SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

Master in Accounting

2024/2025

PEDRO DE ALMEIDA FERNANDES
pafernandes@iseg.ulisboa.pt

88

Agenda

- ACCOUNTABILITY AND SUSTAINABILITY
- FINANCIAL REPORTING
  NON-FINANCIAL REPORTING
- ETHICS
- RESEARCH TOPICS

89

Financial reporting is not enough!

- They do not reflect the entire business activity of a company.
- **Reflects only short-term monetary aspects of business**, but does not provide insight into environmental, social, and managerial aspects of business, **which are, in the long term, much more important**.
- Nonfinancial reporting is a 'must' in the modern economy as it reflects the responsibility of a company to conduct business activities in a sustainable way.
- This 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.
- There is growing evidence that sustainability reporting increases in significance. Analyses of corporate responsibility reports in the world demonstrate a sharp increase: from 26 reports in 1992 to 5593 reports in 2010 to 9500 in 2015 (Szekely et al, 2017).

90

Sustainability Reporting

Ashleigh Gay, Director of Sustainability Strategy at Radley Yeldar, said:

- "Sustainability is finally having its moment. From consumer activism to mainstream investor interest, companies are under pressure to respond. The research, case studies and ideas in *Reporting matters* help companies take stock of their reporting. As we transition into a new era of sustainability post-2020, sustainability reporting will only become more important. When done well, it presents a **huge opportunity for companies to engage a wide range of audiences, tell their unique story and show their progress towards a more sustainable world.**"

Source: WBCSD 2019

91

Sustainability Reporting

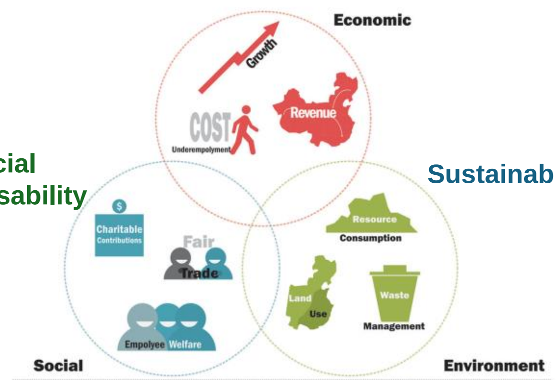
WBCSD defines the sustainability report as:

- *"… reports on sustainable development (produced by companies) as publications for internal and external shareholders in order to disclose corporate positions and activities on the economic, environmental and social fronts. In short, the purpose of these reports is to show the contribution of companies to sustainable development. "*

Business performance is viewed as a function of balance between economic, social, and ecological aspects of business activity.

Social responsability

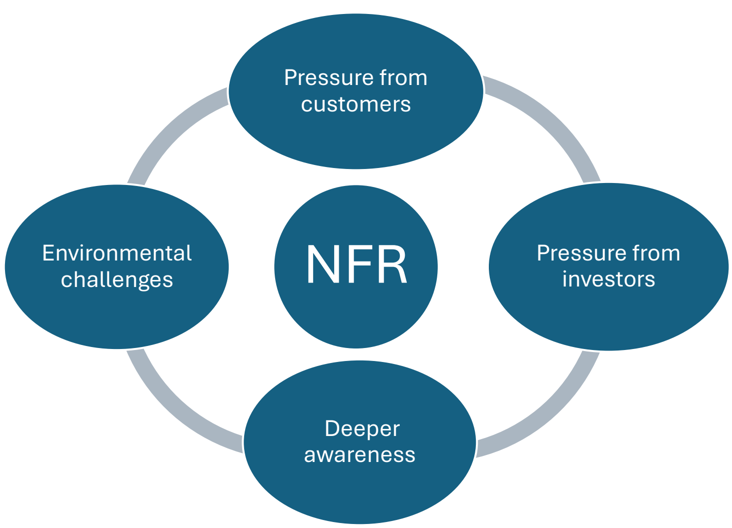
Sustainability



The ultimate goal is to balance on all sides

92

Why sustainability reporting?



93

Sustainable Reporting

The company's sustainability performance and its ability to convey a compelling message will determine how it ranks as a sustainable company

Sustainable business attract talent, investments or increase sales.

Financial reports give shareholders and other stakeholders information about the company's activities and financial performance.

Besides, companies voluntary share other non-financial information in order to explain the value they create for their stakeholders beyond profits.

With this information, companies are more transparent about the risks and opportunities they face.

An example of sustainability reporting is the Corporate Sustainability Report (CSR). CSR originally aimed to improve the company's reputation but currently also respond to investor requests.

