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
Afternoon Session

Agenda Item 3.
Practical implementation, including measurement, of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals: Review of case studies

Presented by

Richard V. Rothenberg
Executive Director
Global AI Corporation, United States

THE ISAR GLOBAL CORE INDICATORS (GCI) FOR SUSTAINABLE FINANCE & SDG MONITORING

The ISAR Global Core Indicators (GCI) for Sustainable Finance & SDG Monitoring

❑ Key aspects of the ISAR Global Core Indicators

❑ Relevance of GCI For Governments

❑ Relevance of GCI For Corporations

❑ Relevance of GCI For Investors

❑ System for Automating GCI Data Collection

Key Features of the Global Core Indicators (GCI)

❑ The ISAR GCI enable standardized and comparable metrics across Companies and Countries.

❑ Resulted from extensive Multi-stakeholder consultations and incorporate key metrics such as the G20's TFCD indicators.

❑ Provide a quantitative alternative to biased ESG metrics that lack standards and foment 'greenwashing'.

❑ Limited number of indicators make it more feasible to collect data at a global level

❑ Connects Company Sustainability indicators to Country Macro SDG indicators

❑ Big Data, Crowdsourcing and AI-driven tools can be an important tool for data collection

RELEVANCE OF THE GCI
FOR GOVERNMENTS

Relevance of the GCI for Governments

❑ Useful for National Statistics Offices and Regulators to monitor the private sector

contribution towards the SDGs for Country Indicator 12.6.1

❑ Informs the Voluntary National Reports (VNRs)

❑ Input for Country ESG Ratings

UNCTAD-ISAR Core Indicators Evaluation

The report evaluation of core indicators is completed by utilizing Natural Language Processing and Machine Learning techniques on company's sustainability reports to qualify the reports in the following two perspectives:

1) Levels of report completeness that examines the absence and presence of relevant text and values of each core indicators   - 0 means no relevant text nor values mentioned; 1 means relevant values mentioned; 2 means both relevant text and values mentioned
2) Extraction of values of core indicators with high relevancy

Distribution and percentage of reporting completeness over all indicators, and relative ranking are offered by variety of perspectives, such as geographical and sectional ones.

