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Marketing Material

MAKING SENSE OF A CHAOTIC ESG REPORTING LANDSCAPE

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IN A NUTSHELL

_ Traditional approach to corporate reporting and the drive towards sheer profit maximisation has led to environmental damage, human rights abuses and greater inequalities

_ Antiquated reporting frameworks are therefore no longer fit-for-purpose since, today, investors around the world are demanding increasing disclosure about how their capital is used and the impact their capital is having on the world

_ We examine key ESG alignment and reporting initiatives around the world and the global trend towards mandatory climate-related reporting

Summary

Corporate reporting needs updating. What exists today satisfies an old notion that the sole responsibility of companies is to increase profits, as expressed in Milton Friedman's famous 1970 op-ed in the New York Times[1]. We see now that this traditional approach to corporate reporting and the drive towards sheer profit maximisation has led to environmental damage, human rights abuses and greater inequalities. Antiquated reporting frameworks are therefore no longer fit-for-purpose since, today, investors around the world are demanding increasing disclosure about how their capital is used and the impact their capital is having on the world. In spite of these demands, investors face significant challenges in using and delivering appropriate data to clients.

What exists can be best described as reporting overload with an array of frameworks. However, change is afoot since the past year has seen some progress towards a convergence in sustainability reporting, including:

[1] New York Times (September 1970). A Friedman doctrine

(i) The standard setters SASB, IIRC, GRI, CDP, and CDSB working together to create a comprehensive corporate reporting system[2]
(ii) The Big Four accountancy firms in consultation with the World Economic Forum's International Business Council, are working towards bringing about the 'mainstreaming' of ESG reporting[3]
(iii) The European Commission mandating EFRAG to set up a task force with the objective of the swift development, adoption and implementation of European standards[4]
(iv) The IFRS Foundation is exploring its role towards the development and maintenance of a global set of comparable and consistent sustainability reporting standards[5]

However, these initiatives still fall short of the bigger picture. It is high time that the Accounting Boards, Audit Committees and Auditors accelerate their action on sustainability. ESG investing without a global standard will be marred with conflicts of interests, greenwashing and will ultimately fail investors' desire to put capital at work to address humanity's sustainability challenges.

In defining the role to play, it is essential to go back to first principles regarding the user of capital and the provider of capital. Society requires a proper, independent, functioning Accounting Board to define the ESG measurement framework, which needs to be as global and comprehensive as possible. Reporting against this framework should be mandatory and information should be freely accessible to all, including retail investors who cannot afford the time and resources to understand what sustainability means and who is the proper data provider.

Improving ESG data disclosure will also enable investors to go back to do their job of investing and engaging with companies, rather than defining standards and collecting information. The end result ought to be that there is one simple accounting standard and the need for ESG data providers becomes obsolete. Instead, the accounting standards will provide all the information required for investment, whether you are an ESG investor or not.

This paper is organised in two sections. The first provides an overview of key alignment and reporting initiatives. The second details the main ESG reporting frameworks, the key milestones and the countries moving towards mandatory climate-related reporting.

Section I: ESG reporting developments

Over the past year, we have witnessed increasing progress and coordination in relation to sustainability reporting. The direction of travel appears to be one in which we will eventually move towards a globally acceptable ESG framework, a so-called ESG GAAP. The past year has seen a number of initiatives, which are taking us further down the path towards a global sustainability reporting framework. We highlight four specific initiatives of note:

1. EU non-financial reporting initiatives

In June 2020, the EC initiated a revision in its the non-financial reporting directive (NFRD), to be completed by the first quarter of this year, with an objective to enhance the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD. The revised standards would facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy and a structured data standard.

In parallel, In June 2020, the EC mandated EFRAG to undertake technical preparatory work to allow for the swift development, adoption and implementation of European standards, should that be the choice of the EU following the wider revision of the NFRD. The preparatory work was carried out by a multi-stakeholder project task force (PTF) which was completed recently[6].

[2] CDP (September 2020). Five global organisations announce a shared vision towards comprehensive corporate reporting. SASB: Sustainability Accounting Standards Board; IIRC: International Integrated Reporting Council; GRI: Global Reporting Initiative; CDSB: Climate Disclosure Standards Board
[3] WEF (September 2020). Measuring stakeholder capitalism
[4] European Financial Reporting Advisory Group (July 2020). Recommendations on possible European non-financial reporting standards
[5] International Financial Reporting Standards (Sept 2020). Consultation paper on sustainability reporting
[6] EFRAG (February 2021). Proposals for a relevant and dynamic EU sustainability reporting standard-setting

2. Prototype climate-related financial disclosure standard by G-five

The next announcement relates to an initiative by the five widely adopted standard setters, namely SASB, IIRC, GRI, CDP, and CDSB, here referred to as the G-five. In September, the G-five issued a joint statement of intent announcing a commitment to work together to create a comprehensive corporate reporting system. The statement of Intent does not propose to create a new or merged framework or standard, but has instead suggested that "the combination of their existing frameworks, standards and standard-setting processes can provide the basis for progress towards a comprehensive corporate reporting system." [7]

In December 2020, following the statement of intent to work together, the G-five published a prototype climate-related financial disclosure standard. The paper illustrates how their current frameworks, standards and platforms, along with the elements set out by the TCFD, can be used together to provide a running start for development of global standards that enable disclosure of how sustainability matters create or erode enterprise value[8].

3. World Economic Forum releases ESG Reporting Metrics and Disclosure Standards

WEF released a set of 21 sustainability metrics along with guidelines that call for companies to move details about their ESG impacts into their annual financial reports. The Stakeholder Capitalism Metrics are a set of 21 "Core metrics" and 34 "Expanded metrics" curated by a taskforce comprised of experts from the Big Four accountancy firms. In January 2021, 61 business leaders, including members of the WEF and its IBC, have committed to the core Stakeholder Capitalism Metrics released by the IBC[9].

