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ESG Frameworks

One of the first decisions that the Board and management of a company implementing its Environmental Social Governance (ESG) program must make is to identify the framework under which it can measure, collect data, analyze metrics, and develop reports. Using a framework is essential to provide a comparative benchmarking against its peers.

Currently, there is limited regulatory guidance, and hence a number of volunteer reporting frameworks for ESG have evolved over the years. While some of them have a broader scope, like Global Reporting Initiative (GRI), others such as Task Force on Climate Related Financial Disclosures provide a focus on disclosures related to climate change and its impact. Several of these volunteer frameworks have started joining forces to provide a standardized approach for companies and ESG professionals. For example, in June 2021, the Sustainability Accounting Standards Board and the International Integrated Reporting Council merged to simplify ESG reporting under the name Value Reporting Foundation. Their standards facilitate industry specific reporting (there are currently 70+industry classifications and each industry has its own standard). The International Financial Reporting Standards Foundation has also initiated and published certain documents on sustainability related reporting and is further developing an International Sustainability Standards Board.

Below are some of the more commonly referenced frameworks currently used in an ESG framework.

Reporting Framework	Description	Where Common
Sustainability Accounting Standards Board (SASB)*	Provides individual industry-wide standards that identify sustainability factors most likely to have material financial impacts for a company in the particular industry	Information filed documents; stand-alone SASB reports' references or indexes within company sustainability
Global Reporting Initiative (GRI)	Provides standards that identify material sustainability efforts of the company that have the most significant impact on the environment and society to inform a broad range of stakeholders	Generally appear within corporate sustainability reports with a "GRI Index" link to standards the company selected based on respective materiality assessments

Task Force on Climate-Related Financial Disclosures (TCDF)	Provides a framework for specialized disclosure of financial risks posed by climate change on a company to inform investors, lenders and insurers	Climate-related financial reporting in mainstream reporting (e.g., annual financial filings as well as sustainability reports)
International Integrated Reporting Council (IIRC)*	Provides a framework based on a variety of capitals – financial, manufactured, intellectual, human, social and natural – to explain to providers of financial capital how an organization creates, preserves or erodes value over time through both financial and nonfinancial information	More integrated reporting incorporating measurement matrices
Climate Disclosures Standards Board (CDSB)	Provides a framework for reporting environmental and climate change information in mainstream corporate reports (including the annual report and 10-K) useful to investors, lenders and creditors	To be used within mainstream annual reporting packages that include audited financial statements under corporate laws of the country in which they operate

Sources: Nareit Guide to ESG Reporting Frameworks 2019 and CII Research and Education Fund Sustainability Reporting Frameworks: A Guide for CIOs
**Merged into Value Reporting Foundation in June 2021.*

While a singular authoritative standard is many months away, the following factors should be considered in selections of a standard:

1. **Objective:** The purpose of ESG reporting determines which institutional framework may be more suitable than others. For example, if an ESG program is geared towards climate related disclosures, then TCFD may be preferred. However, if aspects related to social and governance related are key, then IIRC may be a strong contender for the company to adopt.

2. **Industry**: The company may also need to consider the ESG reporting framework prevalent in its industry and the ones adopted by its competitors. Choosing a common framework may provide better benchmarking and also highlight its standing within its peers regarding its ESG initiatives.

3. **Efficiency**: The company may already have certain compliance programs such as ERM or other compliance for regulatory agencies. In such cases, it may be appropriate to adopt holistic standards that enable leveraging ERM framework or an industry specific standard that can benefit from current reporting for regulatory compliance.

4. **System capability**: The company may want to study the quality of data available to support disclosures under alternative framework. In other words, are the company's systems and processes matured to provide the appropriate level of precision over data collection that would

enable to follow a more stringent industry specific standard or follow a standard that applies to several industries and is more generic.

ESG is an evolving landscape and companies will continue to adapt to the changing dimensions of various frameworks. It’s a journey for standard setting organizations as well as companies.