ISAR GCI Reporting Completeness by Indicator

https://sdgpulse.unctad.org/sustainability

Figure 5. Compliance with sustainability reporting by UNCTAD Core Indicators
(Percentage)
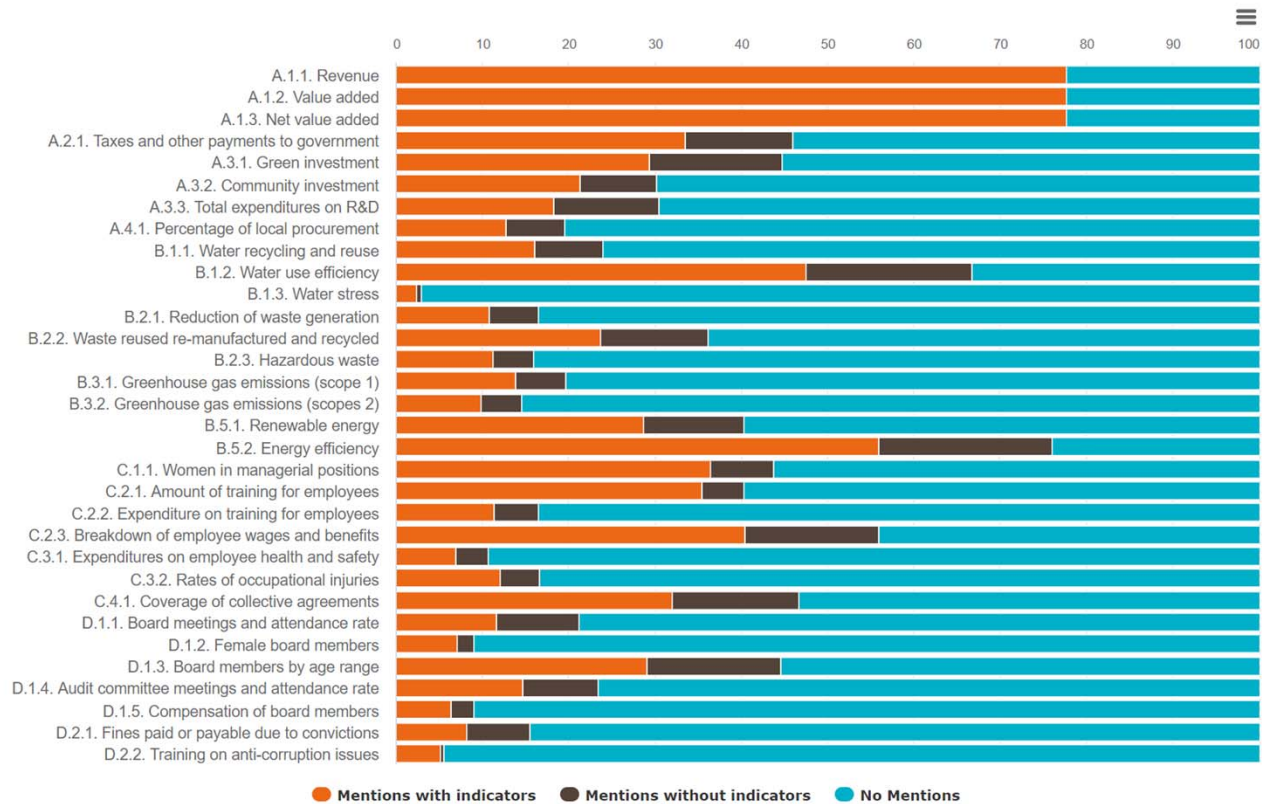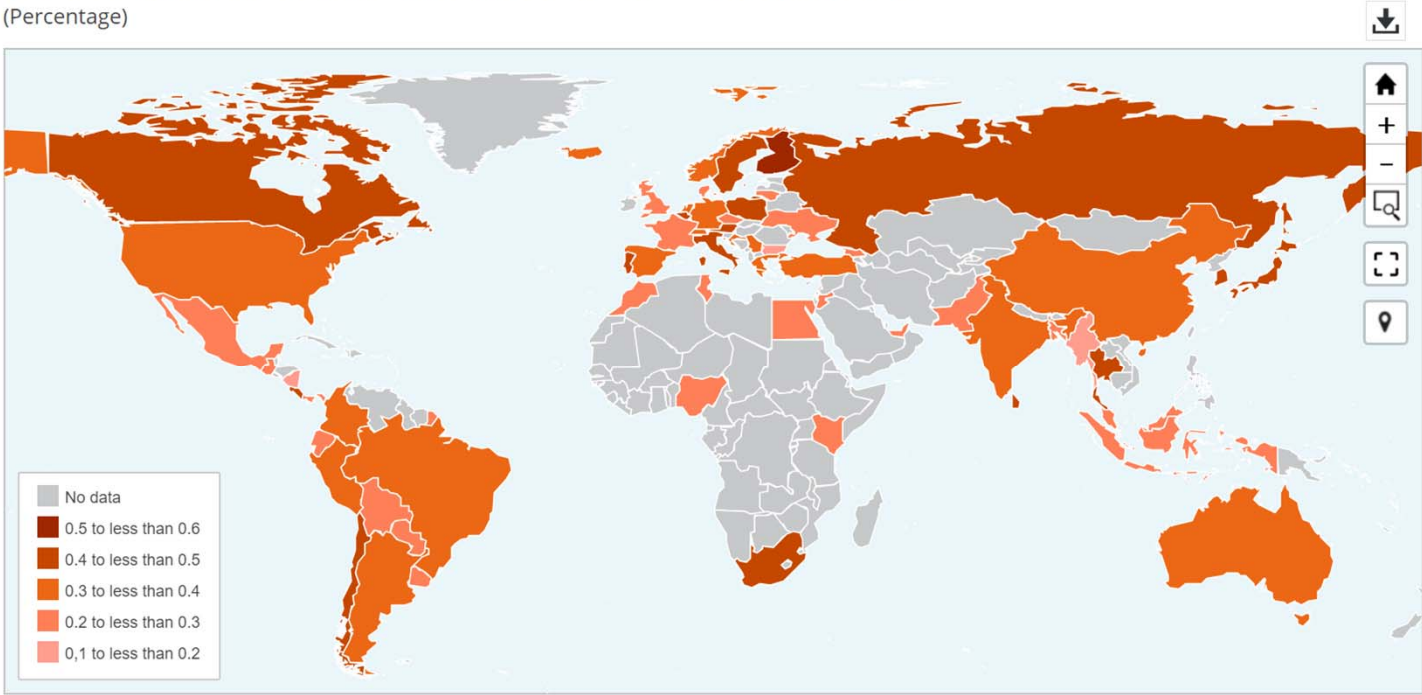
Source: Global AI Corporation with data from United Nations Global Compact (2019) and UNCTAD (2018).