94

Sustainability Reporting

- "Report published by a company about the economic, environmental and social impacts caused by its everyday activities." (GRI)
- "Presents the organization's values and governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy." (GRI)

Stand-alone report or included as a distinguishable prominent and accessible part of another communication (eg, annual report)

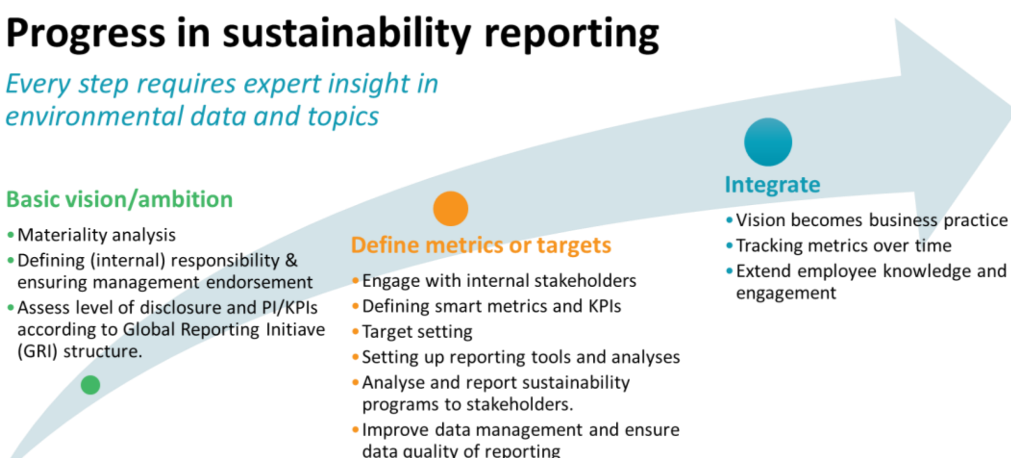
95

The different types of report

- **Stand-alone reports** that focus on social and environmental issues
- **Combined reports** that introduce social and environmental issues into the existing financial annual report
- **Integrated reports** that highlight linkages across financial and non-financial information

96

Sustainability Reporting



Source: Blonk consultants

Sustainability Reporting

"Sustainability" has evolved to refer to strategic and operational considerations related to a broad set of environmental, social and governance concerns.

Investors increasingly expect companies to recognise and address risks and opportunities in relation to ESG factors that impact long-term value creation.
Sustainability, ESG, Corporate responsibility and CSR are concepts that can be used interchangeably, but be aware of their differences.

98

Is Reporting improving?

- **Reporting is improving -** 88% of member companies have improved their overall scores since baseline year 2015; 38% have improved their materiality score in this timespan.
- **The state of Sustainable Development Goal (SDG) reporting -** 95% of the reviewed reports acknowledge the SDGs in some way; 86% prioritize specific SDGs and present some evidence of alignment and contribution.
- **The state of integrated reporting -** 39% of reports reviewed combine financial and non-financial information, up from 26% in 2015; 20% are self-declared integrated reports.
- **The state of GRI reporting -** 87% of reviewed reports reference the Global Reporting Initiative (GRI); of those, 77% claim to be in accordance at core or comprehensive level.
- **Governance is improving -** 37% of the 123 companies in the sample, with ESG data on Bloomberg Terminals, link sustainability performance and executive remuneration, broadly aligned with 39% in the 2018 sample.
- **The future is digital -** 23% of reports reviewed provide a digital-first experience; 64% of members with a PDF-first approach produce complementary online content (2017: 44%).

99

Is Reporting improving?

There is growing evidence that sustainability reporting increases in significance. Analyses of corporate responsibility reports in the world demonstrate a sharp increase:

- from 26 reports in 1992
- to 5593 reports in 2010
- to 9500 in 2015

Source: Szekely *et al.*, 2017

100

ESG Reporting

Meaning

Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities.

101

ESG Reporting

Meaning

✓ ENVIRONMENTAL – Climate change, resources and pollution
✓ SOCIAL – Human rights, health and safety
✓ GOVERNANCE – Tax transparency, anti-corruption

- Equally relevant to a large publicly listed issuer with a long track record of reporting; a smaller company; a privately held business; or a debt issuer.
- Is 'ESG' the same as 'sustainability' and 'corporate responsibility'? – what is the relationship among these concepts?
- Different formats: Annual report, standalone sustainability report, or integrated report?

ESG Reporting: A management tool

- It must be regarded, first and foremost, as **a management tool** that permits the company to measure its progress and its non-financial performance.
- And also to state that the company is on track with its commitments.
- Help pilot the ESG strategy in the short-, mid-, and long-term and facilitate prospective decision making.
- Help advance dialogues with important stakeholders.

Why to develop a ESG Report?

