SDG Insider Ep 6 Transcript:

Navigating Sustainability Reporting in the Age of Regulatory Revolution

[00:00:00] **Ayanda Charlie:** Every day, we move nearer to reaching the global goals of ending poverty, protecting the planet, and ensuring that all people can live in peace and prosperity by 2030. But how close are we really? Welcome to the SDG Insider, the series that helps bridge the gaps between corporate reporting and the sustainability agenda from the Global Reporting Initiative. We hope to help businesses navigate the 17 sustainable development goals with resources and guidance for taking action. I'm your host, Ayanda Charlie.

As the planet has changed over the past 25 years, we have seen an increase of reporting requirements and a shift from voluntary to mandatory disclosures. The world is now at a critical point where businesses need to reassess supply chains and value chains, and it’s affecting the entire global economy: anything and everything from training, education and energy to renewables and digital transformation. We need skills and tools that make it easier to extract data, assess how we deal with problems, and mitigate risks.

In this episode of SDG Insider we look at recent regulatory developments around the globe and consider how they will influence SDG goals reporting and impact reporting. To get down to the nuts and bolts, what are the regulatory developments across the globe that will strengthen the need for impact reporting the most? One of the most far-reaching initiatives has come from the EU, the Corporate Sustainability Reporting Directive or CSRD, which mandates sustainability reporting for more than 50,000 companies. The goal is to provide transparency that will help investors, analysts, consumers, and other stakeholders better evaluate EU companies’ sustainability performance and the related business impacts and risks across a broad range of topics, including environmental but also regarding social issues and human rights.

[00:02:01] **Audio Clip:** So let's not be mistaken. To be serious, what we are talking about is a real evolution of corporate reporting. It took us decades to finalize and stabilize the financial reporting, and now we are confronted with a very short period to get, to put, uh, sustainability reporting on an equal footing with financial reporting. That's the goal. Okay, we can argue about the pace. How long will it take? But if we want to meet the challenges of transitions, we need to be serious about that.

[00:02:39] **Ayanda Charlie:** Then, the International Sustainability Standards Board (ISSB), formed by the International Financial Reporting Standards Foundation, has issued the inaugural Sustainability Disclosure Standards, designed to be the global baseline of sustainability-related disclosures focused on the needs of investors and the financial markets. The ISSB’s work has received strong support from investors, companies and market regulators, including the International Organization of Securities Commissions (IOSCO).

The information required by the ISSB Standards is designed to be provided alongside financial statements of each company, with a financial materiality lens. In terms of topics, ISSB has so far only issued one topic-specific standard – on climate change – but has consulted recently to identify further topics for standards development.

Other relevant developments include due diligence laws around the world, starting with the European Corporate Sustainability Due Diligence Directive, followed by laws in South Korea, Brazil and Australia that require businesses to identify and manage their impacts on human rights and the environment, and also publicly report on these efforts.

To start the conversation, let's consider where we are right now in sustainability reporting. KPMG's *Global Survey of Sustainability Reporting 2022* is one of the most comprehensive pieces of global research on the topic to date. It is based on the analysis of financial reports, ESG reports, and the websites of 5,800 companies from 58 countries. Today, nearly all of the Forbes top 250 companies report on sustainability – the precise rate is 96%. Among the largest 100 companies in 58 countries, this rate is nearly 80%. According to the study, GRI remains the dominant player in global standards.

The use of the GRI Standards is, in general, voluntary. Over 10,000 companies around the world see the value of reporting on their impacts using these standards. This includes voluntary reporting, but GRI Standards are referenced or required in policies in 85 countries, and the adoption of the GRI Standards in policy continues to grow in all regions.

I spoke to Bastian Buck, Chief Standards Officer at GRI, to shed some more light on the findings of KPMG's Global Survey of Sustainability Reporting 2022.

Thank you for joining me, Bastian. According to the report, almost all leading companies report on sustainability. What do you think has been the main contributor to such a high reporting rate?