4. IFRS Foundation announces next steps for Sustainability Standards

In September last year, IFRS published its Consultation Paper on Sustainability Reporting[5]. Its aim was to assess whether (i) a Sustainability Standard Board is desirable, (ii) what should be the focus of a potential new standard, and (iii) whether the focus should be on single or double materiality.

In response to its "Consultation Paper on Sustainability Reporting," DWS wrote a comment letter, pushing for a coherent ESG reporting standard that goes beyond climate-related data and is based on double materiality. This means not only disclosing information about how sustainability issues impact companies, but also how companies affect society and the environment[10].

In the wider comments received to the consultation, it indicated growing and urgent demand to improve the global consistency and comparability in sustainability reporting, as well as strong recognition that urgent steps need to be taken and broad demand for the IFRS Foundation to play a role in this. For example, the European Supervisory Authorities, emphasised the following aspects:

(i) The global challenges posed by sustainability for investors and other stakeholders and their call for a common set of standards;
(ii) The importance to build on existing initiatives and to take key notions such as 'double materiality' into account;
(iii) The requirement to address environmental, social and governance aspects beyond climate[11].

The next step for the IFRS will be to produce a proposal and road map for a global sustainability standard with the goal of establishing a Sustainability Standards Board in time for COP26 taking place in November 2021[12].

[7] CDP (September 2020). Five global organisations announce a shared vision towards comprehensive corporate reporting
[8] CDP (December 2020). Global sustainability and integrated reporting organisations launch prototype climate-related financial disclosure standard
[9] WEF (January 2021). Global Business Leaders Support ESG Convergence by Committing to Stakeholder Capitalism Metrics
[10] DWS Media Releases (January 2021). DWS pushes IFRS to introduce a coherent ESG reporting standard based on double materiality. http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27849_FrancescoCurtoDWS_0_ResponsetotheIFRSFoundationconsultationonSustainabilityReporting31Dec2020.pdf
[11] EIOPA (December 2020). ESAs issue a comment letter to the IFRS Foundation's consultation
[12] IFRS (February 2021). Foundation Trustees announce steps in response to broad demand for global sustainability standards

Just as last year saw the creation and launch of many new reporting initiatives, this year will likely to see the foundations of these being built. The hope will be that reporting will eventually become more encompassing, such that:

_ Reporting goes beyond climate risk to become increasingly focused on broader planetary issues such as biodiversity loss as well as extend into the social and inequality arenas. Note that almost a half[13] of the IFRS consultation paper respondents accepted the proposal of a climate-first approach
_ Reporting must ultimately focus on double materiality, that is, how the world affects companies as well as how companies affect the world. Close to 50%[13] of the IFRS consultation paper respondents accepted that a single materiality approach was an acceptable start
_ The identification and reporting of risks become more forward-looking
_ Non-financial reporting becomes mainstreamed and integrated into broader financial reporting obligations
_ Reporting entities undergo mandatory verification and assurance of their disclosures by third party

While it will take time to reach these reporting goals, progress in the area of climate reporting are progressing, for example:

_ The UK announced that TCFD aligned disclosures will be fully mandatory across the economy by 2025, going beyond the ‘comply or explain’ approach. In addition, the UK Department for Work and Pensions has instructed occupational pension schemes with more than GBP 5 billion in assets will, from October 2021, be mandated to report in line with TCFD[14]
_ New Zealand has become among the first country in the world to make climate risk reporting mandatory for banks, asset managers, and insurers. The regime requires parliamentary approval but will not come into force until 2023[15].
_ A new US administration is also championing new climate risk commitments and disclosure requirements as evidenced by recent speeches by Federal Reserve Governor Lael Brainard[16] and SEC Commission Lee[17]

5. Key events

_ **March 2021:** The EU’s Sustainable Finance Disclosure Requirement Level 1 requirements become effective. Although the number of mandatory disclosures were reduced from 32 to 16 and the full reporting deadline was extended[18]
_ **March 2021:** IFRS foundation to produce their proposal and road map for a global sustainability standard by the end of September[19]
_ **1Q 2021:** Revised NFRD to be announced[20]
_ **2Q 2021:** Expected release of updated Universal Standards by the Global Reporting Initiative[21]
_ **Mid-2021:** Establishment of Value Reporting Foundation, the merged entity of SASB and IIRC

[13] Based on a sample review of 160 out of 577 responses from the IFRS consultation (January 2021)
[14] UK HM Treasury (November 2020). UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap
[15] New Zealand Government press release (September 2020). New Zealand first in the world to require climate risk reporting
[16] US Federal Reserve (February 2021). The role of financial institutions in tackling the challenges of climate change
[17] US SEC (February 2021). Statement on the review of climate-related disclosure
[18] European Commission (November 2019). Sustainability-related disclosures in the financial services sector
[19] IFRS (February 2021). Foundation Trustees announce steps in response to broad demand for global sustainability standards
[20] European Commission. Non-financial reporting by large companies
[21] GRI Review of the universal standards

Section II: Reporting frameworks, key milestones and climate-related reporting

In the following three figures we illustrate:

_ The main ESG reporting frameworks

_ The major initiatives and key milestones which have taken place over the past few years when it comes to ESG reporting frameworks around the world

_ The countries that are progressing towards adopting mandatory climate-related reporting.

