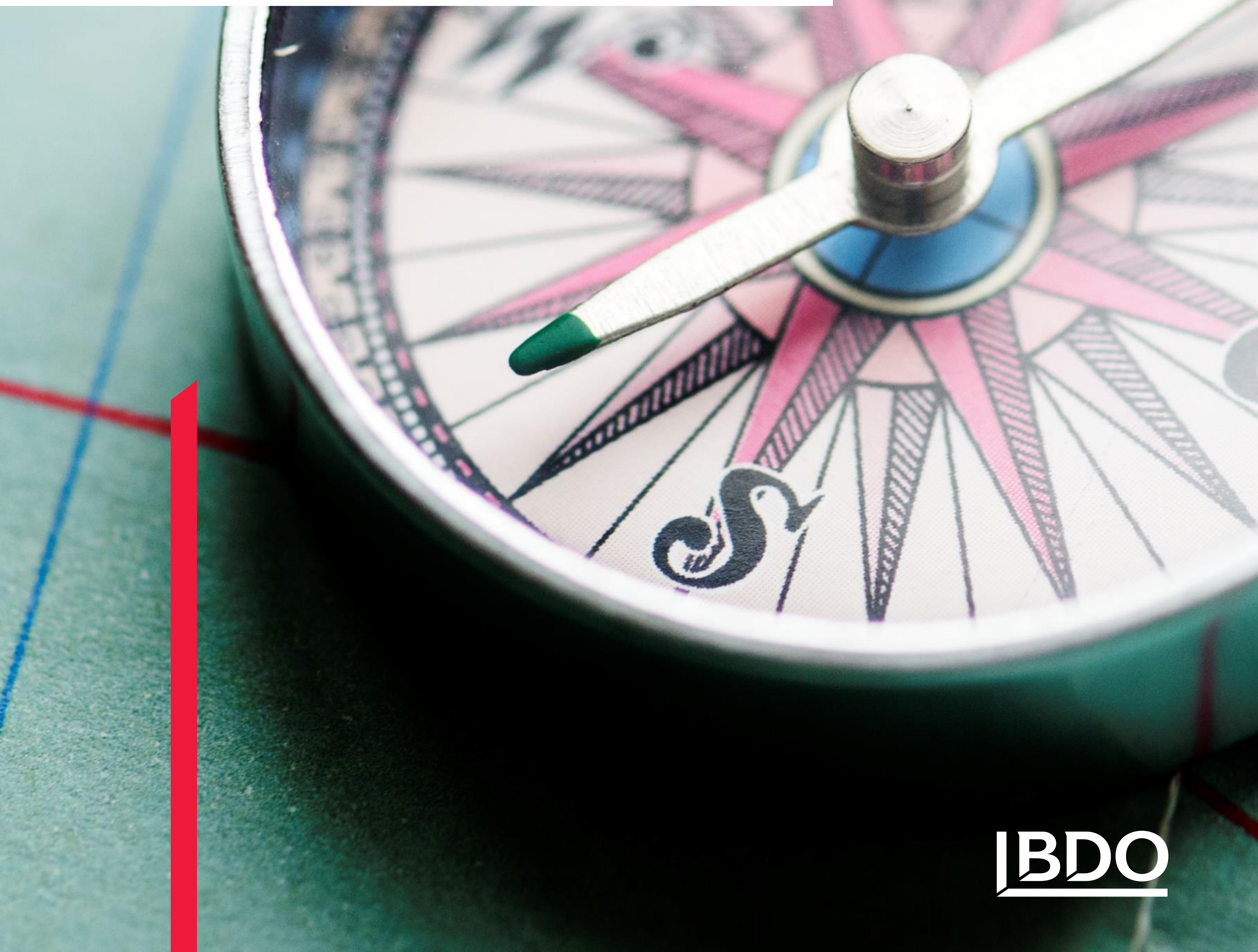
Sustainability Frameworks

A Snapshot: September 2021



BDO

Introduction

Sustainability: the future of corporate reporting. Companies are under increasing pressure to demonstrate greater commitment to long-term, sustainable value creation which incorporates the wider demands of people and planet. However, the current landscape of sustainability standards and standard setting is crowded, fragmented, changing fast, and can be hard to follow.

This publication sets out the types of sustainability disclosures that companies might think about publishing, provides a high level overview of a number of the most well established existing sustainability standards and frameworks, and looks at current and future expected developments.

Sustainability reporting is not new, and can be traced as far back as the 1940s. However, a key point was in 1987 when the Brundtland Report 'Our Common Future' was published, which defined sustainable development as being development that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'. This report called for all sectors (including public and private) to consult, report on progress, and reach decisions for a global sustainable development strategy.

Subsequently, the 1990s saw the first formalised attempts to measure and report companies' environmental and social impacts, including the launch of the Global Reporting Initiative (GRI) and the publication of its first sustainability reporting framework in 2000. Government interest in sustainability issues also started in earnest, with focus on corporate accountability for material issues including globalisation, greenhouse gas emissions and human rights. This extended to regulation on sustainability reporting and support for voluntary disclosures, in particular in Europe and North America.

The first decades of the 21st century then saw an explosion in global reporting frameworks, concepts, methodologies, ratings and metrics for sustainability which were intended to meet growing demands for information from the investor community, and in response to wider public expectations about the role of business in society.