1. To show their stakeholders, and society in general, that they consider their expectations and operate within the bounds of the **social contract**.
2. To join sustainability indexes (Dow Jones Sustainability Index, Footsie4Good)
3. To build a management tool to affirm that the company is on track with its commitments.
4. To trigger action making ESG performance part of the discussion
5. To assure transparency - more and more external bodies are demanding integrated reports that contain not just financial and economic information but societal and environmental data too.

104

104

ESG Reporting

A good quality reporting is the one that:

1. meets the needs of its stakeholders;
2. is aligned with the SDGs;
3. maximizes society's contribution, with appropriate targets and indicators;
4. understands how these issues will challenge society's ability to operate in the long run.

If this is the case, **non-financial reporting is a real strategic plan** for the company to manage its short-term agenda by including a long-term vision.

105

Why to develop a ESG Report?

EXTERNAL BENEFITS

1. Reputation & Trust
2. Attracting Capital
3. Stakeholder Engagement
4. Competitive Advantage

106

106

Why to develop a ESG Report?

INTERNAL BENEFITS

1. Vision & Strategy
2. Management Systems & Risk Management Tool
3. Strengths & Weaknesses
4. Employee Motivation

107

107

Why to develop a ESG Report?

Life cycle assessment

- According to a study done by NYU, products marketed as sustainable grew 5.6 times faster than those that were not.
- Therefore, companies designing sustainable products can decide to use their sustainability report to share information from the life cycle assessment (LCA) of their products.
- For example Tesla, in their Impact report 2019 (https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) share and benchmark the environmental impact of its vehicles vs their internal combustion competitors.

108

Why to develop a ESG Report?

- Example: Tesla

in their Impact report 2019 (https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) share and benchmark the environmental impact of its vehicles vs their internal combustion competitors

109

Non-financial reporting framework in European Union

- The EU Directive on the disclosure of non-financial and diversity information (2014/95/EU), also called the non-financial reporting directive (NFRD) lays down the rules on disclosure of non-financial and diversity information
- This way, since 2018, large EU companies need to report non-financial information.
- In Portugal this directive was transposed as DL 89/2017 (https://dre.pt/home/-/dre/107773645/details/maximized)
- The Non-Financial Reporting Directive plays an important role in boosting private sector action and commitment towards meeting the United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement.
- There is still considerable flexibility about what is reported and how. Such information is reported in different ways in different countries. In some countries NFR is part of the management report, other countries have included it in a separate report, or companies can also issue a variety of separate reports.

110

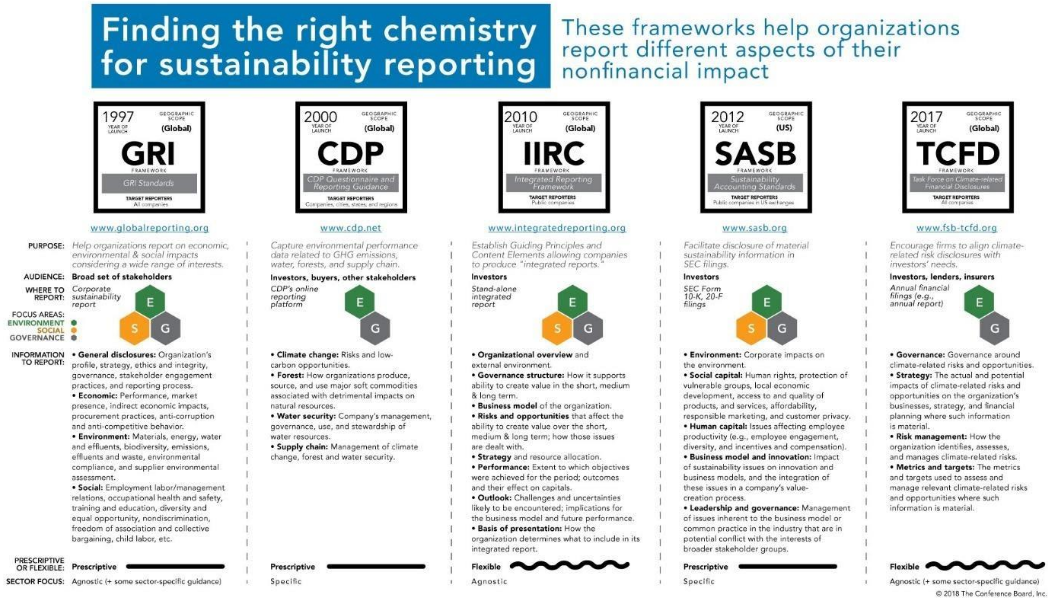
Non-financial reporting framework in European Union

Who must comply?