FIGURE 1. MAIN ESG REPORTING STANDARDS

Organisation	Date introduced	Type of Guidance	Objectives	Coverage	Materiality concept	Technology	Assurance	Ongoing Projects
The Sustainability Accounting Standards Board (SASB)	2011	Standard	Facilitate the disclosure of sustainability information that is financially material			Developed XML taxonomy SASB XBRL taxonomy under development	Recommended	Public Consultation on Human Capital and Tailings Management
Global Reporting Initiative (GRI)	1997	Hybrid	Create a common language for organizations to report on their sustainability impacts			3rd party certified software	Recommended	Review of Universal standards, Sector Program
The International Integrated Reporting Council (IIRC)	2013	Principles-based framework	Explain to providers of financial capital how an organization creates value over time			Launched initiative to assist in the global adoption of <IR>	Recommended	Revised <IR> Framework
The Carbon Disclosure Project (CDP)	2002	Standard	Disclosure of risks and opportunities on climate change, water security and deforestation			Developed a XBRL taxonomy based on the CDP questionnaire	Recommended	
The Climate Disclosure Standards Board (CDSB)	2015	Hybrid	Setting out an approach to reporting environmental information in mainstream reports			Developed a XBRL taxonomy based on the CDSB Climate Change Reporting Framework	Recommended	Consultation on guidance for water-related disclosures
Task Force on Climate-related Financial Disclosures (TCFD)	2017	Hybrid	A framework for financial implications of climate related aspects of an organization's business				Not required, depends on adopting states	Consultation on forward-looking climate-related metrics for financial institutions
United Nations Global Compact (UNGC)	2000	Principles-based framework	To implement universal sustainability principles in the areas of human rights, labour, environment, and anti-corruption				Voluntary	
UN Sustainable Development Goals (UNSDG)	2015	Principles-based framework	A universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.				Under discussion	
EU Commission- NFRD (Non-financial reporting disclosure)	2014	Principles-based framework	To helps stakeholders to evaluate the non-financial performance of large companies			Revised NFRD expected to have a taxnomy (tags)	Depends on member states	Revision of NFRD, Task force on possible EU non-financial reporting standards
Sustainable Finance Disclosure Regulation (SFDR)	2020	Standard	To define a harmonised ESG framework for European financial services firms. Transparency obligations at product and entity level.					

Requires reporting of environmental issues

Requires reporting of social issues

Requires reporting of governance issues

Requires limited governance related disclosures (e.g., CDP, CDSB and TCFD - only climate related, UNGC - anti-corruption related)

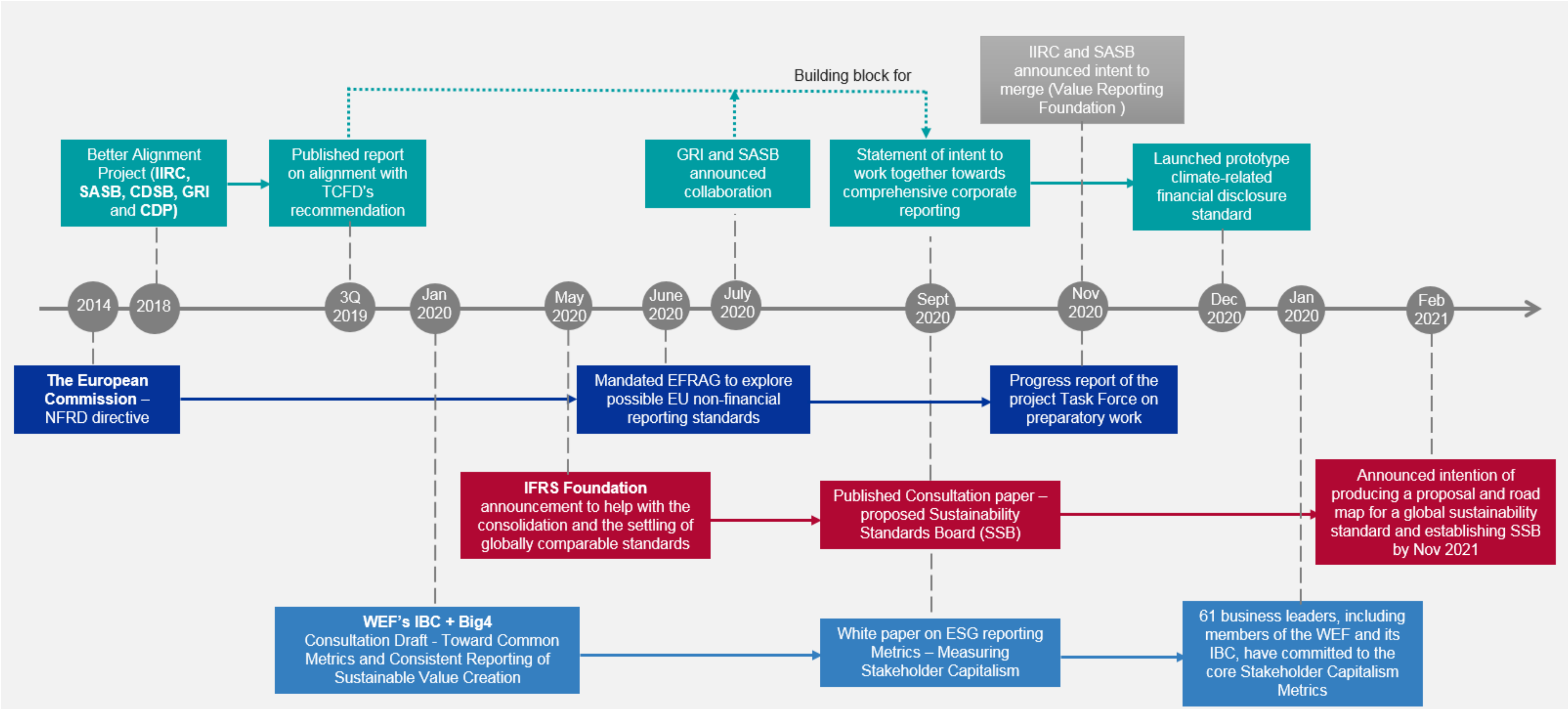
Financial material issues / organisation or investor centric

Focus is on environmental and social impacts

Source: SASB, GRI, CDSB, CDP, IIRC, TCFD, UNGC, UNSDG, EU Commission, Institute of international finance, DWS Investment GmbH (February 2021). Refer to Annex 1 for detailed information on above standards.