A number of global summits have spurred additional developments, including the 2015 Paris Agreement which was the first legally binding international treaty on climate change. We are now only a few months away from COP 26.

At the moment, it is estimated that over 500 formal and informal sustainability reporting standards and frameworks exist, depending on industry, location and the issue(s) covered. A number of (mainly large) companies have chosen to publish sustainability information, which is mainly in accordance with more prominent reporting frameworks which include the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) which have now merged to form the Value Reporting Foundation (VRF), and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); others include CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the UN Sustainable Development Goals and the UN Global Compact.

However, the reporting is inconsistent due to the differing requirements of those frameworks and, because they are voluntary, there is inconsistency in their application. Entities can also choose to report using only some elements of a number of different frameworks, leading to a perceived (and real) risk that companies will focus and report on metrics that portray them in a positive light, leading to suggestions of so-called 'greenwashing'.

As the clamour for better quality and more consistent sustainability reporting has grown, the past 12 months have seen some significant developments.

Introduction

In September 2020, the International Business Council of the World Economic Forum published a white paper which sets out 21 core, and 34 expanded, metrics which are drawn where possible from existing standards and reporting frameworks. The intention is that these core and expanded metrics can be reflected in mainstream annual reports of companies on a consistent basis across all industries and countries, bringing better comparability to sustainability reporting. For entities that are in the early stages of considering sustainability reporting, the WEF/IBC white paper represents a good starting point; for more advanced reporters it will typically be straightforward to adopt because its requirements are consistent with the most widely used existing standards and frameworks. This wide applicability, together with the approach of building the metrics on current standards and frameworks (which we anticipate will be similar in principle to the approach that is expected to be followed by the new global standard setter – see section 4…) has resulted in BDO encouraging its member firms to adopt the metrics set out in the WEF/IBC white paper.

Elsewhere, there have been encouraging signs that the world may be moving towards the establishment of a global sustainability reporting standard setter. Towards the end of 2020, the IFRS Foundation published a consultation document, asking for views on its potential role in sustainability standard setting. Responses indicated strong international support for the IFRS Foundation to establish a new International Sustainability Standards Board (ISSB), to sit alongside the existing International Accounting Standards Board and issue sustainability standards which focus on enterprise value and the needs of participants in the world's capital markets.

Work is underway to ensure that the new Board has a 'running start' when it is established, which is anticipated to be around the time of COP 26 in November 2021. Rather than developing an additional new set of standards, the ISSB is expected to build on existing standards and frameworks to bring improved consistency to reporting.

At the same time, there have been a number of regional and national developments. In the EU, a proposed revised Corporate Sustainability Reporting Directive (CSRD) has been published, which would require EU sustainability standards to be published. The scope of those standards would go beyond the direct needs of capital market participants, and include an entity's effects on wider society and the environment (sometimes referred to as 'double materiality'). The standard setting proposals also acknowledge that certain impacts on wider society and the environment may not currently be considered relevant for capital market participants and financial materiality, but may become relevant in future (sometimes referred to as 'dynamic materiality') Elsewhere, in the US, the SEC is reviewing its requirements for climate-related disclosures, with the staff carrying out an evaluation of existing disclosure requirements that were issued in 2010. In addition, in March 2021 the SEC announced the creation of a Climate and ESG Task Force in the Division of Enforcement, and the Division of Examinations has announced an enhanced focus on climate and ESG-related risks for 2021.

It is to be hoped that those involved with regional and national developments will liaise and work with the IFRS Foundation and soon to be created ISSB, in order that any regional or national requirements are consistent with standards to be issued by the ISSB and that these ISSB standards form a globally consistent 'baseline' of sustainability reporting requirements.

