

# The Evolving Non-Financial Reporting Landscape

**August 2021**

# Contents

1	Executive summary	03
2	Renewed focus on sustainability	04
3	Investors continue to drive sustainability disclosures	05
4	Evolution and convergence of reporting frameworks	07
5	Stakeholder capitalism - finding common ground	09
6	Measuring the long-term value	11
7	The Indian context - business responsibility and sustainability reporting	13
8	Materiality matters - evolving concepts on what is important	14
9	The way forward	16

# Executive summary

The ongoing COVID-19 pandemic is underscoring the interconnectedness of people, planet and profit, particularly of life, livelihood, health, poverty, equity, climate change and the stability of financial systems. This world environment day on June 5, 2021 with the theme "Reimagine, Recreate, Restore" launched the UN decade for ecosystem restoration emphasizing the need for all stakeholders to reset their relationship with nature. The onus is no longer only on governments and development agencies, but also on businesses and individuals. There is widespread cognizance of the fact that actions cannot be delayed further, and a strong sustainability implementation is the only way forward into the new normal. The sharp focus on ESG is a consequence of the need for building back a better business ecosystem and bringing in resilience for the future.

There is a strong push from the various stakeholders with respect to ESG integration. Stakeholders are expecting organizations to take tangible steps which need to be planned for short-term, medium term and long term.

Short-term plans include prioritizing key issues, protecting human capital and engaging with stakeholders. Medium-term strategy should include proactive measures to build resiliency and manage social and environmental risks across supply chain and organization. Long-term roadmap generally includes plans on updating sustainability and ESG strategy to manage and measure impacts that will support long-term value creation in a new world.

Awareness, strategy and management of ESG issues by businesses is no longer enough to meet stakeholder requirements and has led to an urgent call for increased transparency and accountability in all spheres. In an

environment of uncertainty where ESG risks can impact business profitability and even survival, mainstream investors want to know that material Organizations are identifying, managing ESG risks and adequately disclosing it in the organization's risk filings. With the changing paradigms all the key stakeholders expect organizations to align their sustainability interventions with leading ESG performance standards and integrate ESG analytics to provide a complete picture of the organization's value creation to investors and other stakeholders.

To cater to stakeholder needs and to build in-depth, meaningful, decision worthy disclosures that establishes continuous dialogue between stakeholders- both internal and external, there has been gradual and parallel evolution in the global reporting landscape of ESG. The evolving reporting landscape demands increased granularity in data, enhanced metrics for performance measurement, forecasting, equal rigor of financial and non-financial assessment, and board level demonstration of commitment towards impact, its measurement and monitoring. This evolution has the potential to bring about the systemic transition in ESG reporting enabling best practices across boards and creating long term value.

This piece discusses trends in the current ESG reporting landscape, the drivers of change, the parallel systems that are into play, the Indian scenario of increased disclosure requirements, the future design of ESG reporting and how EY fits into the prism to enable this transition.





## Renewed focus on sustainability

The Novel Coronavirus (COVID-19) pandemic continues to test public health, social and economic systems in drastic, unforeseen ways around the globe. It has brought an unprecedented shift in the business environment, with companies worldwide strengthening their purpose and redefining the metrics of success and resilience. Several rules are being re-written in the capital markets and creation of sustained, long-term value has assumed new importance. This crisis gave impetus to businesses to re-focus on their priorities, and the role they play in the society and the planet. Together with the growing urgency around climate change, natural resource constraints and social inequities and polarization, it has sharply put the spotlight back on the triple bottom lines centered around People, Planet and Profits. World Economic Forum's (WEF) Global Risk Report 2021 amply captures the risks emanating from these issues.<sup>1</sup>

In this context, sustainability and Environmental, Social and Governance (ESG) issues continue to evolve as strategic business imperatives. The pandemic has highlighted the importance of sustainable and resilient business models to support the economic recovery strategies of companies, along with insightful reporting to provide stakeholders with a clear understanding of those models when making informed investments and other related decisions. Investor expectations on such disclosures are rapidly evolving, and companies are carefully navigating these expectations, including the related need for robust internal controls around data collection as well as the content and presentation of sustainable information that they publish. The need for sustainability information that is consistent, high-quality, material and easily accessible within the public domain was reemphasized by BlackRock CEO Larry Fink in his annual letter to CEOs in 2021.<sup>2</sup>

---

1 The Global Risk Report 2021, World Economic Forum, 2021, [http://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2021.pdf](http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf)

2 Larry Fink's 2021 letter to CEOs, 2021, <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

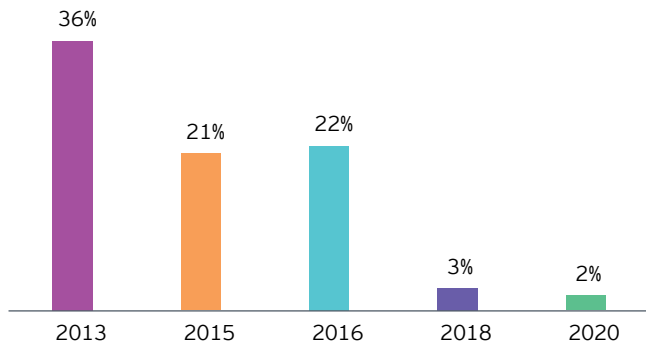
# Investors continue to drive sustainability disclosures



Globally, investors continue to be among the key stakeholder groups driving momentum around ESG actions and disclosures in the corporate world. Institutional investors are raising the stakes when it comes to assessing company performance using ESG factors. Research from the EY Climate Change and Sustainability Services' Institutional Investor Survey 2020<sup>3</sup> suggests that ESG information has become significantly important, with a majority of investors surveyed (98%) signaling a move to a more disciplined and rigorous approach to evaluating nonfinancial performance of companies. Specifically, 91% of respondents said that nonfinancial performance played a pivotal role in their investment decision-making.