[00:05:25] **Bastian Buck:** Thank you for having me. I think that there are a range of drivers here. The companies definitely see a need to express themselves towards a wide range of stakeholders in relation to the impacts that they're having by virtue of their business activity. And I think this has given rise to, to the high level of coverage across major brands, publicly listed and, and really public companies that, that are getting the attention of stakeholders, so to say, and they have to do that across a range of subjects, and this explains in particular also the uptake of the GRI standards in this context. GRI is covering more than 30 topics, sustainability topics, so offers a wide menu of different standards that help organizations to explain themselves. So I think the need on the side of the organization is one, but there's also the demand on the side of the stakeholders. Again, a wide range of stakeholders. It's not only investors, it's the local communities, the regulators, and so on. And they tend to have very specific questions in relation to the mandates that they have specifically and how they relate to the impacts of business activity.

Lastly, I think, I think it should also be acknowledged that over time, as this becoming part of, of, of more and more common practice, uh, there's, ah peer pressure between organizations. You, you, you cannot fall behind and not do it anymore. I think that's exemplified in many of the statistics and this has led to more and more comprehensive coverage of sustainability issues across the board.

[00:07:06] **Ayanda Charlie:** GRI has been in the sustainability reporting space for 25 years. Now this space is rapidly changing with many new frameworks that are appearing. The main development – the European Sustainability Reporting Standards - or ESRS – will mandate reporting by a very large number of companies, having a ripple-effect within and outside the EU.

How prepared do you think EU companies are for the regulatory developments – those that currently stand, as well as those in the pipeline? How can company leaders budget for the required human and financial resources to face our global ESG predicaments head-on?

[00:07:44] **Bastian Buck:** I'm well-positioned to answer this question from the perspective of a DOI reporter. So those companies that have, used the G. I. Standards in the past to inform their reporting. These companies are very well prepared for the regulation that is now coming in because for the most part, they have been grappling with the questions, ah, that gets thrown up through the regulation, and they have experience in responding to the disclosures. Many of which they have in similar form under the G. I. standards. There's a great level of overlap, and we are able to support them. Um, we've just recently signed an MOU with EFRAC, the standard setter in the EU. We've issued a interoperability index that enables companies to see how their ESOS reporting relates to their GRI reporting, and we will be issuing more resources, among other things, a full mapping of the GRI standards against the ESRS requirements, a training that supports them in understanding the upcoming regulation, as well as services that enable them to take stock of their current levels of reporting under GRI, visa vis the regulatory requirement that's upcoming

[00:09:00] **Ayanda Charlie:** Climate seems to be the issue that features most across all policies, yet the KPMG survey showed that not all respondents, but only 64%, acknowledge and report on climate risks. How can we account for the 36 percent of top companies that seem not to be addressing climate change?

[00:09:20] **Bastian Buck:** I would say that there are a number of initiatives, uh, that try to drive disclosure of companies, whether that's financial, for financial risks and opportunities or impacts, um, that includes standard setters, issue level, uh, institutions like the TCFD and the colleagues at CDP, but also regulatory efforts. And we will see this gap closing very quickly. I think in light of, of recent. commitments under the COP. It is very clear that we're, we're looking at a trajectory where renewables become more important, energy efficiency needs to be reported on, and emissions, uh, that's generally understood is really a minimum requirement.

So companies, um, evading this entirely, that, that becomes tougher and tougher. And I think, I think, uh, in context off the European regulation, climate-related reporting is really baked into this regulation is at the heart of it, and it is comprehensive by any measure. So we will see 50, 000 companies in the EU reporting on climate-related impacts and the financial risks and opportunities very soon.

[00:10:34] **Ayanda Charlie:** Further findings in the KPMG report show that the majority of companies report on Sustainable Development Goals (SDGs), with 10% reporting against all 17 SDGs. The three SDGs that are the most commonly referred to are Decent Work and Economic Growth; Responsible Consumption and Production; and Climate Action.

While this podcast is dedicated to helping companies tackle corporate reporting as it relates to the sustainability agenda, it's interesting to note that the SDGs were not developed with the private sector specifically in mind. This creates some challenges when it comes to reporting since the targets do not have specific disclosure requirements.