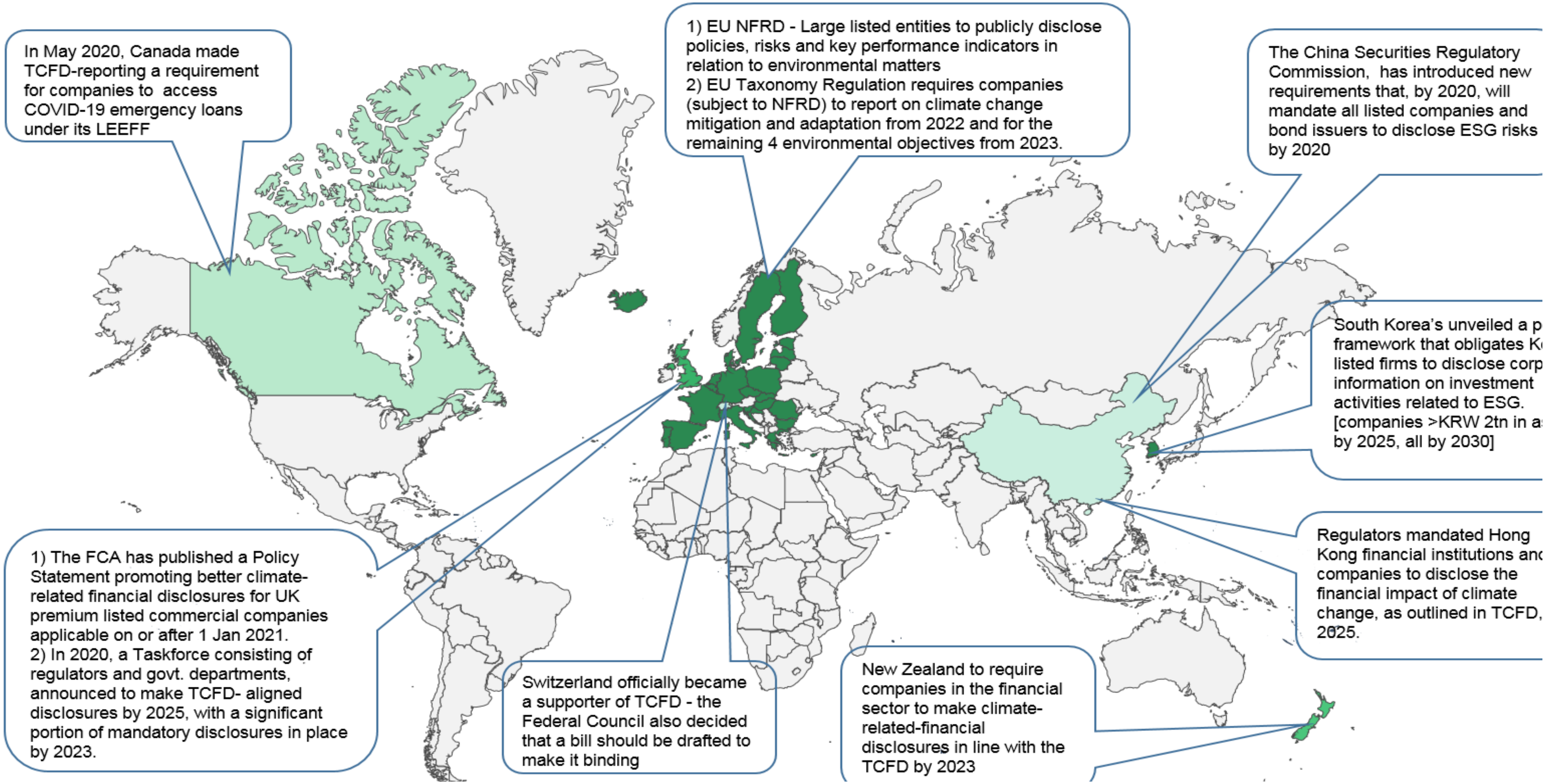
FIGURE 2. MAJOR INITIATIVES TOWARDS DEVELOPMENT OF A GLOBAL ESG REPORTING FRAMEWORK

Key Milestones



Source: DWS Investment GmbH (February 2021). Refer to Annex 2 for detailed information on above standards.

FIGURE 3. COUNTRIES PROGRESSING TOWARDS ADOPTING MANDATORY CLIMATE-RELATED REPORTING



Source: DWS Investment GmbH (February 2021)

ANNEX 1. MAIN ESG REPORTING STANDARDS (1/4)

