

A guide to ESG reporting frameworks



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01 Introduction

There's global consensus among governments, businesses and financial institutions that environmental, social and governance (ESG) risk is investment risk, and actions to protect the environment and society through strong governance are critical to our future.

And just as organizations are required to produce reports on financial performance, they are expected — and sometimes required by law — to disclose their ESG performance.

But how to do this? Unlike financial performance reporting, which is governed by clear expectations on format and content, the world of ESG reporting is still fragmented and confusing. Each framework poses its own set of questions and requirements, and frameworks cross over each other, requiring complex cross-checking of responses. Most frameworks require the provision of supporting documentation, and many quantitative questions require complex numerical calculations based on multiple data streams.

ESG reporting is now a high-stakes business imperative. Reports must be finance-grade, fully auditable, comparable across periods and approved by a corporate officer.

In this publication, we set out to provide you with guidelines to assist with your approach to ESG reporting. We outline the ESG framework landscape, propose approaches that organizations can employ when selecting ESG frameworks, and consider the future of ESG reporting as ESG performance soars to the top of the corporate agenda.



“Climate change has become a defining factor in companies’ long-term prospects.”

Larry Fink

Chief Executive Officer
BlackRock¹

The rise of corporate ESG

The pace at which ESG metrics are being reported on is on an incredible trajectory. Largely in response to rising investor and community interest, growing numbers of organizations are focusing their attention on reporting their ESG performance and targeting sustainability performance improvement, driven by ESG goals.

As a result, ESG has moved from the margins to the mainstream, and now more than ever before, organizations are expected to report their ESG performance. Failure to take ESG risks seriously could result in many negative impacts for firms, from shareholder action at annual general meetings to divestment by asset managers.

The growing importance of ESG means that organizations must report their impact using an ever-increasing range of different frameworks. But how do these ESG guidance and reporting frameworks compare, and how can organizations better prepare in their journey to ESG reporting?

In this ebook, we explore:

- How to select which ESG frameworks to report to
- Best-practice approaches when reporting to ESG frameworks
- How to prepare your organization for future ESG reporting trends
- Where to look for additional guidance



02 Select ESG frameworks for reporting

The ESG reporting landscape is cluttered with a large number and variety of reporting frameworks, several of which are explained in detail in the [Appendix](#). Applying different lenses to assess and categorize the various frameworks can help with understanding the options and selecting the appropriate ESG reporting frameworks for your organization.

Lens 1 Potential for impact

Materiality and relevance

The decision on which framework to report to should start by considering materiality and relevance.

What is materiality in the context of ESG?

The concept of materiality guides organizations to focus on ESG issues that are relevant to them and will have a measurable impact on their business.

To determine materiality, an organization must first identify its risks and then assess the consequences of those vulnerabilities. Using a “risk matrix” approach, organizations can determine which ESG-related risks to prioritize based on their risk profile, and which of those consequences would have significant negative impacts on the organization.

Example: A large-cap e-commerce company may choose to focus on packaging materials and waste (environmental), supply chain labor standards (social) and business ethics (governance) in its materiality assessment because it determined these to have the largest risk profiles when it comes to environmental impact, overall shareholder and consumer confidence, and regulatory requirements. In this case, the company should look for ESG reporting frameworks that cover all three ESG categories.

Consider assessing double materiality

Double materiality calls on organizations to consider materiality from two viewpoints: financial materiality and materiality to the market, the environment and people.

Double materiality recognizes that an organization is responsible for managing its own financial risks by looking inward. But it also looks at the outward impacts of its decisions and operations on people and the environment.

By applying the concept of double materiality, organizations can identify both the financial and nonfinancial impacts of their operations to help shape a more holistic ESG strategy.

Impact and influence

The other side of the materiality and relevance coin is impact and influence. Organizations assessing their ESG reporting approach may also find it beneficial to consider the environmental and social factors that they can influence most directly and rapidly.

Using an action priority or impact effort prioritization matrix, organizations can quickly identify where to focus their initial efforts and then use these insights to determine which ESG framework can help with realizing goals that are within reach.

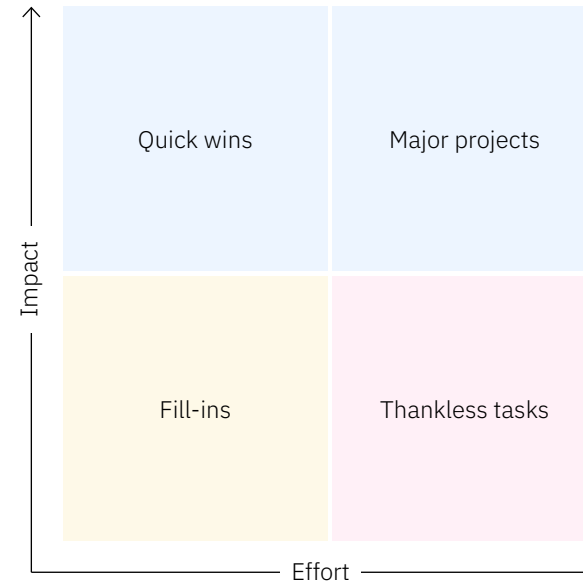


Figure 1. Impact effort prioritization matrix

For example, organizations in the fast-moving consumer goods and retail sectors can exert influence within their supply chain. In these sectors, an organization's procurement choices can have significant impact on the ESG performance of companies in the supply chain, thus magnifying their ESG impact.

