ARTICLE

Standardized ESG reporting is coming sooner than you think... Is your company ready?

By Joseph Vicari, *Managing Director and ESG Practice Lead, Broadridge Financial Solutions*

Imagine you're back in high school. You arrive in class and there's no teacher, no instruction, no textbook to offer information or guidance. You're told you can voluntarily submit a report if you want, however there's no assignment and no clear rubric.

But, at the end of the year you get a grade. Unfortunately, you don't know why your grade is what it is—it just is. And you're not even sure how your grade stacks up to your other classmates.

This is essentially the ESG ratings and disclosure environment that corporate issuers are operating in today.

'STANDARDS' AREN'T VERY STANDARDIZED

To be sure, standards and frameworks do exist. The problem is there's too many of them and it's starting to feel like alphabet soup: SASB, TCFD, GRI, CDSB, etc.

Amid this confusion, corporations are being graded by third-party rating agencies like ISS, Morningstar/Sustainalytics, MSCI, Glass Lewis, Moody's, and so on. The list grows every day. Over 800 entities now offer some type of ESG rating on a global basis.

Compounding these challenges, ratings across agencies don't correlate especially well. For example, a good ISS rating could translate into a mediocre rating from Sustainalytics.

REGULATORS ARE SEEKING TRUE STANDARDIZATION

Clearly the status quo is untenable long term. It's confusing for issuers as well as investors. So, it's no surprise regulators are hoping to provide some semblance of order.

On November 3, 2021 at the COP26 conference, the International Financial Reporting Standard (IFRS) announced the creation of the International Sustainability Standards Board (ISSB). The purpose of the ISSB is to provide a comprehensive global baseline of sustainability-related disclosure standards.

This marked the first time a major international accounting governance body explicitly sought global disclosure standards around ESG.

As part of this plan, the IFRS Foundation will consolidate the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) by June 2022. These entities were created in early 2021 as part of a merger between the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

Broadridge®

Meanwhile, in the United States, the SEC announced proposed rules in March 2022 that would require publicly traded companies to disclose certain climate-related risks in their registration statements and periodic reports. These proposed rules would explicitly incorporate standards from the Task Force on Climate-Related Financial Disclosures (TCFD).

In short, perhaps a bit ironically, Europe appears to be heading toward SASB and the United States appears to be heading toward TCFD.

WHAT'S NEXT?

As we wait to see where regulators finally come down, there are several things issuers can do to prepare.

First, it's important to gain familiarity with SASB and TCFD. Although there is much alignment, in general SASB focuses on a corporation's climate impact, while TCFD tends to focus on how environmental factors present long-term risk. Investors and stakeholders want to know how climate change will impact your corporation's ability to deliver durable financial returns.

Second, it's critical to hone your internal reporting, metrics, and measures. It's one thing to know what you need to measure, but it's another thing to know how to measure. Try to find a partner with the right expertise to expand and refine your measurement processes and infrastructure.

Finally, prioritize your ESG storytelling. Although hard data indicators and metrics matter, ultimately your ability to attract capital will require meaningful engagement to proactively shape shareholder perceptions and expectations.

ESG messaging should showcase how you will navigate long-term risk and capitalize on new opportunities. In this respect, impactful ESG narratives go beyond mere facts and figures.