the element of 'connectivity' which is perhaps less understood and where more work and guidance can be expected in the future.

It is fair to say that there is much more emphasis on target setting and reporting on outcomes from these targets in the ESRS, but a requirement for target-related metrics is also included by the ISSB, (IFRS S1, paragraphs 33 and 34).

The emphasis on target-setting is one of the key advances in the CSRD compared with previous European rules.

Meanwhile, both sets of standards require reporting to apply to the value chain of the business, using the same wording in "the full range of activities" and all "relationships". The application is both upstream and downstream of the business and not restricted either to supply chain alone or to direct suppliers only.

The European standards go further by making specific reference to the concept of due diligence – companies identifying, managing and mitigating risk in the company's value chain, again primarily derived from the U.N. Guiding Principles on Business and Human Rights.

The new era of reporting represents a decisive shift of moving sustainability into the mainstream of the business

This approach is already well understood from the California Transparency in Supply Chains Act, national legislation in France, Germany and the Netherlands, and in the forthcoming Corporate Sustainability Due Diligence Directive, which is at advanced stage of negotiation in Brussels.

On governance, there are requirements in both sets of standards for sustainability reports to explain companies' governance processes to monitor and manage sustainability issues. This includes the mandate and competencies in the Board and any relevant committee and a description of executive functions in relation to sustainability.

For those expert in corporate governance issues, it is important to emphasise that the new standards refer to the governance of sustainability issues in the company, rather than wider corporate governance principles.

Draft ESRS and ISSB standards require information about executive compensation, linked specifically to climate considerations. Both sets of standards allow for information to be withheld, with the CSRD allowing omissions which "would be prejudicial to the commercial position of the company", but this requires board approval within the company and must not prevent a "fair and balanced understanding" of the company in its report.

The SEC proposals are not examined to the same level of detail in this section, given that these are restricted to climate and not per se presented as general standards.

However, companies in the United States would be required to report on board and management oversight of climate risk. Any impact on business model and strategy and integration of climate in the company's risk management are all also to be disclosed. Of course, the very requirement for inclusion of climate reporting in financial statements carries with it many of the same assumptions about reliability and verifiability of information as the European and global standards.

Therefore, this analysis of core concepts in the three proposed sets of standards sees a high level of commonality in integrating sustainability across business activities.

It can be said that the new era of sustainability reporting represents a decisive shift of moving sustainability into the mainstream of the business, not just its reporting, that many have called for.

As we know, financial reporting itself is not immune from intended or unintended error and misrepresentation. However, the time when sustainability information can be said to be inferior to financial reporting can be said to be ending. For the true sustainability advocate in business, this is a huge step forward.

CLIMATE REPORTING: THE TASK FORCE ON CLIMATE-RELATED DISCLOSURE (TCFD) RECOMMENDATIONS ARE PARAMOUNT

The TCFD recommendations were ground-breaking in showing how companies could assess and report financial

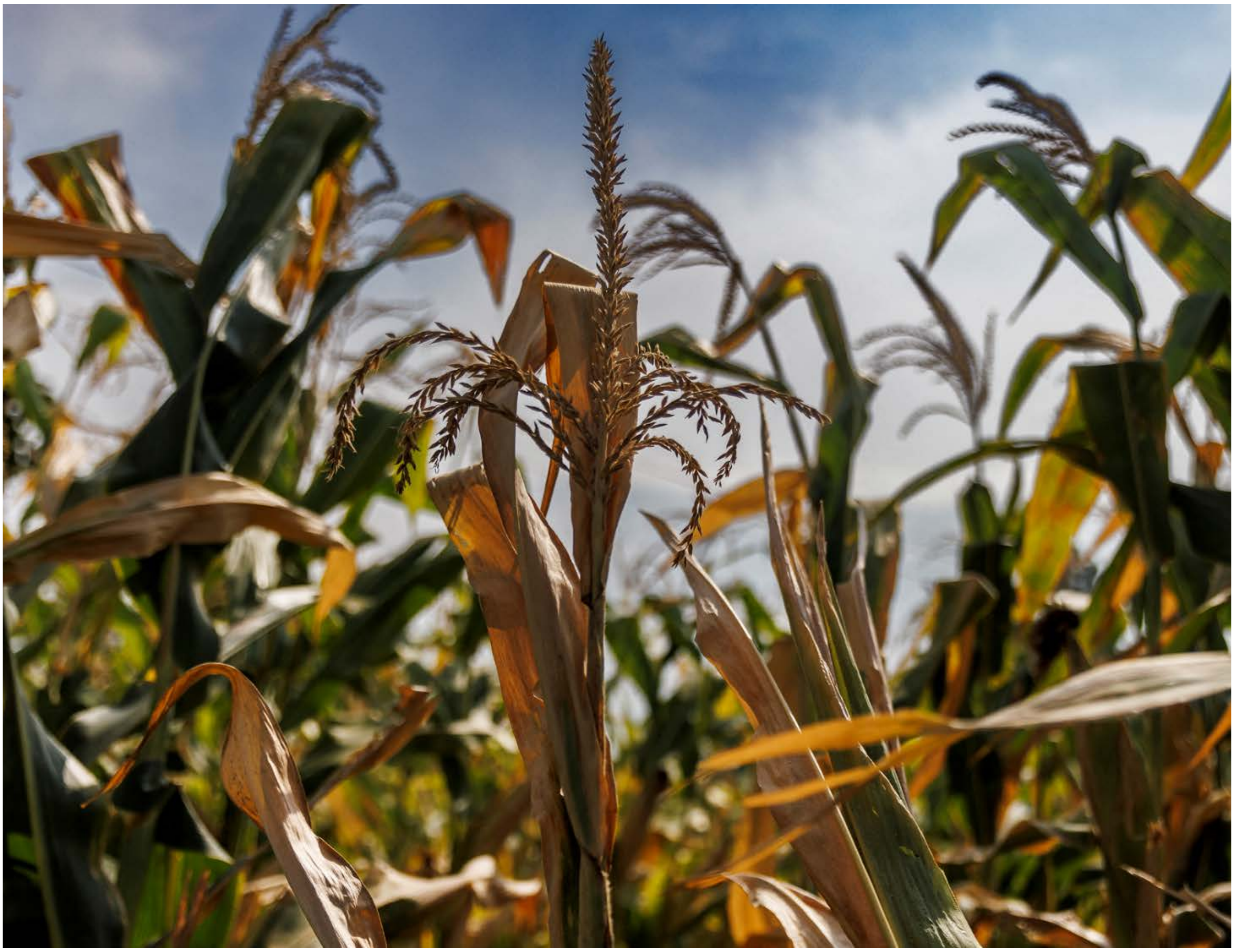
FREE ENTRY-POINT RESOURCES

Many of the concepts in this section will be familiar to companies reading this White Paper and already be covered in your sustainability reports. If they are new to the company's sustainability reporting team, there are some free resources that can be recommended as an entry-point to considering how they can be adopted.