Lens 2 Stakeholder expectations

What are external stakeholders looking for?

Organizations may also consider what their stakeholders are looking for and which ESG frameworks these stakeholders expect to be used. For example, investors, boards, insurers and creditors may prefer the organization report to the Task Force on Climate-related Financial Disclosures (TCFD) or Sustainability Accounting Standards Board (SASB), while employees and consumers may expect disclosures based on the United Nations Sustainable Development Goals (UN SDGs), and governments or regulators may prefer Streamlined Energy and Carbon Reporting (SECR) or National Greenhouse and Energy Reporting (NGER), depending on the locale.

How will internal stakeholders use the information?

Stakeholders will use ESG disclosures for various reasons, and organizations should take this into account when developing their ESG reporting strategy. The risk, compliance and HR teams would be invested in the data to drive strategic decisions around equity and inclusion, while energy and utilities would be looking closely at consumption and expenditure across the organization. Procurement teams, on the other hand, would be using the data collected to assess their supply chain operations and the risk profile of suppliers.

Lens 3 Geography

Certain ESG reporting frameworks are only relevant in particular geographies. In some cases, this is because reporting is mandated by law. In others, it can be because the framework is specific to local conditions.

Examples include ENERGY STAR in North America and select other countries, SECR in the UK, and NGER in Australia.

Lens 4 Sector preference

Organizations belonging to a particular sector will find a natural alignment between their sector and some ESG reporting frameworks, such as Global Real Estate Sustainability Benchmark (GRESB), which is used to assess the sustainability performance of real estate and infrastructure portfolios.

Organizations interested in assessing which frameworks their peers report to can find this information by reviewing the websites of reporting frameworks, which often include a sector filter and a list of reporters. Using this information, organizations can ascertain the relevance of the ESG framework to their sector. Similarly, organizations can also review sustainability reports along with annual reports published by their sector peers on their own websites to see how they have been reporting to their relevant framework.

ESG framework information directory

In Chapter 5, “Consult different sources for guidance,” we provide a directory of framework websites for organizations to use when seeking further information on different ESG frameworks.

Lens 5

Framework coverage

Each of the major ESG reporting frameworks has different levels of focus on the key ESG performance metrics.

Understanding which framework focuses on which indicator can help with framework selection and provide insights into where organizations may be able to report to multiple frameworks using existing data.

This matrix illustrates the focus areas for each reporting framework.



Figure 2. ESG framework indicator coverage

*Environmental includes all elements that are not carbon, energy, waste or water. Examples include a focus on biodiversity, air quality, desertification and more.

03 Adopt a dedicated ESG reporting system

As the investor community sharpens its focus on ESG metrics, the level of scrutiny applied to this data intensifies. After all, the most valuable commodity in capital markets is reliable and auditable data.

Unlike the typical financial data investors are familiar with, ESG data has generally not been held to the same standards of accuracy. It's often held in disparate systems, and some organizations attempt to run their annual greenhouse gas (GHG) accounting using risk-laden spreadsheets. These approaches are not an efficient means of managing ESG data in the face of stakeholder and regulatory pressure, especially for complex global organizations reporting to multiple frameworks.

Organizations have dedicated IT systems to support processes and security, accounting systems to securely store financial data, and HR systems to capture and manage people data. ESG reporting should not be any different. Organizations can benefit from having a specialized software platform to capture their activity data and calculate their emissions data, sustainability initiatives and supply chain data to bolster ESG reporting.

Nowhere is this more important than for the “E” (environmental) in ESG, which is the most difficult to report and track, and the most essential for organizations looking to reduce their carbon emissions.

The metrics captured within the “E” of ESG generally include environmental factors such as water, waste, pollutants and energy, in addition to the metrics required to support GHG emissions accounting across Scopes 1, 2 and 3.

ESG reporting software such as the [IBM® Envizi ESG Suite](#) can help you stay organized by automating data capture directly from the source and maintaining an emissions factor engine for nationally recognized carbon emissions factor data tables such as the US EPA Climate Leaders Program, e-GRID USA, Intergovernmental Panel on Climate Change (IPCC), IEA National Electricity Factors, Australian National Greenhouse Accounts, DEFRA (UK), and NZ Ministry for the Environment.

