ESG Disclosure Handbook

Contents

1. Foreword

The burgeoning interest in corporate environmental, social and governance (ESG) information from investors, society, central bankers and others has led to welcome developments in reporting frameworks, codes, rules and practices. The Reporting Exchange records almost 2,000 reporting provisions and other resources that directly or indirectly affect the way in which companies report on ESG matters. While these developments are welcome responses to the challenges of our times, they also mean that companies are facing many choices when deciding what ESG information to report, how, to whom and where.

The Corporate Reporting Dialogue (CRD) brings together some of the most influential developers of ESG reporting frameworks and standards. The CRD is a response to market demand for greater coherence, consistency and comparability between different frameworks. Members are committed to driving better alignment of sustainability reporting frameworks, as well as with frameworks that promote further integration between non-financial and financial reporting.

As Chair of the CRD, I welcome the *ESG Disclosure Handbook*. It is a valuable resource for companies aiming to evaluate the way in which they may use different reporting frameworks and standards to achieve effective and purpose-driven disclosure. The handbook adopts relevant principles from the professional frameworks that accountants use when making and assessing significant judgments and providing useful input into ESG disclosure decisions.

By providing a structured evaluation process, the *ESG Disclosure Handbook* makes an important contribution to enhancing ESG disclosure.

Ian Mackintosh, Chair, Corporate Reporting Dialogue

2. ESG Disclosure Handbook purpose and objectives

Introduction

Many considerations affect the decisions companies make about what environmental, social and governance (ESG) information they report as well as how and where they should report the information and for which audiences. The regulatory and societal context in which the company operates, its stakeholders, ethical choices and values and other factors influence the choices about what to report. The absence of universally agreed objectives, standards and thresholds for external ESG information disclosure means that reporting takes place against a background of uncertainty. Risks can arise from the failure to satisfy stakeholders' information needs, perceptions of lack of accountability and disconnects between information reported through different channels.

Companies therefore adopt various approaches to ESG reporting in practice. These include:

- Publishing multiple reports aimed respectively at particular subject matter, themes, objectives or framework requirements;
- Integrated reporting that aims to cover all subject matter materially relevant to performance and value creation, including increasing the presentation of ESG information alongside financial statements and management commentary;[1]
- Hybrid approaches based on a range of influences, including reporting requirements, internal objectives, peer practice and/or targets for inclusion in indices.

All of these approaches are legitimate responses to the demand for ESG information. However, in many cases it is difficult for users of information to discern why a company has taken a particular approach, what assumptions inform conclusions about the ESG information reported, and what purpose and audience the information intends to serve.

What is the *ESG Disclosure Handbook* and who is it for?

The *ESG Disclosure Handbook* offers guidance to help companies navigate choices associated with ESG reporting, including:

- The ESG information needs of multiple stakeholders;
- Multiple reporting provisions (see Box 1);
- Internal objectives for reporting;
- External objectives for reporting (e.g., measuring impact, compliance, etc.);
- Concerns about reporting "volume and clutter" obscuring important information.

The guidance in the *ESG Disclosure Handbook* is designed for use by companies when considering what to report, where, why, to whom and how in response to non-prescriptive mandatory ESG reporting requirements (see Box 1), voluntary ESG reporting requirements and corporate ESG reporting objectives. The guidance is a structured evaluation process to help companies address the multiple considerations that inform external ESG reporting decisions. The structured evaluation process is made up of six key questions and three process steps as described in sections 4 and 5.

Box 1: Reporting provisions: introducing the Reporting Exchange and the Indicator Library

A reporting "provision" is a legal/mandatory requirement or a voluntary framework, code or guidance document that "provides" details of what a company must do or could do to provide ESG information in external reports.

Legal/mandatory reporting provisions can be prescriptive – telling the reporting company exactly what they must do – or non-prescriptive. Non-prescriptive mandatory reporting requirements are legal requirements for the provision of general ESG information that do not prescribe the exact content. For example, Article 3.1 of EU Directive 2014/95/EU requires certain companies to include a non-financial statement containing information relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters in the management report. However, it does not prescribe the exact content; therefore, companies have to use judgement and discretion about how to respond.

The Reporting Exchange and Indicator Library are resources designed to help companies understand and navigate ESG reporting provisions.

The Reporting Exchange (www.reportingexchange.com) is an online platform that records details of reporting provisions that directly or indirectly influence the way in which companies report ESG information. Reporting provisions are recorded on the Reporting Exchange where they are introduced, developed or can be interpreted to support ESG and sustainability reporting and non-financial disclosure requirements.

Within the Reporting Exchange, the **Indicator Library** identifies certain indicators specified in some of the provisions recorded. The purpose of the Indicator Library is to organize, categorize and structure within a central resource some of the indicators that companies commonly use for external reporting. The way in which the Indicator Library organizes and structures provisions and indicators does not apply any value judgement as to the merits, relevance or usefulness of indicators – they are simply recorded according to an agreed categorization structure with full referencing back to the source of the indicator.

The Reporting Exchange and the Indicator Library should be used in conjunction with the *ESG Disclosure Handbook* as a reference point for companies when exercising their judgement about what to disclose in external reports.

Why is this handbook needed?

Decisions about the type of ESG information to report as well as why and how companies should prepare the information, where they should report it and for whom, are based on the evaluations and judgements management makes when assessing the different options available to them.

As ESG reporting requirements evolve, become more complex and add new features, such as the demand for forward-looking, investor-grade information, companies will increasingly need techniques to respond to new reporting challenges. The *ESG Disclosure Handbook* provides a structured process to exercise judgement when forming balanced and supportable opinions about the options and inputs available during the ESG reporting decision-making process.

Judgement is not the same as decision-making. Judgement is a skill that applies where there is more than one potentially correct answer. Judgement leads to the forming of opinions and is a subset of decision-making.

The objectives of judgement are to:

- Achieve independence and help avoid biases;
- Support comprehensive fact-gathering and documentation;
- Evaluate different options;
- Limit errors and risks;
- Improve the quality of information through discernment;
- Support assurance activity;
- Raise confidence in reported information;
- Enhance coherence between ESG and other corporate information;
- Help the board and audit committees understand the options management is considering and the approach taken to reach decisions about external ESG information disclosure.

The accounting profession uses judgement frameworks to guide accountants and others when making, assessing and documenting significant judgements.[2]

As ESG reporting adopts more of the characteristics of financial reporting and demands for transparency on the assumptions reporting companies make increase, professional judgement frameworks applicable to accounting provide useful input into ESG disclosure decision-making.

How to use the handbook

Companies may use the handbook to:

- Explore the various options associated with external ESG disclosure;
- Inform the development of a reporting strategy and external disclosure processes. A reporting strategy is a plan of action and a decision-making framework designed to achieve reporting objectives and ensure that information is "decision-useful." It enables teams and people involved in the reporting process to understand and coalesce around the company's strategic reporting approach. It is likely to include details of:
    - Operational and organizational reporting boundaries;
    - The standards and methodologies that the company will use to prepare ESG information;
    - Third party or company-created definitions of ESG terminology;
    - The circumstances in which companies will seek external assurance;
    - The timescales over which companies will report information, including the company's definition of short-, medium- and long-term;
    - The perspectives from which the company will report information;
    - Systems and internal controls for collecting ESG information;
    - Sign-off procedures for ESG information.
- Work through the structured process outlined in section 3 and explained in more detail in sections 4 and 5;
- Identify the most appropriate reporting provisions and indicators to use in conjunction with the Reporting Exchange and Indicator Library (see Box 1);
- Take control of the company's narrative within corporate reports to limit or balance opinions and conclusions reached by investors and others based on a variety of information sources;
- Support collaboration, knowledge sharing and cross-functional, interdisciplinary team discussions and/or regular meetings with professionals from finance, risk management, control and planning, investor relations, legal, sustainability and communications departments;
- Understand more about user information needs;
- Reference in external reporting to explain the approach used when preparing disclosures about judgement.

Where management has used the handbook to guide decision-making on external ESG reporting, they can state that their ESG reporting decisions have been based wholly or partly (as appropriate) on the *ESG Disclosure Handbook*.

