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Agenda item 4. Enhancing the role of reporting in attaining the Sustainable Development Goals: Integration of environmental, social and governance information into company reporting

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The Sustainable Development Goals and corporate reporting of the future

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In the last few years we have seen a shift in focus from CSR to shared value creation and sustainability, but at different speeds of adoption across industries.

Regardless of the industry or geographic specificities, corporate reporting still requires a common language.

Businesses partnering with investors and regulators can enhance reporting on how long-term value is created – thus achieving impact.

2030 Reaching the goals

A trek …
Response to sustainability challenges varies across industries

- Each business interprets sustainability in its own way, based on the different activities, risks, geographies and stakeholders they operate with.
- Industrial corporations have historically responded faster to direct challenges to their business models such as scarcity of natural resources like minerals, water, plants. It has taken longer for service-based industries to react.
- However we are now seeing a shift in awareness for a wide range of sectors including Financial Services. Themes such as fair customer treatment, impact investment and financial inclusion are now becoming common language.

The business community needs to partner with investors, regulators and other stakeholders to tackle today’s challenges

- For instance, a materiality judgment on how the SDGs relate to a firm’s business model needs to be balanced with stakeholders’ demand for comparable performance indicators.
- Availability of data in long overlooked areas requires smart big data tools and analytics, as well as appropriate governance or flexibility in the model underpinning future reporting needs.
- Integrated thinking needs to be applied to develop a holistic reporting framework that effectively communicates how organizations create value for the society as a whole – and why they will not disappear tomorrow.
USD 3.3 to 4.5 trillion per year of investment is needed for the Sustainable Development Goals (SDGs) to be achieved in developing countries alone.¹

The global community needs to move well beyond the USD 132 billion provided as official development assistance in 2015.²

The SDGs can’t be achieved without the support of the private sector and investments offer immense opportunities for companies.

Identify long-term new investment opportunities created by the SDGs, such as Goal 13’s aim to substantially increase renewable energy sources and Goal 11’s call to build sustainable city and community infrastructure.

Develop commercial solutions to growing resource challenges, freeing capital for investment elsewhere. For example, for every dollar³ invested in energy efficiency measures, two dollars can be saved in investments in electricity supply.

Anticipate stakeholder expectations and future policy direction nationally and regionally. The SDGs create a roadmap for the prioritization of national policies and the incentives and regulations needed to implement those policies.

“We’re currently trying to illuminate a stadium with a candle – when there’s a huge set of floodlights towering above the grandstand. We just need to turn on the $300 trillion [of capital in the financial markets] switch and the glow will enlighten the world”
Mark Wilson, CEO of Aviva. (UN Plenary address – 25 September 2015)
Corporate reporting plays a central role in balancing sustainable development and capital markets

Investors are looking for more from nonfinancial reporting

Towards a new value paradigm – growing reliance on nonfinancial information

Percentage of respondents who consider mandatory board oversight of nonfinancial performance reporting ‘essential’ or ‘important’

2014 64% 2015 80%

Towards new measures of performance

Percentage of respondents who conduct evaluations of environmental and social disclosures

2014 64% 2015 79%

Towards new measures of performance

A sharpened focus on potential for stranded assets due to environmental, social and governance (ESG) factors

36% have divested holdings in past 12 months due to stranded asset risk

62% weigh concerns over stranded asset risk when considering an investment

Towards new measures of performance

Percentage, by region, that report using some degree of ESG evaluation before making an investment

62% United States and Canada

80% Europe

69% Asia (excluding Australia)

87% Australia

81% Latin America

ESG evaluations now common practice globally

New expectations for nonfinancial reporting, disclosures and approaches

64% believe companies do not adequately disclose ESG risks

72% believe metrics on expected future performance and non-financial risk would be beneficial

74% believe sector or industry-specific content would be beneficial

Percentage of respondents who consider nonfinancial information relevant to all sectors

2014 34% 2015 62%

Percentage of respondents who consider mandatory board oversight of nonfinancial performance reporting ‘essential’ or ‘important’

Source: Tomorrow’s Investment Rules 2.0, EY, 2015.
Integrated Reporting provides a holistic view of value creation and enables convergence of corporate reporting

- **Integrated Reporting** involves identification of material issues and uses these to define a better mix of KPIs to demonstrate how the organization is creating value in the short, medium and long term from its use of different six types of capital.

- “The six capitals approach of Integrated Reporting captures all of the SDGs.” (Prof. King, Chair of the International Integrated Reporting Council in 2015 at a UN Conference on Trade and Development)

In order to create and sustain value, management must apply **Integrated Thinking** – identifying answers to questions such as:

- How will the business create value in the short, medium and long term?
- How can business areas work together and avoid becoming trapped in silos?
- How should short-term results be balanced with long-term value creation?
- How will the business engage with investors and other external stakeholders on decisions relating to material business issues?
- How can the approach to the six types of capital be optimised?
For an “integrated framework” to work, material, comparable and reliable indicators are required

Do companies adequately disclose ESG risks that could affect their current business models?

