July 24, 2023

To: ESG in Business Action Council, B20 India Secretariat

Re: Industry point of view on the need for harmonized and standardized ESG reporting requirements globally

The World Economic Forum is not holding back. Its latest Global Risks Report named the failure to mitigate climate change the number one risk for the next ten years. And the solution requires everyone to play a part. Companies of all sizes must lead the sustainability charge and commit to transforming their businesses, driven by bold environmental, social, and governance (ESG) goals.

But with greater demand from regulatory bodies, customers, and investors to measure, communicate, and improve on their ESG progress, businesses face a number of ESG reporting challenges. The lack of consistent standards and guidelines across geographies is deepening the need for harmonized global ESG reporting requirements.

Genpact, The B Team, and the Confederation of Indian Industry (CII) – which we will refer to as "we" – were encouraged by the release of the inaugural standards (IFRS S1 and IFRS S2) from the International Sustainability Standards Board (ISSB). We believe that transitioning into a more inclusive, sustainable economy requires business accountability for performance and impact across environmental, social, and governance issues. Such accountability is contingent on robust and consistent corporate sustainability reporting, and the ISSB's mission to establish a global baseline standard is a welcome addition.

Channeling the voice of industry

On June 21, 2023, we organized a virtual roundtable with a group of finance and corporate sustainability leaders. The objective was to capture the "voice of industry" on the need for a harmonized and consistent approach across standards and the aspects regulators should consider. On behalf of our participants, we are pleased to share an industry point of view on the convergence and standardization of global ESG reporting guidelines.

The roundtable brought together 15 participants representing 15 leading organizations across industries and regions, including North America, India, and Brazil. They represent a range of global corporations and standard and regulatory bodies: Securities and Exchange Board of India (SEBI), The Institute of Chartered Accountants of India (ICAI), CII, SAP, AstraZeneca, Natura &Co, Deutsche Bank, Danfoss, Tata Steel Mining, Mars, Godrej & Boyce, Škoda-Volkswagen, DCM Shriram, Cyril Amarchand Mangaldas, and Apraava Energy.

This summary synthesizes the discussion points that emerged during the session without attributing a comment or suggestion to a single individual or company.

From the keynote speaker sessions and moderated discussion, we identified four key themes:

1) Establishing common minimum guidelines for reporting
2) Enhancing the scope of ESG reporting standards
3) Enabling data-driven insights for action
4) Building robust governance structure for driving ESG performance

1. A common minimum baseline for reporting

Overall, participants agreed that the current reporting landscape is fragmented and complex, which puts an additional burden on organizations and limits consistent and comparable reporting. This is why universally acceptable standards are essential. They must be integrated, inclusive, and adaptable – and equally applicable – for developed and emerging markets, small and large-scale businesses, and all levels of the supply chain. At the same time, there was a recognition that 100% standardization may not be possible, but regulators and standard-setters should work toward establishing a common minimum baseline for reporting.

To facilitate simple yet impactful reporting for organizations, participants agreed that regulators and organizations such as ISSB can play a pivotal role in building a common minimum baseline for reporting prescriptive with common definitions, denominators, and methodologies. The participants suggested that this baseline should be structured in a way that applies to all organizations regardless of their size, scale, and geographical footprint, with the flexibility to include regional, industry, country, or scale-specific nuances. In the group's view, this would not only ease the burden on global organizations but also drive consistency and comparability and enable benchmarking at an industry level.

Attendees also highlighted that integrated reporting (financial and nonfinancial) rather than standalone ESG reporting could also facilitate harmonization efforts, in turn enabling standardized reporting.

2. Comprehensive and inclusive standards

Participants pointed out that in addition to establishing a common minimum baseline for reporting, it is important to make the standards integrative and globally inclusive. This means they must include the perspective of developing and emerging economies – the global south – and apply to all economy operators.

The group also discussed the scope and coverage of the current reporting standards, and two key points emerged:

i. Double materiality versus financial materiality

There was a strong sense within the group that most current standards address aspects of financial risks associated with ESG and largely cater to the investor community. As such, the view was that the standards need a broader scope that covers not only an outside-in but also an inside-out perspective – a double materiality concept.