Understanding Value Creation produced by the International Federation of Accountants avoids taking a purely financial calculation approach and puts creating value into a sustainability context. EFRAG itself published Good Practices in Business Model, Risks and Opportunities Reporting in the EU, at an earlier stage of the standard-setting process. The United Nations Global Compact's Roadmap to Integrated Sustainability gives practical advice on adapting business strategy to incorporate sustainability perspectives.

Resources developed for the Impact Management Platform on Measuring Sustainable Performance guide the company on issues in choosing the right metrics. A useful resource for target setting to take account of the Sustainable Development Goals, (with an updated version shortly to be available) is found in the Global Compact/GRI's Integrating the SDGs in to corporate reporting: A practical guide. Current thinking on connectivity is addressed in EFRAG's Cover note and Issue Paper: Connectivity between financial and sustainability reporting.

The Cambridge Institute for Sustainability Leadership's Value Chain – Definitions and Characteristics is a good starting point for thinking about the company's value chain; while Reuters Insight How to improve Scope 3 emissions data and reporting addresses emissions in the value chain in particular. Human Rights Due Diligence: An Interpretive Guide from the United Nations Development Programme explains due diligence with direct reference to the U.N. Guiding Principles.



risk coming from climate change and how this could be expressed in financial filings.

Therefore, it is particularly heartening that the TCFD recommendations are common to all three sustainability reporting sets of standards.

The TCFD's four thematic areas – governance, strategy, risk management, and metrics and targets – are exactly replicated in the structure of the SEC proposals. Even if there are variations in some of the language.

Both the ISSB and ESRS drafts seek additional disclosures on climate, but clearly integrate the 11 recommended disclosures from the TCFD.

Therefore, the core of climate disclosure required is on questions on which many companies have been working for the past six years, and the level of alignment between all three proposals suggests we are close to having genuinely internationally comparable reporting on climate.

For companies new to or developing their TCFD reporting, many resources, case studies and online courses are available free of charge in CDP's online TCFD Knowledge Hub and in Reuters Insight's Who is adopting the TCFD Reporting Framework?

REPORTING ON SCOPE 3 (VALUE CHAIN) EMISSIONS

It should be noted that although the ISSB and ESRS prescribe Scope 3 (indirect) carbon emissions reporting by business, this question is subject to public comment for the SEC, and it remains to be seen whether this is included in the final rules and in which timescale. Currently the suggested requirement is that Scope 3 should be reported if deemed to be material or if included in the company's climate targets.

All three of the standards initiatives require reporting on carbon intensity, (greenhouse gases emitted per unit of activity). SEC proposals and ESRS ask for this to be calculated for total emissions, whilst the ISSB requires this to be broken down between Scopes 1, 2 and 3.

The ESRS require companies to publish climate transition plans and climate targets, aligned with temperature rises laid down in the Paris goals. Both the ISSB and SEC only require disclosure of climate targets, where they are used.

This is an example of an area where companies who choose to do more are subject to greater disclosure requirements. It is to be hoped that finalised standards in each case recognise the perverse incentives that may be created and remove or change anomalies which may cause this to happen.

BEYOND CLIMATE

The SEC proposal is clearly restricted to climate-related disclosure. There are no near-time plans to go beyond this, although there are suggestions that a rule requiring disclosure of the company's human capital management, which was already issued in 2020, might be strengthened to make it more prescriptive and potentially sector-specific.

The ISSB regards its work on general requirements and on climate disclosure as "foundational" and has undertaken a consultation on future "agenda priorities" in the latter part of last year.

Four items have been identified for inclusion in its research plan:

- Biodiversity, including ecosystems, ecosystem services and other nature-related issues
- Human capital, with a focus on diversity, equity and inclusion (DEI)
- Human rights, particularly in the context of the value chain, with a focus on worker, labour and community rights
- Connectivity in reporting, management commentary and integrated reporting

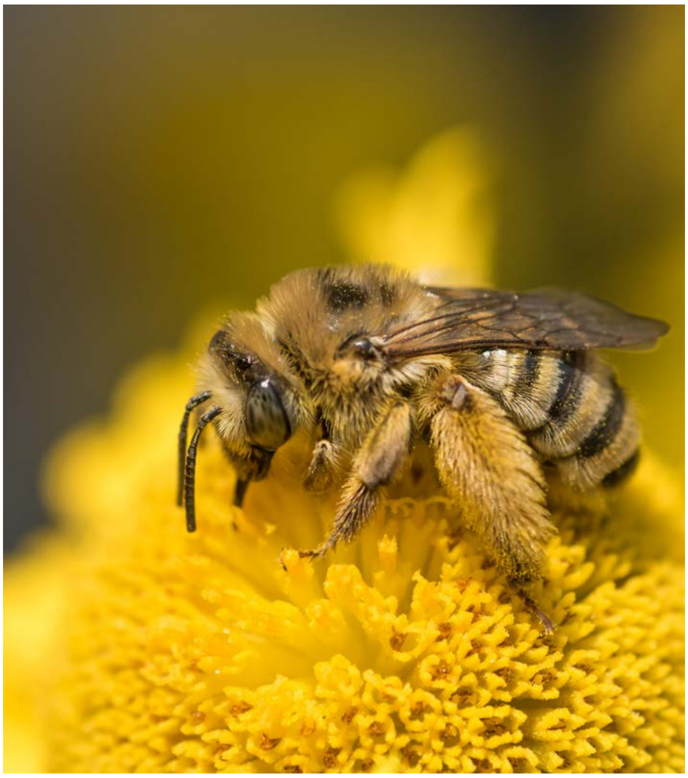
The time span the ISSB has set for "meaningful progress" on these issues is the next two years, but there is no commitment for research on a topic, to mean that there will necessarily be a standard in that area. The criteria for choosing the four topics were said to include demand from investors or companies and whether existing "widely accepted" standards in a topic already exist.

Meanwhile, the ESRS go well beyond general requirements and climate disclosure and are organised in the three pillars of environment, social and governance.