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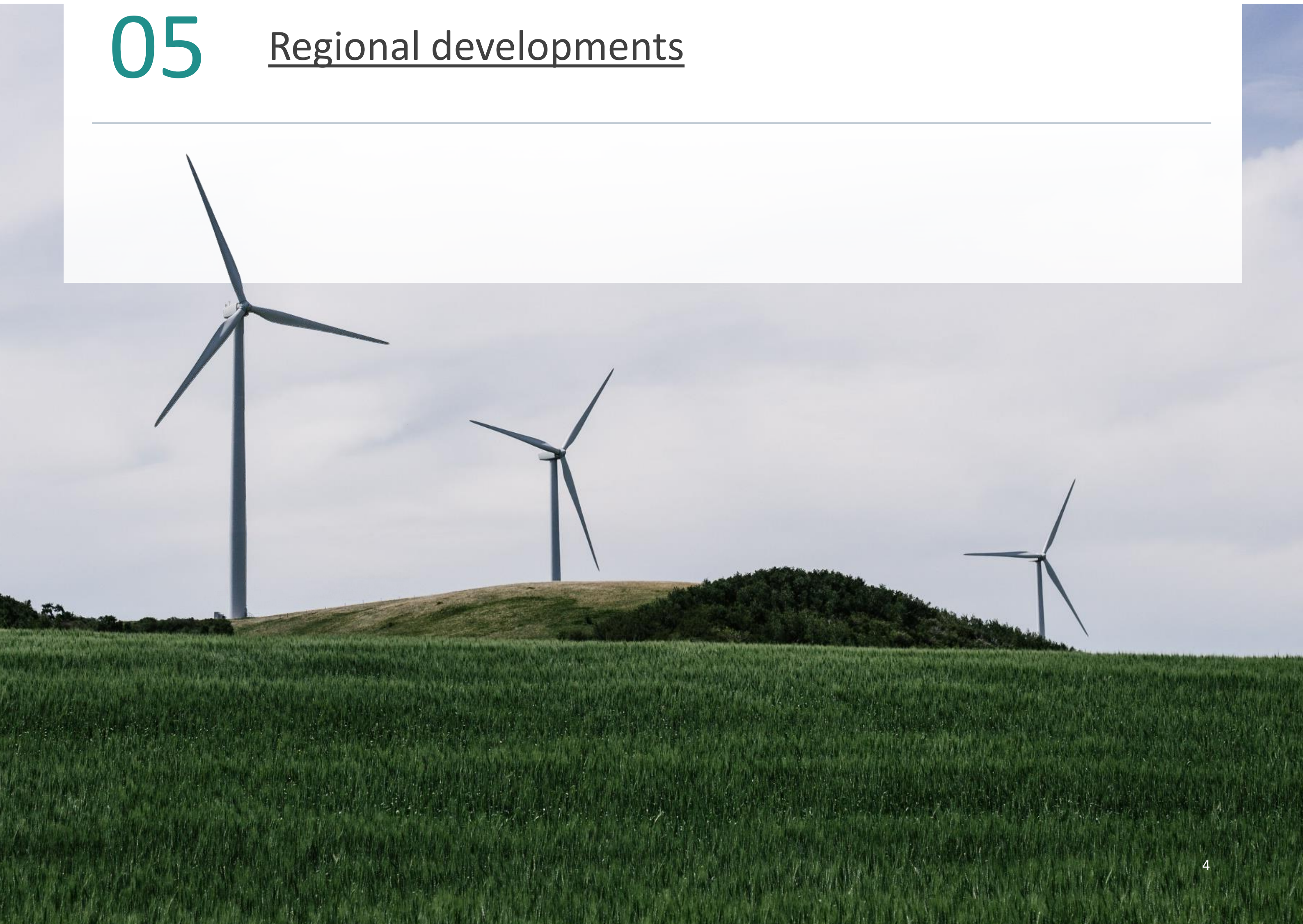
Content



01

Sustainability reporting

Sustainability reporting

Sustainability reporting can be included as part of an annual or interim report, or issued as a separate stand-alone document. Whichever approach is followed, companies will need to consider their environmental, social and governance impacts across a wide range of issues. The related disclosures could include the following topics:

Environmental

- Carbon and other greenhouse gas emissions
- Production and office waste management and recycling systems
- Natural resource use, such as water and paper
- Pollution (noise, dust, particles)
- Office and factory air quality and (covid secure?) ventilation systems

Social

- Diversity, equity and inclusivity policies and practices
- Employee wellbeing and mental health support programmes
- Flexible working opportunities and arrangements
- Talent retention and attraction strategies
- Digital upskilling of employees

Governance

- Board structure, ESG knowledge and diversity criteria
- Risk management practices including material environmental and social issues
- Tax strategy
- Executive remuneration policy including any ESG based KPIs
- Supply chain management, including consideration of ESG

02

Existing sustainability reporting frameworks

Background

Although hundreds of sustainability reporting frameworks exist, a relatively small number are dominant. These include those of the group of five sustainability standard setters (CDP, CDSB, GRI, IIRC and SASB, of which the last two have now merged to form the Value Reporting Foundation), which in September 2020 issued a statement of intent to work together, and in December 2020 published a prototype climate standard together with prototypes of an amended IAS 1 Presentation of Financial Statements and IFRS Conceptual Framework. Others are:

- UN Sustainable Development Goals (SDGs)
- The UN Global Compact
- Recommendations of the TCFD

A summary of each of these frameworks is set out below, starting with a number of those which are most widely used in practice (GRI, <IR>, SASB and TCFD). Although their application and associated reporting are typically optional, in a small but growing number of jurisdictions some companies are required to report in accordance with at least one of those frameworks, and we have noted this as applicable:

Global Reporting Initiative

GRI Standards provide a comprehensive framework for companies to report environmental, social, economic and governance disclosures for a wide range of stakeholders including investors, suppliers, customers, employees and regulators. The Standards set out relevant approaches to determining materiality and the content of management/narrative reporting, and result in detailed disclosures in the form of indicators for a comprehensive range of sustainability issues, including greenhouse gas emissions, product responsibility, diversity, human rights and transparency.

The GRI was created in 1997, with the first Guidelines framework being issued in 2000 and the GRI Standards published in 2016, which are currently the most widely used standards for sustainability reporting. More than 10,000 entities in over 100 countries report in accordance with GRI Standards, including 73% of the world's largest companies.

The definition of materiality is wide, extending to cover an entity's impacts on the environment, economy and people.

Reporting

- Disclosures/indicators on material issues, covering a wide range of environmental, social, governance and economic factors
- Choice of whether to report using Core or Comprehensive options. A Core report contains the minimum information needed to understand the nature of the organisation, its material topics and related effects, and how these are managed. A Comprehensive report includes additional disclosures about strategy, ethics and integrity, and governance, with more extensive disclosures for each material topic.
- Can also report using selected standards for specific economic, environmental and/or social impacts, without GRI standards being used as a whole (a 'GRI referenced' claim).