Investor information needs

The *ESG Disclosure Handbook* provides insights into the information needs of investors. The insights assist companies in the judgement process by clarifying the information characteristics that are useful to investors in their decision-making. The focus in this handbook on investor information needs recognizes that many large companies have mandatory (albeit non-prescriptive) obligations to report certain ESG information to investors and that investors have an important role to play in promoting long-term sustainable organizational success. An evaluation of all stakeholder interests and information needs is an important component in exercising judgement about what information is most material and decision-useful for investors.

The insights into investor information needs are based on interviews conducted with selected investors from APG, PGGM, Allianz Global Investors, Generation Investment Management, Arabesque Partners, Colonial First State Global Asset Management, Breckinridge Capital Advisors, Canada Pension Plan Investment Board, Aviva, S&P and MSCI. The selection of participants aimed to achieve broad geographical representation and to take into account the specialist ESG knowledge of their firms. The investor sample is small and therefore is not representative of views in the financial industry as a whole.

Investors' observations on the current state of ESG disclosures

Mixed progress depending on company size

ESG reporting has seen significant progress in terms of the number of companies reporting ESG information. Sustainability reporting is now standard practice for large and mid-size companies around the world. But it is far less common among small and mid-sized companies, certain sectors and geographies. Therefore, despite the progress, the availability and accessibility of ESG disclosures is still a concern.

Improvement in content, differences in ESG subject matter

The content of disclosures has improved significantly. Reporting companies have adopted frameworks and standards, which improves the comparability and quality of disclosures. Governance disclosures are most prevalent and robust, incorporated in annual reports and supported by codes and regulations. Environmental disclosures are gradually becoming more standardized, often presented in quantitative terms. However, there are significant differences in the quality of information depending on the subject matter. Greenhouse gas emissions information is well advanced, whereas information about topics such as biodiversity is less mature. Companies need to make the most progress in improving disclosures related to social matters, especially human rights issues. Investors often perceive human rights issues as a material risk influencing the reputation of the company and therefore require better information on how a company is mitigating associated risks.

Scope

Disclosures about ESG risks and opportunities outside the company's operational/organizational boundary are currently inadequate.

Although companies have made progress on the availability and quality of ESG information reported, they need to make further improvements if investors are to integrate ESG analysis into their investment decisions. Investors are looking for financially material, forward-looking, strategic information and request standardized, timely, verified data that they can use in their own models.

Structure of the handbook

The *ESG Disclosure Handbook* covers:

- Key questions that inform judgement (section 4);
- The application of materiality (section 4);
- Investor information needs (section 4).
- Evaluation steps (section 5).

How the handbook fits into the corporate reporting landscape

The *ESG Disclosure Handbook* responds to the following drivers:

- **The complexity of the reporting landscape**
  Reporting requirements are currently found in a mixture of regulation and legislation, standards, protocols, frameworks, codes, principles, guidance and listing rules.[3] Regulators, the business community, investors, non-governmental organizations (NGOs), think tanks, ratings agencies and specialist reporting organizations develop the requirements. ESG reporting content – meaning the type of information requested in reporting requirements – shares some characteristics across requirements but there is not full alignment.

- **New corporate performance expectations**
  Sustainability "mega forces," including climate change, energy security, resource scarcity, disparate levels of prosperity, food security and ecological decline, are changing notions of what constitutes business success. Businesses are being called on to create shared value and inclusive growth, to assess their dependencies and impacts on the range of "capitals"[4] or resources and relationships from which they create value, and to contribute to the Sustainable Development Goals and account for how they do this in external corporate reports.

- **Emerging reporting trends**
  ESG reporting is increasingly becoming an annual exercise for companies, and the financial sector is taking a more active interest. The involvement of finance ministers and central bank governors in the creation of the Task Force on Climate-Related Financial Disclosure (TCFD) signals a new impetus in making ESG reporting (or subsets thereof) a mainstream exercise with the characteristics of financial reporting. This in turn introduces new expectations, for more forward-looking information[5] and for investor-grade information that is suitable for third-party assurance.

- **Dangers of boilerplate reporting**
  A recent study[6] focused on risk factor disclosures found that analysts are better able to assess fundamental risk and reflect it in stock prices when disclosures are more detailed and avoid vague, abstract or "boilerplate" language. However, according to the Sustainability Accounting Standards Board (SASB) State of Disclosure Report, which reviews US 10-K and 20-F filings, companies used generic, vague and non-specific language more than 50% of the time across ESG topics.[7]

- **Independent assessments of corporate ESG performance enabled by technology**
  There is some evidence to suggest that third-party organizations are starting to form their own assessments of ESG performance and even prepare hybrid disclosures according to a pre-determined set of requirements based on information in the public domain.[8,9]

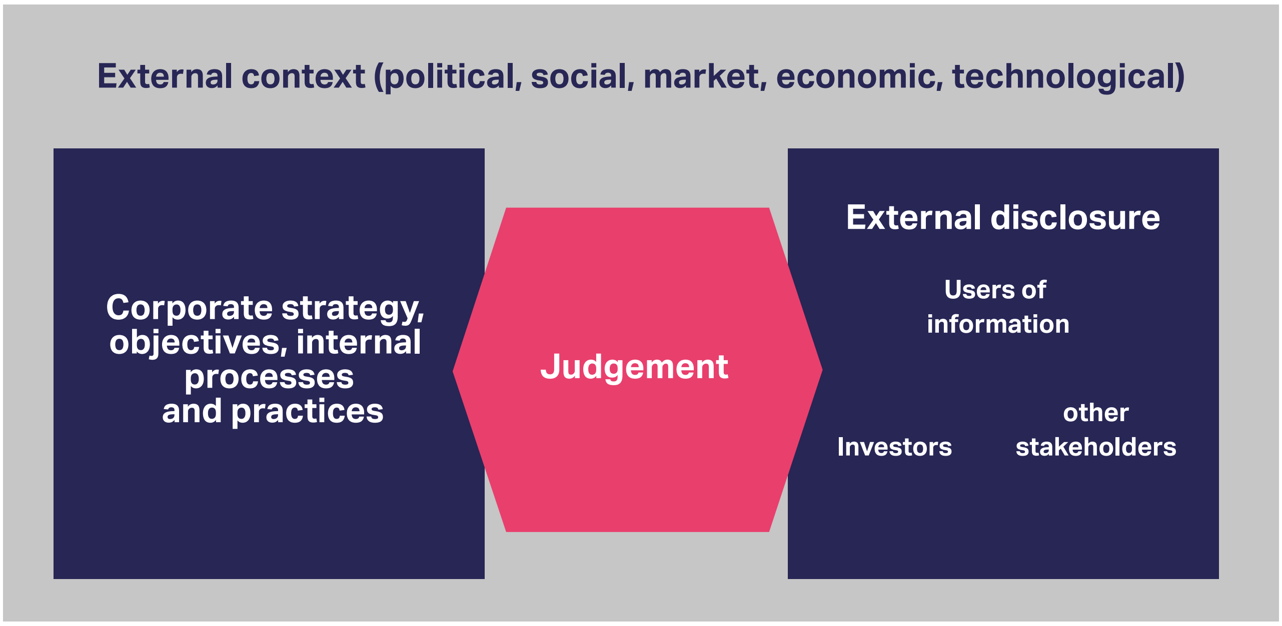
- **Demand for greater connectivity of information**
  The International Integrated Reporting Framework and other reporting provisions encourage greater connectivity of information in order to reflect coherence between internal decision-making, management actions, performance management, risk management and external reporting.

  The TCFD recommendations, for example, highlight the relationships between climate-related issues/impacts and financial impact, and make links to financial impact categories (e.g., assets, revenues, liabilities, capital expenditure). The final report from the TCFD also outlines some of the potential connections between established accounting standards and climate-related impacts.[10]

Figure 1 illustrates how the ESG disclosure judgement process fits into the wider external, corporate and reporting landscape. It recognizes that judgement on ESG reporting applies at the nexus of, and will be formed by, reference to:

1. An assessment of the external context in which the company operates;
2. Knowledge of the objectives the company has set through its strategy and familiarity with the internal processes and practices the company uses to support the achievement of corporate strategy and objectives;[11]
3. Requirements and practices relating to external ESG reporting and the needs of users of ESG information.

