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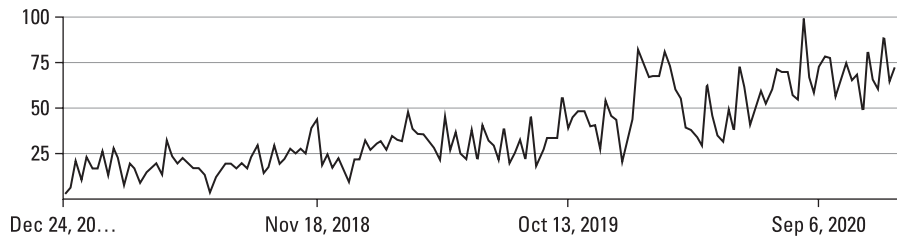
Chapter **1**

Entering the World of ESG Investing

The acronym ESG has undoubtedly become one of the hottest topics in investment management in recent years. Google searches for the term “ESG investing” have grown exponentially in the last three years, so it’s certainly caught people’s attention! (Don’t believe me? Just look at Figure 1-1.) As a result, executive management has a range of new stewardship topics to contend with, now that global warming issues have created ‘E’nvironmental concerns, and the COVID-19 pandemic has further highlighted ‘S’ocial issues. (Corporate ‘G’overnance issues have always been closely monitored by the investment community.)

But what’s all the fuss about? Is ESG investing a passing fad or a long-term trend that will dominate investment management for the foreseeable future? This chapter looks at the fundamentals behind ESG investing, highlights some of the key drivers behind it, and identifies some of the goals and standards that have been established.

FIGURE 1-1:
Google Trends
chart — a search
for “ESG
Investing”
over the last
three years.



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Surveying the Current ESG Landscape

Broadly defined as the analysis of a company’s environmental, social, and governance practices, ESG first grabbed the financial world’s attention following a 2005 United Nations Global Compact report, which claimed that incorporating ESG factors into capital markets would make it possible to “do well by doing good.” Since then, the significance of ESG issues has experienced a meteoric rise. The Principles for Responsible Investment (PRI) network of investors, which was introduced in 2006, has grown from 63 asset manager and owner signatories with US\$6.5 trillion in assets under management to more than 3,000 signatories with over US\$103 trillion in assets under management. Driven by increased stakeholder attention to corporate environmental impacts and investors realizing that strong ESG performance can safeguard a company’s success, ESG is no longer a niche investment concept.



REMEMBER

As the world is changing, there is a greater requirement to understand what risks or opportunities a company faces from ESG issues that may determine its long-term prospects. The COVID-19 pandemic has highlighted the need to consider these factors even further, hence the recent surge in investments in this space. Even within this century, the context in which businesses operate has changed radically. Businesses have generally profited from economic growth, globalization, increased consumption, and fossil fuels, and have strengthened and developed their role as the major providers of goods, jobs, and infrastructure worldwide. Consequently, their contribution to essential sustainability issues, such as climate change, biodiversity, social diversity, and inclusion, has also grown. Concurrently, the rise of technology has allowed stakeholders, as well as shareholders, to challenge businesses on how they behave.

Consequently, transparent measurement and disclosure of sustainability performance is now deemed to be an essential part of effective business practices, and a necessity for maintaining trust in business as a force for good. Corporate reporting is a means by which stakeholders, including investors, can identify and measure companies’ performance, just as companies themselves use reporting internally to inform decision-making. Financial reporting has developed as a

result of internationally recognized accounting standards that bring transparency, accountability, and competence to financial markets around the world. Therefore, while sustainability disclosure is inevitably more complex than financial reporting, internationally recognized sustainability standards will be the basis for calculating relevant ESG ratings.

