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BOSTON COLLEGE
CENTER FOR CORPORATE CITIZENSHIP
CARROLL SCHOOL OF MANAGEMENT

ESG Reporting Advisory Board

2023 Bulletin

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Letter From the Chair

FRANCIS HYATT
Executive Vice President and
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Liberty Mutual Insurance

Environmental, Social, and Governance (ESG) reporting continues to rise in prominence. With the emergence of new regulations in Europe, proposed rulemaking in the United States, and a changing regulatory landscape globally, the timing has never been better for companies to engage around ESG reporting issues. The Boston College Center for Corporate Citizenship's (BCCCC) Advisory Board on ESG Reporting has convened to meet the needs of this moment when many companies are exploring how to begin or strengthen their ESG reporting practices.

It has been a pleasure to help lead BCCCC's Advisory Board on ESG Reporting this year. My Advisory Board colleagues bring outstanding expertise and helpful insights regarding the reporting process and support one another in our respective reporting journeys. Our conversations have helped to identify trends in the ESG reporting space, as more regulation and consolidation in reporting frameworks create new reporting pressures—AND new opportunities. We are pleased to share highlights of our discussions with you in this Advisory Briefing. Our three overarching recommendations to make the most of the opportunities presented by ESG reporting are:

Bring others along

As an ESG reporting leader, you must be rooted in your business but also curious and knowledgeable about issues impacting society as a whole. This will help you recognize the unique ESG impact your business and industry can make and integrate sustainability closer to your day-to-day activities. None of us can know everything, so working with colleagues to develop an ESG strategy is crucial. Listen, educate, and learn from others to seek points of collaboration and outstanding performance. Together, you can create a common understanding of ESG that helps move the whole organization forward.

Remain flexible

In the world of social impact, there's a tendency to emphasize the "E" of ESG. However, "E," "S," and "G" are all closely interwoven, and ultimately social issues management is necessary to achieve any sustainability goals. As new regulations are enacted in the United States and the European Union (and elsewhere), human capital management will become even more prominent than it is now. Companies should look at ESG issues as "both/and" rather than "either/or."

Stay focused

ESG reporting will continue to evolve as it continues to gain momentum, helping to push companies and practices toward greater societal impact. In a world facing continual crises, organizations that have ESG values at the core of their work are proving to be more resilient and adaptable to change, charting a sustainable course for future generations. Your work matters not because of the disclosures you prepare (which DO matter), but because of the actions they reflect.

FRANCIS HYATT
Executive Vice President and Chief Sustainability Officer
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Introduction

ESG reporting has been a topic of discussion and debate for several decades. To date, ESG reporting has been voluntary. Today, multiple financial markets either have adopted or are contemplating regulation to introduce some level of mandatory reporting. While this will get us closer to the standardized, comparable ESG information that has been sought by investors and other stakeholders for decades, the standard of practice is by no means a settled matter.

The voluntary standards that have been with us for varying amounts of time (i.e., GRI for decades, TCFD and ISSB for a couple of years) will now be working to position themselves as full or partial solutions to these regulations and to the ongoing inquiries of stakeholders of all stripes. For the teams preparing corporate ESG reports, we foresee a landscape that continues to be complex and evolving.

This Advisory Bulletin, developed by the Boston College Center for Corporate Citizenship Advisory Board on ESG Reporting, outlines key trends and topics of concern to ESG reporters as of June 2023.

The BCCCC Advisory Board on ESG Reporting is chaired by Francis Hyatt, executive vice president and chief sustainability officer at Liberty Mutual. This board was launched in 2022 with a cross-sector group of executives who have expertise and interest in ESG reporting. The purpose of the board and of this briefing is to accelerate learning and share insights about how companies can most effectively manage the still-evolving landscape of ESG disclosure. Unless otherwise noted, all the information in this report was inspired by Advisory Board discussions run under the Chatham House Rule.

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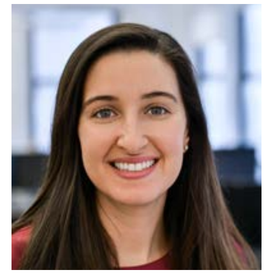

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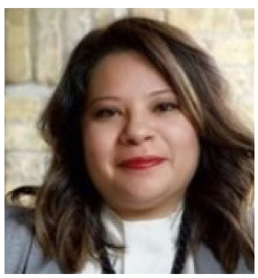

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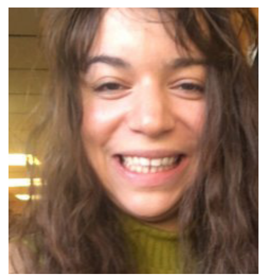

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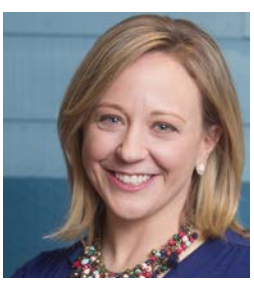

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TOPIC 1

Landscape of Standards

What's the deal?

While there are numerous reporting frameworks available, this discussion will focus primarily on the commonly used frameworks and standards in the U.S. Many companies struggle with identifying which frameworks or standards are best suited for their needs and the needs of their stakeholders.

The descriptions below will provide an overview of the primary audience for each reporting framework, as well as the types of information that are required to be disclosed.

GLOBAL REPORTING INITIATIVE (GRI)

Provides all organizations with standards for reporting material environmental, social, and economic performance and impacts—as well as organizational governance—to financial and other stakeholders.

- **Key audiences**: All stakeholders, including investors and communities

- **Types of information disclosed**:
  - General disclosures: Governance, stakeholder engagement, and reporting practices
  - Sector-specific standards relevant to your industry
  - Topic standards to report specific information on your material issues across economic, environmental, and social topics

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Disclosure standards launched by the Financial Stability Board (FSB), premised on the assumptions that a climate risk is a form of financial risk and that it is non-diversifiable.

- **Key audiences**: All stakeholders, particularly of interest to regulators

- **Types of information disclosed**:
  - Governance, such as how and by whom climate-related risks are identified, assessed, and communicated
  - Strategy, such as how a changing climate affects it, including your plans and the financial implications your strategy is affected
  - Risk management, including risks to your people, operations, customers, and the communities where you operate due to a changing climate, and how you will respond
  - Metrics and targets, such as how you are calculating impacts, the results of your actions or inactions, and how you reduce your climate impacts

INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

Developed by the IFRS Foundation, the ISSB is developing standards to establish a global baseline of sustainability disclosures focused on needs of investors and financial markets. The ISSB standard consolidates the Sustainability Accounting Standards Board (SASB), Integrated Reporting (IR), and Climate Disclosure Standards Board (CDSB) frameworks. ISSB emphasizes consistency and connection between financial statements and sustainability disclosures.