Under environment as well as climate, ESRS are being produced for pollution; water and marine resources; biodiversity and ecosystems; and resource use and circular economy.

Thus, companies will report on emissions not just into the air, but also into land and water. There is a particular emphasis on water-stressed areas, i.e. where companies are sometimes accused of contributing to water shortages in dry or arid geographies. Reporting for biodiversity includes doing so in relation to ecological thresholds and boundaries, with crucial targets for no net nature loss by 2030 and full recovery of nature by 2050. Impact in protected and valuable areas reflects concern about companies' activities in relation to the rainforest and to other fragile ecosystems and habitats. Circular economy reporting requires companies to report on their resources used, as well as on resource outflows, also covering waste and recycling.

The ESRS covering social standards comprise the company's own workforce; workers in the value chain; affected communities; and consumers and end users.



JENNIFER BOSWERT/SHUTTERSTOCK

Workforce reporting includes a breakdown of how the workforce is structured, engagement measures including coverage of collective bargaining, the payment of "adequate wages", diversity indicators and of any "serious" labour or human rights issues. Value chain reporting includes working conditions, access to equal opportunities and a full range of human rights issues, including trade union rights, child labour, forced labour and privacy. Reporting on affected communities includes economic and social as well as human rights, land and security-related impacts, as well as specific impacts on the rights of indigenous people. Reporting on consumers includes privacy, freedom of expression and access to information, non-discrimination in access to goods and services, and health and safety issues.

In each case, the social standards draw from the U.N. Principles on Business and Human Rights in requiring risks to be identified and mitigated, the need to describe engagement processes (thus incentivising these to be meaningful) and access to remedy in relation to negative impacts.

Clearly, this is very different territory compared with the SEC or ISSB proposals.

There is a single ESRS proposed on governance, covering business conduct. This includes an interesting range of issues including corporate culture, fair behaviour with suppliers, anti-corruption and transparent political influence and lobbying.

The ESRS are broader standards compared with either the ISSB or SEC proposals. The European standards require reporting of policies and outcome-oriented targets in each case, with much greater emphasis on businesses reporting actual action taken, in line with the strengthening of the CSRD legislation, which mandates the standards themselves.

It is likely that some companies will find the breadth of these issues on which to report daunting. However, many will recognise that the issues represent concerns about business that they have faced for some years and about which standardisation may bring greater certainty in managing.

In either case, the examples illustrated in this section (which are by no means an exhaustive list of all the disclosures), demonstrate the strength of commitment to stakeholder or impact materiality inherent in the European proposals.

SECTORAL APPROACHES

There have been many debates about how far standards could be produced that are genuinely comparable and material across all industries and how far this has to be done at a sectoral level to be meaningful.

How far is it possible to compare a capital-intensive, high carbon-energy generator with a labour-intensive retailer with a complex global supply chain?

Over the next two years, detailed ESRS will be developed for a range of sectors, starting with textiles, accessories, footwear and jewellery, mining and coal mining, road transport, food and beverages, energy production and utilities.

The integration of Sustainability Accounting Standards Board (SASB) standards into the work of the ISSB, will see sectoral metrics based on these standards become requirements for reporting under the draft IFRS S2 on climate-related disclosure, which currently are recommended but remain optional in other areas. It is likely that SASB metrics will continue to be influential in shaping future ISSB standards as they are rolled out.

There are no sectoral requirements in the SEC proposals, although this issue is included in their questions for consideration.

Overall, it remains to be seen how detailed the requirements will be, for industry or sector-based sustainability reporting standards.

However, from the corporate point of view, this is the prevalent approach in many existing sustainability indices and benchmarks. It is where companies are best able to benchmark their own sustainability performance and where they are most likely to be held to account by stakeholders.

It will be important to continue to monitor developments carefully.

ASSURANCE

A highly significant aspect of the new era for sustainability reporting is that third-party assurance of sustainability reports will become the norm.

It is a key demand from investors to ensure the quality of the reports.

Existing financial audit companies are well placed to do this work and many have been gearing up accordingly. However, it is interesting that the CSRD identifies the skills required for third-party assurance of the reports, but states that this could be provided by different actors, such as specialist social and environmental auditing companies.

A key distinction is between "limited assurance" – ensuring no obvious inconsistencies or apparent countervailing information which would question the validity of information in the report; and "reasonable assurance" - a positive effort to check and validate that the information is correct.

Both the ESRS and proposed SEC rules require only limited assurance in the first instance, with the intention of moving to the more stringent reasonable assurance over a period of time. In the case of the SEC, audit of Scope 3 emissions is excluded, as are reports from eligible "smaller reporting companies".

National regulators will determine whether and how far reporting according to ISSB standards is subject to audit, but the production of guidelines for audit and oversight suggests that there will be a strong expectation that this will be included.

> **It remains to be seen how detailed the requirements will be for industry or sector-based sustainability reporting standards**

In recent years there has been increasing frustration from companies at slowness and caution from auditors in being willing to come forward to offer assurance for ESG information. This is a far cry from earlier days when this was seen by companies as just additional cost.

Today there is a common belief between companies and those who read and use their sustainability reports, that assurance is needed to demonstrate quality and to match the credibility of financial reporting.

There is likely to be strong competition to acquire this new work and companies have an opportunity to evaluate different options in determining the best choice.

Internationally, the most authoritative guidance about audit and assurance is provided by the International Auditing and Assurance Standards Board. Their (ironically titled "non-authoritative") guidance on non-financial ("extended, external") reporting, published in 2021, remains a useful common source for how sustainability reports can be audited across all three of the standardisation initiatives.

INTER-RELATIONSHIP AND ALIGNMENT BETWEEN THE THREE SETS OF STANDARDS – THE ISSUE OF SUBSTITUTION

To the degree that inconsistent disclosure requirements are brought in by the three initiatives, in different timescales, there are bound to be frustrations in the business community.

Efforts to achieve interoperability were described earlier in this section and appear to be meaningful and sincere.

The ISSB position is that it is providing a "baseline" of standards, to which Europe and in future other jurisdictions may add, to meet their own additional policy objectives and legislative requirements. The European Union's position is that it is committed to "co-production" of standards, applying its expertise and experience to financial as well as to impact materiality questions.

Nevertheless, a high level of liaison exists between the two and both are committed to the objective of convergence. See this author's earlier work for Reuters Events Sustainable Business for discussion about how this may be achieved.

Although questions of alignment and convergence will be largely determined by the standard-setters and their key stakeholders, individual companies have an interest where supervisory authorities will accept disclosures from another jurisdiction's requirements that will satisfy them, known as "alternative or substitute compliance".