The light at the end of the tunnel is that existing corporate reporting tools and regulations can be used to track SDG progress. GRI standards provide a common language for relevant and comparable insights for companies and their stakeholders, which can inform decision-making, and improve environmental, social, and financial outcomes.

Regulations developed in the European Union have far-reaching effects, with even more regulations coming into play across all other regions. To tell me more about this, I caught up with Diego Herrera, Financial Markets Lead Specialist at the Inter-American Development Bank.

Together with GRI, Diego led the development of a publication on the disclosure of sustainability and risks related to climate change in financial markets in Latin America and the Caribbean.

Diego, what did you discover are the biggest gaps and challenges when it comes to disclosure information for sustainability and climate change risks in the financial market for these regions?

[00:12:18] **Diego Herrera:** Thank you very much. This is a great question. We surveyed four different groups pertaining a couple of markets. On the one hand, we surveyed regulators, and on the other hand, we surveyed issuers, investors, and market infrastructures. I have to say that on the side of the regulatory side, we found that only two jurisdictions out of twenty-six under the Inter-American Development Bank board members have taken the closure to regulatory standards. Both of the regulations are closer to the ISSB standards even before those were issued. One is 2019 and the other one is 2020.

Both the standards include the four main aspects of the ISSB regulation, including governance, strategy, risk management, and specific metrics and objectives, which, actually need to be a little bit turned up, but both of the standards include materiality. So to that extent, we have a huge gap in terms of regulations all across the capital markets in Latin America and the Caribbean.

Secondly, we analysed sixty-seven issuers, and I'm going to use the issuers because this is the most, ah, sensitive group. And with those sixty-seven issuers, we found that sixty-six percent of them issued a disclosure report, so it's not far from what they are currently doing as a practice. One great thing that we found is that fifty-four percent of those who reported used Global Reporting Initiative standards as the standard. Fourteen percent mixed it with the formerly known as SASB standards, which were standards that got merged into the ISSB standards. I want to highlight something and it is that when we were looking at this data, we found that only thirty-seven percent of the issuers said that the report was approved by the board of directors. So there's a large extent of work to be done in terms of governance for issuers. We run a equivalent service to investors and micro infrastructures, as I mentioned before. But um, what I would say is that we need to work more in the involvement of sea suits on boards of directors, work in the strategy, work in risk management. And finally, I would say that the most important part is to find the most ah, objective data and metrics to achieve what we want with this disclosure, which is finding the affection of valuation of the enterprises and the issuances.

[00:14:50] **Ayanda Charlie:** And how are companies outside of Latin America and the Caribbean impacted by European and global developments? Which findings of your publication might be relevant for countries and regions outside of the EU?

[00:15:03] **Diego Herrera:** Well, I would group them into the four categories that I mentioned before. I would say first that better governance is, is required. We need to have clear definitions within the institutions about the, the processors and the way that the companies are monitoring, managing and, ah, overseeing sustainability and climate related risks. And within that governance, what we would like to highlight is that it is necessary, mandatory, the involvement of boards of directors, the involvement of the C-suite level at the companies, but the involvement of all the company. All across the company. They should permeate all the company. Secondly, I would like to highlight also strategy. This work must be done as a comprehensive risk managerial strategy that goes all across the company from bottom to top. And, and you can see that from the perspective of how these risks affect everyone in a company and disclosing and compromising all the personnel within the company with these risks works better than just leaving this work to a group of risk managers or to a group of people who are in charge of these topics links me to the third topic, which is, ah, risk management.

And as I was mentioning before, I think that the most important thing to keep in mind here is that the main purpose of disclosure is, in the end, to reveal the level of affection, both positive and negative of this risk when they materialise against the evaluation of the enterprises and how management of the enterprise and the whole enterprise reacts to these risks to mitigate them, and that means that they have to identify them and measure them properly, but also how those risks entail some opportunities for the company, and that's something that should be included also within the risk management procedures, and it's really, really important for disclosure. And last but not least, the core of all this topic of disclosure is the metrics. And when we talk about the metrics, we talk about materiality, both, let's say the double materiality as they call it, which is the physical and the financial materiality. But there we need a deeper work on the side of regulators and this applies to any jurisdiction in the world.

