Sustainable Finance

Comparing international sustainability reporting frameworks

The need for standardisation of sustainability reporting

The landscape for environmental, social and governance (ESG) reporting, also referred to as "sustainability reporting" or "non-financial reporting", has rapidly evolved in recent years. This evolution is occurring in response to demands from a wide range of stakeholders, including investors, governments, supranational organisations and regulators, as well as non-governmental organisations. A range of different standards, frameworks, principles and guidelines have proliferated. While there is much alignment in terms of what these various initiatives seek to achieve, the landscape remains fragmented. A move towards greater standardisation and more consistent, high quality ESG-related reporting from corporates is to be welcomed. In the same way that financial reporting has been standardised as International Financial Reporting Standards (IFRS), greater convergence is needed with respect to sustainability reporting.

The rapid development of an EU regulatory framework for sustainable finance is further driving the need for evolution in sustainability reporting in order to be able to comply with the various requirements and disclosure obligations. Consequently, the European Commission is currently reviewing the Non-Financial Reporting Directive (NFRD) in order to address data issues and meet evolving needs for sustainability reporting. A requirement that all companies falling within the scope of the NFRD report in accordance with a common non-financial reporting standard may help to address some of the problems identified, including comparability, reliability and relevance. However, given the global nature of business and finance and as sustainability is a global challenge, the development of an EU based sustainability reporting framework will have limitations without greater international convergence. An updated NFRD framework in the EU should not operate in isolation of other international disclosure frameworks that are already in place and that have pioneered best practice in this area. This paper provides an overview of some of the existing international reporting frameworks, the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), the International Integrated Reporting (IR) Framework, Climate Disclosure Sustainability Board (CDSB) and Global Reporting Initiative (GRI).

International sustainability reporting frameworks

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The TCFD reporting framework establishes recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. Adoption of these recommendations will help companies better demonstrate responsibility and foresight in their consideration of climate issues. That will lead to smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low-carbon economy. The TCFD structured its recommendations around four thematic areas that represent core elements of how organisations operate[1]:

1. Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

[1] See 'Final Report - Recommendations of the Task Force on Climate related Financial Disclosures', June 2017

One of the TCFD's key recommended disclosures focuses on the resilience of an organisation's strategy, taking into consideration different climate-related scenarios, including a 2° Celsius or lower scenario. An organisation's disclosure of how its strategies might change to address potential climate-related risks and opportunities is a key step to better understanding the potential implications of climate change on the organisation. TCFD recognises the use of scenarios in assessing climate-related issues. Assessing the potential financial implications based on climate scenario analysis is relatively recent and practices will evolve over time, but the TCFD believes such analysis is important for improving the disclosure of decision-useful, climate-related financial information.

Global Reporting Initiative (GRI)

GRI's mission is to help businesses and governments worldwide understand and communicate their impact on critical sustainability issues, such as climate change, human rights, governance and social well-being. GRI Sustainability Reporting Standards (GRI Standards) are the most widely adopted global standards for sustainability reporting. Sustainability reporting, as promoted by the GRI Standards, is an organisation's practice of reporting publicly on its contributions – positive or negative – towards sustainable development. The GRI Standards are designed to enhance the global comparability and quality of information on these impacts, thereby enabling greater organisational transparency and accountability.

The GRI Standards are structured as a set of interrelated, modular standards. Three Universal Standards apply to every organisation preparing a sustainability report:

1. Foundation (starting point for using the GRI Standards)
2. General Disclosures (to report contextual information about an organisation)
3. Management Approach (to report the management approach for each material topic)

An organisation further selects from the set of topic-specific standards for reporting on its material topics. These standards are organised into three series – economic, environmental and social.

The GRI Standards contain several topic-specific standards for organisations to use to report climate change where they identify it as a material topic:

- GRI 305: Emissions 2016
- GRI 302: Energy 2016
- GRI 303: Water and Effluents 2018
- GRI 201: Economic Performance 2016
- Disclosure 201-2 (related to financial implications and other risks and opportunities due to climate change)

Sustainability Accounting Standards Board (SASB)

The mission of the SASB Foundation is to establish industry-specific disclosure standards across environmental, social, and governance topics that facilitate communication between companies and investors about financially material, decision-useful information. Such information should be relevant, reliable and comparable across companies on a global basis.

The SASB Foundation envisions an investment universe where a shared understanding of companies' sustainability performance enables companies and investors to make informed decisions that drive improved sustainability outcomes and thereby lead to improved long-term value creation.

The SASB Foundation has established an independent standard-setting arm, the Sustainability Accounting Standards Board, that sets sustainability disclosure standards that are industry-specific and tied to the concept of materiality to investors. The standards are intended to capture sustainability matters that are financially material and reasonably likely to have a material impact on financial performance or condition. One of the key elements of SASB is the concept of double materiality. The double materiality perspective appropriately acknowledges that non-financial information is important to multiple constituencies. The SASB materiality map identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry.[2]

Climate risk is nearly ubiquitous, appearing in 69 of the 77 SASB Standards. SASB Standards enable TCFD disclosure by providing industry-specific metrics to evaluate company exposure to and management of climate-related risks and opportunities.