This is unlikely to be an issue in the United States, which will normally strictly abide to its own requirements, although interestingly, its ability to apply alternative compliance was included in its questions put for public comment.

The ESRS explicitly say that other reporting standards can be used but stipulate that these will be "in addition" to the European standards.

The ISSB has agreed to reference EU sustainability reporting (and GRI) standards in its sources of guidance in its IFRS S1 (General Requirements) standard, (although relegated to an appendix). This means that in the absence of a relevant ISSB standard, companies can use ESRS to prepare disclosures which will be deemed to be in compliance by the ISSB itself.

It will be interesting to see how thinking develops on this issue of substitution across each of the standards' bodies.

It will also be interesting to see if this becomes an issue when the European Commission agrees the delegated acts which finalise the standards or in the decisions of the European Securities and Markets Authority (ESMA) and of national supervisory bodies, (capital market regulators).

Note this could include ESRS standards being deemed to meet ISSB requirements, as well as vice-versa.

Currently ESMA has said the different sets of standards are "reconcilable" if not aligned, but has reserved judgement until final standards are published.

Clearly, outside of Europe and the United States, regulators will have a free hand to address this point, as sustainability standards are adopted.

WHAT TO DO IN 2023:

- Start early discussions with your suppliers on the implications of the new standards and how you can work together to respond.
- Recognise that more granular information and data sets are likely to be needed to meet the requirements and start discussion with those responsible for data management in the company to assess the new requirements.
- Review plans for the balance of ESG information between your annual report and sustainability report and start joint planning in the company to prepare for reporting according to the standards in your mainstream report.
- Review the materiality determination you use for sustainability reporting, in the light of the arguments between single and double materiality.
- Review your company's existing reporting to identify any gaps in reporting on core topics of business model, strategy, value chain, risk management and governance, which are common to the general requirements of both European and global standards.
- Either start TCFD reporting if you haven't done so, or for existing TCFD reporters, read the additional climate disclosure requirements in the most relevant standard initiative for your company and begin to consider how these could be met.
- Increased Scope 3, (value chain) emissions reporting is a key direction of travel and companies will want to review their own next steps in this regard.
- Obtain and assess the standards as soon as final versions are published, relevant to your jurisdiction and where your company is likely to fall in scope. Undertake internal review exercises, education and training, to begin the process of adoption.
- Continue benchmarking exercises with competitors in your sector, engage in the consultations on future European sectoral standards and familiarise the company with SASB standards as preparation for probable future ISSB standards.
- Start early discussions with your financial auditor about preparations for auditing your ESG information and begin enquiries about alternative providers and how they might meet your needs?
- Begin discussions with national supervisory bodies where relevant, on how far reporting according to one standard might be deemed to comply with others.

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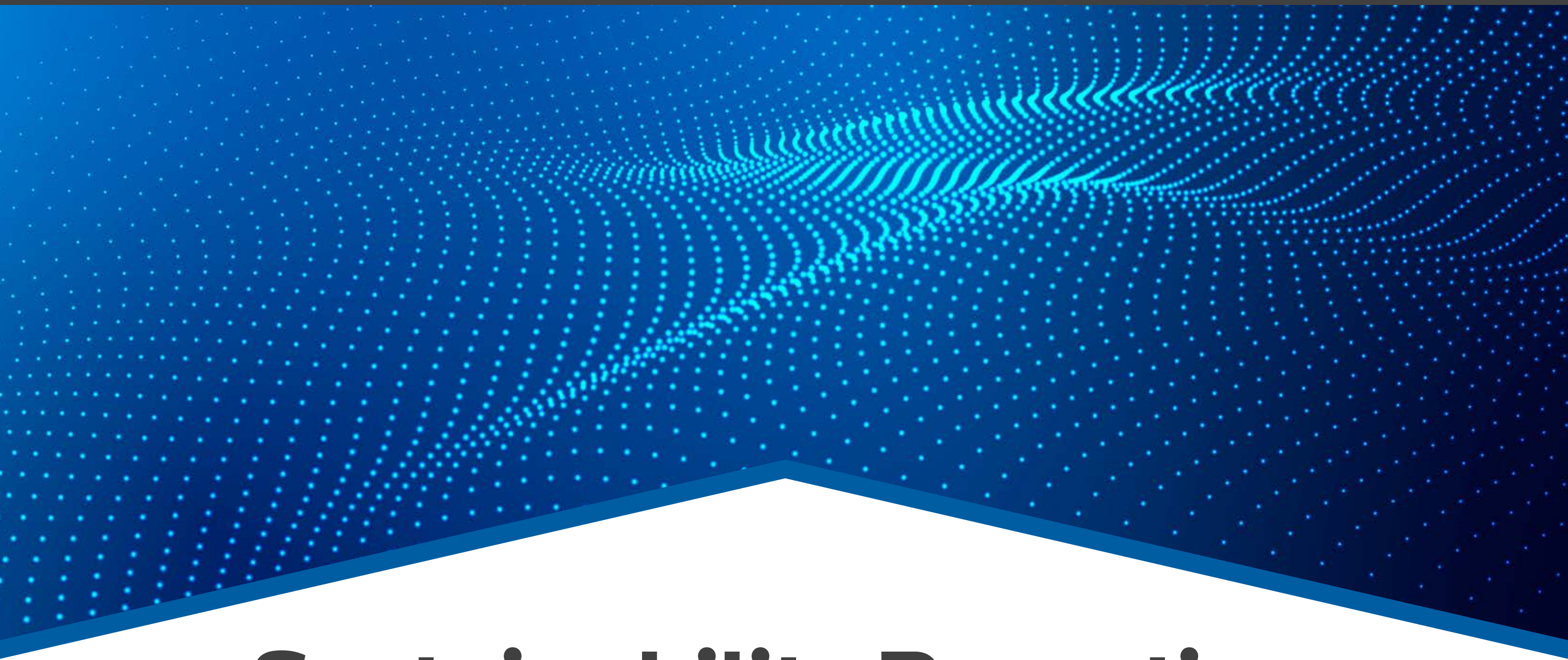

Sustainability Reporting Europe 2023

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300+ Attendees	**60+** CEO & Executive Speakers	**65%** Senior-Manager Level & Above	**70%** Corporate Attendance

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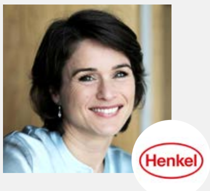
EFRAG



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6 Trans-nationality – how companies will be affected when standards are set by foreign jurisdictions

The development of sustainability reporting standards in both Europe and the United States prompts complicated questions about how and how far they apply for global companies and businesses in different jurisdictions.