Exploring What ESG Is (and Isn't)

In recent years, the term “ESG” has generally become synonymous with socially responsible investment. However, ESG should be seen as more of a risk management framework for evaluating companies and not as a stand-alone investment strategy. ESG measures the sustainability and societal impact of an investment in a company. These criteria help better determine the future financial performance of companies. Likewise, impact investing is more about the type of investments a manager is targeting, while ESG factors are part of an assessment process to apply non-financial factors to a manager’s analysis in identifying material risks and growth opportunities. Also, impact investing seeks to make a measurable, positive, environmental, or social effect with the investments that a fund manager purchases, whereas ESG is a “means to an end,” serving to identify non-financial risks that may have a material impact on an asset’s value.

Moreover, ESG is often incorrectly commingled with terms such as *corporate sustainability* and *corporate social responsibility* (CSR). While some overlap exists, these terms aren’t interchangeable:

- » *Corporate sustainability* is an umbrella term used to describe the long-term creation of stakeholder value by encompassing opportunities and managing risks resulting from economic, environmental, and social developments. To many companies, corporate sustainability is about “doing good” and doesn’t require any set conditions.
- » *Corporate social responsibility* is an embedded management concept where companies incorporate the concerns of key stakeholders into their operations and activities. In comparison, ESG assesses a company’s ESG practices, together with more traditional financial measures.

Finally, ESG is also commonly intermingled with ethical investing. However, taking an ESG approach is effectively a precursor to the point of investing. It provides a framework that allows you to consider ‘E,’ ‘S,’ and ‘G’ issues facing a company and to score them either individually or collectively to identify where they sit relative to each other. This leads investors to consider stocks that may be “best-in-class” from an ESG score perspective or exclude them entirely because, for

example, their environmental score doesn't reflect their values. Ethical investing involves selecting investments based on ethical or moral principles. Such investors typically avoid "sin stocks," such as those related to gambling, alcohol, or firearms, which can be implemented via an ESG exclusions strategy (where sin stocks are explicitly excluded from a portfolio).



TIP

You may be used to gauging financial ratios when investing in stocks, from the relative price-to-earnings (P/E) ratio to EBITDA margins. (Yes, I'm talking about earnings before interest, taxes, depreciation, and amortization — good thing there's an acronym to use.) All of those ratios are still relevant, but now you can view the same stocks through an additional lens. The sustainability evaluation of ratings firms is normally blended into a single ESG score, similar to the stock recommendations offered by investment banks and brokers. Just as mainstream research analysts calculate different recommendation valuations for the same companies, using largely the same information, so ESG analysts also differ on their recommended scores. Check out Chapter 2 for an introduction to ESG ratings.

The following sections look at the different components of ESG, including financially material indicators, how those indicators can differ according to industry sector, and how various ESG strategies can be applied across these factors. These elements can be analyzed in the *ESG Cube*, which represents the intersections between these factors.

Defining the breadth of ESG

Unlike common financial ratios, there aren't a common set of ratios that neatly define what a good 'E,' 'S,' or 'G' score looks like. And whether you should aggregate the three siblings together or you should consider each one individually depends on your determination of what issues you believe are most relevant from an ESG perspective. Indeed, some of the factors may be more material to some stocks than others. For example, the environmental risks associated with a bank will be less material than those facing a mining company, while such risks may be counterbalanced by more concerns over governance with a bank. Also, to what degree should you be concerned, and what data or methodology will you use to gauge that concern? As you can see, ESG analysis brings an entirely new set of indicators that you need to consider, which can result in a complex analysis that isn't reasonable for a layperson to calculate.

Of course, investment managers are offering to take all of that hassle away from you and present you with products that incorporate the myriad of factors in different ways. And as the investment world has moved toward passive investment, a number of these products will be index driven. To ensure that you're familiar with these new products, and that they closely track the performance of established benchmarks, many of the new products will be ESG variations of traditional

indexes, such as the S&P 500 or FTSE 100 indexes. So, they represent what you “know and love” with just a few exclusions here, some different weightings there, or a bias or tilt toward or away from given stocks. This should be easy for most investors to comprehend.