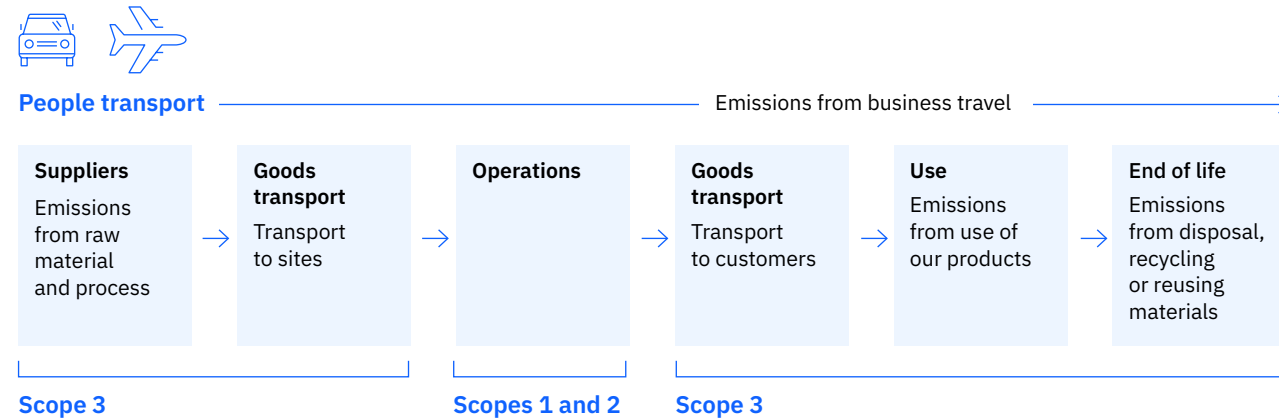


Figure 3. GHG emissions by scope, explained

Keep it simple

The IBM solution simplifies your ESG reporting to different frameworks. All your responses across multiple internationally recognized frameworks, such as SASB and Global Reporting Initiative (GRI), are available in a framework library with one data set and one repository of information.

04

Prepare for future ESG trends

AI-driven data scraping by ESG ratings tools

Increasingly, AI and bots are used to evaluate an organization's ESG performance through publicly available data. This practice, known as data scraping, presents a new challenge for organizations because it means that the data being used to assess access to capital is largely outside their control.

Various firms synthesize ESG data from different sources including ranked and "best of" lists, product review websites, social media posts and comments, company databases, and news articles to build an organization's profile.

Although these scoring systems and the piecemeal data gathered through data scraping don't provide the context, methodology used or granular detail required from most investors, the practices are nonetheless becoming more widespread.

How to prepare for an AI-driven ESG valuation

With the practice of data scraping on an upward trend, investment and sustainability teams should consider the following approach to regain control of their data and protect the organization's ESG valuation from the inevitable downsides of AI-driven ESG data scraping.

Step 1: Identify which rating agencies you need to target. Approach your key institutional investors and ask them which ratings agencies they use.

Step 2: Understand what data the target rating agencies use and how they go about uncovering it. Ask the rating agencies directly if possible, or research online to uncover what you can.

Step 3: Ensure that the data you're providing and the places where you're sharing it meet the needs of the rating agencies. To accomplish this, follow these tips:

Determine the best keywords

Check your organization's publicly available information to ensure that the data captured by the AI data scraping and bots is accurate. Undertake an analysis of the terminology used and adjust for clarity. This analysis should be applied to your organization's website, comparison websites and company search databases such as Bloomberg.

Employ social listening

Track conversations online to determine what has been published about your organization and attempt to rectify any inaccurate statements. Examples include customer reviews, Google business listings, and customer social media comments and mentions of the organization.

Increase publicly available ESG information

Provide more data in sustainability action plans and reports. Publish supporting documents that go into further detail about the organization's ESG performance and efforts. This data can then be published on your organization's website, social media or other platforms.

A global standard in ESG reporting

The future of ESG reporting can be seen from at least three perspectives: regulatory changes, industry coalescence around frameworks, and inter-framework consolidation. All these perspectives indicate one major directional move: the harmonization of ESG reporting frameworks.