The research also showed that investors are increasingly dissatisfied with the information they received on ESG risks and feel that more corporates should do more to provide

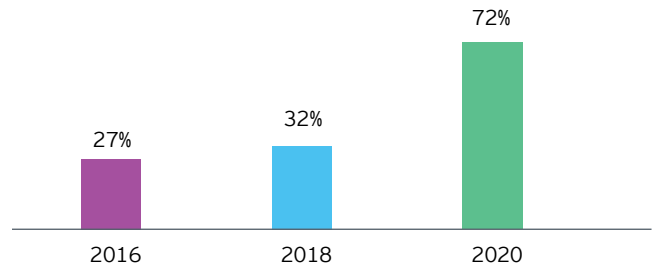
## Percentage of Correspondants who says they conduct little or no review of non financial disclosure



Source: Source: EY Climate Change and Sustainability Services (CCaSS) Institutional Investor Survey 2020

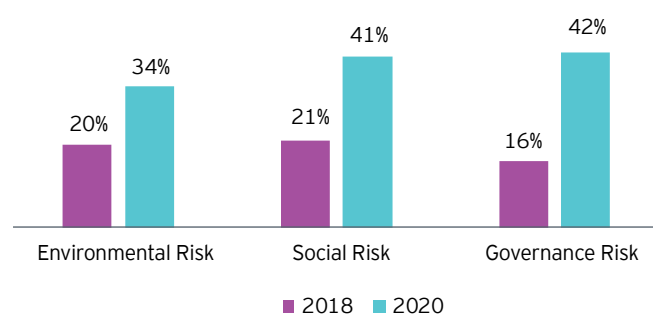
robust insight into how they identify, assess and manage key ESG risks. While evaluating the usefulness and effectiveness of existing ESG reporting, key challenges include the disconnect between ESG and mainstream financial information, lack of real-time information and lack of information about how companies create long-term value.

## Percentage of respondents who says they usually conduct a structured, methodical evaluation of non financial disclosure



Source: Source: EY Climate Change and Sustainability Services (CCaSS) Institutional Investor Survey 2020

## Percentage of respondents who say that companies do not adequately disclose the ESG risks that could affect the business models



Source: Source: EY Climate Change and Sustainability Services (CCaSS) Institutional Investor Survey 2020

3 The Global Risk Report 2021, World Economic Forum, 2021, [http://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2021.pdf](http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf)

The range of ESG issues that investors look at continue to grow, encompassing diverse aspects such as carbon emissions, human rights record and board diversity. In view of growing concerns around global climate change, one specific investor focus area is around how companies are implementing recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommendations provide companies with a comprehensive framework to report the impact of climate risks and opportunities systematically, making it easier for investors to analyze a company's potential financial impact due to climate change. Despite the importance of this information to investors, a recent EY research found that responsiveness to the recommendations differs significantly between countries and sectors. There were question marks around the depth of disclosures on climate risk exposure and resilience, and significant room for improvement in both coverage and quality of such disclosures made by companies.<sup>4</sup>

Investors surveyed by EY highlighted risk management as the area where they received the least-developed information. This may reflect the fact that, while some companies disclose that they have processes for identifying and managing climate risks in their overall organizational risk management system, this is described in general terms without a clear link between the climate-related risk and overall risk management.



---

4 EY Global Climate Risk Disclosure Barometer, 2019, [https://www.ey.com/en\\_gl/climate-change-sustainability-services/how-can-climate-change-disclosures-protect-reputation-and-value](https://www.ey.com/en_gl/climate-change-sustainability-services/how-can-climate-change-disclosures-protect-reputation-and-value)



# Evolution and convergence of reporting standards

While financial reporting has evolved on account of internationally recognized accounting standards around the world over a longer period of time, sustainability disclosure is more complex due to several reasons. There is no formal definition boundary for sustainability topics. New issues get added to the concept with time with variations across geographies, markets and industry sectors. Also, there are multiple users - stakeholder groups - of such information, who have varied and changing level of interest among the plethora of sustainability topics.

Several reporting standards and frameworks have emerged globally to provide a structure to this multitude of perspectives, thematic interests and information needs around sustainability topics. Further, this crowded field of sustainability information is being conflated with a growing ecosystem of ESG ratings and indices which trigger overlapping yet distinct forms of disclosures by companies, catering to the individual requirements of investors or analysts driving such indices. Although the individual approaches may be meaningful in the context of individual information needs, the cumulative result often is duplication of efforts, repetition of information and difficulty for readers and stakeholders to navigate through and make meaningful inferences out of the disclosures in a simple, comparable and consistent manner.

## Key sustainability standards and reporting frameworks

Standards / Frameworks	Brief Explanation	Core Purpose
Global Reporting Initiative (GRI)	GRI provides sustainability standards pertaining to economic, environmental and social topics affecting a company's stakeholders.	GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as, climate change, human rights, governance, and social well-being. This enables real action to create social, environmental, and economic benefits for everyone.
International Integrated Reporting Council (IIRC)	IIRC provides a principles-based framework for companies to describe how they create financial and non-financial value across six different forms of capitals.	The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. The IIRC's vision is a world in which capital allocation and corporate behavior are aligned to the wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.
Sustainability Accounting Standards Board (SASB)	SASB recommends topics and metrics for 77 different industries across all three pillars of ESG.	The SASB's mission is to establish and improve industry specific disclosure standards across financially material environmental, social, and governance topics that facilitate communication between companies and investors about decision-useful information.

Standards / Frameworks	Brief Explanation	Core Purpose
The Task Force on Climate-related Financial Disclosures (TCFD)	TCFD provides eleven recommendations across four pillars - governance, strategy, risk management, and metrics and targets.	The TCFD's mission is to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.
The Carbon Disclosure Project (CDP)	CDP supports various users to measure their risks and opportunities on climate change, deforestation, and water security.	CDP is a framework which focuses investors, companies, and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact.

While individual standards keep evolving, this situation has understandably led to demands from the broader stakeholder community for simplification and rationalization of the sustainability reporting landscape. As a response, several initial small steps in the direction of alignment and convergence are now being explored by organizations worldwide.