Then there is the version for sophisticated investors, including large asset owners such as pension funds and family offices, where that approach won’t pass the “smell test” given the level of fees they are paying for investment management. They expect a much more active management approach, with full consideration of the complex interdependencies that can be analyzed in this process. One way to visualize the approach that an asset manager could take is to consider a matrix, or a three-dimensional cube. An asset owner considers at least three dimensions to be important:

- » What are the key industry sectors that exhibit the greatest ESG risks or opportunities?
- » Which ESG execution strategy approach should you employ to benefit from this data?
- » What are the material ESG components that affect a company’s financial performance?

Welcome to the concept of the *ESG Cube*, which represents the intersections between these factors. Figure 1-2 illustrates the cube, using three axes: Industry Sectors on the X-axis, ESG Strategies on the Y-axis, and Material Indicators on the Z-axis.

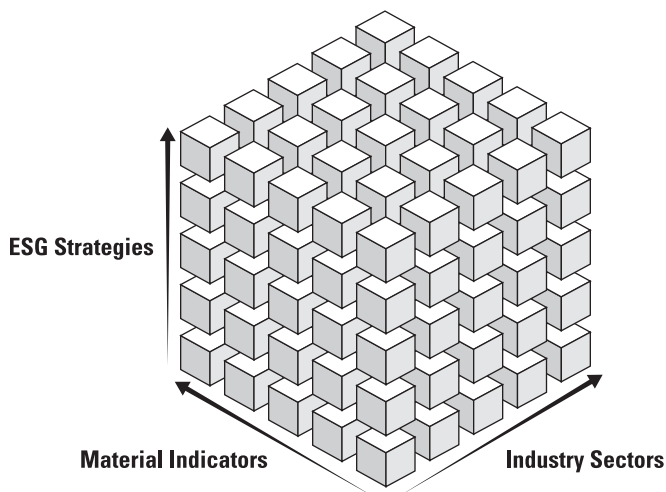


FIGURE 1-2:
ESG Cube with intersections between factors.

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Each of these dimensions can be further categorized, as you find out in the following sections.

Industry sectors

Figure 1-3 expands on the concept by adding the industry sectors utilized in the Sustainability Accounting Standards Board (SASB) Materiality Map:

- » Healthcare
- » Financials
- » Technology and communications
- » Non-renewable resources
- » Transportation
- » Services
- » Resource transformation
- » Consumption
- » Renewable resources and alternative energy
- » Infrastructure

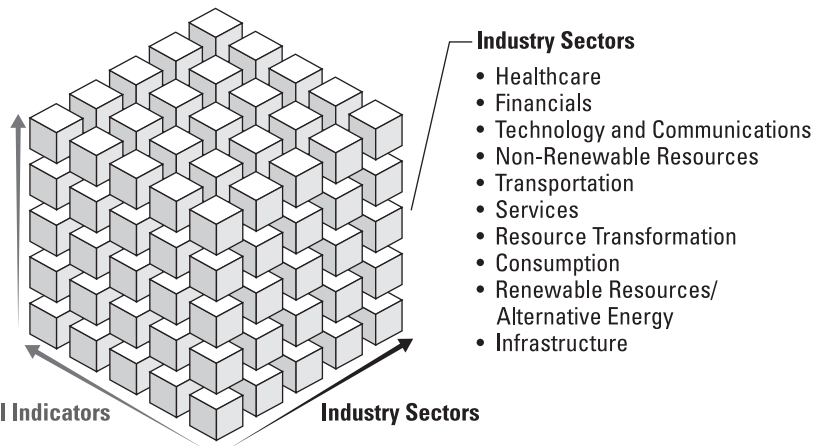


FIGURE 1-3:
Industry sectors
per the SASB's
Materiality Map.