- **Key audiences**: Investors and lenders with an interest in industry-based standards

- **Types of information disclosed** (proposed – final expected in 2023):
  - TCFD consistent structure: Governance, Strategy, Risk Management, Metrics and Targets
  - Consideration of SASB standards in the identification and disclosure of sustainability risks and opportunities
  - Inclusion of SASB standards for climate-related industry disclosures on physical risks, transition risks, and climate-related opportunities
  - Scope 1, 2, and 3 emissions

THE ESG LANDSCAPE

Reporting Standards

Standard: Detailed requirements of what should be reported on each topic

Frameworks Developers

Framework: A set of principles and guidance for how information is structured

Rankers & Raters

ABOVE: The U.N.'s 17 Sustainable Development Goals

SUSTAINABLE DEVELOPMENT GOALS (SDGs):
The 17 goals, adopted by the U.N. as part of the 2030 Agenda for Sustainable Development, provide a global blueprint to improve the lives and prospects of all people. For each goal, there are sub-goals—or "targets"—and related indicators, all of which can be useful for tracking your company's progress.

- **Key audiences**: All stakeholders

ADVICE FOR THE FIELD

1. Use the standard that provides the greatest utility for expected or required disclosures.
2. Understand what your jurisdiction expects and accepts.
3. Remember that investors are not the only stakeholders who care about your ESG performance and commitments. Employees, customers, and community members expect increasing levels of transparency and want to understand your commitment to sustainability and equity.

WHAT GETS MEASURED GETS MANAGED

Greenhouse gas (GHG) Scope 3 reporting continues to be one of the most hotly contested disclosure items and is required in the EU's response to the CSRD for many companies' regulation and proposed in pending SEC regulation.

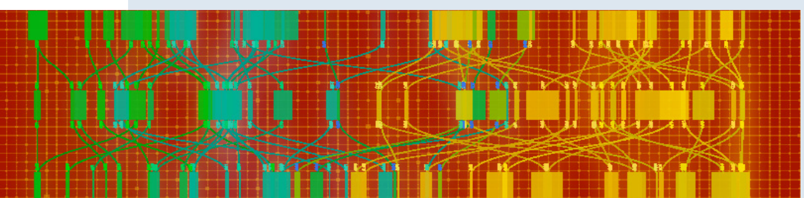
By definition, Scope 3 emissions occur in the value chain of a reporting company (e.g., suppliers, logistics providers, travel, employees, and customers). Scope 3 emissions for the reporting company are by definition the direct emissions of another entity. In certain cases, two or more companies may account for the same emission within Scope 3. For example, the Scope 1 emissions of a power generator are the Scope 2 emissions of an electrical appliance user, which are in turn the Scope 3 emissions of both the appliance manufacturer and the appliance retailer.

So what's the point of reporting Scope 3?

Scopes 1 and 2 are widely viewed to be the responsibility of the company. The purpose of Scope 3 is not to inventory GHGs to the company as much as it is to keep attention on ALL of the opportunities EACH of us has to reduce emissions. In the example above, each of the four companies has different and often mutually exclusive opportunities to reduce emissions. The power generator can generate power using lower-carbon sources. The electrical appliance user can use the appliance more efficiently. The appliance manufacturer can increase the efficiency of the appliance it produces, and the product retailer can offer more energy-efficient product choices.

By allowing for GHG accounting of direct and indirect emissions by multiple companies in a value chain, Scope 1, Scope 2, and Scope 3 accounting facilitates the simultaneous action of multiple entities to reduce emissions throughout society.

Adapted from: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf



Corporate citizenship teams that identify, collect, and analyze performance metrics are in a better position to demonstrate how they are creating change in their business and community.

Take the course:

Corporate Citizenship Impact Measurement and Evaluation

TOPIC 2

Emerging Regulation on Disclosure

What's the deal?

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

Though consolidation of sustainability reporting standards holds promise for simplifying reporting processes and providing consistent comparable data to stakeholders, emerging regulation is another aspect of ESG reporting to monitor. Individual nations are implementing ESG reporting requirements in their own jurisdictions, and most will not delegate their authority to any single jurisdiction or existing reporting standard. Because jurisdictions may require different approaches, the level of complexity for reporters creates the potential for overlapping and inconsistent requirements. There are several important changes coming in ESG reporting. Both the U.S. Securities and Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG) are putting stakes in the ground regarding ESG information.

With the requirements for completeness and alignment to financial statements—and the expectation of assurance—there will be much less numerator-only reporting and a much higher level of scrutiny on the processes used to develop, control, and document ESG disclosures. This section will focus on emerging regulations in the U.S. and Europe. There is also emerging regulation regarding ESG disclosures in other jurisdictions, including Japan, Singapore, and Australia, suggesting that companies should explore the specifics of exposure to ESG disclosure regulation in their specific geographies, as well as those of supply chain partners.

The SEC is considering rules that would require qualitative disclosures in a separately titled "Climate-Related Disclosure" section before the MD&A. Disclosures in registration statements and annual financial reports would be required for climate-related risks that are reasonably likely to have a material impact on a company's business or financial statements.

WHAT DOES THIS MEAN FOR MY COMPANY?

"Reasonably likely" means:

- A meaningful chance (but not necessarily a probability) of occurring
- Having the character of being more probable than not, based in reason or experience

Required disclosures proposed would include:

- Scope 1, Scope 2, and Scope 3 GHG emissions (if material or a registrant has established a reduction target or goal that includes Scope 3)
- Climate-related risks and opportunities
- Climate risk management processes
- Climate targets and goals
- Governance and oversight of climate-related risks
- Assurance (for some registrants)

These rules would apply to:

- SEC registrants, including foreign registrants and emerging growth companies
- Companies entering the U.S. capital markets for the first time through IPO or acquisition

EUROPEAN UNION CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

Under the new CSRD rules, approximately 50,000 EU businesses and many U.S. businesses will be required to provide ESG disclosures using the European Sustainability Reporting Standards (ESRS). This includes all large companies and all listed companies (except listed microenterprises).