The November 2020 announcement of an intent to merge by the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) to form Value Reporting Foundation has been viewed as a major step toward simplifying the corporate reporting ecosystem with an aim to propagating integrated sustainability disclosure standards for enterprise value creation.<sup>5</sup>

Another noteworthy development is the coming together of five leading independent global framework and standard setters who have shown a commitment to working towards a comprehensive corporate reporting system. In September 2020, the large five nonfinancial reporting standards setters (CDP, CDSB, GRI, IIRC and SASB) published their Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, which was the next step after Corporate Reporting Dialogue (CRD). These five took a practical step in December 2020 releasing a prototype climate-related financial disclosure standard.

Key elements of this initiative facilitated by the Impact Management Project include developing a joint market guidance for complementary and additive way of applying the frameworks, a joint vision for complementarity with Financial GAAP and future comprehensive corporate reporting system, and a joint commitment to deepen the collaboration with each other and other interested stakeholders towards this goal.<sup>6</sup>

The growing and urgent need for sustainability information and the need to have consistency and comparability in reporting has also been recognized by the International Financial Reporting Standards (IFRS) Foundation, leading to the release of a Consultation Paper on Sustainability Reporting by the IFRS Foundation Trustees in September 2020. Public feedback was sought on three major aspects: whether there is a need for global sustainability standards, whether the IFRS Foundation should play a role, and what the scope of that role could be.<sup>7</sup> Upon close of the consultation period, the Trustees of IFRS Foundation have acknowledged a broad demand to for IFRS to play a role in this, and possibly an announcement on the establishment of a sustainability standards board at the meeting of the United Nations Climate Change Conference COP26 in November 2021.

5 IIRC and SASB announce intent to merge, Sustainability Accounting Standards Board, 2020, <https://www.sasb.org/wp-content/uploads/2020/12/IIRC-SASB-Press-Release-Web-Final.pdf>

6 Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, Impact Management Project, 2020, <https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>

7 Consultation Paper on Sustainability Reporting, IFRS Foundation, 2020, <https://www.ifrs.org/projects/work-plan/sustainability-reporting/comment-letters-projects/consultation-paper-and-comment-letters/#consultation>



# Stakeholder capitalism - finding common ground



Sustainability investing – which embraces the idea that businesses need to create long-term value for all their stakeholders – has entered the mainstream as evidenced through several investor initiatives. At the World Economic Forum (WEF) in January 2020, the International Business Council (IBC) agreed that the purpose of business was to take account of all stakeholders, and not just shareholders. Stressing the importance of stakeholder capitalism, Klaus Schwab, founder and Executive Chairman of WEF, said, “the purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large”.

Without a standard framework or established metrics for nonfinancial reporting, it can be difficult for investors to make meaningful comparison on ESG performance of companies. Numerous reporting frameworks are in use today, creating an “alphabet soup” of different approaches and varying focus areas, leading to confusion and difficulties in comparability. This has led to a groundswell of demands for creation of a common set of global sustainability metrics.

An important initiative in this direction was launched at WEF’s fourth annual Sustainable Development Impact Summit in September 2020, where a set of universal ESG metrics and disclosures were released to measure stakeholder capitalism that companies can report on regardless of their industry or

region. The ‘Measuring Stakeholder Capitalism’ Framework was endorsed by the International Business Council (IBC), a community of over 120 global CEOs, and developed in collaboration with Big 4 consulting firms including EY, after an extensive consultation process.<sup>8</sup>

Rather than create one more reporting standard, the framework leverages metrics embedded in existing standards in order to form the building blocks of a single, coherent global reporting framework. The metrics are holistic in nature, capturing all critical issues in an industry agnostic manner, while also being actionable and feasible to report on even by companies which are still in early stages of nonfinancial reporting. The framework enables disclosures to become universal, material and comparable, a key demand of investors. While being ground in the United Nations Sustainable Development Goals (UN SDGs) and useful as a roadmap to achieve these long-term goals of society, the framework goes beyond ESG to consider prosperity and the role of business in fueling economic growth.

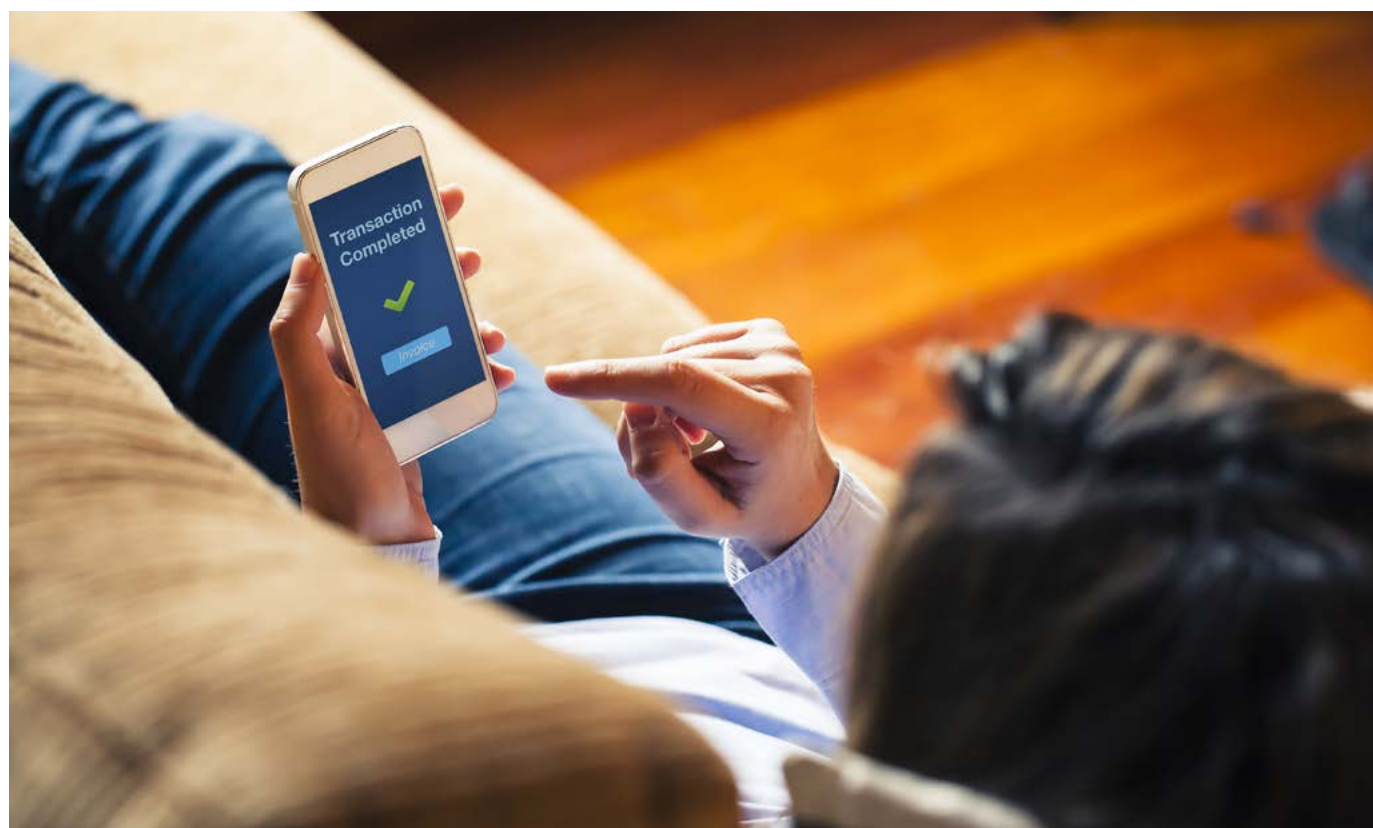
The framework contains 21 core metrics, defined as critically important within an organization’s boundaries, and 34 expanded metrics encompassing the wider value chain. These are organized under four pillars of governance principles Planet, People and Prosperity. The pillars offer a useful starting point for understanding the “why” of both sustainability investing and stakeholder capitalism.

