

AN INTRODUCTION TO ESG REPORTING FRAMEWORKS

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“Saving our planet, lifting people out of poverty, advancing economic growth... these are one and the same fight.”

*Ban Ki-moon,
former United Nations Secretary-General*

“You can’t improve what you don’t measure.”

Peter Drucker

An Overview of ESG Reporting Frameworks

Popular Frameworks Include:

- **CDP:** The Carbon Disclosure Project
- **CDSB:** The Climate Disclosure Standards Board
- **GHG Protocol:** The Greenhouse Gas Protocol
- **GRI:** The Global Reporting Initiative
- **IIRC:** The International Integrated Reporting Council
- **SASB:** Sustainability Accounting Standards Board
- **SBTi:** Science Based Targets Initiative
- **TCFD:** Task Force on Climate Related Financial Disclosures
- **WEF Metrics:** World Economic Forum Stakeholder Capitalism Metrics

Recent Efforts at Coordination/Consolidation

<h2>Group of Five</h2> <p>In December 2020, the “Group of Five” issued a prototype climate financial disclosure standard to illustrate how their frameworks could be used together</p>	<h2>International Financial Reporting Standards Foundation (IFRS)</h2> <p>In November 2021, IFRS announced a merger with the CDSB and Value Reporting Foundation (comprised of the IIRC and SASB) and the creation of the International Sustainability Standards Board (ISSB)</p>
<h3>Members include</h3> <ul style="list-style-type: none">• CDP• CDSB• GRI• IIRC• SASB	<h3>ISSB to be based on</h3> <ul style="list-style-type: none">• CDSB• IIRC• SASB• TCFD• WEF

Ways to Distinguish Frameworks

Coordination/ Consolidation

Group of Five	ISSB-Related Frameworks
<ul style="list-style-type: none">• CDP• CDSB• GRI• IIRC• SASB	<ul style="list-style-type: none">• CDSB• IIRC• SASB• TCFD• WEF

Ways to Distinguish Frameworks

Environmental vs. E, S, & G

Environmental-Only	E, S, & G
<ul style="list-style-type: none">• CDP• GHG• SBTi• TCFD	<ul style="list-style-type: none">• CDSB• GRI• IIRC• SASB• WEF

Ways to Distinguish Frameworks

Tailored to
Financial Services
Industry

Framework	Financial Services Focus
SASB	<p>Contains specific guidance targeted towards:</p> <ul style="list-style-type: none">• Asset Management & Custody Investment Banking & Brokerages• Securities & Commodity Exchanges• Commercial Banks• Consumer Finance• Mortgage Finance• Insurance
SBTi	<p>SBTi is developing a Finance Net-Zero Standard that it anticipated for 1Q23. It has also published:</p> <ul style="list-style-type: none">• A Commercial Real Estate and Residential Mortgage Tool• Private Equity Sector Science-Based Target Guidance• A Finance Tool for Temperature Scoring and Portfolio Coverage

Ways to Distinguish Frameworks

Tailored to
Financial Services
Industry

Framework	Financial Services Focus
TCFD	Contains specific guidance targeted towards: <ul style="list-style-type: none">• Banks• Insurance Companies• Asset Owners• Asset managers

Relationships Between Frameworks and Regulatory Requirements

United States

Proposed Rule	Description	Framework Ties
<p>SEC's Proposed Corporate Disclosure Rule (March 2022)</p>	<p>Would require public companies to disclose:</p> <ul style="list-style-type: none">• their governance of climate-related risks and risk management process• any material impact that climate-related risks are likely to have on their business and financial statements• how climate-related risks are likely to affect their strategy, business model, and outlook• the impact of climate-related events and transition activities• greenhouse gas (GHG) emissions	<p>SEC's proposed rule incorporates the GHG Protocol's concept of scope 1 (direct), 2 (energy), and 3 (value chain) emissions.</p> <p>The SEC has stated that it "modeled the proposed disclosure rules in part on the TCFD disclosure framework," which "should enable companies to leverage the framework with which many investors and issuers are already familiar...."</p>

Relationships Between Frameworks and Regulatory Requirements

United States

Proposed Rule	Description	Framework Ties
SEC's Proposed Fund Disclosure Rule (May 2022)	<p>Would require ESG-related funds to make a various disclosures; the greater a fund's ESG focus, the more fulsome the disclosure.</p> <p>ESG-Focused Funds would need to provide an: (1) overview of the fund's ESG strategy, (2) explanation of how the fund incorporates ESG factors in its investment decisions, and (3) description of how the fund votes proxies and engages with companies on ESG issues.</p> <p>Funds that consider environmental factors would be required to further disclose their carbon footprint and the weighted average carbon intensity (WACI) of their portfolio.</p>	The SEC has stated that the proposed Fund Disclosure Rule's carbon footprint and WACI metrics are generally aligned with the recommendations from the TCFD and based on emissions data set forth by the GHG Protocol.

