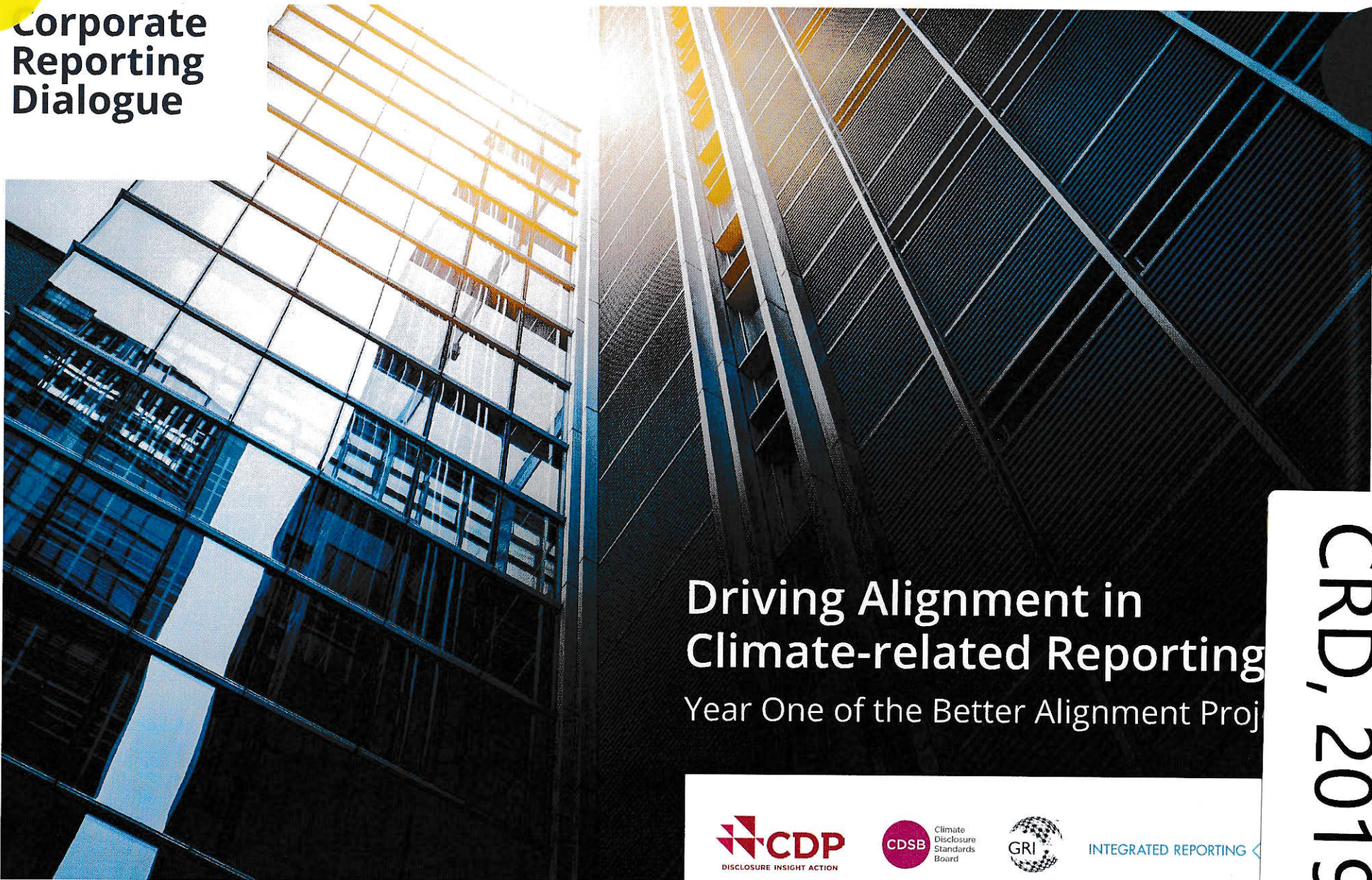




Corporate
Reporting
Dialogue



Driving Alignment in
Climate-related Reporting
Year One of the Better Alignment Proj



INTEGRATED REPORTING <

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Foreword

When I stepped into the Chair's role at the Corporate Reporting Dialogue in early 2017, I could not have imagined what we would have achieved as a group of global standard setters. At that time, we were a dialogue in a literal sense and so I was excited to see the willingness of the participants to work together towards greater alignment in a joint project. The Better Alignment Project, started in 2018, is the result of the joint view of the Corporate Reporting Dialogue participants that it was desirable to further the alignment between their frameworks and standards.



This report is the first deliverable of the project and I am delighted with the results presented. As you will see, the actual alignment of the frameworks and standards against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and between one another is much higher than envisaged prior to the start of the project.

Moreover, the Better Alignment Project has strengthened the Corporate Reporting Dialogue in a number of ways. The Corporate Reporting Dialogue's profile has increased significantly. We have been invited at increased frequency to share insights and provide inputs, and relationships with critical senior stakeholders have intensified. The connections and cooperation between the operational teams of the global standard setters have also further developed significantly. This has not only led to a much deeper understanding of each other's frameworks and standards, but has proven to be a strong basis for future work. The Better Alignment Project has set the ground for a long-lasting change in the reporting landscape.