Double materiality captures the impact of an organization on the planet, people, and society, much like capturing the impact of the planet, people, and society on an organization. The group favored the double materiality concept as proposed by the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD), referring to it as the future of life and key to humanity.

ii. Focus beyond climate-related issues

Although the climate crisis today is most prominent and has created a heightened focus on climate disclosures across reporting frameworks and standards, the group agreed that the focus should go beyond climate. Nature-related aspects such as biodiversity and water are critical and need attention.

Attendees also agreed that climate-related disclosures are more streamlined and mature compared to other nature-related elements that are localized and nuanced with less well-established definitions and metrics. So, corporates and global standard-setters could consider including nature-based risks and opportunities as part of mainstream reporting, given their criticality and impact.

The group also highlighted that there needs to be an equal balance between the different ESG dimensions – environmental, social, and governance. Social and governance elements should also have strategic action plans to promote inclusivity and diversity and augment governance structures to integrate ESG into a business's enterprise-wide strategy.

3. Data-driven insights for action

During the discussion, participants also pointed out that reporting and disclosures based on different standards or even a common minimum baseline is just one piece of the puzzle. There is another critical aspect that regulators and standards-setters need to consider: how these disclosures enable business performance and facilitate ESG performance.

One idea the group discussed was linking ESG metric performance with the materiality of the metric through a weighted scoring model to understand the real impact that any organization can drive. For instance, if an organization is performing well on a particular ESG metric but that metric is not material and does not have a huge impact on the industry, it does not give an accurate picture of the organization's overall ESG performance. One of the recommendations was that standard-setters could consider an industry-level, ESG topic-focused materiality and scoring logic to unlock the potential of ESG disclosures and reporting and drive performance.

The participants agreed that technology plays a key role in analyzing reported ESG data to help enterprises take action and drive ESG performance. They also highlighted that a digital repository platform accessible by organizations on a shared database would further facilitate benchmarking and analysis across organizations and industries.

4. Robust reporting and governance

ESG data recording and reporting is complex and not yet streamlined like financial reporting. One of the key challenges highlighted by the participants is the quality of ESG data, which limits the ability to audit metrics. So independent assurance takes longer and puts additional pressure on the business and finance teams to release ESG reports alongside financial reports. The group also pointed out that given a business's process, data management, controls, and assurance needs, CFOs will play a much more active role in driving ESG reporting to enable accurate and transparent reporting and achieve investor-grade disclosures similar to financial disclosures.

Finally, the group highlighted the need for a robust governance structure to drive successful ESG integration into business models, strategy, and execution. Everyone also suggested that it is important for the board and its committees to have ESG qualifications to drive ESG performance. And they also recommended that regulators could consider making ESG qualifications mandatory to push the agenda.

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Genpact, The B Team, and CII would like to thank all participants for providing their insights and perspectives on the convergence and standardization of global ESG reporting guidelines. If you would like to discuss the comments or should you have any specific questions, please contact us using the details below.

Genpact is a global professional services firm delivering business outcomes that transform industries and shape the future. Led by our purpose – the relentless pursuit of a world that works better for people – we combine our expertise in running digitally enabled operations with our skills in data, technology, and AI to design, build, and transform businesses.

At Genpact, we remain committed to our sustainability journey and have voluntarily disclosed climate-related and social data for over a decade – with our commitment to driving ESG-led business transformation for our clients. We use our process transformation expertise, industry knowledge, digital skills, and partnerships with our advisory council of global sustainability leaders to demystify and provide holistic solutions in ESG data management, analytics, reporting, and assurance in the evolving world of climate risk and sustainability.

The B Team is a global collective of business and civil society leaders driving a better way of doing business for people and the planet. Co-founded by Richard Branson and Jochen Zeitz in 2013. The B Team advocates for economic systems change and new corporate norms: to protect our natural environment and secure a safe, sustainable and equitable future for all.

CII is a nongovernment, not-for-profit, industry-led, and industry-managed organization. It is engaged in shaping India's development journey and works to create and sustain an environment conducive to the development of India, partnering with industry, government, and civil society through advisory and consultative processes.

Thank you

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