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities

111

ESG World Reporting - Frameworks



112

STANDARD	FOCUS	WHY REPORT	SCORING	WHO REPORTS	REPORTING PERIOD
CDP DRIVING SUSTAINABLE ECONOMIES	Primarily GHG emissions, but has grown to address water and forestry issues as well.	CDP holds the largest repository of corporate GHG emissions and energy use data in the world and is backed by nearly 800 institutional investors representing more than $90 trillion in assets. Its transparent scoring methodology helps respondents understand exactly what's expected of them. CDP was regarded as the world's most most credible sustainability rating in 2013.	Companies receive two separate scores for Disclosure and Performance using a 100-point scale. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index (CDLI).	Public and private companies, cities, government agencies, NGOs, supply chains.	• Climate Change program: Feb. 1 - May 29 • Supply Chain program: April 1 - July 3 • Cities program: Jan. 1 - Mar. 31 • Water and Forestry programs: Feb. 1 to June 30
Dow Jones Sustainability Indexes	Industry-specific criteria considered material to investors. Equal balance of economic, social and environmental indicators.	Membership in the DJSI is prestigious as it represents the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index. The Corporate Sustainability Assessment (CSA) brings a sector-specific focus and need-to-know simplicity to disclosure for public companies. This index was regarded as the world's second most credible sustainability rating after CDP.	Companies receive a total Sustainability Score is between 0 –100 and are ranked against peers; includes a Media and Stakeholder Analysis; those scoring within the top 10% are included in index.	The 2,500 largest public companies in the world.	April 3 - May 28
Global Reporting Initiative™	Corporate social responsibility with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality.	GRI was announced as the official reporting standard of the UN Global Compact, making it the default reporting framework for the compact's more than 5,800 associated companies. It's among the oldest, most widely adopted and most widely respected reporting methodologies in the world. Its thorough focus on social and governance aspects of ESG is unparalleled.	Focus is on transparency so no true scoring methodology; new G.4 framework requires entity reporting to choose "Core" or "Complete" reporting.	Public and private companies, cities, government agencies, universities, hospitals, NGOs.	Anytime, but typically integrated into a company's traditional annual report.
GRESB	Environmental, social and governance performance in the global commercial real estate sector only. Includes asset- and entity-level disclosures.	Private and public institutional investors look to GRESB's annual survey as the barometer of sustainability performance in the commercial real estate industry. Its niche target audience allows it to give deeper and more accurate insights into industry performance and reveal "investment grade" results.	Responses scored out of a possible 140.5 points distributed across two categories of data. Heavy weighting placed on implementation and asset-level performance.	Commercial real estate owners, asset managers and developers.	April 1 - June 30
SASB	US public companies only. Industry-specific issues deemed material to investors.	SASB's standards enable comparison of peer performance and benchmarking within an industry. Studies by Goldman Sachs and Deutsche Bank have shown the stock of companies who disclose on sustainability outperforms that of companies who do not. SASB is backed by the likes of Bloomberg LP and the Rockefeller Foundation, giving it extra clout with capital markets.	No scoring system. Instead, SASB is a standardized methodology for reporting sustainability performance through the Form 10-K.	No one yet - they've just released their first sector reporting guidelines.	Integrated into quarterly 10-K filings.

ESG World Reporting Frameworks

www.greenbiz.com

113

ESG World Reporting frameworks

- CDP and DJSI are considered to be the most credible and familiar reporting frameworks by sustainability experts.
- GRESB is one of the fastest growing, industry-specific standards.
- GRI is a household name in the CSR world and SASB soon will be one in the financial reporting world.
- All five frameworks provide a representation of the flavours of sustainability reporting, both industry-specific and industry-agnostic, integrated and non-integrated.
- The top 7 sustainability reporting frameworks (2022): Top 7 Sustainability Reporting Standards - Comparing Disclosure Frameworks (brightest.io)

ESG World Reporting - Frameworks

Companies can also rely on:

- the UN Global Compact
- the OECD guidelines for multinational enterprises
- ISO 26000
- the European Commission Guidelines(2017)
- https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en.
- the European Commission Guildelines (2019) https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en#climate (new supplement to the existing guidelines)

ESG Reporting – Adding complexity?

- Companies have been facing with the increasing task of creating annual sustainability reports.
- They submit information aligned with different voluntary frameworks:

DJSI, SDGs, Sustainalytics, UN Global Compact (UNGC), Global Reporting Initiative (GRI), Climate Disclosure Standards Board (CDSB), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC) and **up to 182 frameworks** according to WBCSD.

- Besides, the Paris Agreement gave birth to the Task Force on Climate-related Financial Disclosure (TCFD).
- **DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022**