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ESG Disclosures: Frameworks and Standards Developed by Intergovernmental and Non-Governmental Organizations

This client alert, part of a series focused on ESG disclosure and regulatory developments, provides a high-level overview of the ESG disclosure frameworks established by intergovernmental and non-governmental organizations. This alert should be read together with our ESG Lexicon, available [here](#).

Key Takeaways

- *As ESG matters have increasingly become the focus of investors and regulators, standards of disclosure created by intergovernmental and non-governmental organizations, as well as industry participants, have gained market prominence. The number of ESG disclosure standards and frameworks continues to grow.*
- *Investors increasingly demand disclosures within established ESG frameworks. For example, CDP Global reports that in 2020, 515 investors with \$106 trillion in assets and over 147 large purchasers with over \$4 trillion in procurement spend have requested companies disclose their environmental data through CDP.*
- *While most ESG disclosure is made on a voluntary basis, that is beginning to change, particularly in Europe, as regulators are becoming increasingly proactive.*

Overview

Not long ago, ESG issues occupied a narrow niche among investment professionals and NGOs. Today, ESG topics figure prominently throughout society, and ESG themes increasingly influence the agendas of asset managers, banks, insurance companies, boards of directors of companies, rating agencies, proxy advisors, regulators and activists. ESG issues affect the full spectrum of business organizations, large and small. As the prominence of ESG has grown, so too has the focus on disclosure in its many forms. Companies are increasingly seeking to burnish their ESG credentials and to respond to pressure from stakeholders to describe how ESG affects strategy, performance, governance, compensation, their impact on their communities, and so on. These disclosures are increasingly discussed in third-party analyses of ESG track records, as well.

As regulators largely were slow to grasp the direction of travel in the ESG space, which was exacerbated in part by the sheer breadth of the topic (and perhaps more importantly the sheer breadth of the disparate elements that comprised the “E,” the “S” and the “G”), international and non-governmental organizations

stepped in to fill that void, principally in respect of the “E.” We describe below the principal disclosure regimes that have developed in recent years.

A Changing Focus on Disclosure

Calls for action to reduce GHG emissions and to create low-carbon and climate resilient economies have grown over the past few years, and include the 2015 Paris Agreement on Climate Change, the United Nations (UN) Sustainable Development Goals (SDGs) and the Special Report of the Intergovernmental Panel on Climate Change. These efforts focused on the role that businesses and financial institutions can play in the transition to a low-carbon and climate-resilient economy and have two principal objectives: (i) to better position a range of participants to fund investments to meet energy and climate targets and (ii) to effectively understand and address the risks that climate change poses for business operations and performance.

It was natural that these global efforts, dating back some years, would focus on disclosure. Effective disclosure would allow stakeholders to understand both the potential upside opportunities and the downside risks to balance sheets across the corporate landscape, and would allow capital to be better allocated to fund sustainable solutions. Effective disclosure would allow governments to be better prepared for the economies that would be shaped by, and the risks that could be faced by communities and businesses as a result of, climate change over the coming decades. Effective disclosure would enable companies to demonstrate that they were responding to stakeholder concerns.

Intergovernmental Initiatives and ESG Frameworks

Principles of Responsible Investment

In 2005, then-UN Secretary-General Kofi Annan invited a group of large institutional investors to join a process to develop the Principles of Responsible Investment (PRI). The PRI was launched in April 2006, and since then the number of signatories has grown from 100 to over 3,000. The PRI partners with the UN Environment Programme Finance Initiative (a collaboration between the UN Environment Programme and the private financial sector) and the UN Global Compact (a multi-stakeholder leadership initiative). Signatories to the PRI commit to adopt and implement its six aspirational principles (the “Principles”):

- to incorporate ESG issues into investment analysis and decision-making processes;
- be active owners and incorporate ESG issues into asset ownership policies and practices;
- seek appropriate disclosures on ESG issues by investee companies;
- promote acceptance and implementation of the Principles within the investment industry;
- work together to enhance our effectiveness in implementing the Principles; and
- report on their activities and progress towards implementing the Principles.