In Europe, application for non-EU companies is laid down in the legislation. The CSRD requires sustainability disclosure from non-EU companies that have annual net turnover in the EU of more than 150 million euros for each of the previous two consecutive financial years; have at least one subsidiary which either meets the large company definition (see Section 5) or is itself listed in the EU; or one branch in the EU with more than 40 million euros in annual net turnover in the previous financial year. There is also a requirement to show key performance indicators for subsidiaries' activities that qualify as environmentally sustainable within the EU Taxonomy (classification for investment which is itself deemed sustainable). The reporting includes the need for assurance, as with all companies in scope.

> It is interesting that for non-EU companies, reports are required for the consolidated global group. This has potentially a very significant impact

Although the CSRD gives the option for reporting at group or entity level, it is interesting that for non-EU companies, reports are required for the consolidated global group. Clearly, this has potentially a very significant impact.

The rules specifically leave open the option for the European Commission to accept reporting according to substitute or alternative compliance. There is likely to be political pressure on this from both directions, so there can be no clear indication about this at present.

The requirement for consolidated reporting from non-EU companies is also being phased in over a much longer timescale, requiring information to be collected from 2028, for the first reports to be published in 2029. Reporting requirements remain earlier for subsidiaries listed in the EU or largely within the EU definition, at the same date required for other European companies. When reporting requirements apply to the consolidated group, it is the EU-based subsidiary or branch that is legally responsible for providing the report from the non-EU parent.

It is also expected that a modified set of disclosure standards will apply to non-EU groups, which are likely to be less onerous, but are not yet published.

Companies listed on an EU market will still have to report according to the full set of standards and within the management report, whereas the later CSRD-compliant sustainability reporting at a consolidated level (where subsidiaries are not listed in the EU), can provide the information through a separate sustainability report, which is publicly available.

There is an interesting provision that non-EU companies will be deemed to comply if the consolidated group report is itself prepared according to CSRD requirements. If transnational companies based for example in India, Japan, Korea or other third countries find this the easiest or best option, there is the possibility that ESRS will potentially become global or semi-global standards in themselves. It is not suggested that this is the intention of the European Commission but may become an unintended consequence of the requirements.

Business is very familiar with complying with different regulatory standards in different markets and there is a dynamic for convergence between the different standards

Meanwhile, in the United States, the SEC proposal will apply to companies incorporated outside the US, if they are a foreign private issuer (PFI), i.e. a public company which seeks access to capital markets in the country and registers with the SEC to do so. There are also criteria for registration as a PFI based on the nationality of the company's executives and officers and the proportion of its stock, assets and turnover that are in the country. The SEC has typically allowed these foreign companies to follow their home market rules in other regulatory areas, but is not seeking to do so in respect of the climate disclosure rules. However, quite simply, if your company is not already registered as a PFI or considering doing so, the SEC proposal will not affect you.

In addition, this is a relatively small number of foreign companies, currently around 1,150, which are registered with the SEC. This compares to over 100,000 non-EU multinational companies which operate in Europe, although there are no reliable estimates at present for exactly how many of these meet the CSRD criteria. Overall, this means that ESRS will almost certainly have far greater impact on U.S. and other third country companies, compared with the impact of the SEC proposal to companies from outside the U.S.

By definition, the ISSB standards are global, so can have no extra-jurisdictional effect. Either the standards are adopted in the jurisdiction where the company submits its reports or they are not. However, the SEC has signalled its willingness to make modifications to enable companies to submit climate data in their financial statements according to IFRS, which potentially could open the way to greater convergence with ISSB standards in the future.

Companies in the United Kingdom are subject to the UK's own climate disclosure requirements. These do not extend to non-UK companies, unless there is a UK listing. UK companies will have to comply with ESRS requirements (and if PFIs, to SEC rules), as will any other company from a third country where they fall within scope.

Despite the argument that the sustainable businesses will become more competitive and attractive to investors (examined in more detail in this Reuters Insight report), there will inevitably be some nervousness amongst companies about the transnational application of sustainability reporting standards, set in different jurisdictions. However, business is very familiar with complying with different regulatory standards in different markets and there is a dynamic for mutual recognition and convergence between the different standards, which may see significant changes during the extended time periods before implementation is required.

WHAT TO DO IN 2023:

- Non-EU companies should immediately assess whether any of their subsidiaries fall within the scope of the CSRD requirements and prepare accordingly.
- If the consolidated group does not fall within the reporting requirements before 2028-29, the company should continue to follow implementation in Europe closely and start reviewing the ESRS when they are published, to undertake a gap analysis with its own current reporting practices.
- If a registered PFI with the SEC, or a foreign company which is considering registration, map how far existing climate-related data for the company would meet the SEC proposal and begin preparations for adapting the company's data-management strategy to accommodate new requirements.
- Continue to carefully monitor further developments, during the phase-in periods.

7 The shift to digitilisation: developments in sustainability reporting and technology

As outlined in section 6, the ISSB, ESRS and SEC proposals each have requirements to be produced using a structured, machine-readable data language with digital tagging, namely XBRL. The requirements apply to both narrative as well as quantitative information.

This meets the need of investors and other report users for better comparability between reports and corresponds to rapid digitalisation across many areas of business activity in general.

Already 90% of public companies by capitalisation are required to undertake some form of digital financial reporting internationally, (including the U.S., China, E.U., Japan, UK, India, Korea and South Africa).

Even where transition to new systems may be difficult for some in business, ultimately the new requirement is likely to reduce reporting burden, by enabling companies to meet the requirements of different report users in a single format. XBRL provides for data to be structured, also reducing mechanical data entry and eliminating entry errors. As XBRL Europe says, "Do it once". The language intended for use, Inline XBRL or iXBRL, also provides for both visual form and tagged data.

One possibility is that identical XBRL tags could be used, even where there are terminological differences between the different reporting standards, which could be an important element in promoting convergence between all three.

A parallel question is whether companies are able to use "custom extensions", i.e. that they are allowed to tag additional facts, to ensure their own entity-specific information is fully incorporated and to provide a potential resource for standard-setters to understand which updates might be needed in future.