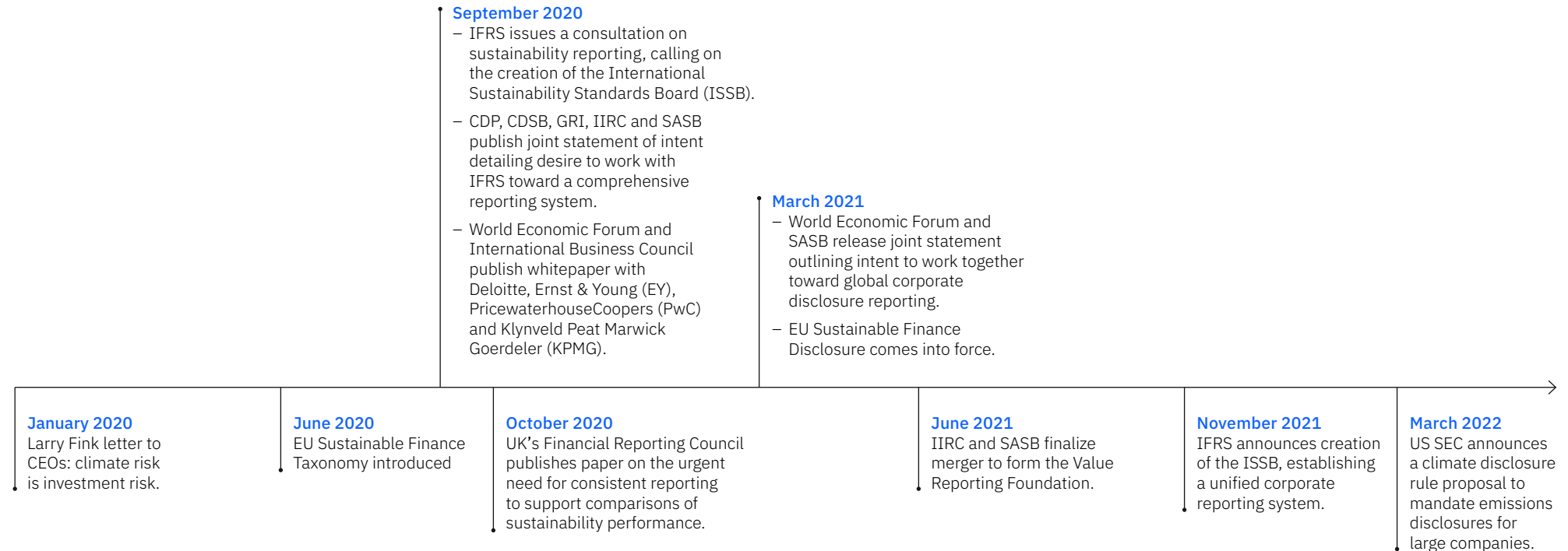


Figure 4. Timeline of ESG reporting framework harmonization

Regulatory changes

Various progress has been made across national and supranational jurisdictions. The U.S. Securities and Exchange Commission (SEC) announced a proposal in March 2022 to mandate ESG disclosure modeled off the TCFD. Similarly, the EU's sustainable finance package — the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR), which includes CSRD — will further require ESG-related disclosures from companies.

Industry sectors coalescing

As the practice of ESG reporting matures, industry sectors are coalescing around their preferred frameworks. The early movers in this regard were in the property sector, which favors reporting against the GRESB framework. This trend occurs more recently among the investment community, with asset managers such as BlackRock encouraging their investees to report against SASB.

Framework consolidation

These changes are resulting in a reporting landscape in which frameworks are becoming more specialized, as seen with the International Financial Reporting Standards (IFRS) Foundation and GRI, or are consolidating, as seen with the International Integrated Reporting Council (IIRC) and SASB.

How to prepare for ESG reporting changes

With progressive steps toward a common language around ESG reporting and new announcements being made every few months, how can organizations better prepare for the inevitable changes facing ESG frameworks?

Get the data right

Having an accurate and auditable data foundation today means avoiding historical errors and changing processes when ESG reporting changes come into effect. The IBM solution can help organizations achieve this with an auditable data record and accurate emissions calculations.

The solution is regularly updated in line with new framework requirements to ensure ESG reporting remains current with market obligations.

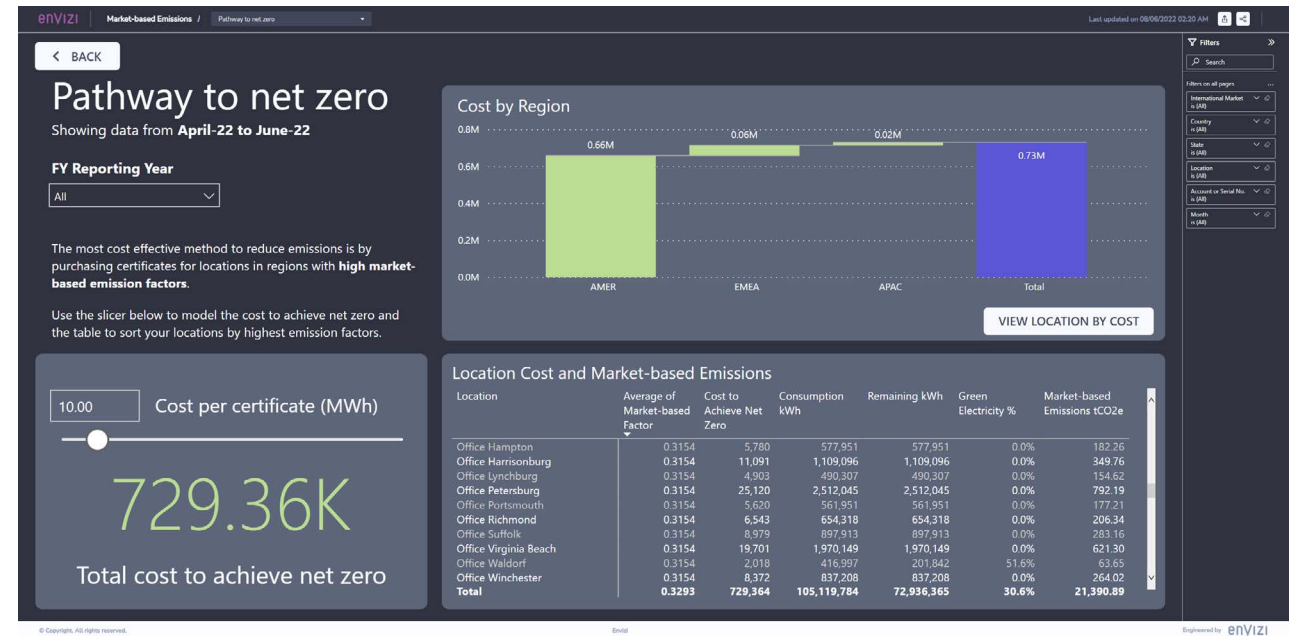


Figure 5. The IBM reporting and management solution

Build ties with the right stakeholders

Sustainability leaders should look beyond their current stakeholder group and consider others who can provide the granular data required from different frameworks and regulatory changes.