This new regulation comes into effect in 2024 with reporting expected in 2025 for more than four times the number of companies (approximately 11,700 organizations) currently required to provide nonfinancial reporting under the EU's Nonfinancial Reporting Directive (NFRD). According to the European Commission, the reason for the expansion is to ensure "that all large companies are publicly accountable for their impact on people and the environment. It also responds to demands from investors for sustainability information from such companies." This regulation applies to:

- All companies that were subject to NFRD
- All companies listed on EU-regulated markets, except for microcompanies
- Insurance and credit institutions, regardless of their legal form

- Any company operating in the EU meeting at least two of the following criteria:
  - More than €40M in net turnover
  - More than €20M on the balance sheet
  - More than €150 million in turnover in the EU
  - 250 or more employees
- Subsidiaries of EU companies must either be included in the consolidated parent company's ESRS-compliant reports or issue standalone reports
- Any large listed subsidiaries (i.e., those that meet the criteria in the first two bullet points above or publicly traded on the European market) must report on their own and cannot apply the subsidiary exemption
  - Subsidiaries of non-EU parent companies operating in the EU and meeting the two of the three criteria above must either be included in the consolidated parent company's ESRS-compliant reports or issue standalone reports (please see additional transition conditions and conditions for foreign subsidiaries)

ADVICE FOR THE FIELD

SO WHAT CAN COMPANIES DO? GET PREPARED!

1. Get a good grasp on the inventory of unreported information that the company already has and that is in the existing public domain. People automatically gravitate toward what's in your ESG report, which is a great start, but don't forget about social media and your general website. There's a lot more information floating out there. Having a baseline understanding of the current state is important as the company continues to think about how to talk about ESG commitments, goals, and progress.

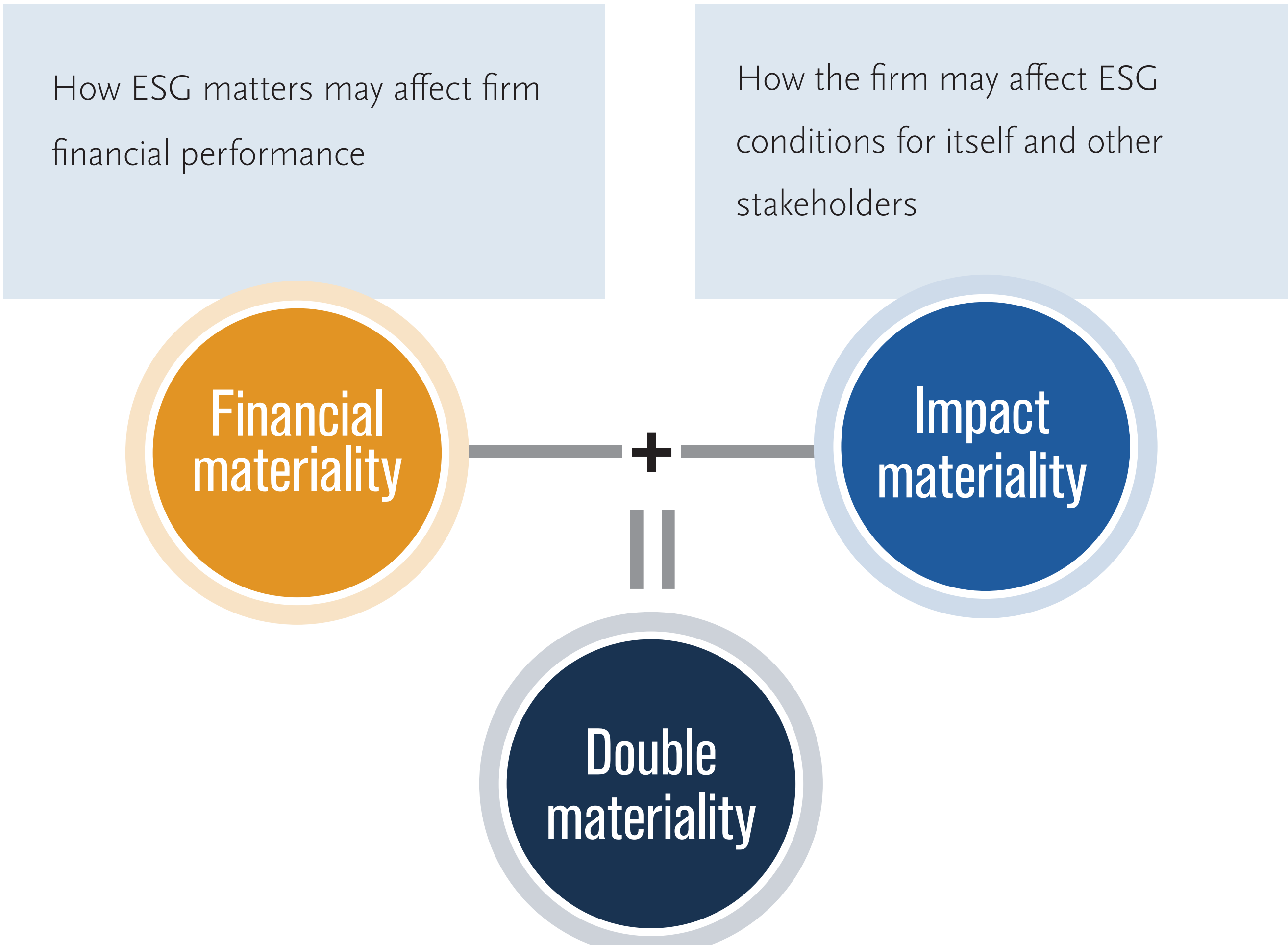
2. Keep scanning the horizon. Your company may be impacted by regulation from a foreign jurisdiction before regulation in your domiciled country.

3. Get comfortable with the fact that once you are reporting anywhere, you are reporting everywhere. Many regulators are writing XBRL requirements into their reporting standards. Tagging and current AI tools will make it much easier to gather information about companies.

4. Prepare to report earlier. Several regulations either do or will require ESG information to be reported with financial statements and regulatory filings.

THE CONFUSION AROUND MATERIALITY

To make it clear from the start, there are two main directions of thinking about materiality, which together make up the concept of “double materiality”:



Financial materiality and impact materiality together under the umbrella of “double materiality” are the only relevant forms of materiality, with both perspectives needed in a two-pillar structure—for financial and sustainability reporting—with a core set of common disclosures and each pillar on an equal footing.
— GRI

IN THEIR OWN WORDS

What do you see as the benefits of ESG reporting?