ISAR GCI Reporting Completeness by Country

https://sdgpulse.unctad.org/sustainability

🌍 **Map 2. Compliance with sustainability reporting, country averages, March 2019**
(Percentage)

No data

0.5 to less than 0.6

0.4 to less than 0.5

0.3 to less than 0.4

0.2 to less than 0.3
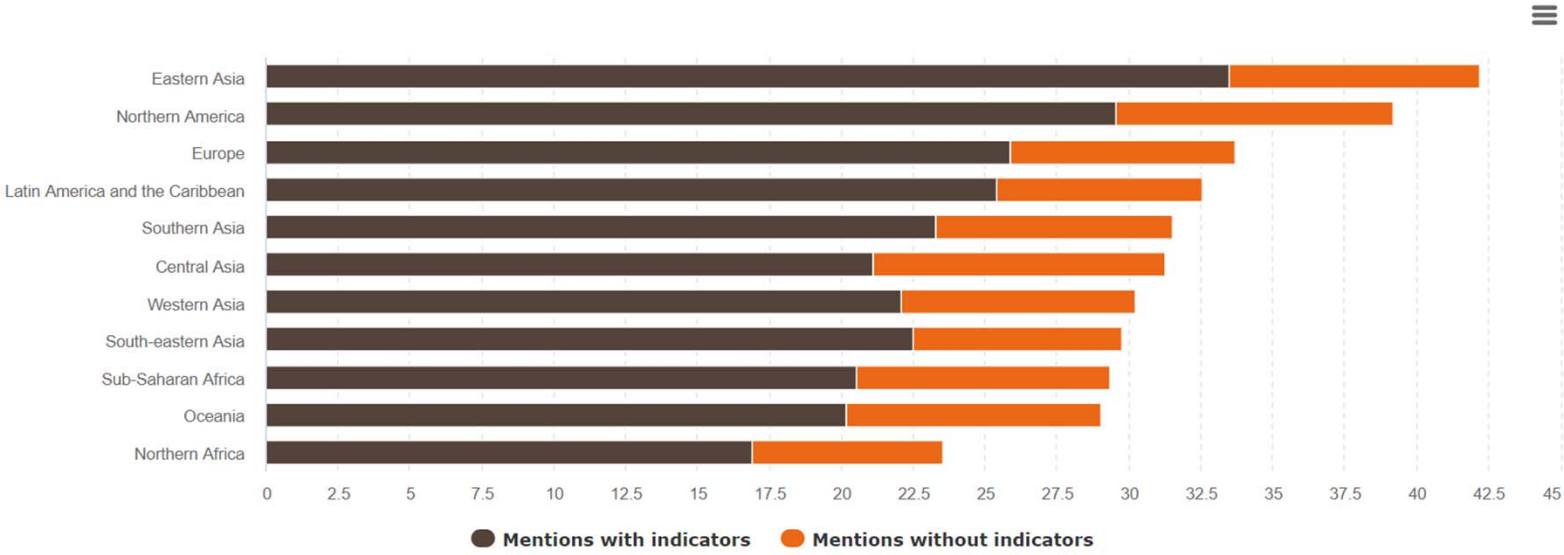
0,1 to less than 0.2

Source: Global AI Corporation with data from United Nations Global Compact (2019) and UNCTAD (2018).
Notes: Countries with less than five reports available in the United Nations Global Compact database were excluded.

