Sustainability, also known as environmental, social and governance (ESG), is not a new concept. But for a long time, sustainability efforts existed in silos, were not integrated into the company’s core business model, and were not disclosed. So, what has changed? Why is this topic shaping today’s business world?

Well, to start, various stakeholder groups such as customers, suppliers, and employees, are calling on companies to do more around key sustainability topics and to be more transparent about their efforts. Investors of all types, but particularly passive investors, have made sustainability a priority on their agendas, calling on companies to adopt more sustainable practices. Their view is that proper identification and governance of ESG topics that are material to a company and its industry are essential to managing risk and executing strategy, and leads to long-term increases in shareholder value.

ESG is about the risks and opportunities which could impact a company’s ability to create long-term value. Investors believe that ESG is important in understanding a company’s full risk profile. Therefore, they want to know that companies are integrating ESG into the company’s strategy and that the board is engaged in oversight of these topics. In addition, investors want information, in the form of qualitative disclosures and quantitative metrics (KPIs), that they can use in their investment decision making. Raters, such as MSCI, Sustainalytics, S&P, and others, are increasingly active in the ESG space, rating company performance and creating indices to help guide investors in making their decisions.

Companies are voluntarily disclosing their ESG efforts in a number of places and formats, including corporate social responsibility (CSR) reports, company websites, proxy statements and other regulatory filings, and with disclosure aggregators like CDP (the former Carbon Disclosure Project). However, investors are dissatisfied with the lack of standardized, investment-grade data available. This is evident from the 2020 letter from BlackRock’s CEO and Chairman, Larry Fink, to CEOs. Fink touches on a number of topics in this letter, but specifically calls on companies to make sustainability disclosures consistent with the Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD) frameworks. State Street Global Advisors also issued a letter, calling on companies to incorporate and disclose material ESG issues into their strategies.

The volume of disclosures remains low, and investors want more progress and clarity. Fink emphasizes this in his letter, which states that BlackRock will vote against management and directors “when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.”

**What are the SASB and TCFD?**

The [SASB](https://www.sasb.org) is a US-based independent standard setting board. The SASB has developed a complete set of globally-applicable, industry-specific standards that identify the minimal financially material sustainability topics and their associated metrics recommended for a typical company in an industry. The SASB standards are voluntary. Companies should conduct their own materiality analysis to determine which topics and metrics to use and disclose.

The [TCFD](https://www气候变化金融稳定委员会组织.org) was commissioned by the G20 Financial Stability Board to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The TCFD framework, published in 2017, considers the physical, liability, and transition risks associated with climate change and what constitutes effective financial disclosures across industries. The recommendations of the TCFD help companies understand what financial markets want from disclosures about how the company measures and responds to material climate change risks.
Using these frameworks will enable companies to disclose their material sustainability information in a standardized manner. It will provide investors with the information they want, allowing them to compare companies across industries.

Sustainability disclosures should include qualitative discussions of topics and ESG metrics and key performance indicators (KPIs) that are material to the business operations. Public disclosure of this data requires appropriate policies, controls, and governance, similar to other elective financial metrics (e.g., non-GAAP metrics). Companies should select the topics and metrics that it believes are compelling and material value drivers for the business. The disclosed information needs to be reliable and consistent. Companies should have processes and controls around the development of those disclosures to support the accuracy of the data. In February, the SEC issued interpretative guidance for companies related to KPIs and metrics. The guidance specifically highlights the need for disclosure controls and procedures around key metrics, including ESG.

Should the oversight and review of these metrics fall to the audit committee? The audit committee has deep skills in overseeing internal controls, policies and procedures, and reporting. Audit committees can play a role by understanding the methodologies and policies used to develop the metrics, as well as the internal controls in place to ensure accuracy, reliability, and consistency of the metrics period over period. Having the audit committee play a role in overseeing non-GAAP and other metrics is also encouraged by the SEC in its public statement on the role of the audit committee, which says, “We encourage audit committees to be actively engaged in the review and presentation of non-GAAP measures and metrics to understand how management uses them to evaluate performance, whether they are consistently prepared and presented from period to period and the company’s related policies and disclosure controls and procedures.”

As ESG reporting evolves and companies disclose more metrics related to these environmental, social and governance matters, metrics will continue to be under scrutiny. Making sure these metrics are prepared with the appropriate rigor for investor use and can hold up to regulatory scrutiny, will be important.

More resources and insights

For more ESG insights, see PwC’s:

- ESG: Understanding the issues, the perspectives and the path forward
- The 2020 landscape: What boards should expect
- Climate investing: Is it sustainable?
- ESG: Five themes for boards to think about
- Your purpose, your stakeholders: What it means for reporting
- Sustainability services

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner, a member of PwC’s Governance Insights Center or Sustainability Services.

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