Key features

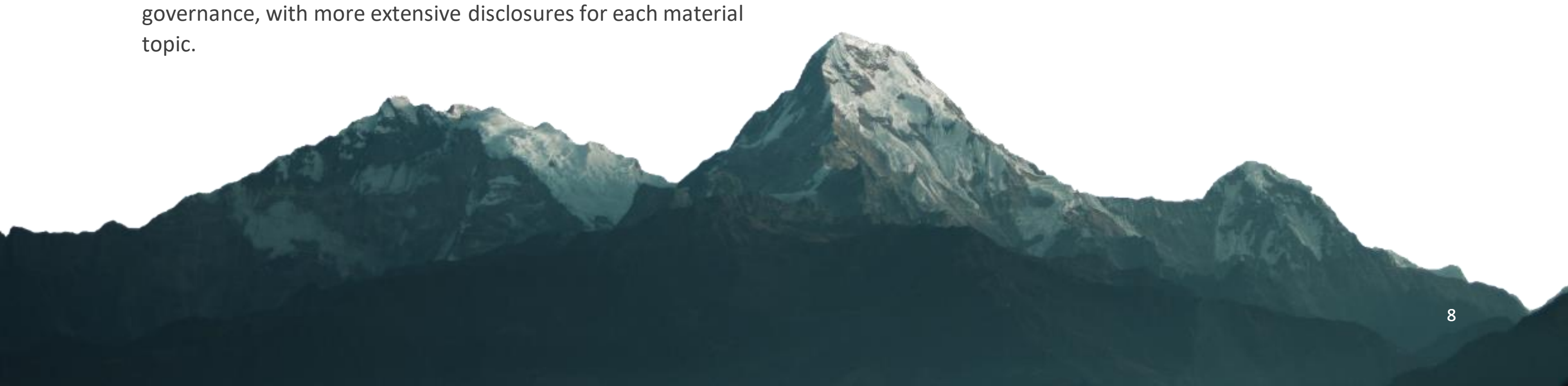
- Mandatory annual disclosure for all Swedish state-owned companies
- International
- Industry and sector agnostic
- Logical, straightforward reporting methodology

Advantages

- A leading standard for ESG disclosures
- Clear methodology which can be applied as part of an integrated annual report or included in a separate sustainability report
- Core and comprehensive reporting options cater for an entity's level of sustainability maturity and ambition

Reporting suitability

- Listed and private companies from SMEs to multinationals, public sector organisations



International Integrated Reporting Council (IIRC), International Integrated Reporting (<IR>) Framework

<IR> explains how an organisation creates, preserves or erodes value over time, using both resources and relationships, in what are referred to in the <IR> Framework as the 'six capitals' which are financial, human, social and relationship, natural, intellectual and manufactured.

The IIRC was created in 2010, with the <IR> Framework first published in 2013. More than 2,500 entities in over 75 countries have implemented <IR>.

The definition of materiality means that <IR> is designed to explain how an organisation uses its capitals to interact with the external environment to create, preserve or erode value in the short, medium and long term for both itself and its stakeholders. The overall aim is to align corporate activities and capital allocation to wider objectives of financial stability and sustainable development.

Reporting

- Disclosures made up from a reporting 'pyramid' of three fundamental concepts, seven guiding principles and eight content elements.

Key features

- Voluntary for most, mandatory for Johannesburg Stock Exchange (JSE) listed companies with some variations and deviations from the published <IR> Framework
- International
- Industry agnostic
- Principles based and flexible framework
- Aimed at larger, listed reporters
- Investor focus

Advantages

- Flexibility using material quantitative and qualitative information and data

Reporting suitability

- Listed, investor focussed reporters with higher sustainability maturity

Sustainability Accounting Standards Board (SASB)

SASB Standards set disclosure requirements for financially material sustainability information by companies to investors, and identify the subset of ESG issues that are most relevant to financial performance in 77 different industries. All industry specific reporting standards permit benchmarking and comparison. SASB Standards are aligned with US GAAP financial reporting by incorporating various accounting principles.

SASB Standards are designed to improve industry specific disclosures for ESG issues, to enable both companies and investors to take decisions that will drive long-term value creation for businesses and shareholders.

The SASB was formed in 2011, with the Standards being launched in 2018. With more than 1,000 entities reporting in accordance with SASB, they are used most widely in the US, although there has been an increase in use by reporters in Europe and Asia, in particular for those which are listed or dual listed in the US.

The definition of materiality focuses on financial materiality, being information that is relevant to lending and investment decisions that are driven by short, medium and long term financial performance and enterprise value.

Reporting

Companies report issues that are material to their business and industry in five categories:

- Environment
- Social capital
- Human capital
- Business model and innovation
- Leadership and governance

Key features

- In principle, international, but with a clear US focus
- 77 different industry standards
- Investor focus
- US listed companies dominate the reporter group

Advantages

- US and international investors increasingly use SASB as a benchmark for industry specific ESG disclosures

Reporting suitability

- Larger listed companies with sector specific reporting issues
- Investor and ESG focussed companies with higher sustainability maturity

Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD)

TCFD is comprised of a set of recommendations for organisational disclosures which are designed to enable the effective monitoring, and reduce the financial risk, of climate change. It sets out a methodology for companies to incorporate and embed climate change risks and opportunities into their business strategies.