ISAR GCI Reporting Completeness by Region

GlobalAi

Figure 6. Compliance with sustainability reporting, regional averages
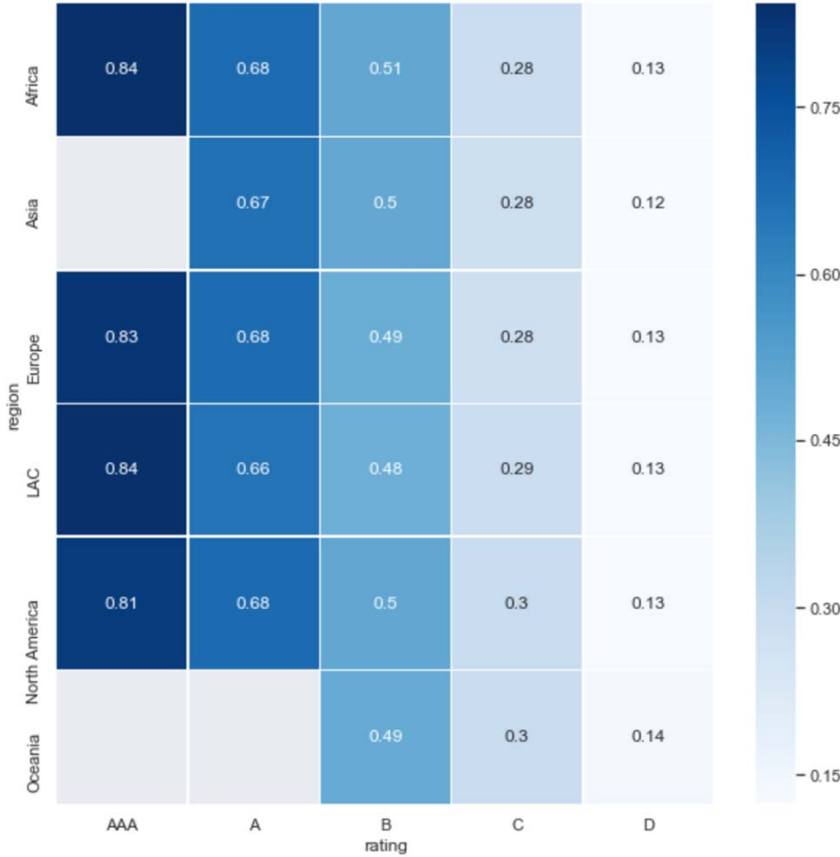(Percentage)

Source: Global AI Corporation with data from United Nations Global Compact (2019) and UNCTAD (2018).

ISAR GCI Transparency Ratings by Region

GCI as a key input for Country ESG/SDG Ratings which influence portfolio and FDI investment decision

RELEVANCE OF THE GCI
FOR CORPORATIONS

Relevance of the GCI for Corporations

- ❑ Core Strategy & Source of Competitive Advantage

- ❑ Monitor factors that influence Asset Owners investment allocation and

  engagement strategies

- ❑ Transparency Ratings to incentivize companies to increase their disclosure

ISAR GCI Transparency Ratings by Company

GlobalAi

GCI as a key input for Company ESG/SDG Ratings which influence portfolio inflows, valuation and asset owner's engagement and proxy voting strategies.