Figure 1: Judgement as a bridge



3. Process overview

The ESG disclosure judgement process comprises three process steps (evaluate, decide, document) and six key questions (see Figure 2). The process steps and key questions offer a simple, clear and practical way of optimizing confidence in externally reported ESG information. The **key questions** are:

1. Why report ESG information?
2. For whom should ESG information be reported?
3. Where should ESG information be reported?
4. What ESG information should be reported?
5. How should ESG information be prepared and presented?
6. How much ESG information should be reported?

Answering questions 1 and 2 in order to determine why companies should report ESG information and for whom is the most crucial part of the ESG disclosure judgement process. Understanding the objective for ESG information and the needs of the intended audience helps to determine where companies should report information and provides management with two acid tests against which to evaluate the choices available for responding to questions 3 through 6 about where and what to report, how and how much. This is because companies should calibrate the content, preparation and presentation of ESG information to fit the objective of ESG disclosure, the report in which they disclose ESG information and the information needs of the intended audience. Therefore, companies should answer questions 1 and 2 before proceeding with the other questions. However, the questions are part of a dynamic process recognizing the interactions between the questions and process steps when making judgements about ESG information disclosure.

The **process steps** are:

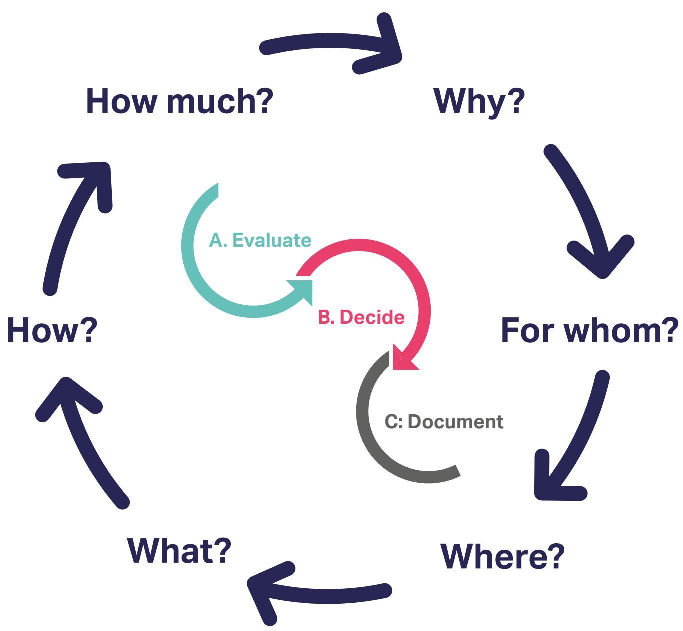
A. **Evaluate** options in a neutral, objective manner and according to a list of criteria designed to identify information that:

- Supports the objectives and purpose of reporting
- Has business value
- Meets the needs of the primary intended audience(s)
- Is supportable
- Can be clearly communicated

B. **Decide** relying on the evaluation process, assumptions, opinions and the subjective judgement of management and experts (if appropriate).

C. **Document** the process and decision along with any uncertainties or sensitivities that affected judgement.

Figure 2: Key questions and steps



4. Key questions

This section provides guidance on approaching each of the six key questions. The guidance on each question follows the same format. First it explains the aim of the question. Then it considers the options available to respond to the question and, where possible, provides examples showing how selected organizations influence or respond to the range of options available for each question. Finally, where appropriate, it provides insights into investors' information needs.

Key question 1: why report ESG information?

The aim of working through this question is to define one or more clear objectives for ESG information so that management can evaluate whether the information achieves its intended objective(s).

The reasons for reporting ESG information will have a direct influence on its quality, quantity and characteristics. For example, information prepared for compliance purposes is more likely to be subject to verification or assurance procedures than information to communicate the reporting company's voluntary commitments. Information reported in order to participate in ratings is more likely to be prepared according to third-party guidance than information describing the reporting company's value creation process, which will be determined by management. Arguably, seeking to fulfil multiple objectives (and cater to multiple audiences (see question 2) in a single report can limit its usefulness.

In simple terms, the reasons for a company to report ESG information might include:

- They have to in response to compliance requirements;
- They want to in order to communicate important information to stakeholders;
- They ought to in order to align with peer practice or contribute to policy goals.

Objectives that company management might wish to satisfy (other than for compliance reasons) include:

- Explaining the effect of actual and expected ESG developments on the business; for example, how policy pronouncements, technology, resource depletion and market dynamics will affect the reporting company and its plans. This "outside in" or "dependencies" reporting objective explains how external ESG developments, including the quality and availability of resources on which the reporting company depends, affect its condition, performance and prospects.
- Explaining the effect the reporting company expects to have on the environment, communities, markets, future generations, etc. This "inside out" or "impact" reporting objective explains how corporate activities impact the environment and society.

Whether from an outside in or inside out perspective, management's reporting objectives might include:

- Aligning with peer practice;
- Participating in ratings, rankings and indices;
- Communicating operational and resource efficiency targets and plans in response to ESG-related risks and opportunities;
- Communicating commitments to ESG-related goals whether at individual company level or through programs such as the UN Global Compact or to international commitments such as the Paris Agreement;
- Communicating the company's strategic aims for remaining resilient in a time of transition and transforming the business in response to ESG-related challenges;
- Describing the company's ESG-related risks and opportunities and the corporate response through mitigation and adaptation activities;
- Explaining whether and how the company has integrated ESG issues into standard processes;
- Explaining how the company will create long-term value through business model design and flexibility, financial capital investments, changes to assets and portfolios, and transformation programs.

Table 1 provides some examples of the reasons to report ESG information.

Table 1: Examples of the reasons for reporting ESG information

Explore the possibilities	Gather facts and knowledge	Examples
Satisfy compliance requirements	Which requirements apply to the company? Is judgement required to respond to "non-prescriptive" requirements?	Directive 2014/95/EU on disclosure of non-financial and diversity information by large companies
Communicate progress against company commitments and strategic aims	What commitments or strategic objectives has the company made and communicated? What are the expectations and priorities of connected stakeholders who can help or hinder progress towards strategic aims?	Eni 2017-2020 Strategic Plan targets
Describe how the company creates value	How does the business model take inputs from the various types of capital and transform them through business activities and interactions to produce outputs and outcomes that create value?	BT Group Integrated Report
Describe drivers of long-term value	How does the company manage value drivers across a range of capitals in order to support long-term value and long-term performance, prospects and position?	Olam Integrated Report
Report contribution to international commitments such as the Sustainable Development Goals (SDGs), Paris Agreement, Aichi Biodiversity Targets	Which SDGs are important to the business? Where does the company have the biggest impact? Where are the opportunities?	Committed to the United Nation's Sustainable Development Goals Linking 95% of Philps revenues to SDG 3 and SDG 12
Align with peer practice	What information are other companies publicly reporting? Those in similar sectors/industries? Geographies?	Cement Sector Scope 3 GHG Accounting and Reporting Guidance
Participate in ratings and indices	Are key stakeholders using ratings and indices? Is participation of strategic or reputational importance?	Dow Jones Sustainability Index
Respond to stakeholders, NGOs and societal expectations	Have NGOs and stakeholders received specific requests or has the company committed to responding to stakeholder feedback?	Palm Oil Responsible Sourcing at Nestlé

Investor insights

In general, the reporting objectives best suited to investor needs are those that focus on the way in which companies integrate ESG factors into their strategies and manage ESG risks and opportunities to support resilience, growth and long-term value creation. "Key question 4: what ESG information should be reported?" outlines the specific type of information of particular interest to investors.

Key question 2: for whom should ESG information be reported?