Organisation	The Sustainability Accounting Standards Board (SASB)	Global Reporting Initiative (GRI)	The International Integrated Reporting Council (IIRC)	CDP Global (formerly the Carbon Disclosure Project)	The Climate Disclosure Standards Board (CDSB)	Task Force on Climate-related Financial Disclosures (TCFD)
Year Introduced	2011	1997	2010	2002	2007	2015
Type of Guidance	Standards	Hybrid	Principles-based frameworks	Standards	Hybrid	Hybrid
Objectives	The objectives of the SASB Standards are to facilitate the disclosure of sustainability information that is financially material, decision-useful, and cost effective. SASB standards are (a) Evidence-Based (b) Market-Informed and (c) Industry-Specific. The SASB primarily analyses two types of information: (i) industry-level and (ii) company-specific environmental social and	The GRI Standards create a common language for organizations to report on their sustainability impacts (economic, environmental, and/ or social impacts, and its contributions – positive or negative) in a consistent and credible way. This enhances global comparability and enables organizations to be transparent and accountable.	The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. Also, to improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.	Focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact (risks and opportunities on climate change, water security and deforestation)	Setting out an approach to reporting environmental information in mainstream reports. It allows investors to assess the relationship between specific environmental matters and the organization's strategy, performance and prospects.	Provide a framework for decision-useful, climate related disclosures that provide information around the financial implications of climate related aspects of an organization's business. That will lead to smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low-carbon economy.'
Scope	SASB's Standards guide reporting on financially material environmental, social and governance issues by means of indicators (called metrics) and disclosures for 77 industries. SASB's sustainability topics are organized under five broad sustainability dimensions : (a) Environment (b) Social Capital © Human Capital (d) Business Model and Innovation (e) Leadership and Governance	The GRI Standards outline how and what to report regarding the material economic, social and environmental impacts of an organisation on sustainable development. Three universal standards relating to general disclosures and management approaches. Topic-specific disclosures on material issues specific to the organisations covering social, environmental and economic sustainability.	The model involves six capital (financial, manufactured, human, social, intellectual, natural). Enhance accountability and stewardship for the broad base of six capitals and promote understanding of their interdependencies	CDP issues a questionnaire-based framework that collects information on climate change, water security and deforestation via an online platform.	The CDSB offers two frameworks for reporting environmental information, natural capital and climate change-related information. (a) Environmental, Capital and Business Impacts Framework (b) Climate Change Reporting Framework. Required disclosures should explain the material current and anticipated environmental risks and opportunities affecting the organization	TCFD has four core elements and 11 recommended disclosures. The adoption will ensure that the effects of climate change become routinely considered in business and investment decisions.
Targeted Disclosure	Voluntary : Public companies making disclosures on material sustainability factors in their public filings with the Securities and Exchange Commission (SEC), such as Forms 10-K and 20-F.	Voluntary : Content may be used for sustainability, Annual or integrated reports.	Voluntary : Integrated reports.	Voluntary : Content may be used for sustainability, Annual or integrated reports.	Voluntary: intended for annual reports, 10-K filing, or integrated report.	Voluntary , intended for mainstream (i.e., public) annual financial filings". Mandatory in 2020 for all signatory of the UNPRI.
Target audience	Investors, lenders, and other creditors	All stakeholders.	"Providers of financial capital" (Investors)	Investors, lenders, and policymakers	Investors, lenders, and policymakers	Investors, lenders, and policymakers
Concept of materiality	(a) SASB standards are intended as guidance for companies as they perform their own determinations of materiality and disclosure obligations. (b) Financially material issues are those that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors.	Two dimensions. The organization is required to identify material topics by considering the two dimensions of the principle: (1) the significance of the organization's economic, environmental, and social impacts – that is, their significance for the economy, environment or society, as per the definition of 'impact' – and (2) their substantive influence on the assessments and decisions of stakeholders. A topic can be material if it ranks highly for only one dimension of the Materiality principle. (GRI 103 of 2016)	Material information is that which will substantively affect the organization's ability to create value over the short, medium, and long term.	Environmental information is material if (i) the environmental impacts are expected to have a significant effect on the organization's financial condition; or (ii) omitting it could influence decisions that report users make about the organization	Material information provides information necessary for an assessment of how the organization contributes to and is affected by relevant risks. Each organization will evaluate their own circumstances to identify material environmental information.	Materiality decisions based on financial impacts to the organization: organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings
Technology Platform	Developed XML taxonomy SASB XBRL taxonomy under development	GRI offers a certification service for software and tools that make use of content from the GRI Standards	Launched initiative to assist in the global adoption of <IR>	Developed a XBRL taxonomy based on the CDP questionnaire	Developed a XBRL taxonomy based on the CDSB Climate Change Reporting Framework	No
Environment	Environmental information is included through the broader umbrella of incorporation of ESG factors into corporate activities. _Corporate impacts on the environment; use of non-renewable, natural resources as inputs or through harmful releases into the environment.	Environmental Category: Materials, Energy, Water, Biodiversity, Emissions, Waste, Environmental Compliance	While there are no specific environmental disclosure requirements, the report requires that companies consider their use of "natural capital" and its role in organizations' value chains.	Separate CDP questionnaires on climate change, forests, water security : Within climate change questionnaire -- Assessment of climate risk and opportunities, with specific guidance for banks, insurance companies, and asset managers; transition and physical risks, climate-related targets, Scope 1, 2, 3 GHG emissions, energy spend, consumption of fuel, waste,	Financial impact of climate change on company accounts; environmental strategy and policy; material environmental risks and strategies; regulatory, physical, reputational, and litigation risks and opportunities; sources of environmental impacts; performance targets.	Specific disclosures include: Climate-related risks and opportunities, climate-related strategy, climate risk management, metrics used to assess climate risk and opportunity, scope 1-3 GHG emissions
Social	Two main categories define social disclosure requirements: (a) Social capital (perceived role of the business in society) including human rights, local economic development, affordability; and (b) Human capital (management of a company's human resources) including training, retention, diversity, and compensation.	Social Category: Metrics are divided into four sub-categories: labour practices, human rights, society and product responsibility. Specific metrics relating to: Employment, Labour Relations, Health and Safety, Training, Diversity, Human rights, Consumer Privacy, (and more)	While there are no specific social disclosure requirements, the framework requires companies to look at their relationship and social capital as it affects the organization's value	No	No	No

Source: DWS Investment GmbH (February 2021)

ANNEX 2. MAIN ESG REPORTING STANDARDS (2/4)