<sup>8</sup> Measuring Stakeholder Capitalism, World Economic Forum, 2020, <https://www.weforum.org/press/2020/09/measuring-stakeholder-capitalism-top-global-companies-take-action-on-universal-esg-reporting/>

### Key Elements of the 'Measuring Stakeholder Capitalism' Framework

	Planet	People	Prosperity
<b>Principles of Governance</b>			
The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the centre of business. But the principle of agency, accountability and stewardship continues to be vital for truly 'good governance'.	An ambition to protect the planet from degradation, including through sustainable production and consumption, sustainably managing its natural resources and taking urgent action on climate change, so that in can support the need of the present and future generation	An ambition to end poverty and hunger, in all form and dimensions, and to ensure that human beings can fulfil their potential in dignity and equality in a healthy environment	An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature
<b>Disclosure</b>			
Setting Purpose	GHG Emission	Diversity and Inclusion (%)	Number and Rate of Employment
Materiality Issues impacting stakeholders	Water Consumption (if material)	Pay Equality (%)	Economic Contribution
Anti- Corruption	TCFD Recommendation	Trainings Provided (ManHours)	Total R&D Expenses

Source: Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, World Economic Forum, 2020



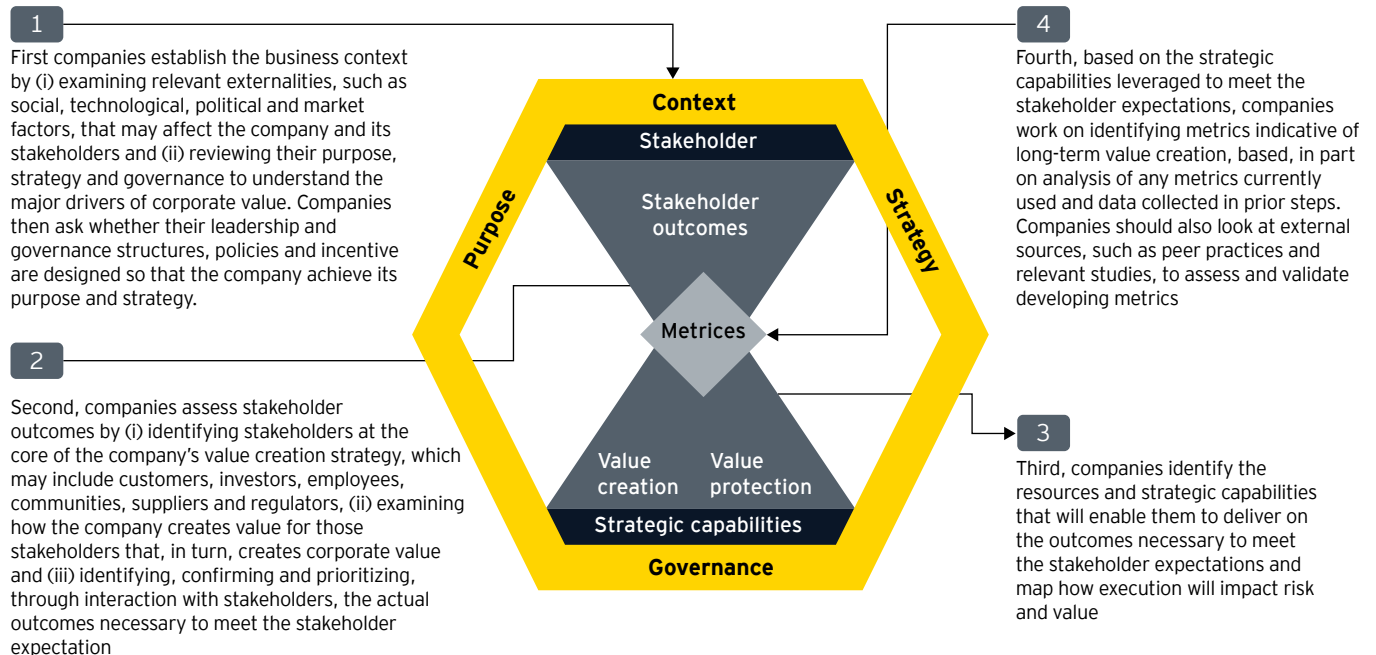
# Measuring the long-term value

It has been broadly recognized that while we live in an era of new challenges and new priorities, most businesses worldwide continue to report to financial markets using decades old accounting principles and standards. These do not adequately capture the growing proportion of value which companies create across intangible aspects of their business model. There is still no consensus on how to measure intangible assets and stakeholder value and effectively communicate it using standards and verifiable metrics that investors can trust.

