Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

36th SESSION
30 October – 1 November 2019
Room XIX, Palais des Nations, Geneva

Wednesday, 30 October 2019
Morning Session

High-Level panel
Impact of sustainability and the 2030 Agenda on Sustainable Development on financial and non-financial enterprise reporting

Presented by

Mario Abela
Director, Redefining Value
World Business Council for Sustainable Development

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Rapidly changing context
Business as usual is...

- Economically risky
- Environmentally stupid
- Socially unacceptable
- Legally dangerous
We need to transform towards sustainable capitalism.
RV’s focus to date has been on creating solutions

Business decision-making
We aim to improve internal processes to incorporate hidden costs and benefits as they relate to environmental, social and governance (ESG) issues

Projects:
• Enterprise Risk Management
• Governance & Internal Oversight
• Assess & Manage Performance (upcoming):
  • Measurement & Valuation
  • Integrated Performance Management

External disclosure
We help companies communicate decision-useful information on growth prospects, risks and how both are managed for a more accurate valuation by market participants

Projects:
• Reporting matters
• The Reporting Exchange
• Purpose-driven Disclosure
• Assurance & Internal Controls
• TCFD Preparer Forums

Investor decision-making
We help companies demonstrate the investment case for inclusive, sustainable business practices to their internal teams and external stakeholders, help them take advantage of emerging financing mechanisms, and mobilize their own investments

Project:
• Aligning Retirement Assets
The global risk landscape is shifting

Over the past decade, the focus of top risk impacts and likelihood has moved toward Environmental

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
<td><strong>Top 5 Global Risks:</strong></td>
</tr>
<tr>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
<td>likelihood</td>
</tr>
<tr>
<td>Asset price collapse</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
</tr>
<tr>
<td>Slowing Chinese economy</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
</tr>
<tr>
<td>(~6%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chronic disease</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
</tr>
<tr>
<td>Global governance gaps</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
</tr>
<tr>
<td>Retrenchment from</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
<td>Economic</td>
<td>Environmental</td>
<td>Geopolitical</td>
<td>Societal</td>
<td>Technological</td>
</tr>
<tr>
<td>globalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: WEF 2019
How companies are implementing?

Dynamic Risk Assessment

- We are seeing more sophisticated approaches to assessing risks
- We are working with a KPMG to on a pilot study for member firms
- Applied in the Food & Agriculture sector to assess ESG and climate risks

Source: Understanding social and environmental risk, kpmg.com/sustainability
Better data, more useful information
The conversation around ESG reporting and business and investor decision-making has exploded.

The coverage of ESG reporting and sustainable business and finance more broadly has grown by 850% since Q3 2013.

Source (both graphics): Quid, text analysis 2013-2018 ( "ESG" OR "sustainable" OR "sustainability" OR "responsible" ) AND ( "business" OR "finance" OR "investing" OR "investment" ) OR ( "council" OR "coalition" OR "forum" OR "group" )
Guidance on **Improving quality of ESG data**

We developed the **guidance to**

- help companies produce investment grade ESG data by supporting robust control activities improving the process of data collection, analysis and reporting.
- support better decision-making and to facilitate better communication between companies and investors.

https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Guidance-on-improving-the-quality-of-ESG-information-for-decision-making
Guidance on improving the quality of ESG information

1. The business case
2. Setting an objective and developing a roadmap
3. Understanding the improvements your company needs
4. Making changes to improve data quality
5. Reporting on internal controls
6. Monitoring and ongoing improvement
7. Assurance
Reporting matters **Key findings**

Spanning 159 leading companies from 19 supersectors and 34 countries, this year’s research points to continued progress in corporate environmental, social and governance (ESG) reporting and disclosure as well as a continued movement towards digital reporting.

1. Reporting is improving
   - 88% of member companies in our benchmark have improved their Overall scores since baseline year 2015; 38% have improved their Materiality score in this timespan.

2. The state of SDG reporting
   - 95% of reports reviewed acknowledge the SDGs in some way; 86% prioritize specific SDGs and present some evidence of alignment and contribution.

3. The state of integrated reporting
   - 39% of reports reviewed combine financial and non-financial information, up from 26% of our sample in 2015; 20% are self-declared integrated reports.

4. The state of GRI reporting
   - 87% of reports reviewed reference the Global Reporting Initiative (GRI); of those, 77% claim to be in accordance at Core or Comprehensive level.

5. Governance is strengthening
   - 37% of the 125 companies in our sample with ESG data on Bloomberg Terminals link sustainability performance and executive remuneration, broadly aligned with 39% in our 2018 sample.

6. The future is digital
   - 23% of reports reviewed provide a digital-first experience; 64% of members with an offline-first approach produce complementary online content (2017: 44%).
TCFD Preparer Forums

• Outputs from TCFD Electric Utilities & Chemicals Preparer Forums added to Oil and Gas, with a particular focus on scenarios, metrics & resilience.

• In October 2019 we convened with the Japanese Ministry of Economy, Trade and Industry (METI) the first-ever TCFD Summit, providing an important forum for industrial and financial communities to come together to advance the TCFD’s recommendations. Preparer Forums reference by Bank of England Governor Mark Carney.

• TCFD Preparer Forum work continues with Food, Agriculture & Forest Products and Construction & Building Materials. These reports will be published in Q1 2020. Also looking to establish Auto Preparer Forum.
TCFD progress & learnings

- Four fifths of the top 1100 G20 companies now disclosing climate-related financial risks in line with some of the TCFD recommendations

- Three quarters of investors are now using TCFD disclosures when investing and the same percentage report a marked improvement in the quality of climate disclosures

- More needed to support quantity and quality of disclosure, decision-useful metrics and assessment of strategic resilience (these are focus areas for WBCSD Preparer Forums)
Purpose-Driven Disclosure (PDD)

• The ESG Disclosure Handbook offers guidance and process to help companies navigate the many choices associated with ESG reporting.

• Consultation draft was published in October 2018.

• 200 individuals contributed, with comments from IFAC, IIRC, GRI, A4S, Deloitte, PwC among others.

The Reporting Exchange

• During 2019 we have expanded the data coverage to include 71 countries and >2,000 provisions.

• In April 2019, an Indicator library was included with over 1,400 ESG indicators mapped from nine prominent voluntary reporting frameworks to help companies navigate relevant ESG indicators.
Buyer’s guide to **assurance of non-financial information**

In partnership with ICAEW we are working to produce a procurement guide for buyers of assurance to better understand the process, available options and questions to ask of assurance providers before commissioning an assurance engagement.

**Assurance of non-financial information can take many forms, as a result there is often a misunderstanding between what companies (and users) expect from an assurance engagement and what is provided, this has created an expectation gap.**