"There are several benefits of ESG reporting for companies, investors, and other stakeholders including improved transparency, risk mitigation, improved reputation, access to capital, [and] regulatory compliance. ESG reporting, standards, and frameworks will continue to evolve so that companies can contribute to a more sustainable and equitable economy."

AMY WENDEL

Senior Director, Global Head of Corporate Responsibility and ESG, GoTo

"Benefits of ESG reporting include data transparency, integrity, and holding yourself accountable in public to absolute metrics or targets."

SAMANTHA AKELLA

Manager, Global Sustainability Programs

"ESG reporting is a consistent way to ensure transparency about an organization's ESG efforts to all stakeholders."

KRISTIN TALARICO

Senior Project Manager, ESG Task Force
Program Manager
Erie Insurance

"Corporate engagement in ESG practices is increasing amidst an evolving landscape and lack of consensus around the scope and rationale for reporting. Businesses are grappling with how to take bolder action and contribute to the critical structural changes needed to address climate change while simultaneously managing emerging expectations associated with sustainability reporting and performance."

KAREN JARMOC

Chief Sustainability Director
The Allstate Corporation

I believe the most important change in ESG reporting is the growing global audience requesting assured, comparable ESG data, especially a new and highly influential audience of machine learning and AI. An organization's ESG data needs to be easily understood by these technologies, as well as international stakeholders, including employees, customers, investors, analysts, and regulators. This complicates the work of an ESG reporter as they must cater to each of these audiences. Reporters will need to translate qualitative and quantitative data into the precise, attractive terms and structures recognizable and understood by AI-based document analytics solutions, while preserving readability for all stakeholders."

DOROTHEA DUENOW

Senior Manager, Global ESG Program

UL Solutions

ESG reporting helps us to understand evolving risks in our industry. It helps us to benchmark and track material topics and share information about our journey as a company."

STEPHANIE REGAN

Director of Corporate Citizenship

AAON

ESG reporting at its best shows how a company provides benefits to society beyond creating monetary value. It recognizes that companies are part of society and shows how a company can have positive benefits for its people, policies, and the planet."

MATT BLAKELY

Vice President, Corporate Social Responsibility and Sustainability

Reinsurance Group of America

The benefits of ESG reporting are numerous. It gives an organization the opportunity to be transparent in the sustainability-related impacts it has on its stakeholders while giving its stakeholders an opportunity to understand how ESG issues impact the organization. It is an opportunity to demonstrate progress against material sustainability aspirations and initiatives while also influencing others to potential action. Perhaps most importantly—and we need to get better at demonstrating this—reporting also has the potential to articulate and link longer-term ESG performance of an organization with its shorter-term financial results and the shared value it creates for all of its stakeholders."

LOGAN HUTCHINSON

Director, ESG Reporting and Sustainability Disclosure

ATB Financial

“

Despite what happens with the public ESG debate in the interim, the impacts of ESG issues such as climate change, supply chain resiliency, employee attraction and retention, and cybersecurity will undoubtedly outlast the debate. Companies should not be swayed by or fearful of the recent backlash enough to pull back on their ESG commitments and reporting efforts. How a company defines and manages ESG issues provides insight to their stakeholders into the company's understanding of emerging business risks and opportunities and responsiveness on said issues. Investors, in particular, depend on a company's ESG strategy (via ESG reporting) to understand and evaluate how those issues may impact the company's long-term performance. And transparency is critical to building trust and confidence for that long-term outlook.”

ALISSA SEVRIOUKOVA

Corporate Social Responsibility Manager

DTE Energy

“

ESG reporting provides standardization and the opportunity to compare apples with apples, giving confidence to stakeholders, including investors, customers, and employees.”

BARJOUTH AGUILAR AYALA

Head of Global Sustainability/ESG and Foundation Officer

Flex

“

ESG reporting allows for corporate accountability and continuous improvement.”

NOLAN OKOUCHI

Manager, Corporate Planning & ESG

Black Hills Energy

“

ESG reporting is an increasingly important part to an organization's value. One of the main benefits of ESG reporting is maintaining sustainable, long-term, and strong relationships with various stakeholders. Reporting requires a firm understanding of the environmental, social, and governance context in which they operate. Clear communication, transparency, disclosures, standards, and tangible actions regarding these important topics are pivotal in establishing and building trust with all stakeholders.”

ESRA ELSHAFEY

Associate Manager, Global Corporate Citizenship and Philanthropy

Pitney Bowes Inc.

