Sustainability Reporting In Focus:
G&A Institute Report's 13th Annual
Part 2: The Subtle, and What to do Next

Governance & Accountability Institute (G&A Institute) released their 13th annual Sustainability Reporting in Focus in September 2024[1]. The report provides a wealth of data, trends and insights. Some points are obvious, others – not so much.

Douglas Hileman Consulting LLC (DHC) addresses three more subtle takeaways from this report. These provide hints to what companies should focus on next.

1. B2B reporting is lurking below the surface – and it's eating everybody's lunch.
2. Assurance is coming; even if you're obtaining it, expect more.
3. Water is "the next GHG."

B2B Reporting

Stakeholders often want information that goes beyond public reporting. So, they ask for it. Companies are inundated with questionnaires, especially from customers and industry trade groups. Even the capital markets – already analyzing public reporting – request more information for their own purposes. B2B reporting can align to topical issues (human rights), specific products or services, regions, or laws.

GRI: Public reporting aligned to GRI is increasing, but marginally – just 47% to 55% in four years. GRI has been around for over 20 years. Whereas many other standards are designed with capital markets in mind, GRI's approach is to develop a broader range of disclosure topics for many stakeholders. The 55% number is deceptive; two-thirds of the largest half of Russell 1000 companies align with GRI.

[1] See https://www.ga-institute.com/research/ga-research-directory/sustainability-reporting-trends/2024-sustainability-reporting-in-focus/.

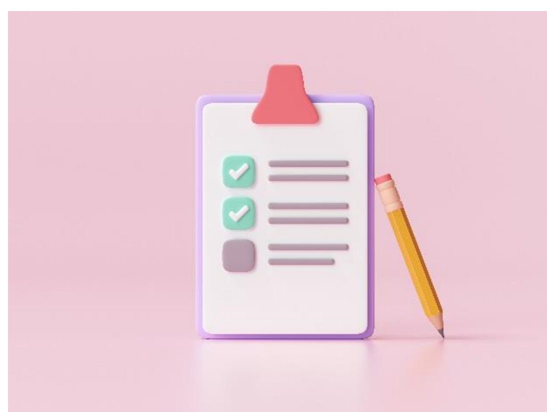
As many standards do, GRI topics include many pertaining to the value chain. If you sell to a large company, their adoption of GRI will affect you sooner or later. For many companies, "sooner" is becoming "NOW!" Although companies may choose not to "align with" GRI in Sustainability reporting, it is arguably the go-to reference for disclosure topics to consider in double materiality assessments.

Although out of the spotlight (indeed, out of any light at all!), B2B reporting can determine whether a company remains in the supply chain of key customers.

Get Ready: Companies can meet this challenge by applying internal controls across all sustainable business information. COSO released "Achieving Internal Controls over Sustainability Reporting" last year[1]. Just as COSO's internal controls integrated framework was agnostic on whether "reporting" was financial or non-financial, it is equally relevant to public reporting and B2B reporting.

Assurance

The number of companies obtaining external assurance doubled between 2019 and 2013. Although the total is still only 48%, this is certain to rise. EU's Sustainability Reporting Standards and California's climate law both require external assurance. The requirements begin with limited assurance, ramping up to reasonable assurance over time.



The difference between larger-cap and smaller-cap companies obtaining assurance was particularly stark: 27% of the smaller half, and two-thirds of the larger half by market cap. GHG emissions are the single most popular topic, and engineering firms are the most popular provider. Larger firms are gravitating more towards accounting firms, which may be a portent of things to come. Accounting firms are familiar with COSO's internal controls, which they use for financial reporting. COSO published "Achieving Effective Internal Controls over Sustainability Reporting (ICSR)[2]" in 2023, which has been widely acclaimed and cited many times in firms' thought leadership.

Differing levels of sector participation in assurance may indicate different drivers for doing so. The energy sector had the highest level of assurance participation, at 63%, with a full 86% of these getting limited assurance. The energy sector has been a prime target for regulation and shareholder actions due to their contribution to GHG emissions worldwide. Assurance is essential to maintain trust and credibility, as well as to gain insights into their controls and risk management. Consumer staples had the next highest participation of assurance, at 62%. This may be driven by laws and regulations pertaining to supply chain (forced labor, human rights, etc.) and by the significant portion of market cap arising from brand reputation and intangible value.

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Get Ready: DHC offers workshops on Assurance Readiness. DHC has helped companies consider assurance providers, and acted as a client advocate throughout the assurance process. See www.auditreadinesspro.com.

Water

CDP was a pioneer in greenhouse gas (GHG) emissions reporting and disclosure. CDP began as the Carbon Disclosure Project, and has been asking for voluntary carbon reporting for decades. The questionnaires have expanded in scope and detail; CDP grades companies on their submittals – including an "F" for failure to respond.

Other initiatives sprang up to focus more attention on GHG emissions, and the need to reduce them. TCFD grew up solely around climate; the only "metrics" explicitly mentioned are for GHG emissions. There are offsets, credits, and trading markets for GHG emissions. Science Based Targets Initiative (SBTI) is about carbon.

Water hasn't received the same degree of attention – yet.

[2] Douglas Hileman is an author of COSO ICSR; one of six, and the only Sustainability specialist on the author team. See www.douglashileman.com for a link to this document.

CDP also began asking companies for water disclosure in 2009. G&A Institute's report indicates that 218 of the Russell 1000 responded to CDP Water Security in 2023. This doesn't sound like much, but DHC notes the response rate to water security is nearly 40% of the number of respondents to the Climate Change questionnaire. Consider there are no SEC rules and no mandatory disclosures involving water.

At this writing, Storm Boris has just flooded Central Europe. Hurricane Helene is swamping Cancun, aiming for Florida, and bringing up to 10" of rain to Georgia. An excess of water, ironically, can result in less of it to use. For example, overtaxed treatment systems discharge untreated sewage, rendering it less useful as water supply downstream. Groundwater levels in central California dropped by several feet during the recent extended drought. Floods and extended droughts qualify as "severe weather events" – a term of interest in the SEC climate rule.

Get ready: Reporting on GHG emissions is a given today, but it began as CDP's call for voluntary reporting. DHC suggests that disclosures on water risk and management will follow the same trajectory. Companies should leverage their experience in GHG emissions to begin similar efforts for water management throughout their value chain.

One key lesson: it's a lot harder to get data than you think, and it takes longer. Start now.