But greater alignment is needed, and it will not be easy – it will be a long-term process. Each organisation has its own governance and due process in place to fulfil its purpose, serving its stakeholders' needs. This will have to be taken into account in harmonising the reporting landscape.

Whilst we have met good understanding of the different purposes and audiences of the frameworks, we also have had consistent feedback from a number of our constituents that what is really needed is one strong, internationally-recognised and used set of standards for environmental, social and governance (ESG) reporting. The Better Alignment Project may not be able to resolve this issue in its present form. The participants, however, are committed to contribute where possible within the remit of the Corporate Reporting Dialogue to a better understood and user-friendly reporting landscape on the basis of their global frameworks and standards. I look forward to continuing that work in the second year of the Better Alignment Project.

Ian Mackintosh
Chair, Corporate Reporting Dialogue

Executive Summary

The Better Alignment Project, an initiative of the Corporate Reporting Dialogue (CRD), brings together CDP, CDSB, GRI, IIRC and SASB¹ (the Participants) to explore how these framework and standards setters can work together more to better support organisations in preparing environmental, social and governance (ESG) disclosures. The two-year project seeks to improve the coherence, consistency and comparability of the Participants' frameworks and standards.

In response to market demands, the project's initial year focused on climate change reporting, with the Participants mapping the alignment between their frameworks and standards to the disclosure principles, recommended disclosures and illustrative example metrics of the Task Force on Climate-related Financial Disclosures (TCFD).

The mapping showed strong alignment between the Participants' frameworks and standards and the TCFD, and also between each other:

The TCFD's seven principles for effective disclosure are harmonious and complementary with those of the Participants' frameworks and standards, with the mapping showing no sources of conflict;

The Participants are well aligned with the TCFD's 11 recommended disclosures, which are comprehensively covered by the frameworks and standards;

There are high levels of alignment between CDP, GRI and SASB for the TCFD's illustrative example metrics, with 70% of the TCFD's 50 metrics showing no substantive difference between the three participants' indicators; and

Overall, 80% of the TCFD's 50 metrics are fully or reasonably covered by the three participants' indicators.

¹ CDP, the Climate Disclosure Standards Board (CDSB); the Global Reporting Initiative (GRI); the International Integrated Reporting Council (IIRC); and the Sustainability Accounting Standards Board (SASB).



The results of the technical mapping serve as a practical guide to assist organisations in understanding and implementing the TCFD recommendations when using the Participants' well-established and globally applicable frameworks and standards. Also, the work has resulted in a brief exploration of how ESG information can be integrated in mainstream reporting by applying the CDSB and IIRC frameworks, and how ESG information links to financial information. Therefore, the report and detailed annexes can be of value to report preparers in preparing climate-related financial disclosures in coming reporting cycles.

Concurrent to the technical work, the Participants consulted with stakeholders through online surveys and a global series of roundtables. Stakeholders provided opinions on the TCFD recommendations, the current state and future of ESG disclosure, trends towards the integration of ESG information, and challenges for report preparers and users. They also shared their views on what the Participants could do to better serve stakeholders' needs.

It was clear that stakeholders struggle to understand how the Participants' frameworks and standards fit together to support efficient and effective disclosures. In response, the Participants produced a set of Frequently Asked Questions (FAQs), which are presented in Section 3.

Furthermore, stakeholders expressed that the connections between ESG and financial information need stronger articulation and that the market would benefit from greater alignment of terminologies and methodologies in the Participants' frameworks and standards.

Along with the results of the technical mapping, stakeholder feedback was intrinsic to scoping possible next steps for the second year of the Better Alignment Project. The challenges identified by stakeholders were inconsistent with the levels of alignment shown in the project's technical mapping. This disconnect demonstrates a need for the Participants to more clearly communicate how their respective frameworks and standards are interconnected and harmonious. In addition, though stakeholders appreciated that the frameworks and standards were only part of a complex landscape, they reiterated

their desire for action from the CRD to remedy market confusion – be it through establishing a single framework/standard or making the interconnections between existing ones clearer.

In response to these findings and taking into account other strategic considerations, such as the CRD's remit and organisational internal governance processes that prohibit quick fixes, the Participants identified three expectedly valuable areas of future work for the project:

- Developing a taxonomy to guide users on the meaning of different terminologies and methods used within the Participants' frameworks and standards, including articulating commonalities and interrelationships;
- Building an online, interactive tool that brings together the frameworks and standards, allowing users to understand how they can be used individually and/or together effectively for different reporting purposes; and
- Convening a formal technical forum for the Participants to benefit from further exchange of developments, ideas and plans between and across technical teams, therein promoting greater long-term alignment.

These areas will be further discussed and agreed upon by the Participants after the publication of this report.

The Better Alignment Project aims to make it easier for organisations to prepare effective and coherent disclosures that meet the information needs of capital markets and society. The results presented in this report can benefit and assist preparers in making effective climate-related financial disclosures through use of the Participants' frameworks and standards. The FAQs show how the frameworks and standards can be used individually and complementarily to efficiently meet varied ESG reporting ambitions. The results from the technical mapping provide detailed information on using the frameworks and standards in conjunction with reporting against the TCFD recommendations.

The potential areas of work identified for the project's second year (i.e. the detailed taxonomy; interactive, online tool; and collaborative technical forum) build on what has been achieved so far and the Participants will progress this.