Stakeholder group	Example	Function
Committees or subcommittees	Environmental stewardship committee	Provides viewpoints from various parts of the organization and sometimes the wider community in relation to how certain initiatives are likely to impact or benefit the group
Finance	Chief financial officer	Provides financial forecasting and advises on necessary budget to implement the required actions to achieve objectives in the sustainability action plan. Plays a key role in advocating for the organization's sustainable financial success and understanding the cost-benefit of implementing energy-saving measures.
Operations	Facilities manager	Advises on shared services and utilities such as communications, water and electricity, and holds the relationship with these suppliers should any changes be needed
Procurement	Procurement operations manager	Manages an organization's supply chain and can therefore advise on partners and practices and establish SLAs in line with the sustainability action plan. Ensures that suppliers of goods and services to the organization reflect objectives of the organization's sustainability commitment.
Risk and compliance	Chief legal and risk officer	Assists with due diligence process for suppliers and advises on reputational and regulatory risks when progressing through the sustainability action plan
Energy and utilities	Energy manager	Advises on the current state of energy efficiency for the organization and other conservation and energy efficiency measures it can take to achieve its objectives

Figure 6. Other stakeholder groups

05

Consult different sources for guidance

In the lead-up to key reporting dates and throughout the year, frameworks will publish updates and guidance to help participants with their ESG reporting.

These updates can be viewed on their various channels, including:



Social media, specifically LinkedIn



Electronic newsletters



Media and blog section of their websites



Webinars and online forums

It's imperative that sustainability professionals involved with their organization's ESG reporting immerse themselves in these online communities and resources.



Here's a directory of these information sources.

We issue regular updates and guidance throughout the year on emerging trends and changes in the ESG reporting landscape. Our position as a global leader in ESG management software for over a decade gives us unique insight into the sector. You can access these resources through our [website](#) or [LinkedIn](#) page.

	Main website	Electronic newsletter sign-up	Media/blog	Social media (LinkedIn)
CDP	www.cdp.net/en	www.cdp.net/en/#ab6aef87ead8143aa322f9ea57c986a5	www.cdp.net/en/blog	www.linkedin.com/company/cdp-worldwide
CSA	www.spglobal.com/esg	www.pages.marketintelligence.spglobal.com/Newsletter-Hub-Request.html	www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines	www.linkedin.com/company/spglobal
ENERGY STAR	www.energystar.gov/buildings	www.cloud.mail.energystar.gov/preferences/profile	www.energystar.gov/about/newsroom	www.linkedin.com/showcase/epa-energy-star
GRESB	www.gresb.com	www.gresb.com/nl-en/gresb-newsletter	www.gresb.com/nl-en/news-and-updates	www.linkedin.com/company/gresb
GRI	www.globalreporting.org	www.r1.dotdigital-pages.com/p/4J5-SLH/gri-email-communication-sign-up-form	www.globalreporting.org/about-gri/news-center	www.linkedin.com/company/global-reporting-initiative-gri
IIRC	www.integratedreporting.org	www.valuereportingfoundation.org/subscribe	www.integratedreporting.org/newspage	www.linkedin.com/company/international-integrated-reporting-council
NABERS AU	www.nabers.gov.au	www.nabers.us6.list-manage.com/subscribe?u=cf8c911de05f356279288cde0&id=59416b8f3b	www.nabers.gov.au/about/news	www.linkedin.com/company/nabers
NGER	www.cleanenergyregulator.gov.au/NGER	www.cleanenergyregulator.gov.au/About/Subscribe-to-email-updates	www.cleanenergyregulator.gov.au/NGER/News-and-updates	www.linkedin.com/company/clean-energy-regulator
SASB	www.sasb.org	www.valuereportingfoundation.org/subscribe	www.sasb.org/about/news	www.linkedin.com/company/sasb-sustainability-accounting-standards-board
SBTi	www.sciencebasedtargets.org	www.sciencebasedtargets.org/newsletter	www.sciencebasedtargets.org/news-events	www.linkedin.com/company/science-based-targets
SECR	www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/streamlined-energy-and-carbon-reporting			
SFDR	www.eurosif.org	www.eurosif.org/monthly-newsletter	www.eurosif.org/news	www.linkedin.com/company/eurosif
TCFD	www.fsb-tcfd.org	www.fsb-tcfd.org/mailling-list	www.fsb-tcfd.org/press	www.linkedin.com/company/task-force-on-climate-related-financial-disclosures-tcfd

Framework guidance embedded in ESG reporting

The IBM Envizi ESG reporting frameworks solution includes guidance at both the framework and individual questions level and enables you to record all your framework responses in one place.

This guidance is regularly reviewed and updated, keeping you up to date with the latest ESG reporting requirements.

The screenshot displays the IBM Envizi Sustainability Reporting Manager interface. The main content area shows a question titled "Board's role in managing risks and opportunities" under the "Question" section. Below the question is a "Details" section with "Guidance for All Sectors" which includes a list of bullet points: "processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues; whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and how the board monitors and oversees progress against goals and targets for addressing climate-related issues." Below this is an "Envizi Guidance" section with several paragraphs of text providing further context and advice. On the right side, there is a sidebar with a "Details" section containing fields for "FRM Disclosure" (CSR 2021), "Framework" (TCFD), "Code" (TCFD.Gov.RDa), "Topic" (Governance), "Envizi Category" (Business Model, Resilience), "Assignee" (Joseph Magee-Billson), "Reviewer" (Steve Foster), and "Last Activity" (5:59 AM, 01-Jun-2022). Below the details is a "Related Questions" section listing "GRI 102-29" (No responses), "SDG11.5" (No responses), and "SDG13.1" (2 responses). At the bottom of the sidebar is a "Previous Responses" section with a link to "CSR 2020". The top of the interface shows the "enVizi" logo, "Sustainability Reporting Manager" title, user name "John Doe", and navigation options like "BACK TO DISCLOSURE", "COPY FROM LAST YEAR", "SEARCH RESPONSES", and "COMPLETE".