How do they compare? Emerging regulations and consolidating standards

	EFRAG (ESRS) CSRD [EU Law]	SEC Proposed Climate Reporting Rule	GRI [Standard]	TCFD [Framework]	IFRS/(ISSB) [Standard]
Overview	European Financial Reporting Advisory Group developing the European Sustainability Reporting Standards (ESRS) in response to the EU Corporate Sustainability Reporting directive (CSRD). Includes disclosures of ESG matters. Member state level regs to be developed by 6/2024. • Industry-specific standards in development.	US Securities & Exchange Commission. Includes disclosure only for climate-related matters. • Not industry-specific.	Since 1997, GRI has developed standards on ESG matters that need to be tracked to achieve a sustainable economy through a global multi-stakeholder consultative process. ESRS standards are built leveraging the GRI Standards and are almost fully aligned with GRI.	Recommendations about climate-focused disclosure information for investors.	Investor-focused baseline sustainability data. Doesn't include sector- and industry-specific requirements, but does include sector- and industry-specific guidance based on previous work of SASB.
Materiality boundary	Uses the concept of "double materiality," meaning the company should consider how it is impacted AND how it impacts stakeholders in addition to investors/creditors.	Materiality definition focused on financial materiality (e.g., investors, creditors).	GRI Standards use double materiality. • "A matter is material if it could influence the decision-making of stakeholders regarding the reporting company." • This perspective includes, and goes beyond, investors and financial decision-makers as stakeholders.	Materiality definition focused on financial materiality (e.g., investors, creditors).	Materiality definition focused on financial materiality (e.g., investors, creditors).
Overlap across jurisdictions and standards	**Disclosure requirements include**: • **(ESRS 1) General principles; (ESRS 2), strategy, governance, and materiality assessment** • **ESRS E1 Climate Change (Scopes 1- 3)** • **ESRS S1 1-4 (stakeholders) for companies with more than 250 employees** • **Value chain risk and opportunity** Materiality is the threshold for all other disclosures. Structure of standard: • ESRS 1 • ESRS 2 • Environment: (ESRS E1-5) Climate change; (ESRS E2) Pollution; (ESRS E3) Water and marine resources; (ESRS E4) Biodiversity; (ESRS E5) Resource use and circular economy • ESRS S1-4 Social:(ESRS S1) Own workforce; (ESRS S2) Workers in the value chain; (ESRS S3) Affected communities; (ESRS S4) Consumers and end-users • ESRS G1 (governance) business conduct	Certain **disclosures would be required, including**: • **Climate-related governance and risk management** • **Climate-related targets and goals** • **Scenario analysis (or other analytical tools)** • **Governance processes and qualifications of individuals to manage climate-related issues** • **Reporting boundaries must align with financial statements** **Scope 1 and Scope 2 GHG emissions** (Scope 3 being considered for companies where material.) Financial impacts of ESG matters: • Would require disclosure by line item in the notes to the audited financial statements if the value of the impacts exceeds 1% of each financial statement line item.	GRI has both required and recommended disclosures. GRI allows omission of information on recommended disclosures when the information is unavailable or incomplete. • GRI and ESRS require value chain information. • ESRS language on sustainability due diligence and **SEC process documentation and oversight requirements align to GRI Standards.** • GRI 2 General Disclosures, draft **ESRS 2 is designed to align with the GRI Universal Standard and covers the five chapters of GRI 2 General Disclosures**. • GRI reporting will satisfy ESRS S1-S4 as a mandatory disclosure requirement for those undertaking with 250 or more employees. **GRI 300 series reporting partially aligns with ESRS E1.**	TCFD is not a standard, but rather a framework. It recommends a set of disclosures. • The architecture of ESRS mirrors the IFRS (and TCFD) core areas rubric: Governance; Strategy; Impact/risk/opportunity management; Metrics and Targets. • **Companies that comply with ESRS E1 are expected also to be able to claim compliance with the TCFD**. Reporting framework presents recommendations for disclosures rather than requirements.	The architecture of ESRS mirrors the IFRS (and TCFD) core areas rubric: Governance; Strategy; Impact/risk/opportunity management; Metrics and Targets. • **Disclosures prepared under ESRS 1 and 2 and E1 are expected to satisfy disclosures required by IFRS S1 and S2 (ESRS requirements are more extensive).** • IFRS defers to jurisdictional authorities as to whether to mandate use of IFRS S1 and S2. • IFRS supports voluntary adoption of Sustainability Disclosure Standards issued by the ISSB.
Assurance	**Requires limited assurance (with a planned transition to reasonable assurance) over all disclosures included in management's report**. • Assurance providers need to be the financial statement auditor, or • If an EU Member State chooses when incorporating the CSRD into its local law, another independent assurance provider accredited by an EU Member State	Would initially require limited assurance and later reasonable assurance for Scope 1 and 2 emissions for both accelerated and large accelerated filers—phased-in effective dates for others. • Processes/controls related to disclosures in scope for audit. • Assurance providers would need to be independent and would need to have experience and expertise measuring, analyzing, or attesting to GHG emissions.	While the use of external assurance for sustainability reporting is recommended by GRI, it is not required in order to make a claim that a report has been prepared in accordance with the GRI Standards.	Assurance not required.	Does not address assurance.

Below offers additional highlights on alignment between other common frameworks and ESRS.

UN SDGs	UNPRI	TNFD	GHG Protocol	OECD Guidelines for Multinational Enterprises
Objectives of the Sustainable Development Goals are reflected throughout ESRS and are aligned well with GRI and TCFD and partially aligned with ISSB standards.	U.N. Principles for Responsible Investment (PRI) is an international organization promoting the incorporation of ESG into investment decision-making. There are six principles.	The Taskforce on Nature-related Financial Disclosures (TFND) ESRS E4 Biodiversity and ecosystems is structurally compliant with TNFD. **ESRS references TNFD extensively. The materiality assessment has been restructured to follow the sequence of the Locate, Evaluate, Assess, and Prepare (LEAP) framework.**	Draft ESRS E1 has based calculation guidance of GHG emissions on the GHG Protocol principles, requirements, and guidance provided by the GHG Protocol Corporate Standard (version 2004). • Definitions of Scope 1, 2 and 3 are adapted from the GHG Protocol. • While the GHG Protocol proposes three options for defining the boundaries outside the financially controlled perimeter (equity share, financial control, and operational control), **ESRS E1 requires the operational control option in all cases.**	ESRS 1 and ESRS 2 are aligned to the greatest extent with the OECD Guidelines for Multinational Enterprises, which incorporates the content of the U.N. Guiding Principles on Business and Human Rights (UNGPs). The concept of due diligence outlined in the OECD Guidelines is reflected in ESRS 1, Section 4, Sustainability Due Diligence as well.

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TOPIC 3

Balancing Disclosure and Audit With Aspiration and Opportunity

What's the deal?

ESG reports are essential for companies to meet regulatory compliance requirements and provide useful information for investor decision-making. Beyond those important functions, ESG reports communicate to broader audiences of stakeholders how the company aligns its value-creation strategies with its values—and the values of those stakeholders. There is abundant research that supports the value and importance of communicating ESG commitments and performance to employees, customers, communities, suppliers, and others. Some of the benefits that can be realized include:

There is abundant research that supports the value and importance of communicating ESG commitments and performance to employees, customers, communities, suppliers, and others.

Take the course:
Integrated Reporting: Connecting Environmental, Social, and Governance (ESG) Metrics to Overall Performance

- **Improved risk management**: By focusing on the concerns of diverse stakeholders, companies can identify and manage potential risks more effectively. This proactive approach to risk management can help organizations avoid potential pitfalls and maintain a more resilient business model.[1,2]
- **Increased employee engagement**: Employees are more likely to be engaged and committed to a company that actively addresses ESG issues that impact them, their communities, and the environment. A comprehensive ESG report can showcase the company's commitment to its workforce, improving employee morale[3] and productivity.[4]
- **Attraction of socially responsible investors:** Many investors are increasingly interested in companies that prioritize ESG issues. By addressing the concerns of these investors, a company can attract additional capital and expand its shareholder base.[5]
- **Customer loyalty and market differentiation**: Customers are becoming more conscious of the impact that businesses have on society and the environment. A comprehensive ESG report can help a company differentiate itself from competitors and appeal to environmentally and socially conscious consumers, resulting in increased customer loyalty and sales.[6] CSR messaging that includes storytelling can enhance consumers' perceptions of the impact, alignment, and commitment of a company's corporate citizenship, while fact-based, non-narrative CSR messaging can increase purchase and advocacy intent.[7]
- **Enhanced reputation and brand value**: Addressing the concerns of a wider range of stakeholders, including customers, employees, regulators, and the community, can lead to a positive reputation and stronger brand value. A comprehensive ESG report that demonstrates corporate responsibility can help to build trust and foster goodwill among these stakeholders and make them less skeptical about the initiatives they describe.[8]
- **Long-term value creation**: By addressing the concerns of stakeholders beyond shareholders, companies can create long-term value by ensuring that their business model is sustainable and responsible. This can lead to more stable[9,10] and predictable financial performance and financing terms[11] over time, benefiting all stakeholders.
- **Fostering innovation and adaptability**: By considering a broader range of stakeholder perspectives, companies can uncover new opportunities for innovation, growth, and agility that can unlock opportunities and buffer in crises.[12]

Balancing risk and transparency in public ESG disclosures is a critical concern for many companies.