It has the potential to strengthen and enhance organisations' financial risk reporting, through the integration of climate scenario analysis, climate-related enterprise risk management procedures, climate governance and the development of material climate risk metrics and targets.

The TCFD was formed by the Financial Stability Board, and is considered to be the leading standard for climate risk disclosure, with all major sustainability frameworks aligning with the recommendations. An increasing number of jurisdictions are mandating the TCFD recommendations and they are being considered by the IFRS Foundation's Technical Readiness Working Group in advance of the creation of the new ISSB (see section 4 below).

The TCFD was formed in 2015, with the recommendations being published in 2017. More than 2,000 entities now follow the TCFD recommendations, in over 80 countries.

The definition of materiality means that the materiality of climate-related issues is determined in a consistent way to other information that is included in financial reports, with the disclosures being extended to cover governance and risk management.

Reporting

Entities in the financial services and other sectors are encouraged to report against four areas:

- Governance (eg board oversight and action plan execution)
- Strategy (eg climate scenario analysis and future related impacts)
- Risk management (eg integration of climate-related matters into ERM systems)
- Metrics and targets (eg progressive greenhouse gas emission reduction targets)

Key features

- Mandatory for all UK premium listed companies from 2021 followed by all large companies and LLPs by 2025
- Mandatory in New Zealand from 2023 for around 200 entities in the financial and asset management sector
- The leading climate risk reporting framework
- Financial sector focus but relevant to all sectors

Advantages

- Best practice climate disclosure
- Identifies risks and opportunities linked to climate change
- Major credit rating agencies incorporate TCFD into credit ratings

Reporting suitability

- Listed, investor focussed reporters which operate in particularly climate challenged industry sectors with high greenhouse gas emissions such as coal, oil, gas, aviation, transport, energy generation, agriculture, steel and cement
- Higher sustainability maturity may be helpful, but wide applicability to all entities as emissions legislation becomes more widespread and restrictive

CDP

The CDP collects, assesses and discloses information on the environmental performance of companies, cities and regions through specific questionnaires on Climate Change, Water Security and Forests (timber and palm oil use). It also collects information on companies' supply chains via a specific supply chain module.

Respondents to the questionnaires disclose and provide evidence on a wide range of questions on the current and future sustainability direction of their business and operating strategies. CDP scores range from A to F depending on an entity's sustainability disclosures and related verification.

Reporting

There are three thematic questionnaires:

- Climate change
- Water security
- Forests

All three questionnaires include an additional supply chain module in order to identify activities and impacts across value chains.

Key features

- International
- Resource and data intensive
- Industry agnostic
- Investor disclosure focus
- Listed companies dominate this group of reporters

Advantages

- A leading global standard for environmental reporting
- An increasing number of global investors (such as BlackRock) require CDP, in order to assess climate change and wider environmental risks in their investment portfolios
- High visibility for investors, peers and stakeholders
- High reputational value for those companies that score highly and are included in the annual 'A list'

Reporting suitability

- Listed, investor focussed companies with mature sustainability methodologies

CDSB

CDSB has two frameworks for information included in company reports:

- Environmental, capital and business impacts
- Climate change reporting

CDSB provides tools and technical expertise that is needed to implement the TCFD.

Reporting

Environmental, capital and business impacts: includes the reporting of environmental information, natural capital, and associated business impacts, including governance, policies, and risks and opportunities.

Climate change reporting: requires companies to determine the disclosures that are relevant to them, are of use to investors, or have the potential to affect the strategic direction of the business.

Key features

- International
- Climate and natural capital disclosure framework
- Investor focus
- Reporters dominated by large listed companies

Advantages

- The CDSB Framework can be used to incorporate climate change and natural capital-related information in financial and sustainability reports
- Can support an organisation's materiality analysis of environmental risks and opportunities
- Recognised by investors as a meaningful standard for ESG disclosures

Reporting suitability

- Large listed and investor focussed companies which operate in sectors with a significant impact on climate with high greenhouse gas emissions, such as coal, oil, gas, aviation, transport, energy production, agriculture, steel and cement

UN Sustainable Development Goals (SDGs)

The SDGs are 17 sustainability based goals to be met by 2030 with 171 targets, allowing reporters to integrate and align their business strategy and objectives. The SDGs allow reporters to demonstrate their commitment, and disclose their progress and performance towards meeting, the 2030 goals. The disclosures link national/regional reporters' sustainability performance with global challenges that have been identified by the United Nations.

Reporting

Reporters have a choice of whether to use qualitative and/or quantitative data in their disclosures. They can also select and report on the goals that are most material to their sustainability impact.