As a response to this challenge, Coalition for Inclusive Capitalism launched the Embankment Project for Inclusive Capitalism (EPIC<sup>9</sup>) together with EY and over 30 companies, asset managers and asset owners, with approximately US\$30

trillion of assets under management. They came together in pursuit of a single goal: to identify and create new metrics to measure and demonstrate long-term value to financial markets. EPIC's Long-Term Value Framework provides an outline companies can adapt to identify and measure company-relevant key value drivers and to develop non-financial metrics that can help gauge value and value creation. As all the metrics are not relevant to all the companies, EPIC has proposed a four-step approach which companies can take to develop company-specific metrics and accompanying narrative disclosures that enable them to better articulate, in material ways, the long-term value they create.<sup>10</sup>

## EPICs long term value framework



Source: [https://www.ey.com/en\\_us/board-matters/how-long-term-value-is-being-redefined-and-communicated](https://www.ey.com/en_us/board-matters/how-long-term-value-is-being-redefined-and-communicated)

9 Embankment Project for Inclusive Capitalism | Coalition for Inclusive Capitalism

10 Embankment Project for Inclusive Capitalism, <https://www.coalitionforinclusivecapitalism.com/wp-content/uploads/2021/01/coalition-epic-report.pdf>



EPIC has identified four key drivers of long-term value creation talent, innovation and consumer trends, society and the environment, and corporate governance. It has proposed a list of comparable metrics under each of these four areas which are useful in assessing the impact of corporate action. Although work on measuring long-term value will continue in the future, this framework is an important step forward in linking together topics which were otherwise covered in a piecemeal manner and translating the broad concepts into measurable metrics that help assess and communicate long-term value creation.



# The Indian context - business responsibility and sustainability reporting

The growing trend of interest in non-financial performance and reporting worldwide is reflected among Indian corporates too. The most common means of reporting among companies in India is through publication of annual sustainability reports and integrated annual reports, based on the GRI Standards and the Integrated Reporting Framework respectively. In addition, growing awareness and interest in ESG issues among the investor and analyst communities is also driving companies to increasingly respond to a variety of ESG ratings and indices. This has resulted in a greater volume of information available publicly on how companies are addressing ESG priorities and creating long-term stakeholder value.

While the push for increased disclosure is mainly being driven by customers and investors or on account of a company's own sustainability agenda, the role of regulators has so far been limited. The principal regulatory framework driving sustainability related disclosures has been the Business Responsibility Report (BRR) driven by the markets regulator Securities and Exchange Board of India (SEBI), under which the top 1000 listed companies by market capitalization are required to annually file information against a prescribed format to the stock exchanges as part of their annual reports. The format is based on the principles that were first outlined by the Ministry of Corporate Affairs (MCA) under the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs) in 2011. It focusses on nine principles that largely relate to environmental, social and governance that ought to be demonstrated by all responsible corporates and excludes financial performance of companies.

The Indian non financial disclosing regulation reached an important milestone in March 2019, when the MCA revised and released the NVGs in the form of the 'National Guidelines on Responsible Business Conduct' (NGRBC) in order to align


them with emerging global developments and priorities, including the UN Sustainable Development Goals (SDGs). In addition, an MCA Committee on Business Responsibility Reporting also analyzed the quality of information being reported by companies through annual BRRs, deliberated on ways to improve the quality and utility of the disclosures and also revisited the existing BRR format in order to align it with various global frameworks.

The Committee's report, released in August 2020, comprised of a revised Business Responsibility and Sustainability Report (BRSR) format along with several recommendations for ensuring its broad-based adoption. As per the report, key emphasis has been in the direction of making BRSR reporting format as a single source of sustainability information among companies in India, enhancing comparability and consistency in the information which will benefit the users of information, and to also reduce duplication and compliance efforts by companies through the recommended integration of BRSR with the MCA21 portal.

While the Committee's report recommends that BRSR be made applicable for all companies including unlisted entities, attention has also been paid to enable smaller companies - who may have less experience in preparing sustainability disclosures - by way of proposing Comprehensive and Lite format, and also categorizing principle-wise indicators as Essential and Leadership, which will enable a gradual and phase-wise adoption.<sup>11</sup> Subsequently, SEBI issued a consultation paper in August 2020, proposing the implementation of BRSR format for top 1000 listed companies by market capitalization.<sup>12</sup> The new format will be adopted by such listed entities on a voluntary basis for the financial year 2020 - 21 and mandatorily from the financial year 2021-22.

11 Report of the Committee on Business Responsibility Reporting, Ministry of Corporate Affairs, 2020, <https://ies.gov.in/pdfs/Report-Committee-BRR.pdf>

12 Consultation Paper on the format for Business Responsibility and Sustainability Reporting, Securities and Exchange Board of India, 2020, [https://www.sebi.gov.in/reports-and-statistics/reports/aug-2020/consultation-paper-on-the-format-for-business-responsibility-and-sustainability-reporting\\_47345.html](https://www.sebi.gov.in/reports-and-statistics/reports/aug-2020/consultation-paper-on-the-format-for-business-responsibility-and-sustainability-reporting_47345.html)



## Materiality matters - determining what is important

While there is a significant uptick in the demand and supply of sustainability information from businesses globally, the growing definition boundary of sustainability and ESG as well as multitude of reporting approaches and perspectives often makes it difficult to identify and focus on issues that matter the most, both among the preparer and user communities. Unlike financial reporting where determining materiality is quantitative and easy to apply, nonfinancial subject matter tends to be significantly broader, subjective, often difficult to measure and rapidly evolving every day. Direct correlation of the impacts of sustainability issues with financial metrics is difficult, and even where practical approaches exist, there is no universally accepted way of doing this.