[00:17:44] **Ayanda Charlie:** Hmm, to what extent will the reporting at these large companies have a trickle-down effect to SMEs?

[00:17:51] **Diego Herrera:** We've recently run a study on the state of MSMEs access to capital markets in Latin America and the Caribbean. And one of the topics we touched base upon was precisely disclosure. What we are seeing from the junior stock exchanges or junior securities exchanges for a more precise denomination is that when these small and medium enterprises issue their bonds or their stocks, depending in the case at the level of the exchanges, they need to have some level of disclosure in terms of climate-related risks and sustainability risks and the practices that are being used for those small and medium enterprises, are the standards used by the large companies at the larger extent.

We expect to have, let's say, a permeation of these larger standards for, for for larger issuers and larger companies in the junior exchanges. And we found that this is relevant for a small and medium enterprise because they are depending on their, on their, let's say, geographical location and depending on a myriad of factors, they can be more susceptible to the level of affection when this risk materializes. Uh, so to that standard disclosure. is really relevant. And for them, disclosure matters. And, uh, and it allows, you know, the investors to identify the effects on devaluation of the issuers and, and also, uh, the issuances.

[00:19:36] **Ayanda Charlie:** Hmm, and lastly, how can governments in Latin America better prepare the economies for increasing sustainability reporting requirements?

[00:19:44] **Diego Herrera:** Going back to the governments in Latin America and the Caribbean. What we are expecting is their increase in institutional capacity. We, as IDB, are already working with organizations such as GRI and the ISSB in finding ways to deliver the message of sustainability, but furthermore delivering the message of disclosure to financial markets. All across the region.

Last October, we invited over GRI to talk about this topic, precisely disclosure to a group of almost forty regulators, the exchanges, the banks, the market infrastructures from the region, and we together also with the ISSB Foundation and talked about disclosure and the ISSB standards. And what we're doing is trying to create a way of transmitting this information so, the governments specifically. The financial regulators and the financial authorities in the region can, ah, make the proper demands to the financial sector in terms of the information that needs to be disclosed.

[00:20:55] **Ayanda Charlie:** To comply with the new reporting regimes, such as the European Sustainability Reporting Standards, Companies need to produce many data points and be able to demonstrate how they came to these results, which requires data collection, storage and analysis, potentially from multiple suppliers.

Any businesses worldwide that operate and export into the European Union will be affected by the EU reporting rules.

[00:21:20] **Audio Clip:** The, the different capitals in the US, most people are aware. The Securities and Exchange Commission is in the process, they've proposed a new rule and they're in the process of finalising it to require climate disclosure in financial reports. But as you can see from this quote from Gary Gensler, the chair of the SEC. What they're interested in is consistent, comparable and decision useful disclosures for investors. That's all. Whereas in the European Union, by this quote, you can see they're really interested in holding businesses accountable for their impact on society. So there's quite a very different theory of change, a different objective behind these different regulations on either side of the Atlantic.

[00:22:08] **Ayanda Charlie:** In the United States, there are developments underway by the US Securities and Exchange Commission (SEC), and in California, a bill on climate disclosures has been signed off.

I asked Alyssa Rade, Chief Sustainability Officer at US sustainability management software company Sustain.Life, to explain more about how companies need to scale their digital capabilities to implement policies.

Alyssa, hello and welcome to the show. Please can you tell us about your work?

[00:22:38] **Alyssa Rade:** Yes, happy to. So before I tell you about what I do at Sustained Life, I should probably start with what Sustained Life does. So, um, we're a decarbonization SaaS platform specifically focused on supply chain engagement and scope three decarbonization. So what we do mostly is work across industries with companies that are looking to automate and streamline their carbon accounting and their broader sustainability reporting across the whole alphabet soup that is ESG mandates and sustainability disclosures.