CDSB Climate Disclosure Standards Board

CDSB is an international consortium of business and environmental non-governmental organisations (NGOs). They are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. They do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps companies to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, CDSB work builds the trust and transparency needed to foster resilient capital markets. Collectively, the CDSB aims to contribute to more sustainable economic, social and environmental systems. The CDSB Framework was updated in April 2018[3] to align with the recommendations of the Task Force on Climate-related Financial Disclosures and other key mainstream reporting requirements, helping to streamline the reporting cycle for many organisations.

[2] See SASB Materiality Map

[3] See 'CDSB Framework – Advancing and aligning disclosure of environmental information', December 2019

INTEGRATED REPORTING <IR>

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The IR Framework[4] has been developed to meet this need and provide a foundation for the future. The IIRC's long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

Comparing existing frameworks

The World Economic Forum (WEF) in 2020 focussed on the theme "Stakeholders for a Cohesive and Sustainable World". For the first time, climate and environmental risks are listed as the top five global risk areas, edging out other significant issues such as regulation, reputational and cyber risk.[5] As climate change and sustainability became two of the dominant topics for discussion in the boardroom of corporates and investment firms alike, it is useful to analyse the existing standards and compare them to the TCFD recommendations focusing on climate change. The analysis highlights a degree of the alignment and linkages that exist between the other frameworks and standards and TCFD. The results describe how each of the frameworks and standards enables companies to meet most of the TCFD recommendations. If companies are using an existing framework, there may not be a significant amount of additional disclosure required to incorporate the TCFD recommendations.

[4] See, 'The International <IR> Framework', December 2013
[5] See 'The Global Risks Report 2020', World Economic Forum, January 2020

How do the frameworks and standards align with principles for effective disclosure?

Principles underpin the preparation of corporate disclosures, whether in respect of financial, integrated or broader ESG reporting. Principles inform the content of disclosures, the quality of information disclosed, and how, where and when it is presented in the relevant report. Significant differences in reporting principles can result in confusion for report preparers and may inhibit the utility of such information for users if these differences are not well-founded, clearly articulated or well understood.

Principles for effective disclosure – comparison of the different standards

As part of our analysis, we have taken the principles from all the standards and grouped them together based on which principles align best. As you can see from the table below the terminology is very similar across a number of standards.

Principles	TCFD	GRI	SASB[6]	IR	CDSB
Comparability		X		X	
Comparable			X		
Consistent Comparable	X				X
Faithful representation					X
Fair representation			X		
Reliability	X	X		X	
Verifiable	X		X		X
Completeness		X	X	X	
Specific and complete	X				
Timeliness		X			
Timely basis	X				
Understandability	X				X
Clear and understandable		X			
Neutral	X		X		
Balanced		X			
Future orientated and Forward looking				X	X
Conciseness				X	
Objectivity			X		
Objective					X

Although the terminology and detail differ slightly, all standards have similar alignment in terms of principles for effective disclosures. They all focus on comparable, reliable, verifiable, complete, timely and understandable information where possible. In addition, some of the other standards like

[6] See SASB Conceptual Framework

SASB and CDSB consider objectivity and IR considers forward looking information and conciseness to be other key principles. While the analysis found practical alignment and no contradictions between the other frameworks and standards, there are at least two areas where there is an opportunity for the NFRD to consider better alignment for the benefit of report preparers and users:

1. **Terminology**: Further alignment of the language and terminology used in the principles, where feasible, would prove beneficial to avoid potential misinterpretation.

2. **Alignment of Principles**: Further alignment of the principles to eliminate differing details that could be misconstrued as a misalignment of principles, e.g. timing of reporting and scope of comparability of other frameworks and standards.

Shared objectives

Although approaches and terms for describing sustainability and ESG disclosures vary, many requirement frameworks share the following objectives:

1. To secure a sustainable future in environmental, social and economic terms.

2. To inform decision-makers in making decisions that will support a sustainable future through access to more useful and relevant information (including enabling investors to make an informed assessment of the performance of investee companies with regard to various sustainability issues).

The Association of Certified Chartered Accountants (ACCA) and the CDSB completed a gap analysis of the current existing sustainability frameworks. The table below outlines the shared aims of some requirements to change business practices through reporting requirements designed to support sustainability objectives and decisions.[7]

[7] See 'Mapping the sustainability reporting landscape' – Lost in the right direction', ACCA and CDSB, May 2016

ACCA and CDSB comparison of sustainability reporting frameworks

Framework	Scope	Change in business practice	Type of change	Route	Outcome
TCFD	Climate related risks and opportunities	✔	Financial implications for climate risks	Business models focused on climate related risks and opportunities	Climate risk and sustainability
IR	Value creation for organisation through sustainable reporting	✔	Integrated thinking is embedded in business practice	Through the cycle of integrated thinking and reporting, and communication of value creation	Financial stability and sustainability
SASB	Industry specific and wider environmental social and governance issues	✔	Decisions that increase long-term value and improve sustainability outcomes	Through sustainability accounting standards and associated education and outreach	More useful information for investors and improved corporate performance on those environmental, social and governance issues most likely to affect value.
GRI	Wider environmental social and governance objectives	✔	Responsible management of economic, environmental, social and governance performance and impacts	By making sustainability reporting standard practice, providing guidance and support to organisations	A sustainable global economy that combines long-term profitability with ethical behaviour, social justice and environmental care.
CDSB	Climate, environmental and natural capital	✔	Financial implications for climate risks	Business models focused on climate related risks and opportunities	Climate risk and sustainability

Closer comparison of frameworks to the TCFD recommendations

The TCFD structured its 11 recommendations around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. Below is a summary of the analysis performed.