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ESG strategies

The most common ESG integration strategies that asset managers tend to employ on behalf of their clients are outlined in Figure 1-4:

- » **Screening:** Excluding or including stocks based on exposure to certain factors
- » **Best-in-class:** Selecting stocks based on high ESG scores
- » **Stock rating:** Using an ESG performance rating system
- » **Value integration:** Integrating ESG issues into stock valuations
- » **Thematic:** Focusing portfolios on certain themes
- » **Engagement:** Maintaining an ongoing dialogue on ESG issues
- » **Alignment:** Affiliating with social or environmental goals
- » **Activism:** Using voting capacity to engage companies
- » **Systematic:** Employing quantitative or data-driven factors

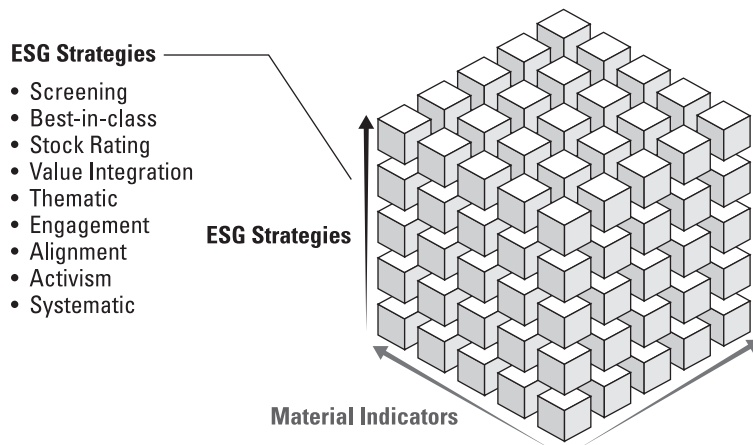


FIGURE 1-4: Popular ESG investment strategies.

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Material indicators

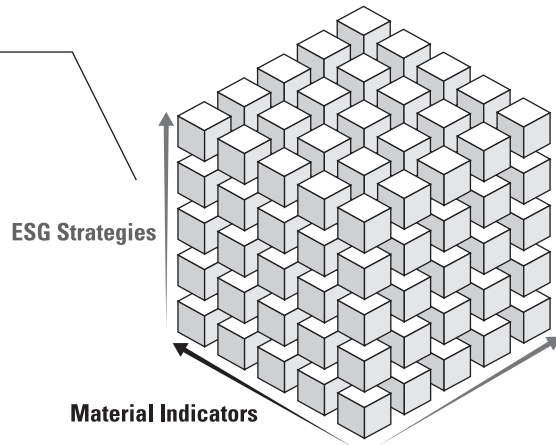
Figure 1-5 shows the details of the cube's third dimension, where the SASB has identified, per industry sector, the likely financially material ESG issues. These are just indicators, and investors can choose their own material issues that are relevant to their values. They are as follows:

- » **Environment:** Greenhouse gas emissions and biodiversity impacts
- » **Social capital:** Human rights/community relations and data security and privacy
- » **Human capital:** Diversity/inclusion and fair labor practices

- » **Business model and innovation:** Life cycle impacts of products and product packaging
- » **Leadership and governance:** Supply chain management and accident/safety management

Material Indicators

- GHG Emissions
- Biodiversity Impacts
- Human Rights/Community Relations
- Data Security/Privacy
- Diversity/Inclusion
- Fair Labor Practices
- Life cycle Impacts of Products
- Product Packaging
- Supply Chain Management
- Accident/Safety Management



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FIGURE 1-5:
Material indicators per the SASB's Materiality Map.



REMEMBER

ESG strategies, applicable by type of client or sustainability preference, can be visualized relative to given industry sectors. For example, you might have a client seeking an alignment strategy (ESG Strategies on the Y-axis), focused on a social or environmental goals solution (Material Indicators on the Z-axis) within the transportation sector (Industry Sectors on the X-axis). If specific companies from the transportation sector are overlaid on top of this approach, a Best-in-Class filter could also be applied to identify the right addition to a portfolio.