Um, we built this platform for mid-market companies that Uh, often are within the value chain of those larger fortune 100s and now need to accelerate their climate strategy to meet the decarbonization goals that they are either themselves mandated by or that their most important customers are asking them to achieve. So, as the Chief Sustainability Officer at Sustain Life, I have the honour of leading our sustainability team. And so that's the team of the domain experts that's really conceptualizing all of the functionality. provided through our tool. So that's greenhouse gas calculators, uh, science based targets and decarbonization plans, broader ESG reporting indices like GRI, CDP submissions, etc.

And I also work quite closely with our commercial and product leaders to ensure that all of the work that the sustainability team is doing and the approach that we're taking in these tools is meeting the market demand for the companies that we are ultimately building this technology for.

[00:24:07] **Ayanda Charlie:** And have you felt the impact of the European regulatory developments in sustainability and ESG in the U.S., or is it the ISSP developments or TCFD that impacts you more?

[00:24:20] **Alyssa Rade:** Great question, and we absolutely have experienced, experienced, um, the CSRD as an example, as a strong driver in the U. S. So, uh, the CSRD, the Corporate Sustainability Reporting Directive, is the EU's big, broad sustainability, uh, mandated disclosure law. And it's a very robust, ambitious, and prescriptive law. We are a global company. We support global enterprises. But there are, within CSRD, 50, 000 companies that now have to do this very broad and deep sustainability disclosure, 5, 000 of which are U. S. companies, um, that do have operations or entities in Europe and thus are covered by this law.

And so there's an incredible amount of information that they have, for a large part, never really felt responsible for and don't really have the data flows in place and structures in place to meet. And so we very much hear customers coming to us looking to meet specifically the CSRG reporting requirements.

When you look at some of the other ESG disclosures, like you mentioned TCFD, companies have had several years to acclimate. to that. TCFD launched in 2017. It also has a much more narrow focus on just climate related disclosures, which makes something like that framework a little bit more approachable than, again, the spread of CSRD's broad sustainability.

So particularly in the U. S., companies are really scouring the market for the best solutions to facilitate double materiality assessments and a lot of those data driven reporting tools.

[00:25:50] **Ayanda Charlie:** Is digitization and implementation and use of digital data platforms a must for all companies to be able to comply with the ESRS E1 and ISSB S2? Can they do it in house? What role does data management play in compliance? And how will the digital platforms market be impacted?

[00:26:11] **Alyssa Rade:** Across the board, we are seeing sustainability reporting become a data exercise. That's not the entirety of the effort, of course. You still need to have strong governance and strategy and programs and initiatives, etc. But the reporting component specifically is an exercise of data management. And nothing is better at handling data than digital platforms. And while a company certainly can and often do work with service providers as well as handle these efforts in house, it is certainly made more efficient and streamlined with a robust data platform.

[00:26:49] **Ayanda Charlie:** And lastly, what is the impact of regulatory developments on GRI reporting in the U. S.? Does the existence of GRI reporting help for data disclosure in the landscape? For example, emissions and energy standards and Scope 3?

[00:27:04] **Alyssa Rade:** GRI is obviously the longest. And most established sustainability reporting standard with the highest adoption across the globe.

So you have literally tens of thousands of companies with established GRI reporting structures that now need to leverage that very same data, both quantitative and qualitative, towards new reporting frameworks and regulated disclosures. I think especially for companies that are impacted by CSRD, the indicator mapping that GRI just published in concert with FRAG is exactly what companies, and frankly solution providers, need to see in order to harmonise across those disclosures.

[00:27:41] **Ayanda Charlie:** Finally, we're bringing in Professor Maximilian Muller from the University of Cologne, who together with colleagues from other universities developed the Sustainability Reporting Navigator, a platform for researchers of sustainability information. Based on your platform and research that compares reporting requirements, what are major EU firms still missing with regards to the ESRS or ISSB standards?