The aim of working through this question is to identify the primary audience(s) for ESG information so that management can evaluate whether ESG information satisfies the information needs of the intended audience(s). Just as the reason for reporting ESG information affects its characteristics (see key question 1), the intended audience for ESG information affects what companies report and deem to be material. Therefore, identifying the intended audience enables management to evaluate what is most useful for their needs and to determine the most material information for reporting to that particular audience.

Stakeholders groups include:

- Internal stakeholders, including employees (e.g., BHP Billiton Sustainability Report[12]);
- External stakeholders, including government and society (e.g., BMW Group Sustainability Report[13]);
- Connected stakeholders, including investors and shareholders (e.g., DSM Annual Report[14]).

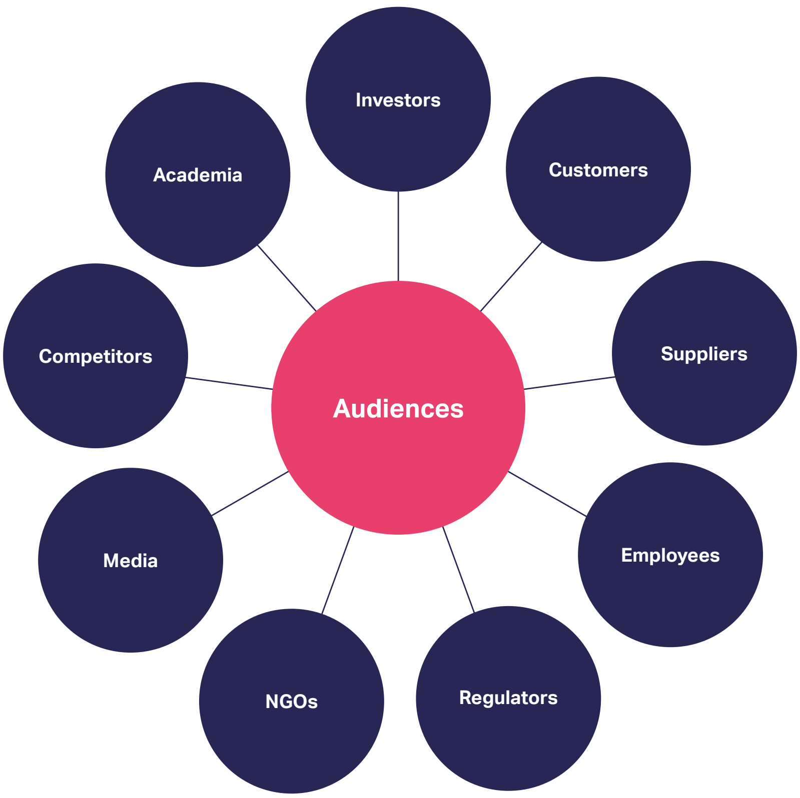
Figure 3 illustrates the different potential audiences for ESG disclosures.

When exploring disclosure options and possibilities for a given stakeholder or stakeholder group, companies may consider a number of different relationships and connections:[15]

1. **Responsibility**: legal, financial and operational – regulation, contracts, policies, etc.;
2. **Influence**: able to influence license to operate and the ability of a company to meet its goals;
3. **Proximity**: most interaction, internal stakeholders, long-standing relationships, day-to-day operations, etc.;
4. **Dependency**: employees and families, customers dependent for safety, livelihood, health or welfare, etc.;
5. **Representation**: representatives through regulatory structures, unions, membership organizations, etc.

A wide range of groups – NGOs, special interest groups, regulators, consumers, local communities, ratings agencies, etc. – may produce and use external ESG information. Companies may use the judgement process to inform the external disclosure of ESG information to a range of groups. However, disclosures are likely to be clearer and more understandable where they identify information for the primary or significant audiences and distinguish it from information intended for other audiences. Companies should therefore use the judgement process to identify and distinguish the "primary" or "significant" audiences from the various stakeholder groups.[16]

Figure 3: Potential audiences for ESG disclosures



Investors' common and differentiated needs

In principle, all investors face similar challenges and consider similar issues, such as analyses of risk, including country, industry and policy risk, together with the assessment of competitive position, management quality, cash flow, financial returns and balance sheet strength. However, strategies to address these issues can differ depending on the investor type, their remit, the time horizons of their investments and the portfolio mix. There is no single type of investor. For example:

- Some long-term investors assess each (potential) investee company in a unique way, sometimes over a period of months, involving detailed research into a specific sector and/or company focusing on a range of information sources, such as news, speeches, financial and ESG performance, etc.
- Sell-side analysts may be more interested in the short-term performance of investee companies, capital discipline, increasing free cash flow, lowering costs and maximizing efficiencies.
- Buy-side analysts may take a longer-term view, seeking key strategic and operational differentiators and alpha potential.
- Others, such as "quant investors," use raw data for their quantitative analysis and have more interest in real-time, comparable quantitative data.
- Information needs could also differ between departments within the same investment company. Listed equity investors, for instance, need different information than credit analysts, with the latter often using specific criteria related to risk profiles, scale, profitability, leverage and coverage.
- Most responsible investors use some form of screening/filter/weighting/tilting strategy to avoid or mitigate specific ESG risks, such as reputational damage. However, some are now integrating ESG into their analyses, in order to identify positive impacts from contributions to the SDGs and to understand the effect a company has on the environment, communities, development, etc.
- Furthermore, investors' information needs can differ by region, responding to regulatory developments and support, or cultural differences.

Although there is no single type of investor, the guidance in the following questions (3 – 6) provides insight into where they have common information needs.

Key question 3: where should ESG information be reported?

The aim of working through this question is to evaluate the most appropriate reporting channel(s) for reporting ESG information.

The reporting channel should align with the objectives the information seeks to achieve and the information needs of the intended user(s). For example, information about investment in activities or products designed to achieve long-term sustainable outcomes is more suited to disclosure in an investor-focused reporting channel than information about participation in or contributions to community projects.

There are many different channels and routes for external ESG information reporting. The Reporting Exchange identifies the following:

- Mainstream report – The annual reporting packages organizations must deliver under the corporate, compliance or securities laws of the country in which they operate, in order to provide information to existing and prospective investors about the financial position and performance of the organization. They generally contain financial and governance statements and management commentary.
- Integrated report – An integrated report explains to providers of financial capital how an organization creates value over time. An integrated report aims to provide insights into the resources and relationships used and affected by an organization – known as "the capitals." It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.
- Sustainability report – A report published by a company or organization about the environmental and social impacts caused by its everyday activities and to communicate sustainability performance and impacts.
- Specialist system – For example, online response systems or targeted questionnaires.

Reporting channels that investors commonly use

Investors use many different sources of information when assessing the implications of ESG factors on a company's condition, performance and prospects. However, in general, investors rely on sources of information that reflect both financial and non-financial information, such as mainstream or integrated reports and capital market day presentations, containing the information listed in key question 4 under "investor information needs."

Table 3: Reporting channels companies have used to communicate ESG information

Route/channel	Example
Topic-specific reports	Eni Path to Decarbonization
Data portals	Salesforce Interactive Analyst Center
Fact sheets	Danone At A Glance – Facts & Figures
Management presentations	Shell Management Day
Investor/analyst presentations	Yara Capital Markets Day
Social media	Nestle social media
Media releases	Olam International Secures Asia's First Sustainability-linked Loan
Website articles/blogs	Trust: the key that will unlock progress
Web content	H&M's Human Rights Policy
Speeches	Syngenta Chairman's speech
Videos	Solvay in video

Key question 4: what ESG information should be reported?

The aim of working through this question is to evaluate the content options available for ESG information. Deciding what ESG information to report depends on the objective of the information and/or the corporate report, the requirements specified in the reporting provisions management has adopted and the intended users of/audience for information. Within the universe of possibilities to meet the information objectives, reporting requirements and audience needs, there is some coalescence around the:

- ESG subjects about typically requested information – the Reporting Exchange provides a list;[17]
- Commonly reported ESG information categories,[18] as follows:
  - ESG-related risks – internal risk from the organization's business activities and/or external risks from the external environment;
  - ESG-related opportunities – internal and external opportunities afforded by, for example, new challenges and the development of new products and services;
  - Management – actions, schemes, projects, resources, targets and initiatives to generate and preserve value for the company and stakeholders;
  - Governance – organizational oversight of ESG strategy, policies and information;
  - Strategy – identifying strategic objectives, managing risks and maximizing opportunities;
  - Targets – objectives or results towards which companies direct their efforts, including timelines, key performance indicators and objectives;
  - Performance – that supports the business strategy and sustainability outcomes.