This product screenshot is an example of the type of guidance provided for individual framework questions. It offers guidance on a question in the TCFD reporting framework.

06 Conclusion

ESG reporting is a complex space, and staying on top of requirements can be a burden for organizations that need to report to multiple frameworks. However, if you apply a systematic approach, you can stay ahead. The first step is to select the most appropriate reporting frameworks. This decision is crucial, yet it's not always simple. One way to approach the selection decision is to apply numerous analytical lenses. These lenses may include:

- Where your organization can make the most difference, based on materiality assessments and its impact and influence across the supply chain
- Stakeholder expectations specific to preferred ESG reporting frameworks and how different stakeholders will use information from disclosures
- Geography and the relevance of some ESG frameworks to locations and jurisdictions
- Sector preference, because organizations belonging to a particular sector may find a natural alignment between their sector and some ESG reporting frameworks
- Framework coverage of each ESG reporting framework pertaining to key performance indicators (KPIs), including environment, social, governance, carbon, energy, waste and water

Part of this assessment also includes ensuring a solid data foundation to work from — one that meets the same standards applied to financial data. Accuracy, automation and auditability lay at the center of sound ESG reporting practices. Organizations that adopt these practices through a specialized ESG reporting solution such as the IBM Envizi ESG Suite will be best prepared for the swathe of changes facing the ESG landscape.

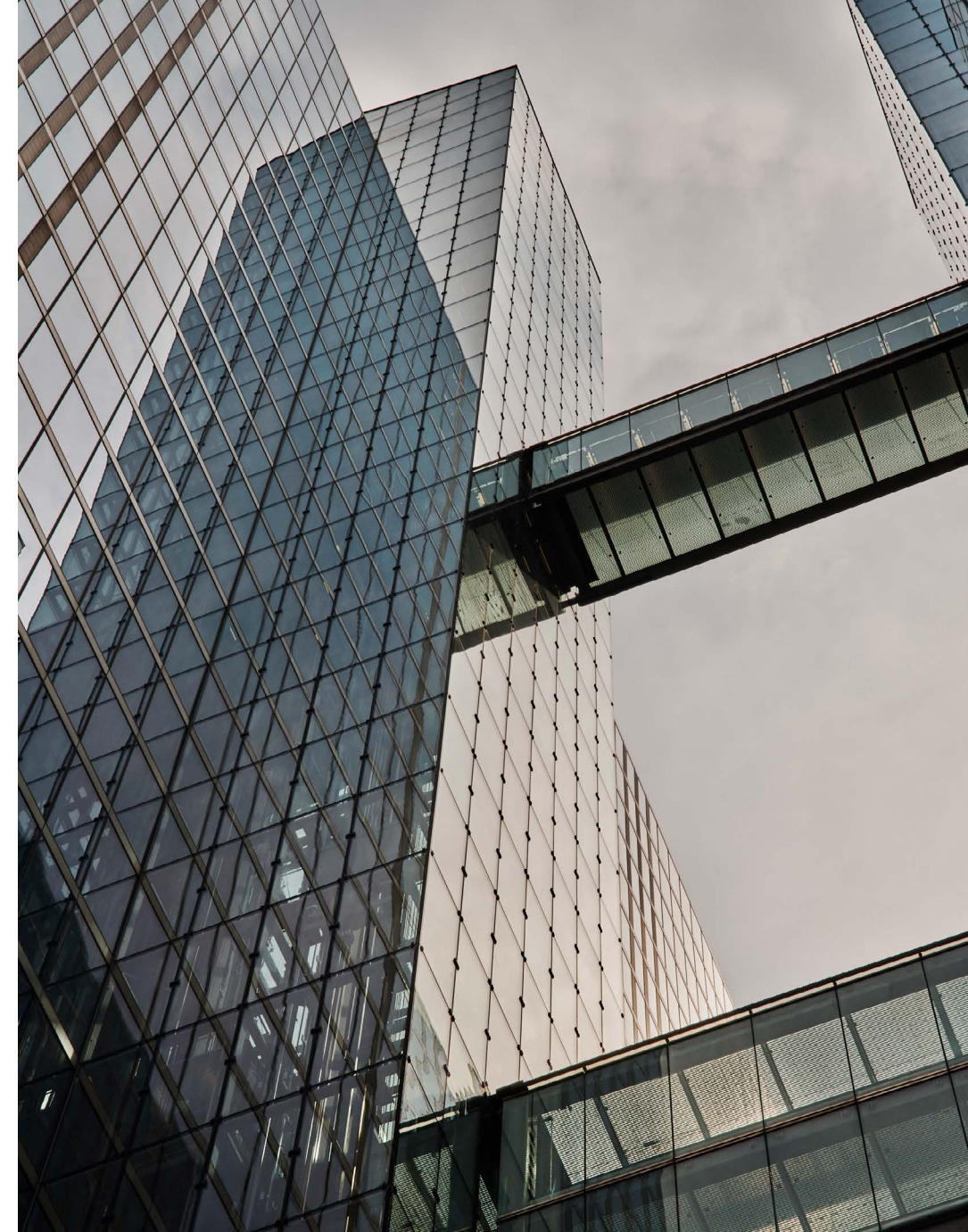
[Learn more](#) about how IBM can support you to achieve your ESG reporting goals.

