Sustainable Reporting Standards in the Securities Market - Pt.2

This week's article continues our discussion on sustainable investing by looking at the emergence of Sustainable Reporting Standards. These are relatively new but are becoming increasingly important, as investors and financial regulators become more focused on ensuring that companies contribute towards achieving the Sustainable Development Goals (SDGs).

What is Sustainability Reporting?

In last week's article, we touched on the growing recognition among industry participants that some environmental, social and governance-related (ESG) factors are economic factors, especially in the long term, and we examined the importance of incorporating material ESG factors into a sustainable reporting framework.

The Toronto Centre for Financial Supervision states that, '***sustainability reporting** discloses how a company is performing according to ESG standards and its impact on sustainability issues. Companies might also include information on the risks and opportunities they face. They may also use one or a combination of frameworks that define E, S, and G'*.

In recent years, new regulatory developments, investor demands and public awareness have brought ESG considerations to the forefront of the corporate agenda. An example is the recent campaign by the activist firm, Engine No. 1, which forced the removal of board members at Exxon, due to their lack of a climate strategy.

What Sustainability Reporting Frameworks exist?

Alongside government regulation, a wide range of voluntary reporting frameworks have emerged to help companies report on their sustainability data. Each framework has a different audience focus, disclosure requirement and methodology. Some sustainable reporting frameworks include:

Global Reporting Initiative (GRI): This is a global independent organisation which provides free Sustainability Reporting Standards (GRI Standards). The aim is to standardise the way companies report on a wide range of ESG topics for better accuracy and comparability. Unlike with many other frameworks, GRI does not have a prescriptive scoring process, and instead focuses on transparency and stakeholder engagement.

The GRI Standards are split into Universal Standards and Topic-specific Standards. The Universal Standards are applicable to all companies and provide guidance on reporting contextual information, and management of material topics.

The latter is used to report on specific disclosers for material issues split out into Economic, Environmental and Social topics (see **Figure 1**):

Figure 1 – Universal and Topic-specific Standards

Universal Standards	Topic-specific Standards
• GRI 101 - Foundation	• GRI 200 - Economic Standards
• GRI 102 - General Disclosure	• GRI 300 - Environmental Standards
• GRI 103 - Management Approach	• GRI 400 - Social Standards

Source: Greenstone (https://www.greenstoneplus.com

Sustainable Accounting Standards Board (SASB): The SASB developed 77 industry-specific accounting standards, aimed at helping corporations disclose financial material and decision-useful information, particularly to investors. These SASB standards include:

- Disclosure topics – a set of industry-specific topics likely to be material, and a description of how value creation may be affected.
- Accounting metrics – a set of quantitative and/or qualitative accounting metrics intended to measure performance on each topic.
- Technical protocols – guidance on definitions, scope, implementation, compilation, and presentation, for third-party assurance criteria.
- Activity metrics – a set of metrics that quantify the scale of a company's business to be used with accounting metrics to normalise data and facilitate comparison.

CDP (previously Carbon Disclosure Project): This is a non-profit organisation which provides questionnaires for companies, cities, states and regions to report on up to three of the following sustainability categories:

- Climate Change;
- Forests; and
- Water.

The questionnaires are updated annually. Disclosure is encouraged to provide qualitative and quantitative information to their stakeholders covering governance, policy, risk and opportunity management, environmental targets and strategy, as well as climate-related scenario analysis. CDP also includes a supply chain module, as well as sector-specific questions aimed at high-impact sectors such as: coal, oil and chemical producers.

The Task Force for Climate-Related Disclosure (TCFD): The Financial Stability Board (FSB) established the Task Force on Climate-Related Financial Disclosures (TCFD) to review how the financial sector could take account of climate-related issues.

The TCFD's subsequent 11 recommendations focused on voluntary disclosure of climate-related financial information surrounding:

- Governance;
- Strategy;
- Risk Management and
- Metrics and Targets.

The recommended disclosures are used to report on climate-related risks and opportunities, as well as scenario analysis. These are aimed at assisting lenders, insurers and investors in obtaining decision-useful information on a company's resilience to climate change. This also encourages reporting companies to identify risks, better understand future climate scenarios and create robust strategies for adaptation.

The Need for Convergence

As highlighted above, the sustainability reporting landscape has been deluged with a plethora of frameworks, each with different positioning and focus. This has resulted in under-reporting by companies due to a paralysis of choice, or over-reporting and experiencing "reporting fatigue". It also leads to difficulties regarding comparisons and making evaluations due to the different methodologies.

The disparate methodologies can also lead to "Greenwashing," which is a situation where a company promotes itself as being "greener than it actually is". A non-exhaustive list of Greenwashing examples includes:

- Using words like "eco" or "organic" but not living up to their definition (false labels);
- Utilising "green" pictures with marketing to give the appearance of "being green";
- "Green products vs dirty company" which is reporting on one small green activity and not on the company's major "dirty" activity (hidden trade-offs);
- Making environmental claims with no proof or evidence of such.

Ultimately, the adoption of Common Standards will help in many ways especially when:

- The current lack of standard definitions results in companies using low-grade definitions of sustainability;
- The lack of standardised reporting can result in companies only including information that embellishes their reputations while omitting environmentally harmful practices;
- The presence of standardised information means that everyone will use the same definitions and will report the same scope of information. This will inevitably improve the quality of information and the ability to make critical comparisons regarding risks and the impacts across projects.

It is important to note that the Trustees at the International Financial Reporting Standards (IFRS) Foundation have commenced work aimed at developing a proposal on global sustainability standards via the convergence of the various reporting frameworks by September 2021 and the creation of a Sustainability Standards Board by November 2021.

Sustainable reporting and investing are becoming increasingly important, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) continues to ensure that the securities

market is appropriately regulated while adhering to global standards. Investors and registrants can look forward to more information on the topic of sustainable reporting and investing.

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