The type and characteristics of ESG information a company reports depends on decisions made about:

- The type of information the company needs to report (see "information types" below);
- The use of indicators (see "indicator types" below);
- The objective of reporting. For example, where the objective is to report on how environmental or social changes affect the company (i.e., the "outside in" perspective described in guidance on key question 1) companies are likely to obtain information more easily and keep it within their control. By contrast, information reported from the "inside out" is more likely to rely on the judgement process.

Information types

In general, information types are either operational, analytical or forward-looking:

- Operational information includes:
  - Measurements taken from direct readings, observations or estimates about physical properties such as the quantity of resources/capital consumed or used and/or the quantity of outputs/releases, such as waste and emissions;
  - Details of processes and procedures operated by the company.
- Analytical information discusses, assesses and analyzes the procedural, strategic, business and financial implications of the company's environmental, social and governance results and plans.
- Forward-looking information provides insight into future activity and its impact on the business.

Indicator types

Companies select and use indicators for one or more of the following purposes:

- **To provide evidence** – for example of processes, practices, policies or information. Evidence indicators tell the reader that there is, for example, a policy on human rights (e.g., Coca-Cola[19]) or recruitment, training and development; a board with responsibility for sustainability (e.g., BNP Paribas Registration Document[20]); a remuneration committee; a process used to determine which risks and opportunities could have a material financial impact (e.g., DowDuPont Annual Report[21]).
- **To explain** – descriptive and analytical indicators that explain strategy, intention or plans, performance, or that describe comparative analysis, risk mitigation plans, etc. An example from the TCFD recommendations would be "explain/describe the climate related risks and opportunities the organization has identified over the short-, medium - and long-term"[22] (e.g., Equinor Annual Report[23]).
- **To provide** a measure of absolute or integrated performance:
    - Absolute measures (expressed as single results or ranges) include:
        - Inputs to the organization, for example of energy consumed (e.g., Microsoft Data Factsheet Environmental Sustainability[24]), units of water withdrawn, number of employees;
        - Outputs such as weight of waste sent to landfill (e.g., Veolia Registration Document[25]), greenhouse gases emitted;
    - Outcomes such as work days lost to injury (e.g., Port of Rotterdam Highlights of the Annual Report[26]), efficiency gains from new processes.
    - Integrated performance measures expressed as a performance ratio, such as emissions intensity – carbon dioxide emissions equivalent per mboe/ revenue/square meters/products sold.
- **To outline a value** designed to communicate the relative magnitude of ESG activity either in qualitative (high-medium-low importance), quantitative (e.g., scale of 1 to 10) or monetary (e.g., value to business/ society – abatement costs, contingent valuation, value-based pricing or benefit transfer) terms (e.g., BASF's Value-to-Society,[27] Nestlé's Social Impact Valuation,[28] AkzoNobel's 4D P&L,[29] Solvay's Extra-financial statements[30]).

Investor information needs

Forward-looking ESG information

Investors need more forward-looking information. Many are interested in long-term value, but current ESG disclosures tend to be backward looking or focused on current issues and performance.

Investors are interested in:

- Risks that affect the company's viability;
- How ESG issues have affected decisions about future capital expenditure or changed forecasts about future returns;
- What value the company is generating and how;
- Changing capabilities and competencies;
- Whether investments are supporting current returns or future prospects;
- Strategic and financial decision-making within the company;
- How companies are adapting to the low-carbon transition and sustainable development;
- Whether and how companies are considering different scenarios, assumptions and parameters for planning purposes and management of uncertainties.

Investors highlighted the importance of the emphasis the Task Force on Climate-related Financial Disclosures (TCFD) has put on forward-looking disclosures related to potential future financial impacts of climate change.

Key question 5: how should ESG information be prepared and presented?

The aim of working through this question is to evaluate the options for preparing and presenting ESG information. By addressing questions 1 - 4, companies will have a sense of the type of ESG content they propose to report, where, why and for whom. Question 5 considers how information can be prepared and presented, drawing on the range of methodologies, guidance and principles available. Evaluating how to prepare and present information should take account of the intended objectives of the information, the reporting channel and the audience(s).

Companies may prepare information using public resources, such as published methodologies (e.g., on the calculation of greenhouse gas emissions); guidance (e.g., management commentary), by direct measurement or estimation, or using approaches designed by the reporting company. The choices made about the way the company prepares and presents information depend on the content type, why the company is reporting it, for whom, whether recognized methodologies[31] for preparing information are available and where the company is to report the information. For example:

- Information type – companies are more likely to prepare operational information following widely available methodologies (such as the Greenhouse Gas Protocol), whereas there is limited guidance on preparing analytical or forward-looking information;
- For whom – information provided in analyst presentations may have different controls and signoff procedures compared to information reported on a 10-K or 20-F form;
- Why - a company is more likely to prepare information in conformance with mandatory requirements according to a recognized standard with appropriate assurance activities.
- Forward-looking information often includes meaningful cautionary language, which can provide the opportunity to reduce liability exposure when describing future expectations that unknown risks and uncertainties are influencing.

Preparing ESG information is often associated with challenges, assumptions, limitations and uncertainties, for example relating to data quality, availability and accuracy. Clear explanations about these issues, including definitions, scope and boundaries, are essential if users of information are to understand how companies have prepared ESG information.

Reporting principles

When considering how to prepare and present ESG information, referring to reporting principles is an important part of the judgement process. Reporting principles are designed to elicit information that is coherent, robust, decision-useful and aligned with the objectives, audience for and content of corporate reports. The following table summarizes reporting principles and qualitative characteristics outlined by key frameworks and standards.

Table 3: Summary of key principles and qualitative characteristics of decision-useful information

TCFD[32]	GRI[33]	SASB[34]	IIRC[35]	IFRS[36]
Clear, balanced and understandable	Balance	Neutral		Faithful representation
	Clarity	Fair representation		Understandability
Consistent	Comparability	Comparable	Consistency and comparability	Comparability
Comparable		Aligned		
Relevant	Materiality	Useful	Materiality	Relevance & materiality
		Applicable	Conciseness	
Timely	Timeliness			Timeliness
Specific and complete	Completeness	Complete	Completeness	
Reliable, verifiable and objective	Reliability	Verifiable	Reliability	Verifiability
	Accuracy	Distributive		
	Stakeholder inclusiveness		Stakeholder relationships	
	Sustainability context		Strategic focus and future orientation	
			Connectivity of information	

The principle of materiality appears in many reporting frameworks. The application of materiality depends on judgement and is crucial to prioritizing relevant ESG information for external disclosure. The application of materiality ensures that important information is not obscured and that information satisfies reporting requirements, the needs of the intended audience and management's reporting objectives. "Key question 6: how much ESG information should be reported?" provides brief guidance on the role of materiality in exercising judgement about the external disclosure of ESG information.

There is no agreed format or structure for the presentation of ESG information. However, when considering the options, it is useful to apply the reporting principles of clarity and understandability. Generally, the reporting principles are satisfied when disclosures are easy to navigate, read and search. This means that companies will present information in a clear and straightforward way using plain language and consistent terminology (with definitions for technical terms where necessary), with appropriate signposts and labeling and using illustrations, graphs and charts where these build understanding and help in organizing information according to categories.

Using the business model to decide how to prepare and present ESG information

Based on the International Integrated Reporting Framework's representation of the business model, the "business model canvass"[37] and similar approaches, companies sometimes present ESG information according business model stages that explain:

- The environmental and social inputs/resources on which the company depends;
- Business activities, such as production, manufacturing, development, research, sales, innovation, etc. that have environmental and social implications;
- Outputs, such as products, services, by-products and waste that represent sources of environmental and social impacts;
- Outcomes, meaning short- to medium-term effects from business activities and outputs, for example, reputation, employee engagement, customer satisfaction, revenue generation, etc.;
- Impact, meaning long-term positive or negative, direct or indirect impact (i.e., how the outcome affects society).