Comparing SRI, ethical, and impact investing to ESG

Having identified that strictly speaking, ESG isn't actually an investing style, but a consideration of relevant ESG issues to manage risk, it's worth considering how ESG ratings can be used in various sectors of the social investment arena. This starts with social investing as an umbrella term that assumes the provision of finance to achieve a combination of economic, social, and environmental goals. Some of the more specialized approaches are described here, with each one increasingly representing a more tangible approach to investment (see Chapter 7 for more details):

- » Sustainable and Responsible Investing (SRI) uses relevant ESG criteria to choose companies for investment, typically based on a negative screening approach to exclude companies that produce or sell harmful substances, like tobacco, and those that engage in harmful activities, such as polluting or violating human rights. SRI doesn't necessarily include positive screening to include companies that engage in beneficial activities, such as using sustainable practices, or producing clean technologies. There are attempts to establish standards and indexes in areas like climate change and human rights to further facilitate such investments.
- » In ethical investing, investments are selected or excluded according to the individual investors' personal beliefs and values. Similar to SRI, ethical investing may exclude investments in certain industries (such as firearms) and is connected with the movement to divest from fossil fuel companies. The key difference with SRI is that ethical investing tends to be more issue-based and produces a more personalized result, whereas SRI normally uses one all-encompassing set of parameters to select investments.
- » Impact investing goes a step further by intentionally looking to produce both financial return and positive social or environmental impacts that are actively measured, so it's much harder to apply ESG factors. Impact investors attempt to generate specific, positive impacts using financial instruments, and then require the companies to report evidence that the impacts have really been produced. It's distinct from SRI in that it seeks positive impacts associated with areas such as renewable energy, sustainable agriculture, water management, and clean technology. Many of the independent companies or funds in such areas may not have specific ESG ratings. Moreover, measuring the actual social and environmental impact is difficult, and a standardized measurement system (the Impact Reporting and Investment Standards, or IRIS) has been developed to facilitate measurement and produce comparable impact performance data, rather than using ESG criteria. IRIS (<https://iris.thegiin.org/about/>) is a free, publicly available resource that is managed by the Global Impact Investing Network (GIIN) for measuring, managing, and optimizing impact.



REMEMBER

Socially responsible investments can be used to represent the political and social environment of the day. Therefore, it's important for investors to recognize that if a given social value falls out of favor, their investment may also suffer. Considering such investments through an ESG lens may guard against some of these issues. Similarly, investors should carefully read any fund prospectuses to ensure that the philosophies being employed are in line with their values.



REMEMBER

COVID-19 has helped illustrate the growing importance of social issues, many of which have been further exacerbated by the pandemic, while others that weren't already a priority have appeared on the radar. Some of these include occupational health and safety, responsible purchasing practices, supply chain issues, and

digital rights, including privacy. Looking beyond the pandemic, further social issues that have been highlighted include human rights, mental health, and access to healthcare.

Determining whether ESG delivers good investment performance

ESG integration is consistent with a manager's fiduciary duty to take into account all relevant information and material risks. It should be remembered that ESG integration isn't just a negative screen in the investment process that limits one's investment universe. Therefore, because it includes a more thorough application of traditional financial analysis, it isn't constrained by reduced diversification and can include companies with poor ESG ratings if they are believed to be "mending their ways."

Along these lines, nearly all large institutional investors are using ESG data in some capacity. More specifically, the PRI members have pledged to incorporate ESG issues into investment decision-making processes. For example, BlackRock, the world's largest asset manager, has announced that sustainability, including a company's ESG performance, will be BlackRock's new standard for investing. In addition, one of the key reasons that firms undertake ESG analysis is to assess risk. However, such ESG analysis is also a way of uncovering investing opportunities by spotting companies that are improving their 'E,' 'S,' or 'G' profiles before the broader market does.



REMEMBER

So, although the ESG trend was well underway before the COVID-19 crisis in 2020, it has served as the first main confirmation that ESG-informed investing doesn't come at a cost to performance and can be a guide to future-proof investments while boosting returns. This has proven the resilience of ESG investing and provided a significant boost to sustainability while the world is establishing how to "build back better." Nevertheless, some investors rightly highlight the concept of "ESG momentum," produced by the sheer weight of money that has flown into "good" companies that are expected to become the champions of the future. Performance data can be inconsistent and period-dependent, but there is also evidence that over the long term, ESG has outperformed relative to the broader market.