UN Sustainable Development Goals

In 2015, the UN General Assembly adopted 17 SDGs as part of its 2030 Agenda for Sustainable Development. The 17 numbered SDGs outline broad global goals, such as: no poverty (Goal 1); zero hunger (Goal 2); gender equity (Goal 5); and climate action (Goal 13). The SDGs are accompanied by a total of 169 associated targets and 232 approved indicators. Many targets have been given a specific year (between 2020 and 2030) by which they should be achieved in order to meet the related goal, and the indicators specify the information that should be used to help measure compliance towards each target. The SDGs are viewed as a framework for shaping and prioritizing business strategy and associated reporting. Over time, they have been incorporated in a growing number of ESG assessment frameworks.

The SDGs are also beginning to shape investment structures. For example, issuers have begun to market SDG bonds, which are bonds earmarked to raise money for projects that align with SDGs. In June 2020, the UN Development Programme released new standards for consultation that aim to guide private equity fund managers and bond issuers in directing investments towards the SDGs.¹

Task Force on Climate-related Financial Disclosures

Also in 2015, the G20 asked the FSB to develop a framework for consistent climate-related financial risk disclosures for use by companies, insurance companies and investors. The G20 undertook this initiative in recognition of the growing imperative to ensure that the global financial system is resilient to emerging climate-related risk. The FSB launched the TCFD later that year to develop recommendations on climate-related financial disclosures. The TCFD published its final recommendations in June 2017.² In the words of the FSB, “[d]isclosure of climate-related financial information is a prerequisite for financial firms not only to manage and price climate risks appropriately but also, if they wish, to take lending, investment or insurance underwriting decisions based on their view of transition scenarios.” Approximately two thirds of FTSE 100 companies referenced TCFD in their 2019 annual reports, an increase from 39% in 2018.³

Other Global Non-Governmental ESG Frameworks

By 2019, a number of other global non-governmental ESG frameworks had been launched, including:

- **CDP Global** (formerly the Carbon Disclosure Project) is an international non-profit organization that has established an environmental disclosure platform, which collects standardized information from companies on climate change and the use of natural resources such as water and soft commodities. CDP reports that in 2020, 515 investors with \$106 trillion in assets and over 147 large purchasers with over \$4 trillion in procurement spend have requested companies disclose their environmental data through CDP.⁴ The platform is intended to allow companies, cities, states and regions to measure and manage risk and opportunities on climate change, water security and deforestation, with the goal of prompting investors, companies and local/regional governments to make the choices necessary for a sustainable economy.

- **The Climate Disclosure Standards Board (CDSB)** is an international consortium of business and environmental NGOs that offers a framework for reporting environmental information with the same rigor as financial information.⁵ This framework helps companies explain how environmental matters affect their performance and show how they are addressing associated risks and opportunities to investors in annual or integrated reports. The CDSB seeks to benefit a range of stakeholders: investors, analysts, companies, regulators and accounting firms.
- **Global Reporting Initiative (GRI)** is an international independent standards organization, whose Sustainability Reporting Standards are reported to be the most widely used standards for reporting on ESG impacts globally, and have been developed through multi-stakeholder contributions. GRI Standards support both comprehensive reports and selected disclosures. GRI provides disclosure standards for companies to communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. GRI focuses on creating standards and guidance to advance sustainable development, harmonizing the sustainability landscape, leading efficient and effective sustainability reporting and driving effective use of sustainability information to improve performance.
- **The International Integrated Reporting Council (IIRC)** is a global coalition of regulators, investors, companies, standard setters, accounting firms, academics and NGOs.⁶ The IIRC has established the Integrated Reporting Framework, which helps companies to produce a concise, investor-focused report that examines an issuer's performance and prospects through the lens of six "capitals" (financial, manufactured, human, natural, intellectual and social and relationship).
- **The Sustainability Accounting Standards Board (SASB)** issues sustainability accounting standards to help public companies disclose material and decision-useful ESG information to investors in their mandatory filings, based on their industry, in line with the notion that under existing regulation, material information should be disclosed. SASB currently offers 77 different industry-specific standards. The number of companies that use its industry-specific standards is expected to roughly double to 300 by next year.⁷

