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Morning Session

Agenda Item 3. Enhancing comparability of sustainability reporting: Selection of core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals

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Funding the SDGs
The role of Corporate Reporting

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The Financial Services industry has a critical role to play in closing the SDG financing gap

A funding gap of US$2.5tn exists to achieve the SDGs. With US$300tn in global capital markets, the financial services industry plays a pivotal role. Without the involvement of the Financial Services, the SDGs simply can’t be achieved.

Key steps for the Financial Services industry:

1. Come to terms with the risks faced by externalities, new regulation, changing stakeholder demands and identify the SDGs that it can have the most impact on.

2. Understand the opportunities that funding the SDGs provides, an estimated US$12tn¹ in opportunities for the global economy is at stake. This could include new financial products and services, impact investing and harnessing technology.

3. Commit to moving from short-termism to long-term value creation through culture change, new reporting mechanisms and collaboration across the industry.

Closing the gap requires the Financial Services industry to seize opportunities and manage risks

1. Take advantage of emerging opportunities
   - The time is ripe for sustainable investment with millennials set to inherit $30tn by 2040. 84% say environmental, social and governance impact is a central goal
   - Firms worth $6.6tn have committed to accelerating SDG financing through the UNEP FI Principles for Positive Impact Finance
   - The potential value of SDG investment is estimated at $12tn to the global economy
   - Investors with assets of $2.6tn support the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures

2. Address risks to the business and industry
   - Despite regulation and compliance, corruption, bribery and fraud cost $1.26tn in developing countries
   - New EU pension rules on ESG requirements will affect a $3.5tn pension market
   - Investors worth $5.2tn have committed to divestment due to increasing concerns about climate risk
   - Climate change could cut the world’s financial assets by $2.5tn

3. Embed existing opportunities into business as usual
   - Islamic finance predicted to grow to $3.4tn by 2018
   - Impact investments reported: $77.4bn
   - Green bonds could reach $130bn by end of 2017
   - Blended finance market worth $14.9bn
A 3 step strategic approach focussed on the long-term and embedded in the SDGs is essential to drive progress

1. Understand and define long term value creation
   - Understand what ‘inclusive capitalism’ means to the organisation
   - Define what long term value means for all of the stakeholders

2. Embrace a strategic framework for SDG integration
   - Establish integrated thinking. Recognising all types of capitals and stakeholders
   - Identify SDGs material to the business model and map SDGs to the organisation’s capitals
   - Embed into strategy: opportunities (new business models, new products, etc.) and risks (implementation, reputation, etc.)

3. Develop targets, take action and report
   - Develop targets and KPIs closely aligned with the relevant SDGs and targets
   - Develop systems to integrate the management of SDG issues into everyday business decision-making
Long-term value creation can provide a roadmap towards a more inclusive form of capitalism

1. Understand and define long term value creation

- **Context, Purpose, Strategy and Governance** determine the outcomes the organisation needs to deliver to its stakeholders.
- **Value Creation levers** define the types of value an organisation creates.
- **Value Protection levers** define the types of risks and threats an organisation manages to protect value.
- **Strategic Assets** are the capabilities and resources that are required to deliver stakeholder outcomes.
- **Outcome Metrics** measure the achievement of stakeholder outcomes.

- Clear about context
- Material to stakeholders
- Core to purpose, strategy and business model
- Assured/trusted
- A more complete view of value
- Simple to understand
Integrated reporting, combined with the SDGs provides the framework for embedding long-termism

2 Embrace a strategic framework for SDG integration

Materiality mapping allows businesses to be efficient by isolating those SDGs which align to strategy

Prioritization of the 17 SDGs

<table>
<thead>
<tr>
<th>Company’s ability to impact positively</th>
<th>Economic and reputational impact of the company</th>
<th>An example: Material SDGs linked to strategy in a sustainability report</th>
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<td>3</td>
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The IIRC Integrated Reporting Framework can be linked to the UN SDG Framework to identify risks and opportunities across all of the organisation’s capitals (Financial, Manufactured, Intellectual, Human, Social, Natural)

Source: International Integrated Reporting Council – Value Creation Framework 2017
But better non-financial information is required for more transparent reporting, to meet investors expectations and to channel capital.

### Effective disclosures need to respond to the following criteria:

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

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#### EY Survey Tomorrow's Investment Rules 2017 highlights investors’ demand for better disclosures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No, but companies should disclose these risks more fully</th>
<th>No</th>
<th>Don't Know</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>22%</td>
<td>39%</td>
<td>35%</td>
<td>14%</td>
</tr>
<tr>
<td>2016</td>
<td>12%</td>
<td>60%</td>
<td>21%</td>
<td>7%</td>
</tr>
</tbody>
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Which of the following statements best reflects your views on why you do not consider nonfinancial issues in your decision-making?

- Nonfinancial measurements are seldom available for comparison with those of other companies (42%)
- Nonfinancial information is often inconsistent, unavailable, or not verified (16%)
- Nonfinancial disclosures are seldom material or have a financial impact (42%)

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*Source: Tomorrow's Investment Rules 2017, EY, 2017*
A common framework for SDG indicators is key to reducing reporting burden and to enhance comparability.

3 Develop targets, take action and report

Reporting the SDGs is crucial to keeping making progress in the right direction towards achieving the goals.

However for an integrated framework to work, material, comparable and reliable indicators are required. To foster this, a clear standard framework of reporting is essential.

What options are available to help to develop this standard?

- TCFD Recommendations
- SASB
- UNCTAD
- Local Government initiatives
- SDG Compass and GRI
- SDG Index Initiative

Connecting the dots: Examples of initiatives and involved bodies
There are Financial Services organizations taking on that challenge and are responding to SDG reporting in different ways.
In your organization, what is at the top of your action list in order to further the SDG agenda?

- Map your organisations SDG impact (21.10%)
- Develop targets and KPIs (17.50%)
- Secure leadership buy-in (17.50%)
- Drive employee education (10.50%)
- Get new products to market (8.80%)
- Explore SDG investment opportunities (8.80%)
- Engage with policy makers and... (7.00%)

47.4% of respondents have a top priority which relates to the measurement of SDGs. Developing a consistent SDG reporting and benchmarking framework can help achieve these actions.

Source: EY Webinar * EY’s recent webinar “How do you fund a sustainable tomorrow?” poll, September 2017
Our EY member firms are also applying the SDG framework to their own reporting and making constant progress on the agenda.

Example of SDG framework applied to the annual report of an EY member firm

- Created a visual link with goals, outlining the business topic to which they relate
- Incorporated goals into Vision 2020 – EY long term ambition and strategy
- Defined the organization’s contributions and the related KPIs - measure the firm’s impact and benchmark its performance

Source: 2016/17 annual report EY Netherlands
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