Key features

- Signatories to the UN Principles for Responsible Investment (PRI) SDG Outcomes Framework will be required to disclose their policies and processes relating to each SDG
- International
- Industry and entity agnostic
- High public profile during the period to 2030
- Easy to integrate into all other sustainability frameworks
- UN Global Compact reporters (see below) can use the SDGs to meet the 10 principles

Advantages

- Flexible, allowing reporters to choose material SDGs that reflect their strategic priorities, values and purpose
- Can be used to structure existing ESG activities, investments and metrics
- Aligns with increasing stakeholder expectations around global challenges across the 17 goals

Reporting suitability

- All entities, regardless of size, maturity, industry or size

The UN Global Compact (UNGC)

The UNGC has 10 sustainability principles which address:

- Human rights
- Labour
- Environment
- Anti-corruption

Organisations from all sectors can use the UNGC to demonstrate their commitment to these principles, and to use them to refine sustainability activities and increase stakeholder engagement for related initiatives. Reporters are encouraged to declare their commitment annually either in a separate 'Communication on Progress' document, or as part of other sustainability disclosures.

Reporting

- Required to cover 10 principles against the four pillars
- No minimum threshold for quantitative or qualitative disclosures
- No specific methodology or framework for reporting

Key features

- Voluntary
- International
- Industry and entity agnostic
- Can use quantitative and/or qualitative disclosures
- Well established (for over 30 years), with reporting by mainly large and listed reporting entities

Advantages

- Flexibility of disclosures against the 10 principles
- Potential to link national and industry specific sustainability disclosures to internationally recognised principles

Reporting suitability

- All entities, regardless of maturity, industry or size

03

World Economic Forum / International Business Council (WEF/IBC)

World Economic Forum / International Business Council (WEF/IBC)

In September 2020, the WEF/IBC published a white paper 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'. The white paper sets out a set of universal, material key ESG metrics which can be reflected in mainstream annual reports of companies across industry sectors and countries. Those metrics are capable of verification and assurance, in order to enhance transparency and alignment among corporations, investors and other stakeholders. They were developed in consultation with over 200 companies, investors and other key players, and gained strong support from companies and investors when they were presented at the IBC's summer meeting in August 2020.

The recommended metrics are organised in 18 topics under four pillars that are aligned with the SDGs (see above) and principal ESG domains:

Principles of governance

- Governing purpose
- Quality of governing body
- Stakeholder engagement
- Ethical behaviour
- Risk and opportunity oversight

Planet

- Climate change
- Nature loss
- Fresh water availability
- Water pollution
- Air pollution
- Solid waste
- Resource availability

People

- Health and well being
- Dignity and equality
- Future skills

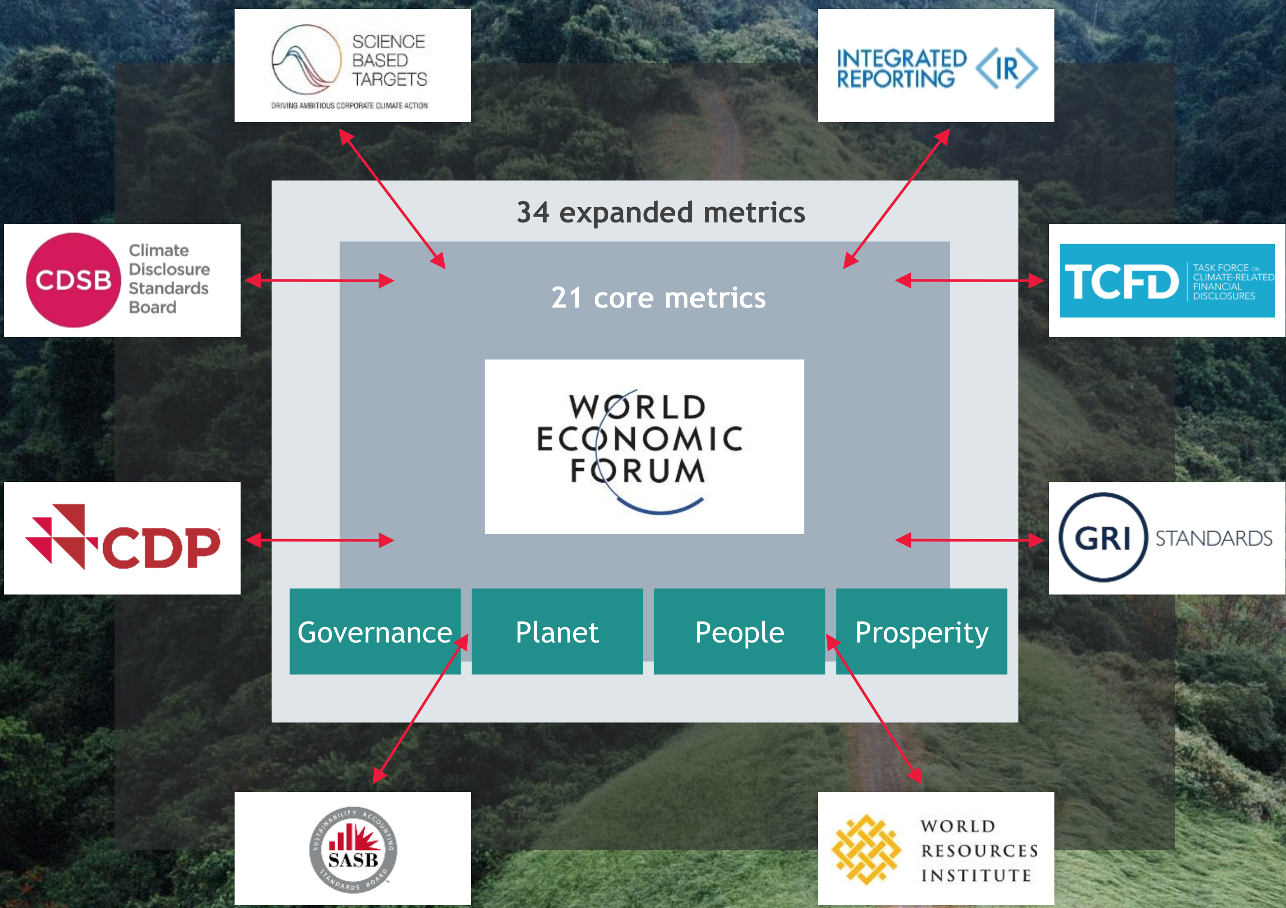
Prosperity

- Employment and wealth generation
- Innovation of better products and services
- Community and social vitality