Relationships Between Frameworks and Regulatory Requirements

European Union

Rule	Description	Framework Ties
EU's Non-Financial Reporting Directive (NFRD)	Has required certain large companies (since 2014) to make disclosures on a variety of issues – including the environment, social matters, human rights, and board diversity.	The NFRD's 2019 voluntary guidelines specifically integrated the TCFD's recommendations and provided guidance consistent with them.
Sustainable Finance Disclosure Regulation (SFDR)	Has required, since March 2021, covered investment advisors and asset managers to report on "Sustainability Risks" and "Principle Adverse Impacts". Different disclosures are required depending on the type of fund and could include (for funds with sustainable investment objectives) a description of the objectives, the methodologies used to measure them, and "the overall sustainability-related impact of the fund by means of relevant sustainability indicators. . . ."	

Relationships Between Frameworks and Regulatory Requirements

European Union

Rule	Description	Framework Ties
Corporate Sustainability Reporting Directive (CSRD) (Provisional agreement reached in June 2022)	The new rule would update and strengthen the NFRD by (among other things) expanding its scope to more companies and introducing more detailed reporting requirements -- which would be developed by the European Financial Reporting Advisory Group (EFRAG).	<p>EFRAG has stated that it envisions a building block approach that builds upon existing reporting initiatives and has met with representatives of many of the major reporting frameworks – including the CDP/CDSB, GRI, IFRS, SASB/IIRC, WEF, and TCFD.</p> <p>A recent report states that certain topics are more mature and ripe to be included in the first set of standards, noting that this “is particularly the case for climate-related disclosures, for which the TCFD recommendations are widely supported by policymakers, users and preparers.”</p>

Relationships Between Frameworks and Regulatory Requirements

Africa, Asia, and Latin America

Jurisdiction	Reporting Initiatives
Africa	Moves towards reporting on the continent include the Johannesburg Stock Exchange issuing draft voluntary sustainability and climate change disclosure guidance (drawing upon GRI, TCFD, ISSB, IIRC, and other frameworks) and the Nairobi Stock Exchange’s issuance of ESG disclosure guidelines.
Asia	Some sort of corporate ESG reporting is required in Australia, China, HK, India, Japan, New Zealand, Singapore, and South Korea, with fund-level ESG reporting required in Australia & Hong Kong (with more countries on horizon). TCFD-aligned standards have or are being implemented in Hong Kong, Japan, New Zealand, and Singapore.
Latin America	Increased push for environmental disclosures in Latin American – with mandatory ESG disclosures being implemented, for example, in Brazil (public companies) and Columbia (funds and insurers) and voluntary disclosures in Mexico (financial institutions).

Relationships Between Frameworks and Regulatory Requirements

Middle East and the United Kingdom

Jurisdiction	Reporting Initiatives
Middle East	Stock exchanges, including in Bahrain and Saudi Arabia, have begun issuing ESG reporting guidance. And, in January 2021, the UAE Securities & Commodities Authority issued a circular requiring companies subject to the Joint Stock Companies Governance to complete a sustainability report compliant with GRI standards.
United Kingdom	Enacted Climate-Related Financial Disclosure (CFD) regulations, effective April 2022, which apply to large (500+ employees) publicly traded, banking, and insurance companies, as well as certain other companies with more than 500 employees and 500 million pounds in revenue. The regulations broadly align with the TCFD recommendations.

Factors to Consider When Choosing a Reporting Framework

- What topics do you want to report: Environmental or E, S, and G?
- What frameworks have been used by similar organizations?
- Does the framework have guidance tailored for your specific business?
- What kind of reporting is (or may soon be) required by your regulators?
- Do you want to use a framework that, though retired, will support the consolidated ISSB standards?
- Might you want to use multiple frameworks?

“Do not wait for extraordinary circumstances to do good action; try to use ordinary situations.”

Jean Paul Richter

“Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.”

Margaret Mead, Anthropologist