



# The Complexity of ESG Reporting and Emerging Convergence Trends

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# A review of the alphabet soup of ESG standard-setters, data aggregators, analysis providers, ESG raters, and indices and reports on convergence trends that will affect ESG disclosure for IROs.

**T**he number of ESG corporate disclosure and reporting standards and frameworks has dramatically proliferated in recent years. These reporting standards have not only become more numerous, but they have also become more sophisticated and mature.

With this continuously evolving complexity, it can be challenging to identify the most popular frameworks and standards for disclosure and how to best use them to communicate your company's ESG profile to institutional and, increasingly, retail investors.

While the competition between standards has generated significant innovation, it has also led to frustration and confusion for those who have not kept up with everything happening.

To address the resulting complexity, there have been significant recent announcements and efforts from influential players to converge the leading standards into a global, comprehensive corporate ESG reporting system. As these efforts move forward, there will be more challenges for investor relations professionals to predict the probable outcomes to guide their company disclosures.

Before we dive into how the convergence of ESG reporting standards may play out, I want to clarify what I see as a common point of confusion in this market space. This is, ESG standard-setters for sustainability reporting are often confused and grouped into the same category as ESG data aggregators, analysis providers, ESG raters, and indices.

For example, IROs may say they are overwhelmed and confused about which standard to use in their reporting and proceed to ask, "Should we use GRI, SASB, MSCI, Sustainalytics, Bloomberg, Refinitiv, ISS, DJSI, TCFD, IIRC, CDP, FTSE4GOOD, CDSB, or the CSA? Which one is most important?"

It's important to remember that while all these organizations and acronyms represent important players in the ESG ecosystem, they are not all reporting standards and should not be grouped into the same category.

It is really important to understand the differences between these players to then be able to discuss how to best use them and what the future may look like as convergence and possible regulations unfold.

Below is a guide to the alphabet soup of organizations and acronyms:

## **Reporting Standards/Frameworks**

- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- International Integrated Reporting Council (IIRC)
- Task Force for Climate Related Financial Disclosure (TCFD)
- Climate Disclosure Standards Board (CDSB)

These organizations provide guidance for how a company should disclose ESG information in a public report/disclosure document. They do not grade, rank, analyze or score the disclosures from these companies, but simply provide the structure for how companies should communicate about these topics to investors and other important stakeholders.

*In the traditional financial world, compare these to financial reporting guidance such as Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS), Financial Accounting Standards Board (FASB), International Accounting Standards Board (IASB), etc.*

### **Analysis Providers/Raters/Rankers**

- MSCI
- Sustainalytics
- Institutional Shareholder Services (ISS)

These organizations have armies of analysts who read through your sustainability reports, websites, policies, codes, and other public disclosure documents to analyze your company's ESG profile; plug it into their models and rating methodologies; and provide scores, opinions, and analysis reports to their investor clients.

*In the traditional financial world, these compare to sell-side analysts who also apply a score (buy, sell, hold, etc.) They also compare to credit rating agencies as many of them also evaluate risk, issuing ratings such as AAA, BB, etc.*

### **ESG Data Providers**

- Bloomberg
- Refinitiv

These organizations also have analysts who read through your public disclosures, but instead of applying analysis, scores, and opinions, they supply raw data points on each company through their platforms (think of The Bloomberg, Eikon, etc). A sophisticated ESG investor would use this raw ESG data to create their own customized methodology (selecting the topics that they feel are most material, and/or customizing/weighting to the values of their clients) for analyzing companies for investment decisions.

*In the traditional financial world, these are easy to compare, as most are familiar with what Bloomberg and Eikon terminals offer. ESG data is an expansion of the raw data offered in these platforms.*

### **Indices**

- Dow Jones Sustainability Indices (DJSI)

- Financial Times Stock Exchange Group FTSE4GOOD
- S&P 500 ESG Index

The Dow Jones Sustainability Indices are a set of indices where constituents are determined by their performance in the Corporate Sustainability Assessment (CSA), which is an ESG questionnaire that companies respond to each year (now owned by S&P Global after a recent acquisition). The FTSE4GOOD is another popular index of ESG leaders that operates in the United Kingdom. S&P Global is rolling out new ESG benchmarks.

*In the traditional financial world, these are compared to indices such as the S&P 500 index, which now has a sister index called the S&P 500 ESG index.*

### **Sustainability Questionnaires**

- CDP
- S&P Corporate Sustainability Assessment (CSA)

These organizations each have an online questionnaire that companies respond to each year. Based on these responses they are assessed and a score is assigned (and in the case of CSA, index inclusion decisions are made for DJSI indices and a series of S&P ESG indices).

### **An Overlapping Issue**

Despite the discrete categories noted above, a small disclaimer is needed: There is some overlap among these categories.

For example, some ESG data provider organizations also provide ESG ratings (mostly based on disclosure/transparency) for various categories but not the additional layer of analysis and opinion on performance.