World Economic Forum / International Business Council (WEF/IBC)

Although the metrics might be seen as yet another reporting framework, they have been drawn, to the extent possible, from existing standards and disclosure frameworks, in order to make use of rigorous work that has already been carried out by standard-setters and to avoid reinventing the wheel. They will therefore be consistent with reporting frameworks that the vast majority of companies that are reporting ESG information are already using. This, combined with the expected approach of the new global standard setter of building on the requirements of existing sustainability standards (see below), means that the WEF/IBC metrics represent a good starting point for companies that are in the early stages of sustainability reporting and can also be adopted by those which are at a more advanced stage. This wide applicability, together with the approach of building the metrics on current standards and frameworks (which we anticipate will be similar in principle to the approach that is expected to be followed by the new global standard setter – see section 4) has resulted in BDO encouraging its member firms to adopt the metrics set out in the WEF/IBC white paper.

The frameworks from which metrics and disclosures have been drawn are illustrated below:



Core metrics: 21 more established or critically important metrics and disclosures. They consist primarily of quantitative metrics already being reported by many organisations or which can be obtained with reasonable effort. The focus is primarily on activities within an organisation's own boundaries and the disclosures are proposed to be included in any public report, including annual reports.

Expanded metrics: 34 metrics and disclosures that tend to be less widely used in existing sustainability reporting practice. They address wider value creation and impacts across the entire organisational value chain and seek to measure impacts in in a more sophisticated or tangible way, such as in monetary terms. They represent a more advanced way of measuring and communicating sustainable value creation.

The metrics apply across all industry sectors and business models. However, the WEF/IBC metrics are not designed or intended to replace relevant sector and company specific disclosures.

Companies are encouraged to report against as many of the core and expanded metrics that they consider to be material and appropriate, on a 'comply or explain' basis.

04

Steps towards a global sustainability standard setter

Steps towards a global sustainability standard setter

At the end of September 2020, the IFRS Foundation published a consultation paper, asking for views on its potential role in sustainability standard setting. At the same time, a group of five of the most established sustainability reporting standard setters (CDP, CDSB, GRI, IIRC and SASB) issued a statement of intent, committing to work together towards a comprehensive corporate reporting system. In October 2020, in an open letter, the Chair of the IOSCO Sustainability Task Force expressed support for the IFRS Foundation's and the group of five's initiatives to come together. It was also noted that IOSCO was in a position to help with the process, as was done 20 years ago when it endorsed IFRS for use in cross border offerings and listings.

Towards the end of December 2020, the group of five published a prototype climate standard, together with a prototype amended IAS 1 and IFRS Conceptual Framework to illustrate how sustainability standard setting could be made operational. Then, in early 2021, following a comprehensive outreach programme which ended on 31 December 2020 and an initial review of the 576 comment letters received, the Trustees of the IFRS Foundation noted growing and urgent demand to improve the global consistency and comparability in sustainability reporting, and strong support for the IFRS Foundation to play a role. A Trustee Steering Committee was formed, with the intention being for the Trustees to produce a definitive proposal (including a roadmap) by the end of September 2021, and the possible announcement of the establishment of a Sustainability Standards Board at the meeting of the United Nations Climate Change Conference COP 26 to be held in Glasgow in November 2021.

During the second, and into the third, quarter of 2021, considerable work has been carried out by the IFRS Foundation. By early June there were four working groups and technical committees, one of which (the Technical Readiness Working Group, formed in April) was tasked with enabling the new Board to have a 'running start' when it is established.

This links to statements made by the IFRS Foundation that it will not seek to develop an entirely new set of sustainability standards, and will instead seek to build on standards which have already been developed by the existing sustainability standard setters. The scope will be enterprise value creation – that is, the disclosure of information that is material to the decisions of investors and other participants in the world's capital markets. The potential speed is unprecedented in standard setting terms, with an IOSCO publication suggesting the potential for a first standard, focussed on climate-related matters, by June 2022.

Participants in the TRWG are the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (comprising the newly merged IIRC and SASB), being three members of the group of five, the World Economic Forum (which had published the white paper noted above in September 2020), the Financial Stability Board's Task Force on Climate-related Financial Disclosures and the International Accounting Standards Board. Observers are the International Organisation of Securities Commissions (IOSCO) and the International Public Sector Accounting Standards Board (IPSASB). The TRWG also liaises closely with the Global Reporting Initiative (GRI) and CDP, the other two members of the group of five, on technical matters and to promote inclusivity.