There are also questions of how detailed (especially narrative) information has in order to be tagged; how far the taxonomies used will facilitate connectivity of information; how far the design of each taxonomy might be applicable to the different standard-setting initiatives or how far each is laid out specific only to that standard-setter. A digital taxonomy is essentially the dictionary which defines how concepts are reported, using tags, references and links between the concepts

Of course, XBRL as it exists today will be enhanced over time and future alternative technologies or standards may emerge that could eventually replace it at some point. However, this does not appear likely in timeframes relevant for implementation of the new sustainability reporting standards. Indeed, it can be argued that choosing a single language for digitalisation in this way is an important aspect of simplification and of minimising burden in the proposals.

It is important to note that a Climate Change Reporting

Taxonomy had already been developed and used by CDP and the former Climate Disclosure Standards Board, (now merged into the ISSB), as had Digital Taxonomy for SASB (also part of the merger) – each already using XBRL. Therefore, many companies and investors are already familiar with and using XBRL in relation to climate and other sustainability disclosures.

Internal control procedures are an important part of verifying the quality of data. Earlier this year, the Committee of Sponsoring Organisations (COSO) which provides international guidance for internal control, approved a study to develop guidance in the areas of sustainability and ESG. As well as wanting to address its findings in the company's internal audit function more generally, businesses will want to ensure that internal control is integrated in data management processes in the same way.

EUROPEAN STANDARDS AND XBRL

A final XBRL Taxonomy will be published for the European standards soon after the final ESRS are announced. It can then be used by companies to digitally tag all the information in their sustainability reports.

A Proof of Concept Taxonomy is already available for companies to consider and to help in their preparations.

It is also important to note that the EU has legislated for a European Single Access Point (ESAP) for all company-reported information, which provides for extra accessibility for sustainability information for all report users.

THE SEC PROPOSAL AND XBRL

In the United States, use of Inline XBRL is widespread among companies and already required in the bulk of other SEC disclosure requirements. Therefore, this aspect of the SEC proposal does not appear to be problematic.

ISSB STANDARDS AND XBRL

The ISSB plans to develop its own digital taxonomy using XBRL to accompany its standards, at each point when they are finalised, following public consultation. The first draft is expected to be available during the first half of this year.

This means that a relevant digital taxonomy would be always available in advance of when global standards would be adopted by individual jurisdictions, maximising time for preparedness by companies themselves.

This practice is already undertaken by the IFRS Foundation for new or revised financial reporting standards, so again should not be problematic.

The ISSB Taxonomy will leverage practice from the existing SASB Taxonomy, which will make this easier for companies already using this approach.

The ISSB Taxonomy is also intended to be designed to allow "top ups", in line with its vision to provide a global baseline to which other jurisdictions can add. Interestingly, the ISSB is considering making its taxonomy applicable to companies using U.S. (and other) Generally Accepted Accounting Principles, rather than having an approach simply consistent with the IFRS Financial Accounting Taxonomy. This will be one indication of how far it may want to move towards the SEC approach.

The ISSB is currently determining whether it would allow custom extensions, (known as an "open reporting system") or whether it may not (a "closed reporting system"). It is likely global standards will opt for the more flexible approach, consistent with existing financial reporting standards.

PUSHING BACK THE FRONTIER

As outlined in section 3, it is important that companies do not simply review the digital readiness of their reporting in relation to requirements of the new standards, but in

EVALUATING OPTIONS

Where companies are adopting or revising their software needs, it is suggested that some of the questions companies might use in evaluating different options are:

- Is the system flexible enough to facilitate internal and external changes?
- Is there interoperability between the requirements of multiple rather than single standard-setting initiatives and with other relevant data users, (e.g. credit rating agencies) through to actually filing submissions?
- Can it be easily used at all levels required in the company and for third parties in the company's value chain, without prejudicing validity of the information and with traceability on from whom and how the information has been derived?
- How far does it represent a "big data" approach, maximising auto-collation and the potential for cross-analysis between a large number of different data points?
- Is the system decision-useful for the company, for example in providing dashboards and other visualisation and in enabling benchmarking with the sustainability performance of other companies?
- Does the system incorporate the right internal control systems within the company and the ability to conform with external assurance requirements?
- How far will the system be integrated with existing company processes, enabling results to be used beyond sustainability reporting to positively inform the company's strategy and operations?

relation to best and emerging practices in the field.

Clearly companies still using a spreadsheet rather than an automated software-based approach are likely to want to switch, given the increasing volumes of potentially relevant data as well as the new regulatory requirements.

Companies will be aware that other current technological trends will also bring significant impact to their sustainability reporting.

A new frontier comes in the rapid development of artificial intelligence (AI) functions. AI reads and interprets texts "intelligently", enabling improvements in consistency in previously unstructured data and to be able to make intelligent suggestions in report preparation.

AI and machine learning (ML) are also providing potentially dramatic improvements in prediction capabilities, just as reform in sustainability reporting is putting much more emphasis in forward-looking information.

As above, AI/ML allows for integration with management information and decision-making for the company in general. To the degree that these actions are automated, there are clearly questions for how far autonomous capabilities are enabled for the company's AI systems and when human interaction is required. These issues have been at the forefront of concerns about discriminatory racial or gender bias being built into the company's digital activities, in contradiction to its social obligations. However, such concerns exist and must be managed in all aspects of digitalisation within the company and are by no means confined to the area of sustainability reporting alone.

Meanwhile, as focus intensifies on social standards and environmental performance in the company's value chain, Blockchain technology is opening up new possibilities for sharing data between all the different actors in a secure and transparent manner. It also makes much more possible measurement of the life-cycle of a product, in pursuit of greater circular economy solutions. The technology can also assist the company to reduce reliance on suppliers submitting data to them with inherent risk of data error, by using applications of blockchain which automate the collection and validation of information.

The Internet of Things (IoT) essentially involves the development of smart offices, production plant and equipment. These use processors, sensors and communication hardware to collect, connect and act on data, which they acquire from their environments without human intervention. Represented by the term Fourth Industrial Revolution used in the World Economic Forum, companies are using IoT solutions to improve resource efficiency, better plan logistics and improve environmental management.

Just a few direct examples of new technologies developing rapidly at the moment include a switch from new construction to innovative methods for retrofitting; the use of laboratory systems to grow proteins to radically change food systems; the potential for a breakthrough to provide low-carbon hydrogen fuels; and the expansion of electric vehicles to other modes of transport.

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Blockchain technology is opening up new possibilities for sharing data between all the different actors in a secure and transparent manner

There are direct implications for sustainability reporting from such trends.