Analysis of the TCFD recommendations compared with other sustainability reporting standards

TCFD Framework	TCFD Recommendations	GRI	SASB	CDSB	IR
Governance	a. Describe the board's oversight of climate-related risks and opportunities				
	b. Describe management's role in assessing and managing climate-related risks and opportunities.				
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.				
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.				
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.				
Risk Management	a. Describe the organisation's processes for identifying and assessing climate-related risks.				
	b. Describe the organisation's processes for managing climate-related risks.				
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.				
Metrics and Targets	a. Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.				
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.				
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.				

Key	
Covered	
Partially covered	
Not covered or limited	

Some of the key insights from the analysis above include:

- **Governance**
  - All standards setters focus on key oversight from the governance structure, including management in monitoring economic, environmental, and social topics and their impacts, risks, and opportunities.

- **Strategy**
  - All standard setters include requirements to document climate related impacts, risks and opportunities.
  - The detail disclosed by each standard differs and there is a concept of materiality which means that some standards focus on industry-specific climate related risks and opportunities.
  - TCFD and CDSB focus on guidance related to consideration of climate related scenarios and resilience of strategies under 2^{o}c or lower.
  - Other standards include climate-related topics and metrics, which can be used as part of scenario analysis in order to measure and disclose performance on material climate-related risks and opportunities.

- **Risk Management**
  - All standards have requirements to identify, assess and manage climate related risks. However, some do not include generalised guidance related to types of impacts or associated financial impacts; instead they provide industry-specific standards, which include climate related topics, and metrics, which are likely to be material.

- **Metrics and Targets**
  - Some standards require reporting organisations to cover topics that reflect the reporting organisation's significant economic, environmental, and social impacts or substantively influence the assessments and decisions of stakeholders ('material topics'). Each organisation will determine what is considered material to their business and therefore the metrics will be different for each organisation.
  - TCFD has identified specific Greenhouse Gas emissions metric and categorised them between Scope 1, 2 and 3 based on the emission intensity. GRI and SASB do not include specific measures but focuses on what is material for an organisation and by industry.

In comparing the frameworks above we have also identified some pros and cons to each of the sustainability reporting frameworks as set out below.

Sustainability reporting frameworks – pros and cons

Framework	Pros	Cons
TCFD	• Closest framework to a mandatory/regulatory requirement and will therefore be most widely adopted by companies.	• Largely climate related disclosures. • Some complexity around the requirements, which may make it difficult for companies to report.
GRI	• Most widely adopted. • Easily implemented from a reporting perspective. • Considers materiality for each stakeholder.	• Mainly adopted by European companies. • Not a focus on climate related metrics.
SASB	• Specific industry standards • Investor focus in terms of reporting requirements. • Consideration of materiality for each industry standard. • Looks at the future performance of companies.	• Mainly US focus but adopted by other global organisations that have a presence in the US.
CDSB	• International consortium of business and environmental NGOs.	• Largely climate and environmental related disclosures.
IR	• Supports value creation for companies over short, medium and long term. • Global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. • Considers materiality for each stakeholder.	• No specific metrics for measuring climate related risks and opportunities. • No specific metrics to measure scope 1, 2 or 3 for greenhouse gas emissions.

Conclusion – similar but different

In summary, our analysis demonstrates the high degree of alignment and linkages that exist between the established frameworks. However, there are – unsurprisingly – certain differences in terminology, detail and the nature of focus across the frameworks. In particular, the TCFD and CDSB are principally focused on climate, while frameworks such as the GRI and SASB have a broader ESG focus, targeted to different industries and sectors. Notwithstanding these differences, the standards analysed within this document are materially aligned in their core objectives – to promote the disclosure of consistent and reliable information relating to ESG factors.

All of the existing frameworks require detailed, informative and precise sustainability related disclosures. Considering the advanced nature of the sustainability frameworks already developed, the NFRD regime should not operate in isolation of these frameworks. In our view, the Commission's review of the current NFRD provides the opportunity to develop industry sector specific standards, which draw on the "best from the best" of the pre-existing standards already in place. Moreover, the NFRD should also have due regard to existing regulations and disclosure requirements affecting the asset management industry, for example Sustainable Finance Disclosure Regulation (SFDR), UCITS and AIFMD reporting requirements. To ensure the Commission brings consistency to the non-financial reporting disclosures (including alignment with existing regulations) future consultation with professional bodies on an international basis is fundamental, as is the involvement of national accounting standard-setters, the European Supervisory Authorities, the European Central Bank, IOSCO and the OECD.

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