While companies strive to be transparent and provide accurate information to investors, customers, and other stakeholders, meeting new regulatory requirements and the evolving interests of other stakeholders can get us hyper-focused on risk management at the expense of thinking through opportunities to positively differentiate.

- ✓ **Compliance disclosures** are likely to focus on risk and mitigation. This is necessary, but is it your whole story?
- ✓ **Don't forget to look for opportunities** to share your ahead-of-the-curve commitments and differentiate your company by highlighting where you've led by putting a stake in the ground on opportunities in the field.
- ✓ **Work with key stakeholders** to review and understand material issues as regulation comes online and customer expectations shift.
- ✓ **Remember that your ESG reporting boundaries** must now align to your financial statements. ESRS defines these boundaries in terms of operational control, boundary management, disclosure controls, and communication strategies.
- ✓ **Process, process, process**. Now that assurance is likely to be required for ESG disclosures, it is important that processes, controls, and data stewardship are well defined so that your results are faithfully represented and created with an audit trail.

ADVICE FOR THE FIELD

1. It's very important to ensure that companies have processes and controls in place to provide valid, decision-useful, comparable, faithfully represented, auditable information. Ultimately, part of what the regulations are addressing is to bring rigor to this fragmented landscape of information. Corporate ESG information will ultimately be held to the same standard as financial statement information.
2. Get a cross-functional team together to work toward documenting processes and performance against your ESG goals, assessing ESG risks, responding to issues as they come up—and establishing an audit trail for all of it.
3. ESG thinking is systems thinking. The interrelatedness of ESG impacts is as relevant in your financial statements as it is sustainable design. This is a new way of thinking in accounting and will require lots of discussion, inquiry, and iteration. FASB has issued preliminary guidance to its staff about all of the places where companies might experience impairments related to ESG disruptions.[1] As assurance requirements come online, make sure you are staying on top of how audit approaches to ESG disclosures may evolve.

REGULATORS AND ACCOUNTING STANDARDS

SEC

2010 (33-9106) Climate risk is business risk

- In March 2022, with the "issuer rule," the SEC proposed rule amendments that would require public companies to provide certain climate-related financial data, and greenhouse gas emission insights, in public disclosure filings.
  - Focus on investor protection and "truth in advertising" re: SRI and ESG funds.
- 2022 ESG Risk Alert (9 April 2021) Representation to investors of material ESG Issue Management/Portfolio selection

FASB

- FASB Staff Educational Paper (Intersection of ESG Matters with Financial Accounting Standards (19 March 2021)
- Refers to SEC 33-9106—an entity may consider the effects of certain material ESG matters, with a material direct or indirect effect on financial statements and notes.
- Direct and Indirect intersections of GAAP & ESG:
  - 205-40 Going Concern
  - 275 Risks & Uncertainties
  - 330 Inventory
  - 350-20&30 Intangibles
  - 360 Property & Plant
  - 410-20&30 Asset Retirement & Environmental Obligations
  - 740 Tax (credits)
  - 820 FV measurement
  - 900 Industry Guidance (various)

IN THEIR OWN WORDS

Keeping in mind all the different regulatory changes coming soon as well as increased investor, employee, and consumer scrutiny, what is the most important change in ESG reporting that you anticipate in the coming 12 months?

"We anticipate finding coming and single reporting frameworks and tools to be leaner in the process, considering all the new regulations and requirements."

BARJOUTH AGUILAR AYALA
Head of Global Sustainability/ESG and Foundation Officer
Flex

"I think we will continue to hear about the desire for greater alignment in reporting frameworks."

STEPHANIE REGAN
Director of Corporate Citizenship
AAON

"The pace of change related to sustainability disclosure and evolving expectations from stakeholders—especially regulators—is top of mind. I am most keen on seeing the final release of the two ISSB standards and the TNFD's framework, which have progressed exceptionally quickly. The other item that is top of mind is how we optimize the use [of] our reporting, not just for disclosure but leveraging the information for more informed and responsible decision-making."

LOGAN HUTCHINSON
Director, ESG Reporting and Sustainability Disclosure
ATB Financial

For my company, I think the most important change we'll see in reporting is for Scope 3 and science-based targets for water."

SAMANTHA AKELLA

Manager, Global Sustainability Programs

I remain concerned that attacks on ESG will undo progress that has been made in stakeholder perspectives that often drive positive changes."

NOLAN OKOUCHI

Manager, Corporate Planning & ESG

Black Hills Energy

"I expect to see a move towards regulated finance-focused sustainability reporting."

JENNIFER BIENEMANN

Director, Net Zero

CBRE

As standards continue to evolve and ESG reporting is mandated, reported ESG data shall be subject to increased scrutiny by all stakeholders, including the technological tools employed by analysts and others to parse and sort this data and provide ESG ratings and rankings. Understanding how these technologies interpret data will be paramount to ensuring the accurate portrayal of an organization's ESG efforts and reputation. Quality ESG reports and other content must take into consideration these additional, nonhuman 'readers' that mine, sort and analyze every piece of public data and profoundly influence ESG analysis and ratings."

DOROTHEA DUENOW

Senior Manager, Global ESG Program

UL Solutions

Resources

ESG Reporting Glossary

Last Update: April 5, 2023

A

Assurance and audit An audit is one type of assurance that an organization receives when the audit confirms the data and processes' quality; the audit is the review of the accounts or documents, while the assurance is the process analysis of those accounts or records; the main types of auditing and assurance services are risk assessment, business performance measurement, information systems reliability, electronic commerce, and healthcare performance measurement.