Another example is that the S&P CSA (the annual Corporate Sustainability Assessment that companies respond to) provides ESG ratings from the results of their assessment and these are then available on the Bloomberg and Capital IQ terminals as secondary sources. Yet another example is the CDP response which is also scored by CDP (A+, B- etc.) and made available publicly and on the Bloomberg terminal. Some companies also publish copies of their CDP response on their website (a good practice) so that the information contained in it serves as a public disclosure document.

### **The ESG Ecosystem**

Despite this somewhat confusing structure, in reality only a handful of the standards and organizations should be considered when deciding on which reporting standard to use.

The acronyms to consider for ESG disclosure are GRI, SASB,

IIRC, TCFD, and CDP. The rest of these organizations are important to know about, consider, and engage as needed, but they are not reporting standards or frameworks. However, they do inform disclosures in various ways.

It is important to understand that using one or more leading ESG reporting standards for sustainability reporting will lead to better information efficiency, availability, accuracy, comparability, and quality for both the information providers (companies) and the information users (investors, raters, index creators, analytics/data providers, and other stakeholders).

### **ESG Disclosure Standards/ Frameworks**

ESG disclosure standards and frameworks can be categorized to enhance understanding and identify key players. Keep in mind that these categories have some overlap and players within each category are different.

#### **Category 1: Broad Disclosure Standards (broadly encompassing E, S, and G topics)**

Standards such as GRI, SASB and IIRC fall into this category.

These reporting standards provide guidance for companies to publicly report on a wide array of E, S, and G issues. There are many differences among them, however.

For example, when it comes to the materiality of topics, GRI follows a stakeholder-inclusive model of materiality (think what information is important to employees, customers, and investors), whereas SASB and IIRC follow a more strict definition of financial materiality focusing on one important stakeholder: the investor. This by design tends to align with the current SEC definition of material information for investors.

Due to the difference in the way materiality is defined by each standard, GRI reports often cover a much broader set of topics of interest to an array of important stakeholders, while SASB reports are typically focused on a shorter list of highly material industry-specific topics of interest to investors.

Of course, there is some overlap here, as ESG initiatives that build stronger relationships with customers or employees often lead to benefits for the investor such as higher productivity, higher revenue, lower costs, more value, and superior company performance.

When a company is deciding what to include in a report,

**In practice, many companies use a hybridized disclosure approach, implementing guidance and disclosures from both GRI and SASB standards in their reports.**

SASB provides guidance for 77 industry categories on which topics and disclosures are likely to be financially material for companies in each industry. By contrast, GRI does not prescribe categories, but instead provides a process with key principles that each company can use to engage with their stakeholders and determine what is uniquely material to their company, investors, and other important stakeholders.

In practice, many companies use a hybridized disclosure approach, implementing guidance and disclosures from both GRI and SASB standards in their reports. Many will include content index tables for each disclosure standard in the back of their reports, allowing readers to navigate the report using multiple standards. Many companies also use the SASB guidance for their industry to inform a wider GRI-style stakeholder inclusive materiality assessment (in effect using SASB inputs on material topics as a proxy for investor stakeholder interest).

#### **Category 2: Topic-Specific Standards (generally focusing on one topic more granularly, such as climate or human rights)**

Frameworks such as CDP, the Task Force on Climate-Related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB), and the United Nations Guiding Principles on Human Rights (UNGP) focus on a specific topic and really dive

in and get more granular and specific on that topic than the broad disclosures standards would.

These information resources provide a way for companies to enhance and elaborate on their disclosures in these key areas that can complement the broader reporting standards such as GRI, SASB and IIRC.

For example, CDP, TCFD and CDSB all focus on climate change as a topic and these three frameworks are highly complementary and aligned by design. They go into granular detail on climate change such as governance of climate risk, target setting, energy usage, emissions, integration into ERM processes, executive compensation ties, scenario analysis planning, opportunities, and risk, among other topics.

Another example is UNGP, which provides disclosure guidance to companies for the topic of human rights. UNGP disclosure guidance includes many sub-topics under human rights such as child labor, forced labor, gender diversity, ethnic diversity, and the right to organize, among other topics.

CDP also falls into the survey/questionnaires category (Category 3 below) as companies need to directly respond to it, whereas TCFD is guidance for preparing public disclosures and reports on the topic. If a topic is highly material to a company, a topic-specific standard can be helpful for the company to really dive into the details of the topic for investors and other stakeholders.

Climate change and human rights are current topics that many investors consider to be material in almost every sector and industry in different ways, and this is why CDP, TCFD, CDSB, and UNGP have generated so much traction and broad acceptance recently.

### **Category 3: Survey/Questionnaires (companies need to respond to a survey - can be broad or topic-specific)**

There are various survey questionnaires that companies fill out which should be categorized differently than the public disclosure frameworks. For example, the S&P Corporate Sustainability Assessment (CSA) and the CDP questionnaires fall into this category. These two questionnaires in particular are extremely important to consider and respond to.