Investor information needs

Standardization

Although companies have widely adopted some reporting frameworks and standards, investors still face challenges when comparing information and therefore the performance of companies. Rather than using reporting frameworks for tick-box exercises, companies should use frameworks to evaluate how best to satisfy reporting objectives, improve the quality and comparability of ESG information and respond to user needs. Sector-specific standards and initiatives, like the Corporate Reporting Dialogue, are welcome where they support greater coherence, consistency and comparability.

Timely information

By the time companies disclose ESG information, it is often too old to drive investment decisions. Investors are supportive of systems within companies and communication channels that enable the reporting of ESG information and progress in real time where significant developments occur and to align the publication of ESG information with the annual report and accounts.

Accessibility

Investors want to be able to build their own models and evaluation approaches and make judgements based on the best available ESG data. In order to do so, investors need data to be easily accessible in a form that they can break down, reformat, restructure and integrate in their own models.

Investors look to analyses from rating agencies and specialized research providers, but they rarely rely solely on their assessments and opinions. Most have built up a sufficient understanding of ESG risks and opportunities internally; and they prefer to analyze the data themselves and use other sources directly as input for their own databases and models.

Technology is making it easier for investors to track and gather information (scraping), to safely store the gathered data (data warehousing, cloud-based solutions) and to structure and analyze this information (artificial intelligence, big data, data analytics). It provides the input for investors' own portfolio managers and analysts to undertake independent research, make judgements and evaluate, for example, whether material issues warrant discussion with company management.

Reliability and assurance

Investors are reluctant to integrate ESG information regarded as unreliable, perceived as greenwashing or of poor quality in their investment analyses. They use third-party research, news and publicly available sources to compensate for perceived shortcomings and biases in disclosures. Investors highlight the importance of third-party verification/assurance of material ESG issues as this supports the trustworthiness and credibility of sustainability disclosures.

Key question 6: how much ESG information should be reported?

The aim of working through this question is to balance the requirement for the report to be true, fair, clear and balanced with the need for it to be concise and contain material information such that it does not obscure important information. Sufficient detail is required to meet user needs and satisfy disclosure objectives (in other words, responding to the "why," "for whom," "what" and "how" questions.)

Companies may apply the following actions and questions in determining how much information to include in a corporate report:

- Review and apply reporting principles (see question 5) designed to elicit clear, concise, decision-useful information, including completeness, specificity, relevance, materiality and neutrality.
- Does the information duplicate disclosures made elsewhere in public reports? If so, could a cross-reference to the source help to reduce volume?
- Categorize information according to the reporting objective(s) and audience for the report. Where information does not satisfy the objective(s) and/or needs of the primary audience, consider reporting it through other channels.
- Is the information specific and unique to the company rather than "boilerplate" in character? Boilerplate disclosures use generic language applicable to most companies in a given industry or sector and not sufficiently tailored to reflect the company's specific and unique circumstances. More complete and specific disclosures use language that stakeholders best understand in the context of the given company and provide quantitative performance indicators.

The following resources contain guidance on achieving conciseness:

- Association of Chartered Certified Accountants (ACCA), International Integrated Reporting Council (IIRC) and International Association for Accounting Education and Research (IAAER). (2016). Factors affecting preparers' and auditors' judgements about materiality and conciseness in Integrated Reporting
- Financial Reporting Council. (2011). Cutting clutter. Combating clutter in annual reports
- Financial Reporting Council (2014). Towards Clear & Concise Reporting

Materiality in reporting – concept, role and purpose

Introduction

This section:

- Considers the role of materiality in the exercise of judgement about external reporting;
- Analyzes some of the challenges associated with the application of materiality;
- Describes steps designed to assist with the application of materiality in identifying material information for external disclosure;
- Lists selected resources for making materiality determinations.

The role and purpose of materiality

Companies can apply the concept of materiality in a range of contexts; for example, to prioritize risks, understand impacts, make internal decisions, develop strategic direction and set key performance indicators. However, for the purposes of the *ESG Disclosure Handbook*, materiality is a concept companies should apply in order to determine how much information to include in corporate reports so as to achieve the reporting objectives and make the information useful to audiences including investors.

Reporting frameworks and standards describe materiality as a "principle" or characteristic of reporting designed to elicit useful information for the intended audience. Materiality is one of the reporting principles specified in many reporting frameworks and standards (see "Key question 5: how should ESG information be prepared and presented?").

Generally, where a reporting framework or standard specifies reporting principles, companies should apply all of the principles in determining, preparing and presenting information in external reports. However, materiality is sometimes described as a filter or constraining principle designed for application after applying other principles, such as relevance and reliability. The concept of materiality is therefore generally shown as one of the later steps in the process of reporting after identifying and evaluating a complete list of relevant reporting possibilities.

The purpose of materiality in external reporting is to:

- Help management prioritize relevant issues of the greatest importance in achieving the objective(s) of external reporting; and
- Elicit concise information that is:
    - Complete but free from unnecessary or duplicative detail that obscures major trends and events specifically relevant to the organization; and
    - Responds to:
        - The objectives of the reporting requirements and management's reporting objectives; and
        - The needs of the intended audience for reported information.

Many organizations already have an established materiality determination process in place; this handbook does not seek to change those processes. However, certain challenges are indicative of disconnects between materiality determinations for mainstream reporting and sustainability reporting purposes respectively, and of disconnects between materiality determinations and reporting content.

The application of materiality is also a crucial consideration in activities and engagements to assure ESG information. Briefly, international assurance standards[38] require practitioners to consider materiality when planning and performing assurance engagements. Assurance providers will therefore typically review the approach the reporting company uses to determine material information for inclusion in corporate reports as well as to check whether reported information is free from material misstatement.[39] This involves considering the purpose of the report, the intended users, the entity and its context, and the reporting framework used to prepare information, all of which the *ESG Disclosure Handbook* covers elsewhere.

Challenges

While materiality is important to successful external reporting, it can be a difficult concept to apply in practice. The difficulty in applying the concept of materiality is attributable to various factors, including:

- The wide range of ESG issues (as reflected in the Reporting Exchange) that are potentially material to an understanding of a company's ESG performance.
- The wide range of stakeholders whose views contribute to materiality assessments. "The identification of material matters is increasingly determined through stakeholder engagement. In practice, where sustainability matters are concerned, everything is material to someone, which begs the question: from whose perspective should materiality be determined?"[40]
- The range of views about the basis on which a company should determine materiality, including by reference to impacts on the reporting entity, on financial performance or on impacts to the wider system.
- The fact that materiality is both a legal concept in some jurisdictions as well as a voluntary prioritization approach.
- The multiple definitions of materiality. Compilations of some of the common definitions are available.[41] The Corporate Reporting Dialogue (CRD) has issued a "Statement of Common Principles of Materiality"[42] that explores the alignment between approaches to materiality used by CRD member organizations.
- Salience vs materiality. A company's salient issues are those that stand out because they are at risk of the most severe negative impacts through the company's activities or business relationships. Salience is particularly relevant in a human rights context, using the lens of risk to people, not the business, as the starting point. Materiality, however, depends on the company choosing a particular audience or goal and then judging the issues as more or less important.
- The timeframes over which the materiality of ESG matters might become evident given the uncertainty about the timing and magnitude of impacts.[43] Depending on the timescales applied to materiality determination, companies may identify issues as "pre-material" or emerging risks. Questions then arise about the appropriate time to include the issues concerned in external reports.