Assurance – Limited Limited assurance states that the auditor is not aware of any material modifications that should be made.

Assurance – Reasonable Reasonable assurance is a high but not absolute level of assurance, in which the auditor affirms that the information reported is materially correct.

C

Carbon dioxide equivalent (CO2e) A measure used to compare the emissions from greenhouse gases based upon their global warming potential.

CDP Formerly Carbon Disclosure Project, an international, not-for-profit organization offering a worldwide system for companies and cities to measure, disclose, manage, and share vital environmental information; **https://www.cdp.net/**

Corporate financial performance (CFP) A term referring to a company's overall financial health and ability to generate revenue.

Circularity A state of a specified system, organization, product, or process where resource flows and values are maintained whilst benefiting sustainable development.

Corporate social performance (CSP) Often used as a synonym for corporate social responsibility (CSR), CSP refers to a company's interaction with the community on economic, environmental, and social issues.

Corporate social responsibility (CSR) Efforts by businesses to work with stakeholders to achieve improved economic, environmental, and social performance, sometimes known as the triple bottom line but also identified as corporate citizenship or sustainability.

Corporate Sustainability Reporting Directive (CSRD) European Union 2021 directive that requires companies to report on financially material sustainability matters, as well as the impact of their activity on the environment and society (double materiality); compliance with CSRD requires TCFD alignment and assurance of reported information.

D

Dow Jones Sustainability Index (DJSI) A family of indices managed by RobecoSam Indices and S&P Down Jones that track the stock performance of companies according to economic, environmental, and social criteria, offering a measurement by which investors can judge the sustainability impact of their investment choices; **https://www.spglobal.com/esg/performance/indices/djsi-index-family**

Double materiality: Concept that considers both the financial impact of sustainability matters on firms, as well as the impact that companies have on the overall environment, economy, and community that is commonly used within a reporting and disclosure context; "double" refers to the combination of financial and impact materiality concerns.

E

Employee Volunteer Program (EVP) A type of program that aims to engage employees while helping the local community.

Environmental, Health and Safety (EHS) A traditional name for departments in organizations responsible for implementing and managing environmental and occupational health and safety programs.

Environmental Management System (EMS) A framework that assists companies in establishing control over operations in order to lessen their environmental impacts and increase overall efficiency.

Environmental, Social, and Governance (ESG) A general term used to describe the three primary areas of import for companies focused on making their operations sustainable; these three performance dimensions are often highlighted and evaluated by companies in their sustainability reports.

European Financial Reporting Advisory Group (EFRAG) Group charged with providing technical advice to the European Commission on accounting matters; EFRAG serves as the technical advisor to the EU Commission responsible for developing the European Sustainability Reporting Standards.

European Sustainability Reporting Standards (ESRS) ESG reporting standards being developed by the European Financial Reporting Advisory Group (EFRAG) under the CSRD.

EU CSRD See CSRD.

EU NFRD See NFRD.

EU taxonomy A classification system, establishing a list of environmentally sustainable economic activities, intended to help the EU scale up sustainable investment; the EU taxonomy would provide companies, investors, and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable; **https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en**

F

Financial Accounting Standards Board (FASB)
A private, not-for-profit organization that develops the financial accounting standards for the private sector in the U.S.; **www.fasb.org**

Financial materiality Information on economic value creation at the level of the reporting company for the benefit of investors (shareholders).

Financial Stability Board (FSB) An international body that monitors and makes recommendations about the global financial system that was established after G20 London summit.

Forest Stewardship Council (FSC) An independent, nonprofit membership organization that protects forests by setting standards for responsible forest management under which forests and companies are certified; **https://fsc.org/**

G

Generally Accepted Accounting Principles (GAAP) A set of concepts developed by the Financial Accounting Standards Board that determine how organizations in the U.S. prepare, present, and report their financial statements.

Global Impact Investing Network (GIIN): A nonprofit organization that works to increase the scale and effectiveness of impact investments, which are investments made in companies, organizations, and funds with the purpose of creating positive social and environmental impact in addition to financial return; **https://thegiin.org/**

Global Impact Investing Ratings System (GIIRS)
A ratings system that measures the social and environmental impact of companies and funds; GIIRS likens its assessment system to that of Morningstar investment rankings and Capital IQ financial analytics; **https://b-analytics.net/giirs-funds**

Global Reporting Initiative (GRI) A nonprofit organization that works toward a sustainable global economy by providing sustainability reporting assistance, specifically the widely known GRI Standards Reporting Framework; **https://www.globalreporting.org/**

Governance The system by which an undertaking is directed and controlled in the interests of shareholders and other stakeholders; governance involves a set of relationships between an undertaking's management, its board, its shareholders, and other stakeholders.

Governmental Accounting Standards Board (GASB)
An independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments; **www.gasb.org**

Greenhouse gases (GHG) Gases that trap heat in the atmosphere causing the greenhouse effect that supports life on earth, but that can have dangerous effects if their concentrations increase too much.

Greenhouse Gas (GHG) Protocol An international accounting tool for businesses and governmental organizations to track, calculate, and manage their greenhouse gas emission; the protocol almost always serves as the benchmark for other greenhouse gas standards developed throughout the world; **https://ghgprotocol.org/**

I

IFRS The IFRS Foundation is a not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards—IFRS Standards—and to promote and facilitate adoption of the standards; the standards are developed by two standard-setting boards, the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB); **https://www.ifrs.org/**

Impact materiality Information on the reporting company's impact on the economy, environment, and people for the benefit of multiple stakeholders, such as investors, employees, customers, suppliers, and local communities.

Impact Reporting and Investment Standards (IRIS) Established by the Global Impact Investing Network (see GIIN), these performance standards are used by impact investors to determine and evaluate the social, environmental, and financial success of impact investments and the impact investment industry at large.

Intangible Value Assessment (IVA) A tool that assesses companies' financially material risks and opportunities arising from environmental, social, and governance factors.

International Integrated Reporting Council (IIRC) An international coalition of regulators, investors, companies, standard setters, accounting professionals, and NGOs that seeks to create the most commonly used framework for corporate reporting; the council's "integrated report" method encourages companies to consider all aspects of an organization in reporting (strategy, governance, performance, and prospects), to increase their value creation over the short, medium, and long term; now merged with SASB to create the Value Reporting Foundation (VRF); **https://www.integratedreporting.org/**

International Organization for Standardization (ISO) A Swiss-based organization that brings together representatives from around the world to agree on voluntary international standards for products, services, and good practice, seeking to make businesses more effective and efficient; the ISO 26000 standard addresses the global standard for corporate social responsibility; **https://www.iso.org/iso-26000-social-responsibility.html**

International Sustainability Standards Board (ISSB) The standards organization developing comprehensive global high-quality sustainability disclosure standards to meet investors' information needs; ISSB is based in the IRFS Foundation, which also consolidates the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF, which houses the Integrated Reporting Framework and the SASB Standards).