Organisation	The Sustainability Accounting Standards Board (SASB)	Global Reporting Initiative (GRI)	The International Integrated Reporting Council (IIRC)	CDP Global (formerly the Carbon Disclosure Project)	The Climate Disclosure Standards Board (CDSB)	Task Force on Climate-related Financial Disclosures (TCFD)
Governance	Two main categories define governance disclosure requirements: (a) Business Model and innovation (addressing the impact of sustainability issues on environmental, human, and social issues); (b) leadership and governance (management of issues that are in potential conflict with the interest of broad stakeholder groups)	Governance Category: Governance structure, Executive level responsibility for ESG topics, Stakeholder consulting on ESG topics, Composition of highest governance body, Conflicts of interest, Evaluating governance body's performance, Identifying and managing ESG impacts, Risk management process. The Governance category is the only category included in GRI's basic-level "General Disclosures" template.	Governance Element : Leadership structure (including skills and diversity); strategic decision-making processes, how the organization's culture, ethics, and values are reflected in its use of capital.	Climate-related Governance issues: Does the organization have board-level oversight of climate issues?	Required Governance Disclosures include: Describe Governance of environmental policies, strategy, and information in order to demonstrate transparency about and accountability for the organization's oversight of environmental policies, strategy, and information.	Governance requirements are a subset of broader environmental and climate risk disclosures. Governance metrics relate to board oversight of climate-related risks and opportunities, and management's role in assessing and managing climate related risks and opportunities.
Assurance/ Verification requirements	Independent assurance is encouraged: it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in SEC filings.	Recommends the use of external assurance for sustainability reports.	Independent, external assurance is recommended.	Encouraged and template provides space to report verification/assurance status e.g. of Scope 1-3 emissions.	CDSB seeks to support and encourage assurance activity of both climate change-related and environmental information.	Disclosures should be reliable, verifiable, and objective. For future-oriented information, this means assumptions used can be traced back to their sources.
Convergence	SASB is working toward alignment and synergy with other frameworks like the TCFD, GRI and CDSB.	Part of Better Alignment Project (G-five)	Part of Better Alignment Project (G-five)	CDP has aligned with GRI and TCFD, and published guidance on how to link to GRI and integrate with TCFD recommendations.	Aligns with the recommendations of the Task Force on Climate-related Financial Disclosures	
Active Projects	(i) New Value Reporting Foundation : The SASB and the IIRC are to merge into one organization by mid-2021. The Value Reporting Foundation may also integrate other groups focused on enterprise value creation, including the CDSB. (ii) SASB Opens Public Consultation and Comment on Human Capital and Tailings Management Projects.	(i) The GSSB has started a project to review GRI's Universal Standards, which consist of GRI 101: Foundation 2016, GRI 102: General Disclosures 2016 and GRI 103: Management Approach 2016. The expected release of updated Universal Standards by Q2 2021 (ii) Review of GRI's human rights-related Standards by Q1 2021 (iii) The GRI Sector Program	(i) New Value Reporting Foundation : The SASB and the IIRC are to merge into one organization by mid-2021. The Value Reporting Foundation may also integrate other groups focused on enterprise value creation, including the CDSB.		Consultation: The CDSB Framework application guidance for water-related disclosures. The consultation is open till 1 March 2021.	Consultation paper on the evolution of forward-looking climate-related metrics used and disclosed by asset owners, asset managers, banks, and insurance companies. (response by 27th Jan 2021)
Additional information on active projects	(i) Value Reporting Foundation (Mid 2021): to provide investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance. (ii) Human Capital (by 12 Feb 2021): To incorporate several trends highlighting the increasing importance, of the health and wellbeing of employees, workplace culture, workforce investment and labour condition in the supply chain, in Human Capital framework and consequently on industry standards. (iii) Trailing Management project (by 17th March 2021): revision in the current standards for the Metals & Mining and Coal Operations to ensure the set of disclosures fully captures the risks associated with company management of tailings storage facilities (TSF).	(i) Review of Universal standards: To embed mandatory human rights-related disclosures, to integrate reporting on due diligence, clarify approaches for using the GRI standards (revision in definitions), drive consistent application of the GRI standard, enhance usability of GRI standards and revision in disclosures (human rights, compliance with laws, regulations, reporting practices, governance, grievance mechanisms, stakeholder engagements, collective bargaining, etc.) (ii) Review of Human rights related standards: to bring the GRI human rights-related Standards in line with key authoritative intergovernmental instruments in this area, namely the UN Guiding Principles on Business and Human Rights and OECD instruments. (iii) GRI sector Program: provide organizations with authoritative guidance on the most likely material topics for reporting in their sector and the information they should report on these topics. The first of these sectors are oil and gas, coal, and agriculture and fishing, for which projects are underway.	(i) Value Reporting Foundation (Mid 2021): to provide investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance.		The Water Guidance will provide an additional layer of detail to the CDSB Framework, integrating elements from existing reporting standards on water. The focus of the guidance is on the first six reporting requirements (Governance, Management's environmental policies, strategy and targets, Risks and opportunities, Sources of environmental impact, Performance and comparative analysis, and Outlook.	The Task Force formed a working group to consider the benefits and challenges of disclosure of 'implied temperature rise' and other forward-looking climate-related metrics. Other forward-looking metrics could focus on physical climate-related risk, future valuations of specific assets, and applications of climate within more traditional financial valuation metrics. One example of a forward-looking financial metric is climate 'Value-at-Risk (climate VaR)'.

Source: DWS Investment GmbH (February 2021)

ANNEX 2. MAIN ESG REPORTING STANDARDS (3/4)