These challenges manifest themselves in surveys and assessments that indicate variability in the application of materiality. For example:

- WBCSD's 2018 *Reporting matters* found that 89% of WBCSD members disclose the use of a materiality process (compared with the baseline year [2013: 57%]). However, only 38% of WBCSD members aligned the content of their reporting to the outcomes of the materiality assessment (compared with the baseline year [2013: 12%]). This suggests a lack of connectivity between materiality assessments and reporting content.
- A WBCSD study[44] identified that member companies disclosed only 29% of the material sustainability issues included in sustainability reports in the risk section of their annual report; 35% of member companies did not disclose any of the sustainability risks identified in their sustainability reports in their legal filings. As part of the same study, 72% of WBCSD members agreed that "in general, companies are not adequately disclosing sustainability risks to shareholders."

Against this background, readers struggle to understand the basis on which companies have reached conclusions about the information included in their external reports, with resulting concerns about the reliability of information and viability of assurance activity. Research by the Association of Chartered Certified Accountants (ACCA)[46] and others examined 252 integrated reports and found that only 136 disclosed the materiality determination approach they had used. Fewer than one-quarter of the reports explained the evaluation process used for prioritizing material items. Research by WBCSD[47] and a survey by Norton Rose of responses to reporting requirements specified by the Hong Kong Stock Exchange[48] reflect similar findings about the absence of detail about determination and evaluation processes.

Investor information needs

Material ESG information

Companies tend to report a long list of indicators based on multiple reporting frameworks and attempting to address the concerns of all stakeholders. While the intention might be to demonstrate that the company is actively managing all ESG issues and responding to all stakeholders, the amount of ESG information is often overwhelming and therefore difficult for investors to use. During the investor interviews one interviewee said that 85% of information within corporate sustainability reports is of limited value when making investment decisions. The information presented is either too broad or not material to the investor. Companies primarily use sustainability reports and web content for stakeholder communications. This is important for relationships and reputation and investors value it, but when making investment decisions, investors spend more time reviewing annual reports, management presentations, results announcements, and analyst presentations because they contain the most useful information.

Investors interviewed indicated that companies should provide insights into how they evaluate and manage ESG risks and opportunities (including interactions between them) that could influence performance, strategy and the business model, and that have potential financial impacts. Information about whether and how the board is engaged in integrating ESG considerations into strategic thinking is also useful. Investors also signaled that frameworks and guidance issued by organizations focused on mainstream reporting, such as SASB and the IIRC, are important drivers in encouraging companies to focus on and report what is financially material to the investor.

Companies should focus more attention on defining the topics that are most material for investors and presenting information about those topics in reports targeted specifically at investors.

Applying materiality in the judgement process

Whether information is material is a matter of judgement that depends on the facts involved, the circumstances of the particular reporting company, the information necessary to meet the objective of the report and whether information could reasonably influence primary users' decisions.

This part of the *ESG Disclosure Handbook* summarizes factors that are relevant to the application of materiality within the wider judgement process. The summary draws on approaches suggested by the International Integrated Reporting Council[48] and the International Accounting Standards Board (IASB) in their Practice Statement 2 (PS2) "Making Materiality Judgements."

a. Take account of guidance, definitions and prescriptions about materiality in the standards, frameworks and resources used to prepare the corporate report. For example:

   i. The Sustainability Accounting Standards Board (SASB) has created unique "materiality maps"[49] for industries where sustainability issues receive scores based on a number of factors, including evidence of financial impact.

   ii. EU Directive 2014/95/EU "introduces a new element to be taken into account when assessing the materiality of non-financial information by referring to information 'to the extent necessary for an understanding of the […] impact of (the company's) activity.' Recital 8 of the Directive states that 'the undertakings which are subject to this Directive should provide adequate information in relation to the matters that stand out as being most likely to bring about the materialization of principal risks of severe impacts, along with those that have already materialized'."[50]

b. Prioritize information that:

   i. Could reasonably influence decisions made by the primary intended audience for the information and consider the implications of omitting that information.

   ii. Is important to management in managing the business and assessing how ESG affects the company's strategy and performance.

   iii. Promotes an understanding of how the company's financial and operational performance and strategic objectives are dependent on environmental and social resources and relationships.

c. Assess the potential magnitude, velocity, likelihood and impact of issues identified in the evaluation process (see section 5) in order to determine whether they are, or are likely to be, material.

d. Assess interconnections between:

i. The way in which relevant issues link and overlap so as to influence and amplify each other.

ii. Audiences and their understanding of impact. Anomalies can arise where audiences consider impacts by reference to different timescales or have a particular interest in an issue even if the impact is not correspondingly high.

iii. The company's strategy, risks, opportunities and the identification of material matters.

e. Prioritize issues that are specific to the reporting organization.

Resources

A number of resources are available to help companies with materiality determination. See a selection below.

- Materialitytracker is a platform listing materiality trends, standards and practices.
- RobecoSAM and the Global Reporting Initiative (GRI) offer guidance on Defining Materiality: What Matters to Reporters and Investors.
- For an understanding of materiality, interconnections and dynamic risk profiles:
  - The International Council for Science's Guide to SDG Interactions: From Science to Implementation.
  - KPMG's dynamic risk assessment methodology.
  - The Cornerstone Capital Group's guidance on dealing with dynamic issues and a shifting ESG materiality matrix
- Reporting 3.0's Blueprint 2: Accounting (June 2018) provides commentary on materiality determination, lists procedural methods or tests for applying the materiality principle, distinguishes between "internal materiality," "external direct materiality" and "external indirect materiality," and introduces the concept of integral materiality.
- The Erb Institute at the University of Michigan offers a Materiality Assessment toolbox.
- Materiality in Corporate Governance: The Statement of Significant Audiences and Materiality by Robert G. Eccles and Tim Youmans of Harvard Business School sets out an approach to "audience-focused materiality determination."
- The International Auditing and Assurance Standards Board's Extended External Reporting (EER) Assurance project
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) "Guidance for Applying Enterprise Risk Management (ERM) to Environmental, Social and Governance (ESG)-related Risks."
- Datamaran's "Seven Tips to the Perfect Materiality Analysis"
- Future-Fit – "A new approach to materiality: back-casting from the future to prioritize what really matters"

5. Steps in the evaluation process

A: Evaluate

The evaluation process incorporates, but is not necessarily limited to, five tests to identify information that:

1. Supports the objectives and purpose of reporting;

2. Has business value;

3. Meets the needs of the primary intended audience(s);

4. Is supportable;

5. Can be clearly communicated.

1. Supports the objectives and purpose of reporting

Which ESG information best:

- Supports the company's communication objectives? For example, by:
  - Providing an integrated and coherent picture of performance that links strategy with operational performance;
  - Evidencing risk awareness and management;
  - Explaining management's view and thinking;
  - Identifying value-generating activities and plans;
  - Demonstrating resilience and efficiencies;
  - Describing business model developments;
  - Explaining value creation potential and growth opportunities;
  - Explaining financial prospects.
- Satisfies the requirements of mandatory reporting provisions?
- Conforms to the requirements of voluntary frameworks the company has chosen to adopt?
- Achieves the objective of the report? For example, the objective of an integrated report is to communicate the company's ability to create value. Companies should therefore include ESG issues if they materially affect its ability to create value.

2. Has business value

Which ESG information best:

- Differentiates the company from competitors?
- Demonstrates progress on existing commitments and values?
- Supports and evidences strategic and operational positioning?
- Limits challenges associated with commercial sensitivities, competition and liabilities?
- Minimizes potential risks associated with disclosures?

3. Meets the needs of the primary intended audience(s)

Which ESG information best:

- Satisfies the information needs of the company's primary or significant stakeholders or stakeholder groups? For example:
  - Stakeholders on which the company depends.
  - High-impact groups that can remove, grant or influence "license to operate," damage or build company reputation, contribute to or detract from the ability to learn and innovate and/or restrict or provide access to resources such as investment.
- Provides value to and satisfies the information needs of investors and supports their decision-making? For example, by:
  - Focusing more on ESG matters that have potentially material strategic and financial impacts;
  - Connecting ESG information to financial information;
  - Not obscuring information for investors with information intended for a wider audience;
  - Describing future risks and opportunities;
  - Exploring various scenarios and explaining associated assumptions, parameters and uncertainties;
  - Describing resilience and adaptability;
  - Explaining value creation strategies, growth opportunities and efficiency efforts;

- Confirming or changing past or present expectations based on previous evaluations;
- Adding value as input to expectations about the future performance of the business.