UNCTAD GCI Ratings

HOME

Wacker Chemie AG

B
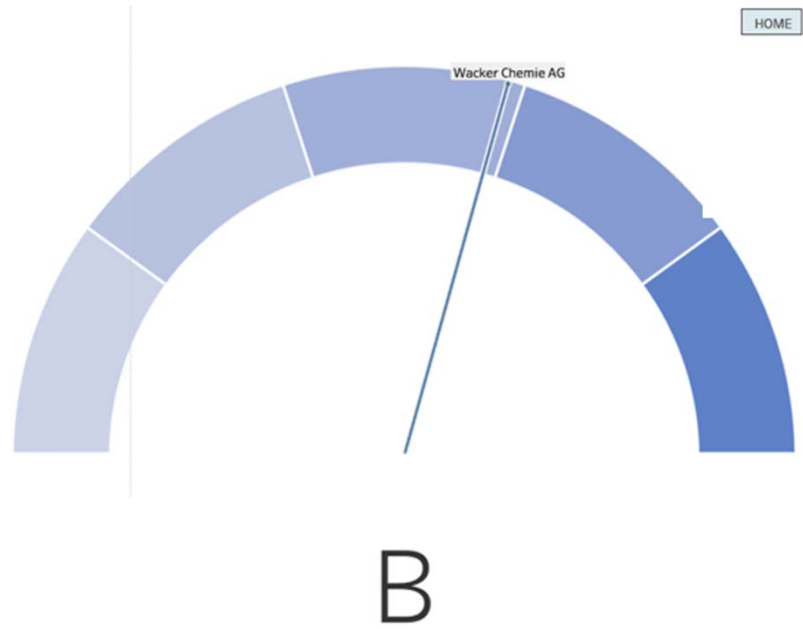
ISAR GCI Transparency Ratings by GICS Sector

GCI as a key input for Company ESG/SDG Ratings which influence portfolio inflows, valuation and asset owner's engagement and proxy voting strategies.
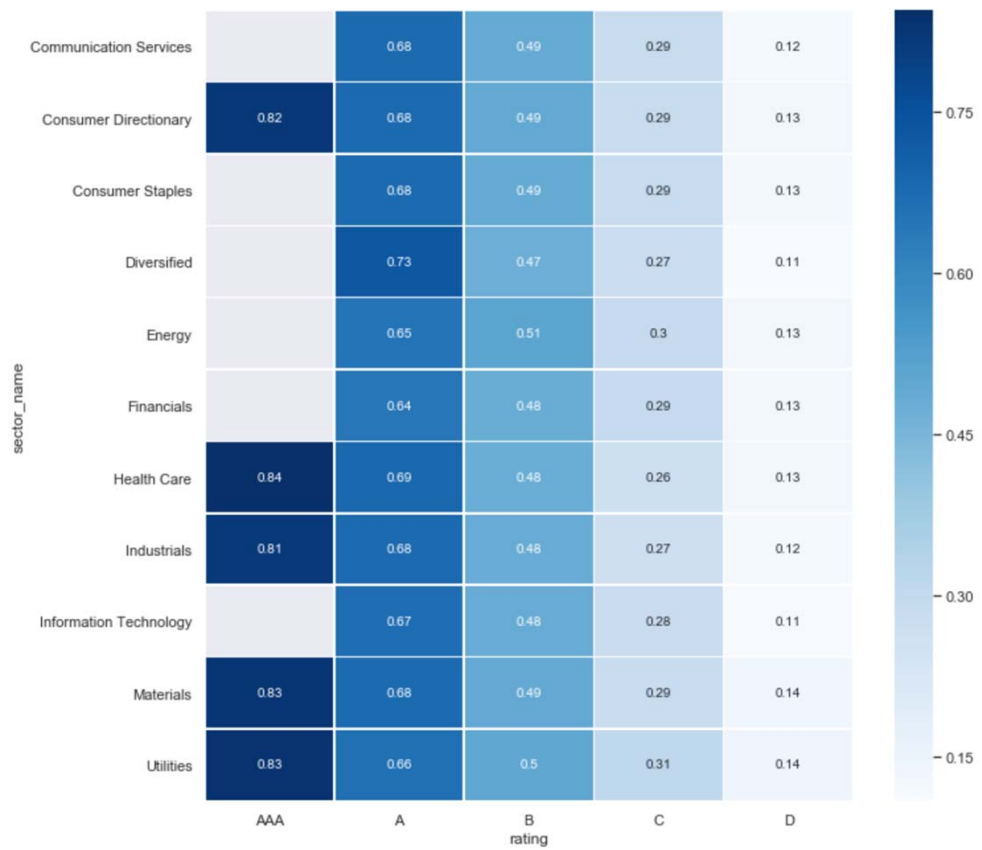
sector_name	AAA	A	B	C	D
Communication Services		0.68	0.49	0.29	0.12
Consumer Directionary	0.82	0.68	0.49	0.29	0.13
Consumer Staples		0.68	0.49	0.29	0.13
Diversified		0.73	0.47	0.27	0.11
Energy		0.65	0.51	0.3	0.13
Financials		0.64	0.48	0.29	0.13
Health Care	0.84	0.69	0.48	0.26	0.13
Industrials	0.81	0.68	0.48	0.27	0.12
Information Technology		0.67	0.48	0.28	0.11
Materials	0.83	0.68	0.49	0.29	0.14
Utilities	0.83	0.66	0.5	0.31	0.14