07

Appendix: ESG frameworks in detail

In this section, we provide an overview of sustainability performance indicators used in each ESG framework. To make this list easier to navigate, we've grouped the major ESG reporting frameworks into four categories:

- Benchmark frameworks: CDP, GRESB
- Voluntary frameworks: GRI, TCFD, VRF (SASB + IIRC)
- Regulatory frameworks: SFDR, NGER, SECR
- Rating agencies: ENERGY STAR, DJSI (CSA), NABERS



Benchmark frameworks

These require responses to all questions in the framework and typically have a scoring element.

Carbon Disclosure Project (CDP)

CDP is a framework for companies to provide environmental information to their stakeholders — investors, employees and customers — covering environmental governance and policy, risks and opportunity management, environmental targets, and strategy and scenario analysis.

How CDP works

CDP offers three questionnaires — on the topics of climate change, water and forests — each of which is scored using different methodologies. Each questionnaire includes general questions alongside sector-specific questions aimed at high-impact sectors. The scoring of CDP's questionnaires is conducted by accredited scoring partners trained by CDP.

Global Real Estate Sustainability Benchmark (GRESB)

GRESB is a global tool used predominately by investors to assess the sustainability performance of real estate and infrastructure portfolios and assets worldwide.

How GRESB works

GRESB Assessments provide investors and asset managers with material insights into the sustainability performance of a company's real assets. These performance insights are aligned with international reporting frameworks such as the GRI and Principles for Responsible Investment (PRI). Assessment participants receive comparative business intelligence on where they stand against their peers, a roadmap with actions they can take to improve their ESG performance, and a communication platform to engage with investors. Investors use the ESG data and GRESB analytical tools to improve the sustainability performance of their investment portfolios, engage with managers and prepare for increasingly rigorous ESG obligations.

Voluntary frameworks

These allow reporters to select the questions they want to report against, depending on factors such as their industry of operation and their materiality. Scoring is typically not included in these frameworks.

Global Reporting Initiative (GRI)

GRI is a globally applicable guidance framework that provides standards detailing approaches to materiality, management reporting and disclosure for a comprehensive range of sustainability issues. GRI Standards guide many organizations in the production of their own sustainability reports.

How GRI works

The modular, interrelated GRI Standards are designed primarily to be used as a set to prepare a sustainability report focused on material topics. The three universal standards are used by every organization that reports under the GRI framework. An organization also chooses from the topic-specific standards to report on its material topics — economic, environmental or social.

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was explicitly designed to address climate risks to the business, falling squarely within the “E” of ESG reporting. The TCFD helps organizations across the globe articulate how ESG performance is most likely to materially impact future financial performance and value creation.

The TCFD was created in December 2015 after the G20 Finance Ministers asked the Financial Stability Board (FSB) to evaluate the connection between climate-related issues and the financial sector. The FSB is an international body that makes recommendations to the global financial system, so the push toward climate-related finance was significant.

How the TCFD works

Broken into four pillars, the TCFD addresses disclosure requirements related to:

1. *Governance*: How does the organization’s governance structure address climate-related risks and opportunities?
2. *Strategy*: What are the tangible material impacts of climate-related risks and opportunities on the whole business, including strategy and financial planning?
3. *Risk management*: How does the organization define, assess and manage climate-related risks?
4. *Metrics and targets*: What are the measurements used to assess material climate-related risks and opportunities?

Value Reporting Foundation (VRF) – Sustainability Accounting Standards Board (SASB) and International Integrated Reporting Council (IIRC)

In June 2021, SASB and IIRC announced their merger to form the VRF, an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.² The resources they provide include the Integrated Thinking Principles, the Integrated Reporting Framework and SASB Standards. In total, the SASB Standards track ESG issues and performance across 77 industry standards. VRF’s framework is built to support companies in sharing their outward ESG impacts through the language of investors, debt holders and internal financial stakeholders.

How the SASB Standards work

Of the other ESG reporting frameworks, the GRI is most like SASB but supplies more broadly material information for reporting to stakeholders who are not just from financial portfolios.

Asset management companies such as BlackRock, Goldman Sachs and Morgan Stanley; manufacturing giants such as GM and Nike; and even specialized industries with companies such as Merck and JetBlue use SASB Standards to disclose ESG metrics. SASB also supplies resources to explain how investors across multiple asset classes use the standards. These tools allow organizations to be specific and report with a system that allows for transparency and relevancy with their investors.



Regulatory frameworks

Like benchmark frameworks in that all responses are required but not always scored. These frameworks and reporting requirements are also required by a government body.

Sustainable Finance Disclosure Regulation (SFDR)

SFDR aims to standardize the reporting of ESG metrics for financial products and entities within the EU. It does this by mandating that reporters publish a Principal Adverse Impact (PAI) statement detailing their disclosures. SFDR will act in concert with the EU taxonomy and the proposed EU Corporate Sustainability Reporting Directive (CSRD) to form the basis for the EU sustainable finance agenda.

How SFDR works

SFDR's PAI statement requires financial bodies to report different types of quantitative indicators, including weighted averages across various ESG metrics for their investments as well as emissions from their own activities. In practice, this means that organizations must report the proportion of their investees' activities that they finance. For example, if an investee generates 100 metric tonnes of hazardous waste, and the financial body has 20% of the equity in that company, the financial body reports 20 metric tonnes of hazardous waste in its SFDR PAI.