Looking Ahead

In addition to the foregoing, there are an increasing number of other frameworks and standards as well. The sheer number of reporting standards and rating systems in the ESG disclosure landscape has created new challenges for organizations, which may incorporate and be evaluated by multiple frameworks. In its 2019 Annual Report, the PRI noted that "the market is calling for greater coherence and consistency," and that asset owners have expressed a desire for the PRI to do more to drive better ESG data, including through convergence of reporting standards.⁸ The PRI called on investors to engage in discussions around corporate reporting and to consider how data are used in the investment chain. It also asked whether new reporting standards are appropriate or whether ESG considerations should be incorporated in existing mainstream

financial reporting. In a related response to “rising demand for clarity in the sustainability reporting ecosystem,” SASB and GRI announced new collaboration plans in July 2020 that aim to guide companies that use both standards.⁹

The critical question is whether, and when, consistent and comparable standards that serve the purposes of relevant stakeholders will be broadly accepted. A number of different stakeholders, including asset owners, asset managers and proxy advisory firms, are increasing pressure on companies to embrace disclosure more robustly. We may well see the accounting standards setters and credit rating agencies move further into the current void.

While disclosure of climate-related and other ESG issues is largely a voluntary undertaking to date, that may well be changing as political and other pressures cause securities regulators, particularly in Europe, to shift to more prescriptive measures. For example, financial market participants and advisers in Europe will have sustainability-related reporting obligations beginning March 2021.¹⁰ Even in the absence of mandatory disclosure regimes, the focus across so many segments of society on ESG themes will likely mean that ESG topics will figure with increasing prominence in public disclosures (as they already do in public discourse). As these trends take shape, we also expect to see more pressure emerge for uniform disclosure measures.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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- ¹ United Nations Development Programme, Press Release, “UNDP launches standards for bond issuers and private equity funds seeking SDG impact” (June 16, 2020), available [here](#).
- ² See TCFD, “Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report” (June 2017), available [here](#). For further discussion of the TCFD recommendations, please see our client memorandum [here](#).
- ³ Tim Human, “Two thirds of FTSE 100 mention TCFD in reporting, finds research,” *Investor Relations Magazine* (June 17, 2020), available [here](#).
- ⁴ See CDP, “Why disclose as a company,” available [here](#).
- ⁵ See Climate Disclosure Standards Board, “CDSB Framework” (December 2019), available [here](#).
- ⁶ IIRC, “The IIRC,” available [here](#).
- ⁷ Ross Kerber, “‘Thanks Larry!’ Green accounting project says BlackRock plug gave it a boost,” Reuters (March 11, 2020), available [here](#). Companies that currently report with SASB standards include industry leaders such as Barclays, Nike, Diageo and Kellogg.
- ⁸ Principles for Responsible Investment, “Annual Report 2019” (2019), available [here](#).
- ⁹ SASB, Press Release, “Promoting Clarity and Compatibility in the Sustainability Landscape: GRI and SASB announce collaboration” (July 12, 2020), available [here](#).
- ¹⁰ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector came into force at the end of 2019, and will apply from March 2021. This Regulation is intended to harmonize disclosures provided by “financial market participants” and “financial advisers” and forms part of the European Commission’s Action Plan on sustainable finance.

Among other things, the Regulation introduces the concept of “principal adverse impact of investment decisions on sustainability factors” and requires disclosure where a covered firm has elected to take these into account.