First, technological breakthroughs have the potential to provide step change or transformational change for the company. This means that the company's research and development in sustainable technologies and processes should be a core part of its sustainability reporting. The reporting itself should also anticipate and be sufficiently flexible to be able to accommodate such changes when they take place.

Second, almost all companies will be investing in such technological innovation at some level. It is sensible for companies to incorporate better technological solutions in a holistic manner to ensure the fullest possible integration, reduce cost and maximise positive outcomes. This means that evolution in sustainability reporting must also be a full part of the company's technology strategy.

Non-specialists in companies often appreciate the broad sweep of these arguments, but can find practical application of ideas to adopt them in the company difficult to comprehend.

Therefore, let us finish this section by considering some practical examples which apply to sustainability reporting directly and are partly drawn from the Corporate Leaders' Group on Digital Reporting, organised by the GRI in conjunction with consultancy, ERM.

A first example sees some companies using digital solutions to augment their existing stakeholder engagement in determining materiality for their sustainability report. This might have been previously confined to direct communication, surveys and questionnaires. Companies are now also using digital solutions to monitor a vast range of social and online media, to identify issues concerning the company arising from customers and stakeholders on a continuous basis and in real time.

> **A step towards digitilisation can be to maximise mobile telephone technology to improve information collection from suppliers**

Some companies have also developed dedicated social media channels to engage stakeholders in the company's sustainability activities, also on a continuing basis.

A large number of companies are using online reports that are able to be more concise, by using links to supporting information where the reader wants it and to offer much higher levels of interactivity. There are examples of companies providing immersive experiences using virtual reality to communicate their sustainability actions.

Meanwhile, for smaller businesses who do not feel able to employ specialist data platforms and software companies to help develop their data management processes, lower tech solutions are available.

Tools such as SharePoint or Yammer enable internal teams to share their information collection for the sustainability report. Online form builders, low-code development tools and workflow tools can also be used to drive in-house digitalisation efforts at a more basic level.

A step towards digitilisation can be to maximise mobile telephone technology to improve information collection from suppliers. For example, supply chain data developer Ulula, has created a bottom up system to collect information directly from employees in supplier companies, by text message sent direct to their mobile telephones.

The overall project which produced these and other ideas for digitalisation of reporting, included major names ABB, Enel, Roche and Solvay. It is interesting that today over half of (the full list of) project participants who are clearly leaders in the field were still using spreadsheets to collect sustainability data.

This is an indication of the scale of ambition for full digital tagging of sustainability data, contained in the standard-setting proposals.

The next short number of years will see a dramatic change, with an end to the 'mix and match' approach to voluntary sustainability reporting standards, together with a good degree of individual invention by companies. Instead, the new era of standardisation will see huge opportunities to harness the potential of digitilisation by companies, with the rapid adoption of Big Data and AI approaches, just at the time it is most possible – and most needed.

WHAT TO DO IN 2023:

- Prepare now through systems development and training to adopt or extend your sustainability reporting using Inline XBRL.
- Obtain/assess and take part in public consultations on digital taxonomies when these are published by the ISSB, for ESRS or by the SEC.
- Monitor whether custom extensions will be allowed and consider which entity-specific information the company might want to tag in XBRL in its sustainability reporting.
- Check how far your data management processes incorporate the right level of internal controls, as well as providing the necessary interface and compatibility for external assurance.
- Begin discussions with the company's own data specialists and with existing (or potentially new) sustainability data platforms you may use on how they can assist the company in meeting data requirements in accordance with the new standards.
- Ensure the company's technology strategy is a core part of its sustainability reporting and vice-versa.
- Consider the adoption of digital solutions for sustainability reporting with regard to materiality assessment, information from the supply chain as well as low-tech solutions which can still provide in-house digital improvements to sustainability reporting in smaller companies.

8 How can sustainability reporting itself be sustained in a period of retrenchment?

The COVID pandemic and war in Ukraine have had such devastating human consequences. The economic downturn that has followed is also shrinking corporate budgets to meet sustainability challenges, just at a time when developments in sustainability reporting are presenting ever-greater demands.

This provokes the question: how can sustainability reporting itself be sustained?

The first answer should be to recall the aim of ESG standardisation, to provide a streamlined approach to sustainability disclosure, which not only better meets the needs of report users, but which also reduces the burden for the company in meeting multiple information demands from different report users and other sources.

In this sense, the transition to new systems is an "invest to save" exercise.

For those within companies who are sceptical of this argument, it is an important time to draw on all the evidence that demonstrates the value of that investment.

A large number of studies now exist, about which this author has previously written, which demonstrate that higher ESG performing companies also succeed in achieving better financial performance – by up to 40%. A study of German companies is shown to find that the benefits of sustainability reporting outweigh its costs by up to four times.

In section 4, it was shown that good sustainability reporting can decrease the cost of capital by 10% and is the key to unlock access to the ever-expanding volume of ESG investment.

If there is concern that such benefits may not translate to the specific investment proposal for enhanced sustainability reporting in your company, analytic tools can be used to quantify the value of the investment. One good example is the Return on Sustainability Investment (ROSI) model, developed by NYU Stern Center for Sustainable Business in the United States.

All of this is predicated on the ability of companies to continue to see the distinction between value and profit. The fact that the momentum towards sustainability efforts was largely maintained during the years following the onset of the global financial crisis, suggests an optimistic view on this, even in current times.

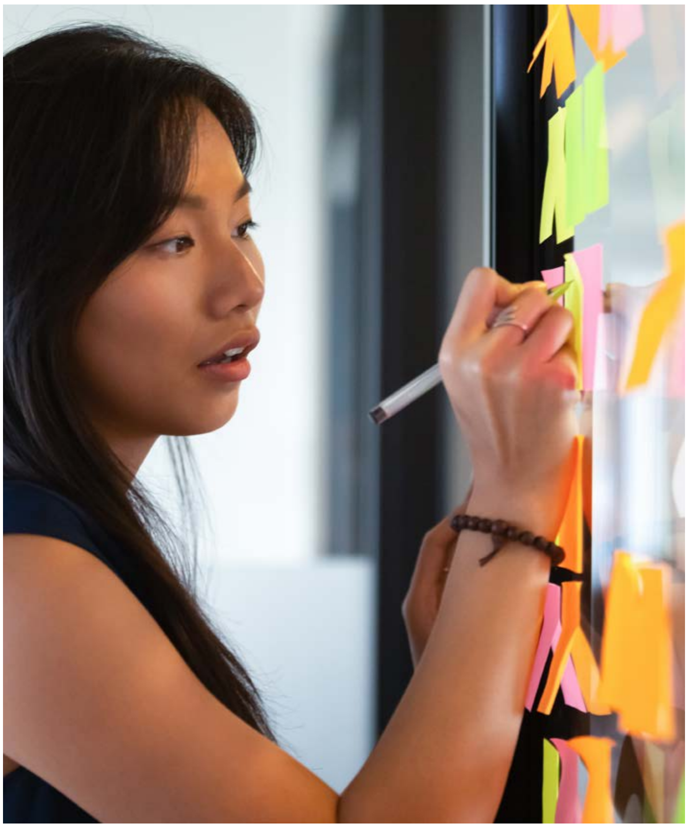
However, it is wrong to ignore the unpalatable truth that financial pressures on companies can force a return to shorter from longer-term mindsets. If this cannot be avoided, there are still choices to be made.