- **Yes**: 21.8%
- **No, but companies should disclose these risks more fully**: 38.8%
- **No**: 24.8%
- **Don’t know**: 14.6%

Which of the following statements best reflects your views on why you do not consider ESG issues in your decision-making?

- **46.4%**: It’s unclear whether nonfinancial disclosures are material or have a financial impact.
- **28.6%**: Nonfinancial information is inconsistent, unavailable, or not verified.
- **14.3%**: Nonfinancial measurements are inconsistent, and we are unable to compare them with those of other companies.
- **10.7%**: Other reasons.

Three key drivers in SDGs reporting can be identified:

1. **Materiality**
   - Material trends and business and industry relevance

2. **Comparability**
   - Leveraging existing standards, that need to be mapped and enhanced rather than inflated with additional reporting burdens

3. **Reliability**
   - Through internal controls and systems, management of big data, external assurance

Source: Tomorrow’s Investment Rules 2.0, EY, 2015
Materiality mapping can help businesses navigate the SDG indicators and align strategy

Goals rank in uneven positions on investors’ agendas. For instance more than 70% of investors recently surveyed are taking action against climate change (Goal 13) and promoting women’s empowerment (Goal 5). Only 20% are acting to reduce inequality among countries (Goal 11).

Materiality improves strategic focus

- Harvard Business School’s report suggests that when companies focus on their material sustainability issues (as opposed all or no issues) they outperformed by an average of 4.8% across a 20 year time horizon.

Materiality reduces reporting burden

- The above mentioned survey identified the wide ranging nature of the SDG framework among the top three barriers to institutional investors focusing on the Goals.

Mapping the SDGs vs strategy helps identify material and impactful targets

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4 - Transforming Our World Through Investment, ShareAction, 2016.
5 - Mo Khan, George Serafeim and Aaron Yoon, Corporate Sustainability: First Evidence on Materiality. HBS working paper, 2014.
A common road map for sustainability indicators is key to reducing reporting burden

Companies need time to alter their navigational tools, dashboard and KPIs, in order to incorporate the common language of the SDGs in their business processes.

According to UNCTAD research on sustainability reports, 71% refer to the GRI guidelines, 56% to IOS certificates, 51% to the UN Global Compact principles.

Tools such as the SDG Compass provide effective resources to companies seeking to map SDGs reporting across the exiting KPIs framework currently in use. This seems an effective resource to reduce the reporting burden as linking together, under SDGs lens, the current standards and best practices for sustainability reporting.

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6 - Enhancing the role of reporting in attaining the Sustainable Development Goals, ISAR 33 briefing note, UNCTAD, 2016.
Big data management and analytics enable more reliable reporting and, thus, more impactful decisions

Deforestation rates in the Brazilian Amazon have dropped by 80% since 2004. This is in part due to the efforts to improve the quality and availability of information about what is happening to those forests and to make it rapidly available to those who can take action.

In Senegal, using the data generated from the movement of the population by gathering anonymized voice and text data from mobile phone, authorities could then see the best places to set up treatment centres, and more controversially, the most effective ways to restrict travel in an attempt to contain the disease.

Financial institutions have been increasing their use of analytics, e.g., to identify clients at risk of defaulting on loans, therefore enabling them to initiate a dialogue and constructive support in the earliest stages of financial difficulty.

In an environment where regulatory scrutiny is on the rise, early risk warnings of the ability to resolve issues at a customer level before they turn into complaints is helping financial institutions mitigate the risk of enforcement and improving their return on investment (ROI).

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Robust internal controls and external assurance increase confidence in SDGs reporting

Limited external assurance (negative form of opinion) is becoming mainstream for sustainability reporting. The aspirational objective is obtaining reasonable external assurance (positive form of opinion) on nonfinancial reporting – including SDGs KPIs.

### Limited Assurance
- Reporting scope and boundaries defined
- Uniform KPI definitions established
- Manual periodic reporting embedded
- Initial consolidation and review process
- Segregation of duties installed
- Nonfinancial information taken into account in remuneration policies
- Programme and procedures around nonfinancial information
- Training of internal audit resources, with focus on facilitating “Integrated Thinking”

### Reasonable Assurance
- Performance dashboards
- Continuous improvement process
- Audit trails for nonfinancial information matured
- Enhanced automation of consolidation and review process
- Smart data analytics enabled
- Formal periodic management reporting and review cycle
- Holistic assurance of nonfinancial information, materiality, risk assessment, business model, etc.
- Effectiveness review confirming the competence of internal audits

### External Auditor
- Bespoke approach on a company by company basis
- Reasonable assurance gap analysis highlights required improvements

### Organization
- Methodology for assessment of nonfinancial information established
- Reasonable assurance gap analysis signifies the audit client has adequate processes and controls in place
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