K

Key Performance Indicators (KPIs) Areas of measurement by which companies can track their performance in relation to their business objectives, often utilizing target goals or ranges as benchmarks for future evaluation.

L

Life Cycle Assessment (LCA) A measurement of the potential environmental aspects and impacts of any organization, product, or service; this assessment evaluates every stage of development, allowing for a "cradle to grave" estimation of environmental effects.

Locate, Evaluate, Assess, and Prepare (LEAP) Framework Framework that can be used with materiality assessment.

Low-Profit Limited Liability Company (L3C) A company focusing principally on charitable or educational goals that may make a small profit, as long as making a profit is not the primary purpose of the organization; L3Cs are often considered hybrid organizations between nonprofit and for-profit entities.

M

Material topics Topics that represent the organization's most significant impacts on the economy, environment, and people and issues that have potential risk or opportunity for the company.

Millennium Development Goals (MDGs) Eight objectives officially established by the United Nations in 2000, including the eradication of extreme poverty, the advancement of environmental sustainability, and halting the spread of HIV/AIDS, all to be met by a target date of 2015; precursor to the Sustainable Development Goals (see SDGs).

MSCI: Provider of stock market and portfolio analysis tool, including ESG related products, that produces a number of climate-related and ESG indices; **www.msci.com**

N

Natural Capital Accounting (NCA) A type of accounting that measures the indispensable resources and benefits essential for human survival and economic activity provided by the ecosystem; natural capital is commonly divided into renewable resources (agricultural crops, vegetation, and wildlife) and non-renewable resources (fossil fuels and mineral deposits).

Non-Financial Reporting Directive (NFRD) EU law outlining rules on disclosure of nonfinancial and diversity information by certain large companies, including listed companies, banks, and insurers; **https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en**

Non-Governmental Organization (NGO) A not-for-profit group, principally independent from government, which is organized on a local, national, or international level to address issues in support of the public good.

O

Organization for Economic Cooperation and Development (OECD) A global organization of representatives from 38 member countries that meets to advance ideas and review progress in specific policy areas, such as economics, trade, science, employment, education, and financial markets.

OECD Guidelines for Multinational Enterprises Comprehensive international standard on responsible business conduct from the Organisation for Economic Co-operation and Development (OECD); **https://mneguidelines.oecd.org/**

P

Principles for Responsible Investment (PRI) The six principles of responsible investing supported by institutional investors who believe that environmental, social, and corporate governance issues can affect the performance of investment portfolios; **https://www.unpri.org/**

R

Responsible Business Alliance (RBA) The world's largest industry coalition dedicated to corporate social responsibility in global supply chains; preceded by the Electronic Industry Citizenship Coalition (EICC); **http://www.responsiblebusiness.org/**

S

Scenario analysis A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.

Scope 1 emissions Direct greenhouse gas emissions that are emitted from sources controlled or owned by an organization.

Scope 2 emissions Indirect greenhouse gas emissions associated with the purchase of electricity, steam, heat, or cooling that are a result of the energy use of an organization.

Scope 3 emissions Greenhouse gas emissions that are a result of activities from assets not owned or controlled by the organization but are on its value chain.

SEC The United States Securities and Exchange Commission

Socially responsible investing (SRI) Values-based asset portfolio management.

Social return on investment (SROI) A method to quantify and monetize the social value created by an organization's programs, especially those in the non-profit sector; this process was created by an American company, REDF, in the 1990s and is widely used today.

Stakeholders Those that have an interest in the outcomes of an organization; stakeholders can be internal or external, and do not necessarily have a direct financial interest in an organization, and can impact or be impacted by an organization.

Sustainability Accounting Standards Board (SASB) A nonprofit organization that developed the SASB Standards, a set of industry-specific, investor-focused sustainability accounting standards in the U.S. that are now part of the IFRS Foundation and have been incorporated into the ISSB.

Sustainable Development Goals (SDGs) 17 global goals for sustainable development created by the United Nations in 2015 as a global blueprint for achieving peace and prosperity globally by 2030; the goals range from ending poverty to improving health and tackling climate change and include 169 sub-targets, as well as accompanying indicators; **https://sdgs.un.org/goals**

T

Task Force on Climate-Related Financial Disclosure (TCFD) The TCFD was launched during negotiations at the U.N. Paris Climate Summit in 2015; it started as an industry-led group hosted by the Financial Stability Board of the G20 countries and has developed a disclosure framework to help companies and other organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes; **https://www.fsb-tcfd.org/**

Taskforce on Nature-related Financial Disclosures (TNFD) International initiative providing a framework of how to report and act on evolving nature-related risks and opportunities; **https://framework.tnfd.global/introduction-to-the-framework/**

Triple bottom line (TBL) A term created by SustainAbility founder John Elkington in the 1990s, encapsulating three particular assessment areas by which businesses and investors should measure value: economic, social, and environmental.

U

United Nations Global Compact (UNGC) Global initiative established in 2000 that provides a principle-based framework for businesses to adopt more sustainable and socially responsible policies in the areas of human rights, labor standards, anti-corruption, and the environment; **www.unglobalcompact.org**

United Nations Principles of Responsible Investing (UNPRI) United Nations-supported initiative convening investors to put the six principles of responsible investing into practice through investment decision-making and ownership practices; **https://www.unpri.org/**

United Nations Sustainable Development Goals (UNSDGs) 17 goals set by the United Nations (see SDGs).

V

Value chain Range of activities carried out by the organization and by entities upstream and downstream from the organization to bring the organization's products or services from their conception to their end use.

Value Reporting Foundation (VRF) A global nonprofit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved, and eroded; resources include the Integrated Reporting (IR) Framework, SASB Standards, and the Integrated Thinking Principles; **https://www.valuereportingfoundation.org/**

X

eXtensive Business Reporting Language (XBRL) Global framework used for exchanging business information that aims to improve transparency in reporting; managed by a global nonprofit.

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Topic 3: Balancing Disclosure and Audit with Aspiration and Opportunity

Whats the deal?

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Advice for the field

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