The principle of materiality - determining what is important, relevant and critical - has rightfully found a place in most of the popular non-financial reporting frameworks. The precise definition of materiality does vary under each framework, but there is universal emphasis on reporting companies to undertake a structured materiality analysis process and prepare their disclosures in a way which squarely focusses on issues that emerge as material from the business and stakeholder points of view.

### Definition of materiality in key reporting frameworks

**Integrated Reporting Framework:** A topic is material if it substantively affects the organization's ability to create value over the short, medium and long term.

**GRI Standards:** The report shall cover topics that reflect the reporting organization's significant economic, environmental, and social impacts; or substantively influence the assessments and decisions of stakeholders.

**SASB:** Sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry.

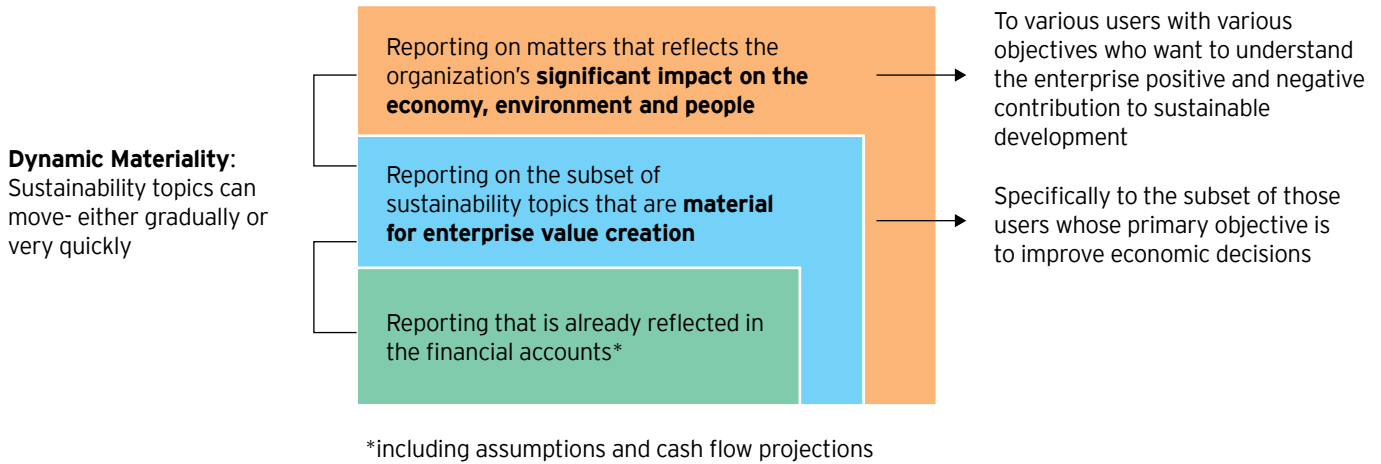
Source: IIRC, GRI and SASB websites

Read together, the definitions of materiality used by different standard setters are centered around two major ideas. First, those topics on which reporting organizations have significant impacts on the economy, environment and society are material for disclosure purpose. This is a broader concept which considers the information needs of a wide variety of stakeholder groups. A second distinct idea is that material topics are those that have a significant impact on enterprise value creation. This approach is similar to that used in financial reporting in the sense that materiality is based on the ability to influence economic decisions. Understandably, this understanding is specifically meant for providers of capital, and that some of the material information may already be contained in existing annual financial accounts of companies. Both these approaches serve a distinct purpose and are often used in a complementary manner by reporting organizations while preparing their sustainability disclosures.

The Statement of Intent released by the five major sustainability standard setters acknowledges both these aspects of materiality and underlines the dynamic ways in which sustainability information that was once considered immaterial for disclosure can become material based on evidence of the broader impacts caused by an organization or based on how it creates enterprise value over time. In other words, there is a path for issues to become financially material over time - what appears financially immaterial today can quickly prove to be business-critical tomorrow. This is known as Dynamic Materiality. The Measuring Stakeholder Capitalism report thus recommends that performance metrics chosen by companies should reflect not only financial impacts but also "pre-financial" information that may not be strictly material in the short term but are material to society and planet and therefore may become material to financial performance with time.



### Concept of Dynamic Materiality



Source: Statement of Intent to Work Together Towards Comprehensive Corporate Reporting

An important interrelated concept is that of Dual or Double Materiality, espoused in the European Commission's Non-Binding Guidelines on Non-Financial Reporting Directive (NFRD), and thereafter emphasized in its Summary Report of the Public Consultation on the Review of the Non-Binding Guidelines on the Non-Financial Reporting. It states that risks and opportunities can be material from both a financial and non-financial perspective, i.e. companies should disclose not only how sustainability issues may affect the company's business performance (financial materiality), but also how the company affects society and the environment (social and environmental materiality).

The Measuring Stakeholder Capitalism framework recommends that each company apply its own view of these critical materiality concepts and adopt a "disclose or explain" approach when certain metrics are not feasible, not relevant, or difficult to implement immediately.

In India, the BRSR framework has also introduced a new question in the disclosure format asking companies to identify up to three material issues and describe the approach that companies are taking to address them. While the context of this question is limited to environmental, social and governance matters that present a risk or an opportunity to the business, it will help set an important context while companies describe their performance on aspects of responsible business conduct.

# The way forward



There is growing interest of stakeholders on non-financial performance of businesses, and a deepening realization that sustainability issues have a clear correlation with business outcomes and the ability of companies to create long-term value. Although numerous approaches exist for defining, measuring and communicating information on sustainability topics, early signs of efforts to align, rationalize and converge these approaches are now visible. However, this is an early stage of the journey and it is likely that no one universal, globally agreed approach will replace the current set of frameworks and standards anytime soon. Distinctions and differing priorities will always be around on account of individual companies, the industry sector they belong to, geographies they operate in, and the unique interests of specific stakeholders that their disclosures cater to.