If ceilings or cuts to budgets are an everyday reality, it is the sustainability professional who may have to be even more adept in navigating the sustainability journey.

Indeed, it is a necessary skill of the profession to devise creative and innovative ways of pursuing sustainability strategy, given the absence of proven pathways in more established disciplines. Now is the time to unleash that creativity.

Given the mainstreaming of sustainability inherent in standard-setting efforts, it is also the moment for sustainability professionals within the company to ensure that they are using the language of risk and return.

It is a necessary skill of the profession to devise creative and innovative ways of pursuing sustainability strategy, given the absence of proven pathways



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For every sustainability investment, put the business case.

Meanwhile, sustainability-conscious companies who are forced to postpone or delay spend on necessary improvements in sustainability reporting, can nevertheless remain focused on planning and consultation, which will be needed to achieve these changes in the future.

Deepening your understanding of the sustainability drivers in your business and building internal relationships to meet these challenges, are a necessary part of the process and current pressures still offer opportunities to enable these to flourish.

If cost-cutting efforts towards energy-saving, waste reduction or better supply chain management are a priority for the company, there is a clear case for ensuring that the sustainability benefits are quantified and maximised at the same time.

It is acknowledged that these may not be the most material in impact terms. Transparency on why the company is choosing these priorities remains essential.

Perhaps most of all, stakeholder theory, which drives so much in corporate sustainability, teaches us not to try to do this alone.

If finance is constrained, reach out to corporate peers, to suppliers and to stakeholders to collaborate in addressing this further obstacle to meeting sustainability challenges.

Everyone is suffering the consequences of the economic downturn and the effectiveness of common efforts may be in cost-reduction as well as in better outcomes.

WHAT TO DO IN 2023:

- Educate stakeholders within the business on latest evidence on the link between positive ESG and improved financial performance.
- Advocate for new sustainability investments including for better sustainability reporting systems, by putting a business case including methodologies for calculating sustainability return on investment where relevant.
- Even if it is necessary to defer some sustainability expenditure, ensure planning and consultation towards changes in sustainability reporting are maintained.
- If a company undertakes cost-saving exercises, ensure sustainability impact assessment is part of the process.
- Where the company is forced into difficult decisions in relation to its sustainability efforts, seek to maintain trust by transparently explaining to stakeholders the decisions taken and why.

9 Endnote


KAMPAN/SHUTTERSTOCK

The publication of a White Paper by Reuters Events Sustainable Business always marks major developments, which require not just analysis but action from companies.

Now is just such a time for sustainability reporting.

As explained from the outset, this is the start of a new era.

Standardisation will radically change the practice for many thousands of businesses.

Some in business will greet this with excitement, some with deep concerns and others, mistakenly, with indifference.

The contents of this White Paper seek to allay any fears, by explaining some of the key elements in the three current major ESG standard-setting initiatives worldwide and how these can be turned to business advantage.

There are suggestions for how companies can start to navigate their way through the processes, the commonalities between the different standards that companies can use to advance their preparations and how standard-setters themselves and regulators could cooperate to promote effective implementation by business.

This paper has attempted to explain the thinking behind the proposals and to put this into context. It has intended to be accessible to and relevant to all actors within the business, not simply to those operating within the reporting "bubble".

Indifference in the face of societal and climate challenges can never be the right response.

The White Paper has been clear that sustainability reporting standardisation is the next step to inform companies themselves, their investors, employees, customers and other stakeholders.to be able to make necessary changes to meet sustainable development goals.

The business case to do so, even at a time of global economic slowdown, has been explained.

It is true that companies could react in two ways.

Seeing the shift towards a more regulatory agenda, could push companies towards a "do the minimum to satisfy the regulator", known as the compliance approach. This would see the disclosure being undertaken as an end in itself, resulting in "boiler plate" reports and missing opportunities to learn from the disclosure and to link it to genuine business action. Connectivity might be elegantly written down for the report, but missing in reality.

This is a real danger and business should reject it.

Instead, as in any moment of change or crisis, to cite Albert Einstein, companies are invited to see this is as a moment of opportunity.

It is irreversible that corporate sustainability reporting is fundamentally changing.

The true challenge for companies is to introduce those changes to create a better business and to contribute to better meeting global challenges for people and planet.

Sustainability reporting must be the means to this end.

In this White Paper too, rapid developments have been identified in digitalisation, in impact valuation, in supply chain due diligence and in measuring and planning the company's sustainability efforts against global social and environmental thresholds.

The butterfly effect shows that every small action can lead to dramatic global consequences.

The mindset advocated in these pages is not one for companies to mechanistically comply with the new standards, but of enthusiastically harnessing them and the broader landscape, to assist the company's transformation towards being a sustainable business in a low carbon, biodiverse and socially equitable world.

As also outlined, this is about fulfilling corporate purpose.

Therefore, when it comes to emotional responses, understand that business decision-making is typically associated in restraint, contemplation and rationality, rooted in the old "left hand side of the brain" argument.

This is not wrong.

But it is essential, if we are to achieve transformative change, that companies and individuals working within them must also draw on the right-hand side of the brain.

Those whose reaction to current developments who are genuinely excited, are right.

Unleash the creativity.

The new era for sustainability reporting is one of opportunity not threat. ●

This White Paper is authored by Richard Howitt, board member, advisor and lecturer in corporate responsibility and sustainability, business and human rights and regular contributor to Reuters Events Sustainable Business. He is Senior Associate at the public interest law firm, Frank Bold LLP and host of their 'Frankly Speaking' podcast on responsible business. Richard was previously Member of the European Parliament responsible for the EU's first rules for non-financial (now sustainability) reporting and global chief executive officer of one of the key predecessor organisations which merged to form today's International Sustainability Standards Board.