A company must login to an online portal and complete a series of comprehensive questions which are then assessed and scored by the organization. CSA covers a wide variety of topics across ESG (but applies a sector-specific weighting and selection of topics and questions), while CDP focuses the questions on the topic in focus for the survey (CDP now has at least four

separate questionnaires covering climate, water, forestry, and supply chain, but its climate response is the most well known).

The CSA results are used to rebalance the Dow Jones Sustainability Indices (DJSI), the S&P 500 ESG index (and others in this family), and the CSA scores are available on the Bloomberg Terminal, the Capital IQ terminal, and will be used going forward throughout the S&P Global organization. The CDP response is used to create your company's CDP scores, which are also available on the Bloomberg Terminal. They are often posted by companies on their websites as a disclosure document and used in many different institutional investor decision making processes. In addition, a comprehensive CDP response can significantly help a company get started on a good TCFD report as there is already significant alignment.

Organizations in this category are not really providing public disclosure guidance (as you would not develop your own public report using their frameworks) but are nonetheless very important to consider as you develop your entire ESG investment profile. The effort and information gathered during the response is extremely valuable and can be utilized in aspects of your public disclosure and/or ESG report.

### **ESG Convergence Trends**

Several exciting initiatives are underway to align the leading sustainability reporting organizations and provide comprehensive guidance to companies on how to gather and report on data efficiently through the right channels to various stakeholders.

This collaborative work will help lead to more valuable information for investors and other stakeholders, and less confusion among companies and other players.

Two of the most promising initiatives include:

- Statement of Intent to Work Towards Comprehensive Corporate Reporting– This is an effort led by the leading sustainability and integrated reporting organizations (CDP, CDSB, GRI, IIRC and SASB), facilitated by the Impact Management Project, World Economic Forum, and Deloitte, to collaborate and develop comprehensive ESG reporting guidance that will allow companies to gather data on each topic once and then disclose in various channels using the best of each standard in a hybrid approach.
- IFRS Foundation Consultation Paper on Sustainability Reporting– IFRS has published a consultation paper which explores whether there is a need for global sustainability standards, whether the IFRS Foundation should play a role, and what the scope of that role could be. IFRS has received 462 publicly available pieces of feedback.

These initiatives build upon previous initiatives such as (a small sampling, there are many more):

- [Corporate Reporting Dialogue \(CRD\)](#)
- [GRI and SASB Collaboration Promoting Clarity and Compatibility in the Sustainability Landscape](#)
- [Converging on Climate Risk: CSDB, the SASB, and the TCFD](#)

### The Outlook for 2021

In practice, there are many companies spearheading hybridized standard approaches to their ESG reporting.

We look forward to the continued progress that these initiatives are pushing forward to formalize alignment, convergence, and guidance that will come out of them. They will help to mature and accelerate the progress being made by leading companies already experimenting on how to best report on ESG.

Neil Stewart, Director of Corporate Outreach at SASB, believes, “the IFRS Foundation potentially creating a global sustainability standards board is the biggest thing to happen to accounting since the creation of the IFRS.”

Stewart also made it clear that “this type of comprehensive guidance on standardized disclosure should make ESG reporting less burdensome to companies, lead to less confusion, and increase the quality of data to investors.”

SASB and IIRC recently announced that they will merge by mid-2021 under the umbrella of the Value Reporting Foundation.

One goal of this merger is to help move closer to the ideals of the “Statement of Intent to Work Towards Comprehensive Corporate Reporting” of the “big five” sustainability reporting standards organizations (now in effect only four). Stewart noted, “SASB Standards and the IR framework will remain separate but complementary tools.”

These convergence efforts are also critical in creating the foundation by which disclosure regulations can be enhanced, created, and implemented. As we’ve seen in various regulations around the world (such as the EU Directive for Non-Financial Reporting), the regulators are not looking to create another standard, but to reference and build upon the industry best practices already being implemented.

Stewart adds, “There is no better time than now to make this happen – pent-up demand from the investment world at large should help to remove the barriers which have kept this

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from happening in the past.”

These types of efforts among the leading players in the space, combined with investor and societal demand, and a new SEC chair could push the needle forward on mandated disclosures.

### A Historical Comparison

What we are seeing today has some parallels to the maturing of financial disclosure. Less than 100 years ago, before the stock market crash of 1929, publicly traded companies were not even required to publish financial disclosures. There were various attempts by forward-thinking companies to voluntarily do so in response to investor demands – and even without definitive standards (such as GAAP and FASB).

After the 1929 crash, the SEC was granted authority by the U.S. Congress to set standards and accounting practices and corporate financial reporting. Congress then by law delegated this responsibility to industry groups that now make up FASB and GAAP.

In 2021, I believe that this is where we are heading with ESG disclosures. It’s been a long time coming, and the time is now! [IR](#)

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