There are however a few fundamental recommended strategies that will benefit any organization which intends to enhance its sustainability performance and strengthen its disclosures, regardless of size and nature of business or level of current maturity.

## Approach to reporting and materiality

Companies who are already publishing some form of sustainability information should continue assessing whether a framework or standard adopted by them remains “fit for purpose” over time. While there is no one right or wrong choice, there may be a need to recalibrate nature and format of information based on changing business priorities, evolving stakeholder interests and a maturing reporting landscape in the industry. For those companies which are looking to initiate non-financial reporting, the Measuring Stakeholder Capitalism framework may be a good starting point as it defines a set of core metrics which are well-established, universal and industry-agnostic. Specifically, in the Indian context, smaller

companies keen to adopt sustainable business practices may find value in assessing their level on preparedness and work towards the disclosure elements given in the BRSR Lite format.

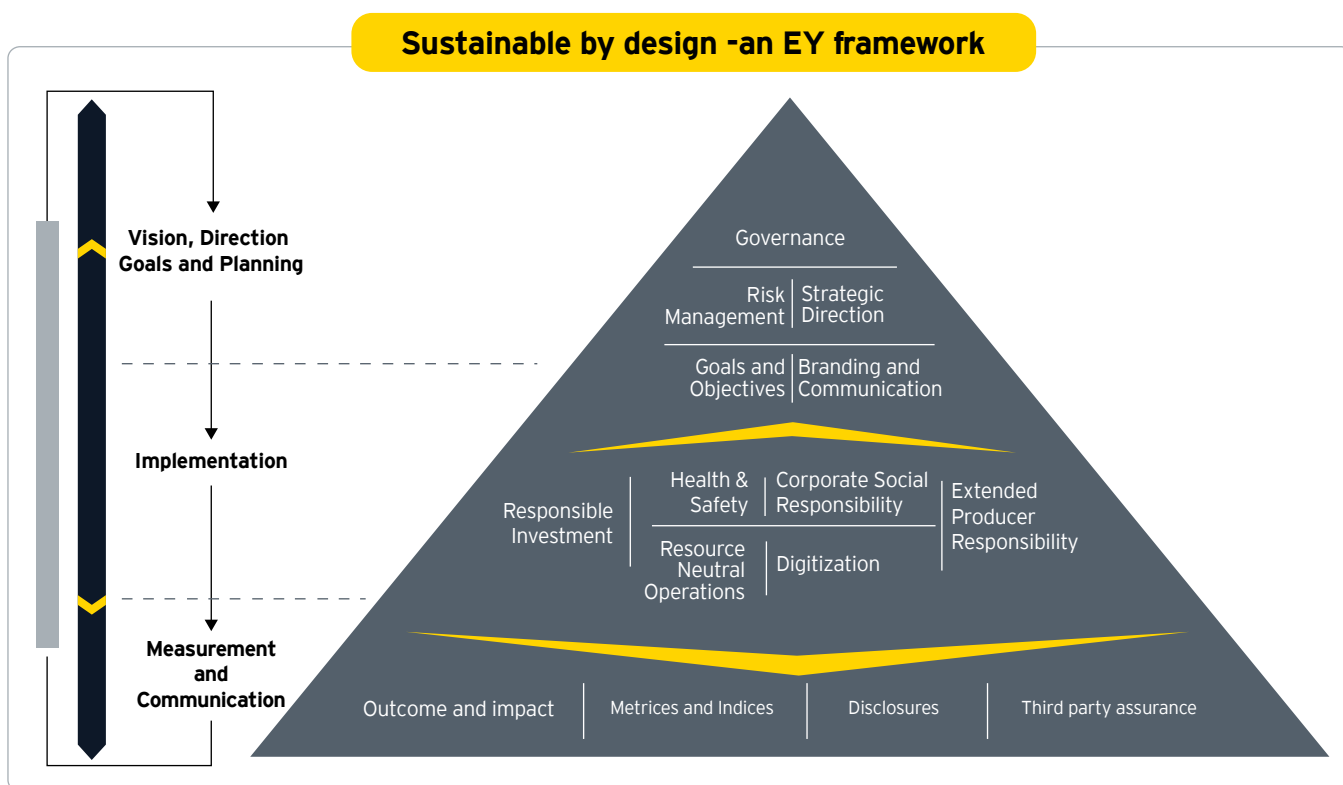
More generally, the ESG key performance indicators need to be integrated with traditional financial metrics to better and more comprehensively communicate how an organization is creating long-term value, and for whom organizations should seek to build a more robust approach for assessing sustainability risks and opportunities and have stronger discipline and rigor within nonfinancial reporting processes and controls to build confidence and trust in the information being disclosed. Given that investors have a strong appetite for formal approach to assessing intangible value, companies should also consider beyond narrative to look at meaningful ways to quantify positive actions and value creation of its social and environmental programs. This will help investors look beyond the book value and get better perspective of other forms of value being created by companies. Although many sustainability framework focus on presenting an account of the year gone by, it is also essential for companies to bring in future orientation by describing concrete goals and targets, strategic roadmap and a vision for future state on its material issues.

A structured process for determining materiality, which encompasses both Dynamic and Double Materiality concepts will be helpful to ensure that sustainability actions and communications are in line with both business and stakeholder priorities. With a rapidly changing world, a real-time analysis of which issues cross the materiality threshold will be more useful than conducting standardized materiality analysis at fixed intervals of time. More importantly, materiality should not be limited only as a reporting activity but should be regarded as the basis for a more complete strategic risk management process.

**Strategic framework to drive performance and enhance disclosures**

The enhancement of an organization's sustainability maturity is a journey: a gradual and rewarding process. Long-term value creation and achieving resilience on sustainability issues requires the entire organization to be aligned and involved in

this journey. Businesses should look to consider adopting a strategic framework which helps in integrating sustainability principles and actions across the operations and value chain of the company.