WARNING

On the other hand, some investors question whether ESG stocks exhibit true alpha and contend that the stock market returns from technology stocks in recent times have fueled ESG performance, given that the typical ESG mutual fund has at least 20 percent of its assets in technology stocks. If the technology bubble bursts (perhaps due to anti-trust enforcement), and as investors move toward value stocks (which should be ESG-friendly as well!) and away from growth stocks, where will the alpha or additional performance for ESG strategies come from? Just be aware of the potential for a speculative bubble in ESG investing.

Understanding ESG's Impact on the Environment, Society, and Governance

Having left 2020 behind us, with most of us feeling bruised and battered, the poster child continues to be climate change in the environmental corner, but COVID-19 will stay front and center in the social corner for longer than some people think. Meanwhile, heading into 2021 with a questionable Brexit deal for some and the continuing pandemic fallout, supply chain management is holding its own in the middle of the ring for governance (or rather, stewardship). The requirement to make sense of ESG has never been greater; the following sections can help.

Meeting environmental and global warming targets

Many challenges face the environment, but the clear focus is on climate change and the move toward net-zero emissions by 2050. This means that all man-made greenhouse gas (GHG) emissions must decline dramatically (need for decarbonization), and what we can't stop emitting needs to be removed from the atmosphere through reduction measures. Thus, reducing the Earth's net climate balance to zero and stabilizing global temperatures is a key goal. While there is an increasing focus on issues such as biodiversity and water management, from an investment point of view, the performance of the energy sector has been relatively poor in recent years, and the COVID-19 pandemic has exacerbated that trend due to lower GDP-related demand and investors continuing to exclude fossil fuel stocks from their portfolios.

While there was an expectation that the pandemic might divert focus away from climate change targets, it seems to have accelerated structural changes in the energy sector, which will present opportunities for policy reform and renewable energy. Meanwhile, new players will participate in the transition to the low-carbon economy because there is now a greater awareness of the risks and opportunities linked to proactively addressing climate issues. Starting in January 2021, with a supportive Democratic government in place in the United States continuing to back a major green deal in Europe to help fund the energy transition, and the COP26 (United Nations Climate Change Conference) taking place in Britain in 2021, the fight against global warming seems to be heating up!

Therefore, on one hand, you have the largest asset manager in the world, BlackRock's CEO Larry Fink, releasing a statement to other CEOs emphasizing that climate risk is investment risk, and there is a need for consistent and comparable

data. On the other hand, there is expectation for a surge in clean energy policies and investment, putting the energy system on track to achieve the sustainable energy objectives in full, including those established in the Paris Agreement. However, the global energy companies' transition to renewable energy will require a major investment of time and money, so monitoring their ESG credentials in the interim period is necessary. See Chapter 3 for more information on the environmental factor in ESG.

Providing solutions to social challenges

The global COVID-19 pandemic has shone a spotlight on the social aspects of ESG, with social issues rising from third place to first in the list of investors' ESG priorities in 2020. While the pandemic has obliged some companies to temporarily deprioritize ESG efforts, investors still believe a strong ESG strategy has a positive impact on share price and flexibility. The additional impact of social movements, such as Black Lives Matter and Me Too, has compelled executive boards to incorporate social risks front and center within new standards for corporate governance structures. Human rights, community relations, customer welfare, and employee health, safety, and well-being have all been moved up the prioritization line.

Furthermore, in addition to boardroom diversity, the attention of companies and investors will move toward diversity across companies, from executive management to the overall workforce. Policies on equal pay, equal opportunity, and corporate culture will also come under closer inspection as the idea of corporate social responsibility morphs into the new concept of corporate purpose, with greater emphasis on all stakeholders as well as shareholders.



WARNING

However, while disclosures on ESG factors are becoming more standardized and widespread in general, social aspects are still seen as the most difficult element to analyze and integrate from an ESG perspective. Chapter 4 introduces you to the social factor of ESG.

