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Decoding The ESG Framework Market



If you've flipped through a few corporate responsibility reports recently, you've likely noticed a variety of approaches to reporting on environmental, social and governance (ESG) metrics.

Companies can choose from at least a dozen major reporting frameworks—each with its own metrics, methodology and scoring system. In fact, many large public companies use multiple standards and frameworks in their ESG reports.

A corporate sustainability department may appreciate that flexibility and institutional investors and foundations may have the resources to follow and distinguish between all the competing frameworks, but the choose-your-own-adventure approach can baffle individual investors.

So what's an investor to do? Start by learning a few key acronyms, but be prepared to add more to your repertoire in the coming years—the landscape is changing fast. Here's an overview of some of the top standards and frameworks you'll come across:

GRI – broad global acceptance

The [Global Reporting Initiative \(GRI\)](#) provides standards to help organizations report on their economic, environmental and social impacts. GRI includes universal standards that are relevant to all organizations, as well as sector- and topic-specific standards.

Instead of focusing solely on shareholders and capital providers, GRI disclosures cater to a wide group of stakeholders. Perhaps due to the broad audience, or maybe because it was the first standard of its kind, GRI is the [most widely used ESG reporting standard globally](#). More than 13,000 organizations in 90 countries have used GRI, including more than 80% of the world's 250 largest corporations.

CDP – the environmental report card

As a not-for-profit charity, [CDP](#) gives organizations a platform to disclose environmental impacts related to climate change, water security and deforestation. In 2021 over 14,000 companies, cities, states and regions disclosed through CDP, representing 64% of global market capitalization.

CDP scores each company based on the data it supplies, kind of like a report card. Investors can check out if a company [makes the grade](#) to inform their investment decisions.

The downside? If you want to know how a company scores on social and governance factors, you'll have to check another source.

TCFD – measuring climate-related financial risk

The Financial Stability Board created the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) to guide companies on how to disclose climate-related financial risks to investors, lenders, insurers and other stakeholders. The framework touches four areas: governance, strategy, risk management, and metrics and targets.

While [TCFD began as a voluntary set of recommendations](#), it's become part of the regulatory framework in many jurisdictions, including the European Union, Singapore, Canada, Japan and South Africa (and New Zealand and the United Kingdom will follow soon).

VRF – the marriage of SASB and IIRC

Major consolidation is afoot in the ESG corporate reporting landscape. Case in point: in June 2021, the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) merged to form the Value Reporting Foundation (VRF). (Sorry, we know it's a mouthful!) Today, VRF offers three tools to help companies and investors understand long-term enterprise value, including the SASB Standards.

More than half of the companies in the S&P Global 1200 Index and nearly [1,300 businesses use SASB Standards](#), which center around the needs of investors. They cover a range of issues, from data security and business ethics to labor practices and air quality, making them more comprehensive than others that cover only environmental topics.

SASB has unique standards for 77 industries across 11 sectors, making it easier for investors to compare ESG performance across companies in a specific industry.

CDSB – making climate disclosures mainstream

Introduced at the 2007 World Economic Forum (WEF) annual meeting, the [Climate Disclosure Standards Board \(CDSB\)](#) differs from earlier frameworks in a few key ways. Most notably, CDSB aims to integrate climate change-related disclosure into mainstream financial reports such as annual reports and 10-K filings.

By 2021, 374 companies across 32 countries and 10 sectors were [using the CDSB Framework](#), including Nestlé and Coca Cola. However, it's one of the frameworks that will soon be rolled up into a new, consolidated set of standards...

ISSB, the new kid on the block

Now, forget everything you've just learned (just kidding... kind of.) At the COP26 climate conference in November 2021, the [International Financial Reporting Standards \(IFRS\) Foundation](#) announced the formation of a new set of sustainability disclosure standards.

The newly formed International Sustainability Standards Board (ISSB) will [consolidate most of the prominent ESG standards and frameworks](#), including some of those you've just read about here. In fact, CDSB and VRF personnel will be merged into the IFRS Foundation by June 2022.

If all goes according to plan, the new global standards will make it easier for investors to compare ESG performance among companies. ISSB plans to make the standards shareholder focused and industry specific, similar to SASB.

More rules and standards on the horizon

In March 2022, the US Securities and Exchange Commission (SEC) released its [proposed climate disclosure rule](#). In its draft form, the rule would require companies to outline their climate-related governance practices, expected risks and energy transition plans—including greenhouse gas emissions.

Across the pond, the European Financial Reporting Advisory Group (EFRAG) is working on a new set of ESG standards that, once adopted, will be mandatory for

thousands of EU companies. The [European Sustainability Reporting Standards \(ESRS\)](#) will establish dozens of sustainability-related disclosure requirements and many of frameworks listed above are seeking to be incorporated into these new regulations.

No doubt these standards will continue to evolve over time, but the FWIW team has you covered. We'll keep you posted on the changes and help you understand what it means for your investments.

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