RELEVANCE OF THE GCI
FOR INVESTORS

Relevance of the GCI for Investors

GlobalΛi

❑ Input for SDG taxonomies to perform portfolio SDG attribution and

optimize risk-return-impact

❑ Higher valuation of companies that are more sustainable

❑ Asset Owners Engagement

Sustainability & Company Valuation

There is a statistically significant relationship between Sustainability scores that incorporate the ISAR GCI data and companies valuation and fundamental ratios.

For example, the following graph shows that industry sectors with high Sustainability scores across all sectors tend to have higher valuations and lower cost of capital.

Earnings Yield

Weighted E/P with High and Low SDG Scores
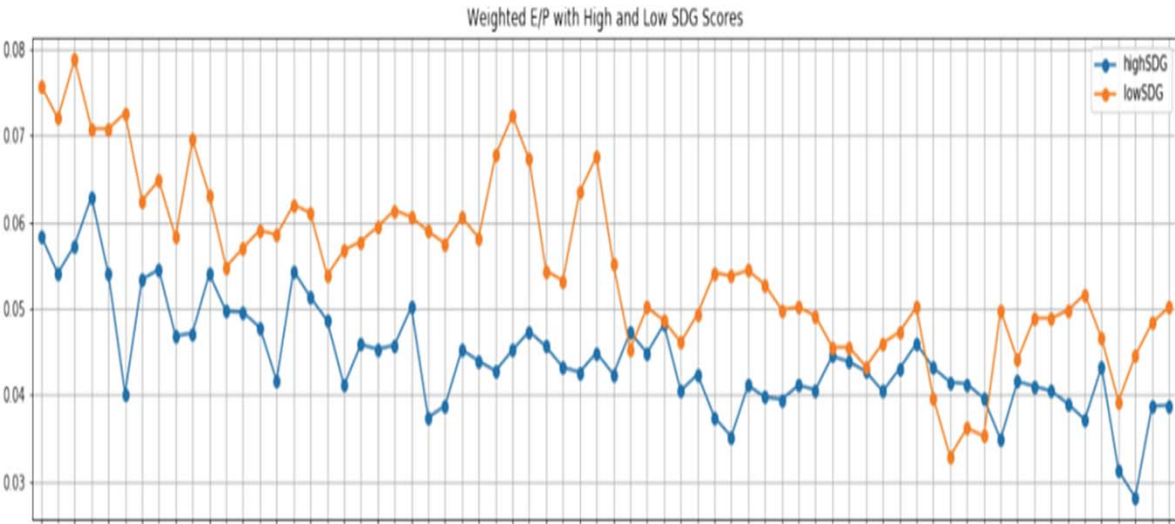
Sustainability Scores for Long-Short Strategies

The following graph shows the Sustainability footprint of a portfolio versus the benchmark which incorporates the ISAR GCI Taxonomy and other factors. This includes both positive and negative scores and enables the assessment of the net SDG footprint of the portfolio.