- Responds to stakeholder feedback that is consistent with business objectives for external disclosure?
- Responds to stakeholder feedback in previous years by explaining the actions taken?
- Fits into the primary source of information used by the key/target audience?
- Provides the content/information/indicator types that support user needs? For example, to address objectives related to strategic development, resilience and efficiencies, certain audiences will be particularly interested in forward-looking information and, especially, quantitative content that links to strategic direction, business model developments and financial prospects. This could include resilience-related financial disclosures such as sensitivities, committed and uncommitted capital expenditure, portfolio optimization, management of the cost base, internal rate of return, production forecasts, breakeven and cost of supply.

4. Is supportable

Which ESG information:

- Aligns best with the company's reporting strategy?
- Is comparable through the application of reporting standards, including sector-specific standards?
- Can be provided in a timely manner and a universal format?
- Is consistent with (or explains departures from) the approach used in previous reporting cycles?
- Has the characteristics of decision-useful information, including relevance and company specificity?
- Aligns with peer best practice, including that of companies in the same sector and jurisdiction?[51]
- Defines and explains quantitative indicators and metrics used to monitor and report on performance, including the methodology and scope used for preparing indicators?
- Explains limitations, challenges, assumption and estimation methods, exclusions and omissions?
- Responds to appropriate reporting provisions and principles?
- Meets appropriate quality, controls and assurance expectations?

5. Can be clearly communicated

Which ESG information best:

- Provides an appropriate and proportionate balance of different information/content/indicator types and perspectives?
- Enhances clarity and conciseness?
- Reflects the qualities outlined in "reporting principles" (see "Key question 5: how should ESG information be prepared and presented?")?
- Provides a balanced and objective account of performance, prospects and plans?
- Provides a coherent and connected view within the report and across different disclosure channels?
- Responds to formatting and accessibility expectations?
- Responds to communication and design learnings? Companies could include key messages relating to leadership, innovation, growth, differentiation and strategy for investors in management presentations, results announcements and videos, slides and speeches at capital markets days, for example. Companies may share announcements related to innovative industry-leading initiatives and projects via web articles, blogs, media releases and social media.

B: Decide

The "decide" part of the process provides guidance on making decisions that rely on the evaluation process together with assumptions, opinions and the subjective judgement of management and experts (if appropriate).

Consider whether there are any reliable working assumptions for the purpose of decision-making and the materiality determination process. In their Practice Statement 2 on "Making Materiality Judgements," the International Accounting Standards Board indicates that management may work on the following assumptions:

a. Users have reasonable knowledge of the business and economic activities in order to review and analyze the information diligently;

b. Reports should focus on the common interests of the intended audience rather than the particular needs of individual users or types of users;

c. Materiality judgements made in previous reporting periods can be relied upon unless the circumstances and facts that informed the judgment have changed significantly;

d. Companies must include information that is material to the report even where it is also publicly available from other sources.

To support a judgement, internal and external expert advice may help:

- Identify alignment with strategic objectives and key stakeholders who can support or hinder progress towards objectives, mission and vision. Consult with management.
- Provide feedback from key stakeholders, connecting objectives and audiences. Consult with investor relations on key measures of interest, specific questions raised on investor calls and the focus of specific analysts who cover the company. Consult with communications professionals on messaging alignment, key words or phrases, design, circulation, number of hits, etc.
- Provide insights on the suitability of various measures for a given objective or question and infrastructure requirements to capture high-quality data. Consult with business analysts, social scientists, natural scientists and economists.
- Ensure objectivity and balance, avoiding vague, optimistic and even hyperbolic statements. Evaluate commercial sensitivities, competition and potential liability challenges. Consult with communications and legal colleagues.
- Provide insights on the suitability of various processes and procedures that support a control environment, data structures, IT systems and legal reviews that respond to the objective, audience, information type and channel for disclosure. Consult with controllers, assurance providers, internal auditors, software development engineers and data scientists.
- Provide feedback on accessibility, availability and prevalence of key information. Consult with key stakeholders and data users.
- Provide a thorough assessment of communication objectives and stakeholder relations through tailored evaluations. Consultants can evaluate impact, reach and visibility.

C: Document

To communicate the judgement process, management should document the process followed, any uncertainties, limitations and sensitivities, as well as the conclusions reached.

The process followed

Descriptions of the following will help users and readers understand the approach:

- Sources used and relied upon – including reporting standards, frameworks, calculation methodologies, information sources, meetings, research and analytics, or the *ESG Disclosure Handbook*, etc. (e.g., Unilever – About our reporting[52] and Basis of Preparation[53]);
- Discussions held and with whom – for example consumers, customers, NGOs, investors, suppliers and employees, etc. (e.g., Tata Steel – Stakeholder Engagement[54]);
- The approval process and decision-makers – for example management structures, leadership, steering groups, advisors, board committees, etc. (e.g., ArcelorMittal – Transparent good governance[55]);
- Connections, selections and policies – for example how companies use cross references, relationships, filters, weighting and disclosure policies (e.g., Itochu – Editorial policy[56]);
- Conclusion/final decisions – clarifying and outlining scope, content, principles, etc. (e.g., Praxair – About this report[57]).

Uncertainties, limitations, sensitivities and reappraisal

Descriptions of the following will help users and readers understand uncertainties, limitations, sensitivities and reappraisal:

- Information evaluated, prepared or provided under conditions of uncertainty;
- Challenges and barriers identified through the judgement process;
- Boundaries and scope of assessments and information;
- Internal controls, checks and balances;
- Key factors that could change and lead to reassessment;
- Qualifications linked to known and unknown risks and uncertainties.

6. Handbook checklist

Key questions

1. Why report ESG information?

- Supports the objectives and purpose of reporting
- Has business value
- Meets the needs of the primary intended audience(s)
- Is supportable
- Can be clearly communicated

2. For whom should ESG information be reported?

- Internal stakeholders like employees
- External stakeholders like government and society
- Connected stakeholders like investors

3. Where should ESG information be reported?

- Annual, integrated and sustainability reports
- Media releases
- Website articles and blogs
- Topic-specific reports
- Data portals
- Presentations
- Webinars

4. What ESG information should be reported?

- Content types
- ESG subjects
- Business model stages
- Information types
- Information perspective
- Indicator types

5. How should ESG information be prepared and presented?

- Standards, methodologies and frameworks
- Controls
- Scope and boundaries
- Uncertainties, assumptions and limitations

6.How much ESG information should be reported?

- Completeness
- Specificity
- Conciseness
- Relevance
- Materiality
- Neutrality/balance

Process

A. Evaluate

- Support for the objectives and purpose of reporting
- Evidence of business value
- Evidence of value to the intended audience for information
- Whether information is supportable and useful
- Whether information can be clearly communicated

B. Decide

- Understand assumptions and limitations
- Seek internal and external expert advice

C. Document

- Sources used and relied upon
- Discussions held and with whom
- The approval process and decision-makers
- Information evaluated, prepared or provided under conditions of uncertainty
- Challenges and barriers through the judgement process
- Boundaries and scope of assessments and information
- Internal controls, checks and balances
- Key factors that could change and lead to reassessment
- Qualifications linked to known and unknown risks and uncertainties

7. Endnotes

[1] KPMG. (2017). The road ahead – The KPMG Survey of Corporate Responsibility Reporting 2017. Retrieved from https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf.

[2] The ESG Disclosure Handbook draws on relevant aspects of professional judgement frameworks, including the 2016 Professional Judgement Framework for Financial Reporting Decision Making by the Institute of Chartered Accountants of Scotland (ICAS) and the KPMG Professional Judgement Framework.

[3] For an overview of the reporting landscape, see the Reporting Exchange at www.reportingexchange.com.

[4] See International Integrated Reporting Council (IIRC). (2013). Capitals Background Paper for <IR>. Retrieved from https://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf.

[5] PwC. (2016). A foot in the past and an eye to the future – The importance of forward-looking information in company reporting.

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