The IFRS Foundation initiative continues to attract widespread support, including from the G7 and G20 Finance Ministers who highlighted and welcomed the initiative in communiques from their meetings in May and June 2021.

05

Regional developments

Regional developments

At the same time as momentum is building for the formation of a global sustainability standard setter, there have been significant regional developments. These are relevant not only in the related jurisdictions but, because companies operate globally, reporting requirements that are imposed in a particular country or geographic region may be relevant elsewhere. For example, if a company is listed in a particular jurisdiction, it may be subject to jurisdictional reporting requirements from a consolidated group perspective. Although some jurisdictional requirements may be almost inevitable, because some countries or regions may wish to move forward with sustainability reporting more quickly than others, this emphasises the need for jurisdictions worldwide to adopt and (if considered appropriate) build on a consistently applied global 'baseline' of reporting requirements.

European Union

In the EU, the European Commission is in the process of revising its Non-Financial Reporting Directive, and has published a proposal for a new Corporate Sustainability Reporting Directive. This will require EU Sustainability Standards to be developed and published, and this work is already under way at the European Financial Reporting Advisory Group (EFRAG). The scope of those standards will go beyond that of the planned new Board at the IFRS Foundation, and will extend to so-called 'double materiality' which, broadly, is the consideration of the effects of an entity on wider society as well as on capital market participants. It is to be hoped that, to the extent that the scope overlaps, EU sustainability standards will be wholly consistent with those to be produced by the new Board at the IFRS Foundation.

United States

There have also been developments in the US. In March 2021, the Securities and Exchange Commission (SEC) announced the creation of an Enforcement Task Force Focussed on Climate and ESG Issues. In the same month, the SEC also published a Request for Comment on Climate Disclosure. In a related Public Statement, acting Chair Allison Herren Lee noted the SEC had previously (in 2010) issued interpretative guidance as to how existing disclosure requirements apply to climate change matters. Demand for those disclosures had grown very significantly since then, and the SEC Staff were being asked to carry out an evaluation of the disclosure rules. Again, it is to be hoped that any new requirements issued in the US will build on and be wholly consistent with sustainability standards to be produced by the new Board at the IFRS Foundation.

United Kingdom

The UK government was one of the first G20 members to publish its proposed timeline in 2020 for required reporting by entities in accordance with TCFD, which is to be phased in with wider scope each year during the period 2021-25. With the first reports to be published by premium listed companies in early 2022, reporting will ultimately be required by listed and large private companies, large limited liability partnerships, banks, building societies, insurance companies (including life insurance), asset managers, FCA Regulated and Occupational Pension Schemes.

China

The China Securities Regulatory Commission (CSRC) has issued additional reporting requirements for publicly listed companies in 2021 including enhanced environmental, social and governance (ESG) disclosures. All Shanghai and Shenzhen listed companies are required to disclose in their annual report how they fulfil social responsibilities in their operations and management and how they incorporate environmental protection into company strategies. A quarter of all listed companies already publish some ESG information as part of their annual reporting but the ESG data published by Chinese companies is not yet standardised and comparable across markets creating a barrier for ESG minded domestic and foreign investors.

Hong Kong

The Hong Kong stock exchange introduced mandatory ESG) requirements for issuers in 2020. Under the new rules, issuers are required to provide a board statement setting out its consideration of ESG issues and explain the boundaries and identification process used for specific entities or operations included in the ESG reports. In addition, listed firms will be required to disclose significant climate-related issues which have, or may, impact the company. Targets related to environmental key performance indicators (KPIs) will require disclosure, and the disclosure obligation for social KPIs will be upgraded to require an issuer to report on a 'comply or explain' basis.

Japan

Japan's 2015 Corporate Governance Code for Tokyo Stock Exchange listed companies strongly encourages all companies to report on activities demonstrating transparent, fair, timely and solid decision-making on sustainability and financial matters, while paying due attention to the needs and perspectives of shareholders, customers, employees, and local communities. The key amendments to the code in 2020 include more disclosures on board independence measures, promoting diversity both at leadership level and across the organisation and the need for clear sustainability strategies which, among other things, consider climate related disclosures such as TCFD.

Regional developments

South Africa

Integrated reporting in South Africa began with the 2009 King Code of Governance for South Africa (King III), which contained the principle that 'the board should appreciate that strategy, risk, performance, and sustainability are inseparable' and recommended that companies prepare an integrated report to reflect their combined financial and non-financial value creation over the short, medium and long term. The principles of King III were included in the listing requirements of the Johannesburg Stock Exchange (JSE) with all constituents required to prepare an integrated report or explain why they were not doing so from 2011. The King IV governance code update in 2016 changed JSE constituents reporting requirements from the 'apply or explain' reporting culture to a 'apply and explain' approach. That is, companies are now required to explain how the principles have been applied, and not whether they have been applied.

New Zealand

The New Zealand Government has introduced legislation to make climate-related disclosures mandatory for around 200 organisations. The requirement applies to publicly listed companies and large insurers, banks, non-bank deposit takers and investment managers. The mandatory regime would be introduced through an amendment to the Financial Markets Conduct (FMC) Act 2013 and will require around 200 large reporting entities to start making climate-related disclosures for financial years commencing in 2022, with disclosures starting to be made in 2023.

The goal of mandatory climate-related disclosures is to:

- ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions;
- help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues; and
- lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.

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