This also enables the implementation of SDG-tilted, thematic and other asset allocation strategies.
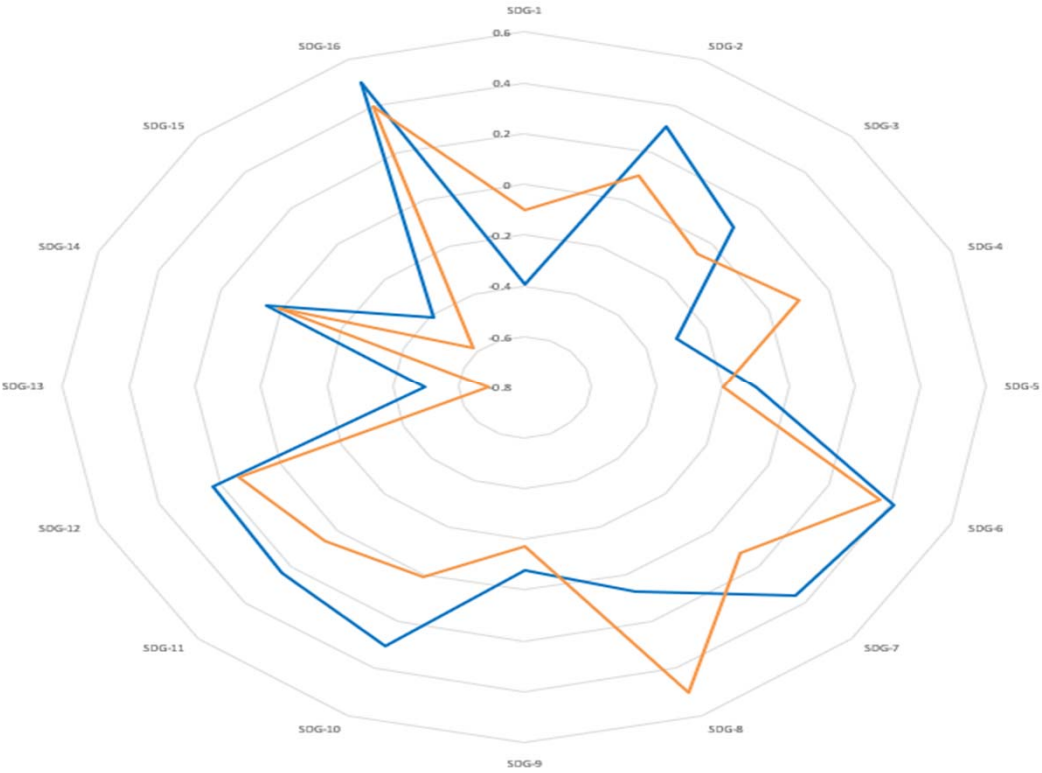
SYSTEM FOR AUTOMATED GCI DATA COLLECTION

System for Automated GCI Data Collection

GlobalAi

❑ Framework to collect missing Country private sector data for SDG indicator 12.6.1 in a scalable, efficient and economic way.

❑ The algorithm will automatically generate and send surveys, evaluate the responses and sends follow-up questions, updates a central database, calculates transparency ratings, generates sector and GCI-specific statistics in a dashboard to help users visualize trends and information gaps.

❑ The surveys will include both the GCI questions and the optional 'advanced' level survey, dashboards that show GCI data gaps per Country, and trends over time.

❑ Country-specific template which can be managed by National Statistics Offices and Regulators in Pilot Countries, and then can be easily replicated across all UN Member Countries. Currently open for engaging Pilot Countries.

System for Automated GCI Data Collection

GlobalAi

AUTOMATED GCI SURVEY SUBMISSION

DATA COLLECTED

DATA ANALYZED & VALIDATED

ADDITIONAL QUESTIONS FOR MISSING DATA & INVALID RESPONSES

TRANSPARENCY RATINGS GENERATED

DASHBOARD & HEATMAP TO MONITOR TRENDS