[00:28:08] **Maximilian Muller:** Well, I think it's interesting to look at this from an empirical standpoint and our platform is supposed to show how the information environment is evolving over time. And, um, I think there are two main buckets of firms. So we identified a group of firms that even though they are reasonably large and listed in the capital markets, they basically need to start from scratch in certain areas. And the other group of firms, um, those would be those that are already a bit more mature in their ESG reporting, but even for them, they would have to substantially expand the reporting that they currently do. And so both have quite some work to do, I would say, but it's clear that those starting from scratch need to set up a data environment, um, which is oftentimes also super hard because you're here, leave the traditional reporting boundary. So most of the reporting that they have been doing for decades basically relates to the stuff that they control. Okay, so the subsidiaries and now the whole value chain conception that is part of, uh, the sustainability reporting standards, at least those from the ESRS, is really a challenge for them because they oftentimes don't have visibility into that value chain yet.

[00:29:17] **Ayanda Charlie:** You conducted research on the comparison of an ESG rating methodology against the ESRS data points and found only ten percent of convergence. What is your take on this?

[00:29:28] **Maximilian Muller:** I would say, you know, there's a difference in the user group that explains this. The second one is, um, the level of granularity that is asked for, that is different. And the third one, there's just no topics that the rating hasn't yet adapted to, because they also need to collect the data, right? And so if the data isn't out there, it's a bit of a chicken and egg problem. So, so I do expect there will be some convergence over time, that the rating agencies will also then basically exploit that new, that new information that will be out there when companies report it in a standardized way.

[00:30:00] **Ayanda Charlie:** What is the biggest challenge that lies ahead for the ESG data landscape for 2030 and beyond?

[00:30:07] **Maximilian Muller:** Oh, that's a great question here, um, I would just say maybe challenge a bit also maybe my, my hope. So we produce all of this information, right? And I just said, there are information intermediaries that work for investors to kind of digest this information, try to compress it into, let's say workable signals, right? But the ultimate point here is that we are producing this information in order to create transparency about the impacts that companies have on the people and the planet. And one of the challenges that I see is that we are not really good in impact measurement yet. So what we will be getting is we will like there's something called an impact pathway.

So say if a ton of greenhouse gas emissions happens at the beginning of that process, right, it takes a while for this time to create an impact. And so I think the biggest challenge will be to explore and understand those pathways in a much better fashion because we will be getting emission data, but in order to understand what is the impact of a ton of emissions, I think for for that we have a lot of relatively good and solid research that helps us understand this, but for other topics, we are much further away.

So I think, you know, creating that the true transparency about impacts will require. additional work to actually transform the data into true transparency for, um, for society. And then obviously once we have that transparency, I think the challenge will be that probably be societal actors or regulators, ah, through democratic process also use that information to change the rules of the game so that the, the impact of companies is reduced over time.

[00:31:51] **Ayanda Charlie:** With all these updates to consider, you might ask what resources there are for support in gathering information. GRI has previously published FAQs to guide reporting organisations on how the GRI Standards and draft ESRS interconnect.

Together with the ISSB, GRI has established the Sustainability Innovation Lab in Singapore, bringing together global and local partners to advance capabilities for reporting using the GRI Standards and the IFRS Sustainability Disclosure Standards.

GRI provides training and tools to support organisations in their sustainability reporting journey, including a new course in the GRI Academy called *Transparency for Tomorrow: Decoding the Sustainability Reporting Landscape*.

This podcast is titled the 'SDG Insider'. At the end of the day, the most effective way of measuring contributions – positive and negative – of the private sector on the SDGs is by building on existing sustainability reporting efforts. And in the years approaching 2030, we will be able to see how sustainability regulatory requirements have shaped the actions and behaviours of companies around the world in a united effort to meet our goals.

Thank you for tuning into Episode 6 of *The SDG Insider.* Listen to the first five episodes for more topics related to the Global Goals and be sure to click the subscribe button so you don't miss any upcoming episodes. If you've been enjoying *The SDG Insider*, why not leave us a 5 star review? For more information on the Global Reporting Initiative, visit www.globalreporting.org. Until next time.

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