Organisation	UN Sustainable Development Goals (UNSDG)	EU Non-Financial Reporting Directive (NFRD)	Sustainable Finance Taxonomy Regulation	EU- Sustainable Finance Disclosure Regulation (SFDR)	United Nations Global Compact (UNGC)
Year Introduced	2015	2014	2020	2020	2000
Type of Guidance	Principles-based frameworks	Hybrid Framework	Principles-based frameworks	Standard	Principles-based frameworks
Objectives	The Sustainable Development Goals (SDGs), were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.	The Directive requires companies to report on business impact, development, performance and position relating to a set list of non-financial issues. The objective was to helps investors, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies and encourages these companies to develop a responsible approach to business.	The objective of the Taxonomy is to enable financial market players to make more informed investment decisions with respect to their sustainable investments and lending portfolio, and increase transparency to broader stakeholders on these matters as the Taxonomy will require companies to disclose the entire proportion of Taxonomy-aligned economic activities (i.e. through turnover, capital expenditure and operating expenditure indicators).	This Regulation aims to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors when they act as agents of those end investors (principals)	The United Nations Global Compact is a voluntary initiative officially launched in the year 2000 and based on the commitments of organizations in order to implement universal sustainability principles in the areas of human rights, labour, environment, and anti-corruption and to take steps to support UN goals and issues (UNGC 2014).
Scope	Collection of 17 global goals addressing several challenges (poverty, inequality, climate, environmental, degradation, prosperity, peace and Justice). The SDGs are accompanied by a total of 169 associated targets and 232 approved indicators to be achieved by 2030.	The NFRD identifies four sustainability issues (environment, social and employee issues, human rights, and bribery and corruption) and with respect to those issues and subject to the company's own materiality assessment, requires companies to disclose information about their business model, policies, outcomes, risks and risk management, and KPIs relevant to the business. Applies to large public interest companies with more than 500 employees (o/w there are approx.. 6,000 across Europe).	The Regulation sets out six environmental objectives: (a) climate change mitigation; (b) climate change adaptation; (c) water; (d) circular economy; (e) pollution control; and (e) biodiversity. This defines the minimum criteria that economic activities should comply with in order to be considered environmentally sustainable. (a) An environmentally sustainable economic activity contributes substantially to six environmental objectives. (b) It does not significantly harm any of the other environmental objectives. (c) It is carried out in compliance with minimum safeguards set out in the Regulation (including the OECD Guidelines, ILO, etc.) (d) It complies with the technical screening criteria developed by the Technical Expert Group in the form of delegated acts.	The regulation requires disclosure on: _Principal adverse impact disclosure – at entity level _ Pre-contractual product disclosure _Website product disclosure _ Product periodic disclosures (last three disclosures are applicable at products level)	The UN Global Compact is a principle-based framework, introducing ten principles on human rights, labour, environment, and anti-corruption. The principles are derived from the Universal Declaration of Human Rights, International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention against Corruption (UNGC 2014).
Targeted Disclosure	Voluntary : Content may be used for sustainability, Annual or integrated reports.	Mandatory ('Comply or Explain') for EU firms in scope from 2018. Firms have significant flexibility over how to disclose information: can use international, European or national guidelines to produce their statements.	Mandatory for a company that is subject to NFRD.	Mandatory ('Comply or Explain') for _ Financial market participants _ Financial advisers (Large entities and parents of large groups - similar to NFRD)	The UN Global Compact's reporting system is an annual public disclosure by the participating companies to inform stakeholders about their progress to implement the principles of UNGC and to support wider UN goals
Target audience	All stakeholders	All stakeholders	All stakeholders	End investors	All stakeholders
Concept of materiality	Not addressed	Companies reporting must disclose (i) how sustainability issues may affect the position of the company; and (ii) how the company impacts society and the environment -- also called "double materiality"		Not specifically addressed -appears double materiality (taking clue from NFRD)	Not addressed
Technology Platform	No	No	No	No	No
Environment	Goal 7 : Affordable and clean energy. Goal 12: Ensure sustainable consumption and production patterns. Goal 13: Take urgent action to combat climate change and its impacts. Goal 14: Conserve and sustainably use the oceans, seas and marine resources. Goal 15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	The guidelines identify a number of recommended disclosures, including GHG emissions (scope 1-3), energy consumption, and energy efficiency targets	The Regulation sets out six environmental objectives: (a) climate change mitigation; (b) climate change adaptation; (c) water; (d) circular economy; (e) pollution control; and (e) biodiversity.	Covers GHG emissions, Biodiversity, water and waste related idicators	Principle 7: Support precautionary approach to environmental challenges. Principle 8: Promote environmental responsibility. Principle 9: Encourage development and diffusion of environmentally friendly technologies

Source: DWS Investment GmbH (February 2021)

ANNEX 2. MAIN ESG REPORTING STANDARDS (4/4)

Organisation	UN Sustainable Development Goals (UNSDG)	EU Non-Financial Reporting Directive (NFRD)	Sustainable Finance Taxonomy Regulation	EU- Sustainable Finance Disclosure Regulation (SFDR)	United Nations Global Compact (UNGC)
Social	Goal 1: End poverty in all its forms everywhere. Goal 2: Zero Hunger. Goal 3: Ensure healthy lives and promote well-being for all at all ages. Goal 4 : Quality of Education. Goal 5 Gender Equality . Goal 6 : Clean Water and Sanitation. Goal 10: Reduce inequality within and among countries. Goal 16: Promote just, peaceful and inclusive societies.	Expectations to disclose relevant information related to social responsibility and treatment of employees, respect for human rights, anticorruption and bribery	No. The EU Taxonomy Regulation will be further developed over time to cover economic activities that are socially sustainable.	Requries reporting on social and employee matters and Respect for human rights	Human right Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Human right Principle 2: make sure that they are not complicit in human rights abuses. Labour principle Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Labour principle Principle 4: the elimination of all forms of forced and compulsory labour; Labour principle Principle 5: the effective abolition of child labour; and Labour principle Principle 6: the elimination of discrimination in respect of employment and occupation.
Governance	Goal 17: Revitalize the global partnership for sustainable development	Expectations to disclose relevant information related to board diversity; company diversity policies.	No	Requries reporting on anti-corruption and anti-bribery matters	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
Assurance/ Verification requirements		Statutory auditors should only check that the non-financial statement or the separate report has been provided. Additionally, requirement of independent assurance depends on Member States.	Following best practices, seek for external assurance on Taxonomy-related disclosures.		
Convergence		EC intends to use the "best and most widely accepted elements" of existing international non-financial/ESG reporting standards (GRI, SASB, TCFD, etc.) as their starting point. The second NFRD consultation seeks views on which elements of these existing standards should be incorporated into an EU standard.		Investee companies reporting as per NFRD and EU Taxonomy regulation is expected to feed SFDR disclosure requirements	
Active Projects		(i) Revision of NFRD (by Q1 2021) (ii) On 25 June 2020, the European Commission mandated the European Financial Reporting Advisory Group (EFRAG) to undertake preparatory work for the elaboration of possible EU non-financial reporting standards in a revised NFRD. Task force to submit report in Feb 2021 and deliver a first standard or set of draft standards to the European Commission no later June 2022.	(i) By 31 December 2020 : Adoption of delegated acts for the technical screening criteria with respect to climate-related objectives. (ii) By 31 December 2021 : Adoption of delegated acts for the technical screening criteria with respect to all other environment-related objectives.	The Joint Committee of the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) delivered to the European Commission (EC) the Final Report, including the draft Regulatory Technical Standards (RTS), on the content, methodologies and presentation of disclosures under SFDR. As a next step, the EC is expected to endorse the RTS within 3 months of their publication.	
Additional information on active projects		(i) Focus of the revision is to improve comparability, reliability, increase the scope of disclosure, standardisation, better alignment with TCFD and introduction of double materiality including enhanced disclosure around materiality. (ii) The Task Force shall consider the full sustainability spectrum of environmental, social and governance factors in line with the overall aim of the European Green Deal and Agenda 2030. This would also bring the work in line with the broader scope of the six environmental objectives of the Taxonomy regulation as well as other relevant work streams aimed at strengthening corporate sustainability. The Task force shall map the relevance of existing non-financial reporting standard-setting initiatives, consider how best to structure the standard or set of standards, Assess how future EU non-financial reporting standards could ensure a more integrated view , etc.	For the climate change mitigation and adaptation objectives, in non-financial statements or reports published on or after 1 January 2022 and for the remaining four environmental sustainability objectives, for non-financial statements or reports published on or after 1 January 2023.	The application of most of the provisions in the SFDR is required from 10 March 2021, the application of the draft RTS will be delayed to a later date according to a letter from the Commission to the ESAs. The ESAs have proposed in the draft RTS that the application date should be 1 January 2022.	