National Greenhouse and Energy Reporting (NGER)

The NGER Scheme is the Australian national framework for reporting and disseminating company information about GHG emissions, energy production and energy consumption. Established by the NGER Act in 2007, it is monitored by the Clean Energy Regulator.

How NGER works

The NGER Scheme collects emissions-related data about GHGs such as carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), sulphur hexafluoride (SF₆) and specified kinds of hydrofluorocarbons and perfluorocarbons. Records of activities must be adequate to enable the Clean Energy Regulator to ascertain whether the corporation or person has complied with its obligations under the NGER Act.

This includes information that can be used to verify the relevance, completeness, consistency, transparency and accuracy of reported data during an external audit.

Streamlined Energy and Carbon Reporting (SECR)

The SECR taxonomy is the UK government's guidance for organizations required to disclose their energy use, GHG emissions and related information. The SECR was introduced to take effect from 1 April 2019 as the previous Carbon Reduction Commitment (CRC) Energy Efficiency Scheme came to an end. It builds on and extends the previous reporting requirements faced by quoted companies while adding new mandates for large unquoted and limited liability partnerships (LLPs).

It can also help all organizations with voluntary reporting on a range of environmental subjects, including GHG reporting and the use of KPIs. The SECR is central to the UK's strategy for improving energy efficiency and reducing CO2 emissions, as set out in the Climate Change Act 2008. It is expected that an estimated 11,900 companies incorporated in the UK will need to report on their energy and carbon emissions under the new framework.³

How the SECR works

Quoted companies that report to the SECR are required to disclose their energy use, global Scope 1 and 2 GHG emissions in metric tonnes of CO2 equivalent, and at least one emissions intensity metric of their choosing for current and previous financial years. Scope 3 emissions remain voluntary but are recommended for emissions sources considered material.

Unquoted large companies and LLPs will also need to report, at minimum, their UK energy use and associated GHG emissions from electricity, gas and transport fuels as well at least one intensity metric. Reporting each of these sustainability dimensions and tracking their progress over time requires access to consolidated, auditable data, which can be more easily achieved with sustainability reporting software.



Rating agencies

These type of frameworks have a scoring element and are often responded to through a questionnaire that is not public.

ENERGY STAR

ENERGY STAR is a nationally recognized energy rating and benchmarking mechanism in North America that covers commercial buildings across a diverse group of building use types.

How ENERGY STAR works

ENERGY STAR is a U.S. Environmental Protection Agency (EPA) voluntary program that helps businesses and individuals save money and protect the climate through superior energy efficiency. Rankings compare the performance of a building against other similar buildings, called a peer group. Building owners can benchmark their performance internally across their portfolio and externally among similar sectors.

ENERGY STAR scores are based on data from national building energy consumption surveys, which allows the ENERGY STAR Portfolio Manager tool to control for key variables affecting a building's energy performance, including climate, hours of operation and building size. This means that buildings from around the country, with different operating parameters and subject to different weather patterns, can be compared side by side to see how they stack up in terms of energy performance. The specific factors that are included in this normalization — hours, workers, climate and more — will depend on the property type. The 1–100 scale is set so that 1 represents the worst-performing buildings and 100 represents the best-performing buildings, with 50 representing the average.

Dow Jones Sustainability Indices (DJSI) and the Corporate Sustainability Assessment (CSA) questionnaire

The DJSI tracks the performance of the world's leading companies in terms of economic, environmental and social criteria, and is used by investors who wish to jointly assess financial and ESG aspects of company performance.

How DJSI works

The DJSI applies a transparent, rules-based component selection process based on the company's Total Sustainability Scores resulting from the annual CSA. The CSA compares companies across 61 industries with questionnaires assessing a mix of 80–100 cross-industry and industry-specific questions. Companies receive scores ranging from 0 to 100 and percentile rankings for approximately 20 financially relevant sustainability criteria across economic, environmental and social dimensions. Only the top-ranked companies within each industry are selected for inclusion in the DJSI family. Investors in these indices gain exposure to the performance potential of well-known common factors — low volatility, dividend yield, value or momentum — while avoiding ESG-related risks in their portfolios by directing their investment toward more sustainable companies.

National Built Environment Ratings Scheme (NABERS) AU

Using a six-star scale, NABERS helps Australian building owners understand how their asset impacts the environment and helps prospective tenants understand how energy-efficient their leased space is.

How NABERS works

NABERS compares the performance of a building or tenancy to benchmarks that represent the performance of other similar buildings in the same location. NABERS scores are calculated by an independent assessor using 12 months of real, measurable information about a building or tenancy, such as energy and water bills or waste consumption data as the basis of their rating. NABERS ratings are available for commercial office buildings, tenancies, hotels, shopping centers and data centers. NABERS announced in 2019 a plan to expand to all major building types. Under Australia's Building Energy Efficiency Disclosure Act, all buildings for sale or under lease over 10,000 sq ft must receive a NABERS rating. Governments are required to lease space in buildings with ratings of 4.5 or higher.

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IBM Corporation
Route 100
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Produced in the United States of America
October 2022

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- 1 A Fundamental Reshaping of Finance, BlackRock letter to CEOs.
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