Source: EY research

One such approach is EY's 'Sustainable by Design' framework, which is a three-layered model that guides organizations in the design, development, implementation and communication of sustainability initiatives. It encompasses a robust governance mechanism, risk management procedures, measurable goals and targets and a strategic vision with sustainability at the core. The framework contains a detailed implementation plan along with instruments to measure and communicate shared value to stakeholders. Through this framework, organizations can realize tangible and non-tangible benefits such as enhancements in brand perception, stakeholder engagement, operational efficiency and long-term value. Ultimately, it helps organizations in driving positive change on material topics and form the basis for high-quality and high-impact sustainability disclosures.<sup>14</sup>

**Driving sustainability through digital**

With businesses across the world adopting an aggressive digital agenda to drive innovation, maximize efficiencies and better service their customers, there is also a strong case for leveraging digital capabilities to strengthen the sustainability agenda. Companies need to consider exploring various emerging tools and technologies to effectively implement and monitor a wide variety of sustainability programs, such as energy management in factories, smart logistics to lower carbon emissions and human rights assessments in supply chains. It can help those charged with governance have a real-time, accurate and analytics-driven view of progress against targets, thereby helping in quick and better decision-making.

<sup>14</sup> Sustainability - an imperative for the new normal, EY, 2020, [https://www.ey.com/en\\_in/climate-change-sustainability-services/sustainability-an-imperative-for-the-new-normal](https://www.ey.com/en_in/climate-change-sustainability-services/sustainability-an-imperative-for-the-new-normal)



A well-integrated MIS will not only help in mainstreaming of sustainability information internally with an organization, but also support more effective independent audits and credible reporting to external stakeholders. EY has developed several such tools in line with EY next wave strategy of long-term value creation that can help companies on various sustainability aspects.

- ▶ **EmploYee Care:** A mobile application developed to help companies navigate health, safety and operational issues in the present COVID-19 pandemic crisis. The application allows companies to track health of their workforce, report and investigate incidents or local outbreaks, assess preparedness against guidelines and inspection checklists, tracks employees' locations to make informed decisions related to return to work and maintains a dashboard for various indicators and many more.
- ▶ **EY SustainbyDesign:** A product stewardship tool to help companies in making their products more sustainable. The tool helps drive efficiency into their entire process, use lesser resources, reduce man-hours, and enhance durability and quality. The outcome of the tool may be used as a product label to describe how sustainable a product is.
- ▶ **EY SusTrack:** A sustainability data management tool to address sustainability challenges and to help integrate and improve business related non-financial performance with varied maturity levels (amateur to advanced). The solution leverages Robotic Process Automation (RPA) technology to avoid any manual intervention and seamlessly interacts with various ERP systems alongside reading/scanning PDFs, images, and Excel workbooks. It generates interactive dashboards customized to different users thereby allowing them to track performance and report non-financial data.

- ▶ **EY DigiCarbon:** A GHG management tool to help companies understand the risks and opportunities associated with climate change and help improve decision making for recycling efforts, renewable energy, and investment in climate change. Further, inbuilt libraries and the tool's alignment with global standards help companies in overcoming current climate change challenges.

#### What the future holds

With the evolution of reporting standards, the initiation of integration of major frameworks and the push for creation of long-term value by stakeholders, it is now clear that reporting can no longer remain the traditional backward looking, stock taking and performance measurement initiative. It must evolve into integrating forward looking metrics and opportunities assessment, business strategy evolution that indicates an organization's proactive approach to ESG rather than a reactive approach. Scenario analysis that is mostly applied for financial parameters will need to be applied for ESG too. The impact created and to be created and the process of valuation of ESG will gain traction. Not only the valuation of ESG risks but also the valuation of ESG opportunities in financial terms is need of the hour. An organization's true value creation can be ascertained only through both financial and non-financial impact evaluation. All of these can be achieved when there is streamlined and active participation of stakeholders in areas such as – Impact investment through integration of ESG and materiality, Standardized reporting across sectors that enable comparable data, Policy regulations around reporting, Integration of national goals and SDGs in disclosures, Integrated disclosure of financial and non-financial information; creating the necessary ecosystem for the systemic shift in ESG reporting



# EY offices

## **Ahmedabad**

22nd Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon  
Temple, Off SG Highway  
Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

## **Bengaluru**

12th & 13th floor  
"UB City", Canberra Block  
No. 24, Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing  
Divyasree Chambers  
# 11, O'Shaughnessy Road  
Langford Gardens  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

## **Chandigarh**

Elante offices, Unit No. B-613 & 614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## **Chennai**

Tidel Park, 6th & 7th Floor  
A Block, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## **Delhi NCR**

Golf View Corporate Tower B  
Sector 42, Sector Road  
Gurugram - 122 002  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## **Hyderabad**

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## **Jamshedpur**

1st Floor, Shantiniketan Building  
Holding No. 1, SB Shop Area  
Bistupur, Jamshedpur - 831 001  
Tel: + 91 657 663 1000

## **Kochi**

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## **Kolkata**

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## **Mumbai**

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

## **Pune**

C-401, 4th floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

Ernst & Young Associates LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

Ernst & Young Associates LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/en\\_in](http://www.ey.com/en_in).

Ernst & Young Associates LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2021 Ernst & Young Associates LLP. Published in India.  
All Rights Reserved.

EYIN2103-XXXX  
ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

JG

## Contact us



### Sandip Khetan

Partner and National Leader  
Financial Accounting Advisory  
Services (FAAS), EY India  
[Sandip.Khetan@in.ey.com](mailto:Sandip.Khetan@in.ey.com)



### Chaitanya Kalia

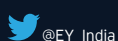
Partner and National Leader,  
Climate Change and Sustainability  
Services (CCaSS), EY India  
[Chaitanya.Kalia@in.ey.com](mailto:Chaitanya.Kalia@in.ey.com)



### Shailesh Tyagi

Partner,  
Climate Change and Sustainability  
Services (CCaSS), EY India  
[Shailesh.Tyagi@in.ey.com](mailto:Shailesh.Tyagi@in.ey.com)

[ey.com/en\\_in](http://ey.com/en_in)



@EY\_India



EY



EY India



EY Careers India



@ey\_indiacareers