Source: DWS Investment GmbH (February 2021)

ANNEX 3. MAIN ALIGNMENT INITIATIVES

Alignment Initiatives	**Comprehensive Reporting initiative - G5* (Better Alignment project)**	**IFRS: SSB**	**World Economic Forum and International Business Council (IBC)**	**EU Non-Financial Reporting Directive (NFRD)**
Year Launched	2018	2019	2020	2020
Participants	IIRC, SASB, CDSB, CDP and GRI	IFAC IFRS -foundation	WEF's IBC & Big4	EC - EFRAG
Objectives	1) Joint market guidance on how existing frameworks and standards can be applied in a complementary and additive way; 2) A joint vision of how these elements could complement financial generally accepted accounting principles (Financial GAAP) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system; 3) A joint commitment to drive toward this goal, through an ongoing programme of deeper collaboration between us, and a stated willingness to engage closely with other interested stakeholders.	The objective of the SSB would be to develop and maintain a global set of comparable and consistent sustainability-reporting standards initially focused on climate-related risks (working with existing initiatives and building upon their work).	Core aims is to bring about the 'mainstreaming' of ESG reporting — by bringing key ESG disclosures (not create a new standard) into annual reports themselves, rather than being confined to separate, standalone reporting documents.	Objective being to allow for the swift development, adoption and implementation of European standards, should that be the choice of the European Union following the wider revision of the NFRD. Enhance the comparability, reliability and relevance of information disclosed by companies by mandating the use of a common set of non-financial reporting standards. Such standards could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard
Scope	1) One global solution : Outline an approach to standard-setting that results in a globally agreed set of sustainability topics and related disclosure requirements that can serve distinct materiality concepts 2) Digital taxonomies and technology enable data to be structured for sharing and comparison 3) Aligning beyond the TCFD 4) Engaging with IOSCO, WEF IBC initiative and the IFRS Foundation, including on how to connect sustainability disclosure standards focused on enterprise value creation to Financial GAAP	1) A climate first approach- developing global sustainability-reporting standards for climate-related information 2) At a later stage, the SSB might adopt a broader scope of sustainability reporting that includes the interrelationship between environmental, social and governance factors.	Report Metrics are taken directly or adapted from existing disclosure frameworks, including GRI, SASB, TCFD, CDSB, and CDP. The metrics have been organized into four pillars – Principles of Governance, Planet, People and Prosperity – which are aligned with the essential elements of the SDGs.	The non-financial statement should include information necessary to understand the development, performance, position and impact of its activity, as it relates to at least environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.
Materiality Concept	Dynamic materiality	Initially focused on issues most relevant to investors and other market participants	Materiality to long-term value creation	Double Materiality
Voluntary/ Mandatory	Voluntary	TDB	Voluntary, (but propose a 'comply or explain' approach for opting members)	Mandatory
Major Publications released till date	1) Published report on alignment with TCFD's recommended Disclosure 2) Issued Intent to intent to work together towards comprehensive corporate reporting 3) Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard	The responses on the consultation paper indicate growing and urgent demand to improve the global consistency and comparability in sustainability reporting, as well as strong recognition that urgent steps need to be taken and broad demand for the IFRS Foundation to play a role in this.	1) Published Consultation Draft - Toward Common Metrics and Consistent Reporting of Sustainable Value Creation 2) White paper on ESG reporting metrics : Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation	In line with the requirements of the EC mandate to EFRAG, the Task Force (PTF-NFRS) submitted a progress report to the EC on 6 November 2020.
Next Steps		The trustees will meet on March 2-4, with the intention of producing a proposal and road map for a global sustainability standard by the end of September 2021.	In January 2021, 61 business leaders, including members of the WEF and its IBC, have committed to the core Stakeholder Capitalism Metrics released by the IBC. However, there was no annoucement with respect to a timeline for broader adoption.	1) The PTF-NFRS to submit a final report in February 2021. 2) First standard or set of draft standards by June 2022

Source: DWS Investment GmbH (February 2021)

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