Meeting corporate governance requirements

While corporate governance practices have always been a key valuation factor for companies, for fixed income as much as equities, governance has also received a lot of attention during the COVID-19 pandemic — not only for how corporate boards are ensuring the health and safety of their employees and business partners, but also their wider reach into their supply chain management and how they are coping. At a time when their employees may be on government-supported job retention schemes, attention is also being paid to how management is playing its part in executive compensation plans.

The old days of shareholder resolutions serving as an appliance to identify and inspect governance issues — leading to reform in company practices and the acceptance of standards (for example, annual director elections, board gender diversity, and so on) — have changed to a more proactive stance, where asset managers are more engaged and lead policy initiatives and change within some organizations. This greater engagement has led to joint approaches on corporate access, from analysts on the ESG team to traditional financial analysts. Proposals for enhanced ESG disclosures from companies in their sustainability reports will also allow asset managers and owners to further incorporate ESG risk assessments into their investment decisions.

Investors are also pushing for executive pay to be tied to ESG initiatives, so that boards will be compelled to achieve social and other key targets, rather than paying “lip service” to ESG integration. Already, it’s clear that governance is much more about stewardship (see Chapter 18), assuming a given level of accountability as well as responsibility to generate sustainable benefits, rather than hiding behind the preordained rules that have been handed down through the organization. Some would argue that ESG could be transformed into ESS (Environment, Social, and Stewardship) to recognize the role of stewardship in this process. Regardless, there should be a seamless link between stewardship and wider ESG integration, with investors systematically assessing companies based on ESG risks.

Flip to Chapter 5 for the full scoop on the governance factor in ESG.

Using International Standards to Determine ESG Objectives

The global regulatory ecosystem is moving fast, with many countries upholding ESG requirements in regulations. A recent study suggests that in the last decade, governments have enacted over 500 new measures globally to advocate ESG issues. Numerous market participants feel that regulatory developments are a key driver in the uptake of ESG investing. While many voluntary disclosure bodies have contributed to an increase in the availability of ESG data by pushing for greater disclosure and creating frameworks and standards, and therefore the success of the ESG explosion in recent years, the sense is that we’re at the point where we need further mandatory disclosure requirements.

However, a group of five sustainability standard-setters has declared their own intent to collaborate better, appearing to accept the complaints of “reporting overload” with the “competing initiatives” concerns. It was felt that the plethora of entities was holding up progress and encouraging jurisdictional fragmentation.

However, this statement of intent comes at a time when the European Union (EU) has set in motion a large-scale legislative program to make ESG concerns a central piece of regulation in the financial services industry, which will further increase disclosure requirements. Ultimately, the market should put a common, standardized disclosure mechanism in place, whereby material reporting will be unearthed that provides more informed input to the ESG rating models, which should lead to greater consistency on ESG scores.



WARNING

Although companies report a lot more sustainability information than in the past, much of the disclosure is aimed at a broader set of stakeholders, which limits its usefulness to investors. They are more interested in a subset of sustainability issues representing key business drivers for value creation, such as the industry-specific factors identified by the Sustainability Accounting Standards Board (SASB). Corporate sustainability reporting has generally lacked an investor focus, encouraging companies to primarily report information on broader ESG factors, which affects the ratings that data providers have been able to produce. The majority of ESG risks that investors want to see are more industry-specific factors.

The following sections emphasize the increasing shift to regulatory oversight on sustainability as well as the roles played and foresight shown by the United Nations and the disclosure reporting standard-setters in building the agenda that has contributed to the success of ESG.

Leading the charge: European legislation on ESG

In Europe, the EU Commission has introduced new disclosure requirements related to sustainable investments. The Sustainable Finance Disclosure Regulation (SFDR) requires all financial market participants in the EU to disclose on ESG issues, with additional requirements for products that promote ESG characteristics or that have sustainable investment objectives. This regulation aims to limit the risk of greenwashing by financial market participants while increasing transparency, which allows investors to better understand how ESG and sustainability influence their investments.

Parallel to this, the EU Commission has also introduced the Taxonomy Regulation, which establishes an EU-wide taxonomy (akin to a dictionary) of economic activities that can be viewed as environmentally sustainable, using reference to six environmental objectives. This will enable investors and clients to identify environmentally sustainable investments, while bringing greater clarity for asset managers.

The regulation was implemented around three pillars: the elimination of greenwashing (see Chapter 6), regulatory neutrality, and a level playing field for all

investors. Added to this, the EU Commission has agreed to introduce new standards on climate change through the launch of two climate benchmarks: the EU Climate Transition benchmark and the EU Paris-aligned benchmark. The regulatory environment is clearly driving institutional investors toward a substantial change in ESG practices, but that might help them get ahead of regulation or mandatory reporting in other jurisdictions.

Ahead of its time: The United Nations



REMEMBER

Going back to much earlier days, one has to applaud the foresight of the United Nations and their influence on the development of sustainable investing in this century. In all, the United Nations have provided a significant contribution to supporting investors' drive to sustainable impact:

- » Starting early in the century, the formation of the United Nations Global Compact is a non-binding pact to encourage businesses worldwide to adopt sustainable and socially responsible policies and report on their implementation. See www.unglobalcompact.org/.
- » The Principles for Responsible Investment (PRI) initiative then corralled together a network of international investors to work to put the six principles into practice. The principles were developed by the investment community and signaled the view that ESG issues affect the performance of investment portfolios and therefore should be given suitable consideration by investors in order to fulfill their fiduciary duty. This allows investors to incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large. See www.unpri.org/.
- » The Sustainable Development Goals (SDGs) came next, in 2015. The SDGs have enabled institutional investors to transition from a “cause no harm” investment approach to one that focuses on driving long-term value through investments that support long-term development impact. Some investors feel that the ESG framework offers less direction for investors than the SDGs, given the standardization and language for areas of impact, which offer more opportunity for investors to track and compare progress. See <https://sdgs.un.org/goals>.

Staying focused: The Sustainability Accounting Standards Board

The main standard-setter that has focused on helping businesses identify, manage, and report on the sustainability topics that are financially material to their investors is the Sustainability Accounting Standards Board (SASB). Their

reporting standards also differ by industry, which enables investors and companies to compare company performance within an industry. Moreover, they are discussing with the International Financial Reporting Standards (IFRS) Foundation and merging with the International Integrated Reporting Council (IIRC) to form the Value Reporting Foundation (VRF) to focus on the global alignment of a corporate reporting system (see Chapter 15).

Given the IFRS Foundation's credibility related to financial reporting, that can only add weight to establishing further validity around sustainability disclosure standards for capital markets. The IFRS, in conjunction with the SASB, the CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI; see the next section), and the IIRC, should be able to provide a disclosure standard/framework that enables companies to disclose information that is useful to investors and other stakeholders. In turn this will further enhance the core data that the rating agencies need to develop their ESG scores.



TIP

Visit www.sasb.org/ for more information.

Building a framework: The Global Reporting Initiative

The Global Reporting Initiative (GRI) is one of the predominant independent standards organizations helping businesses and other organizations communicate their impacts on issues such as climate change, human rights, and corruption. As one of the first entities involved, they provide a framework that addresses broad social, environmental, and economic performance on how an organization is reporting to stakeholders, providing a guide to their approach to “proving” impact.

A key element for investors is their set of tools for integrating SDGs into sustainability reporting. Moreover, they are a key player in the collaboration between five sustainability, ESG, reporting framework, and standard-setting organizations that are attempting to create a more comprehensive corporate reporting platform. Given the IFRS Foundation's proposal to also work with these entities, this could level the playing field to help investors and businesses deliver long-term value that benefits not only capital market participants but the world in general. Again, this should provide more clarity to the information that ESG rating agencies require to provide material scores.



TIP

Check out www.globalreporting.org/ for more information.