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The ESG Corporate Reporting Data Lifecycle: Ten Key Takeaways

Changes in the ESG disclosure space are coming fast and furiously. With the formation of the International Sustainability Standards Board in early November and the conclusion of Glasgow's COP26 on November 12th, recognition that ESG data governance is of paramount importance is rapidly growing. And yet while the need for ESG data reporting is finally being acknowledged, a variety of challenges exist for savvy companies attempting to furnish appropriate ESG data.

In a discussion of both the ESG corporate reporting challenges ahead and of some proposed solutions, the Data Coalition and DFIN hosted a webinar on October 21, 2021. Moderated by John Truzzolino, DFIN's Director of Business Development, the webinar looked at everything from how to get started building an ESG reporting process to establishing new timelines for sustainability reporting.

Truzzolino opened the webinar stating: "This report comes at a pivotal time, when companies are looking for leadership on ESG reporting under the purview of the controller or CFO, building a control environment on ESG data management now before US regulations emerge with proposed rules for climate and ESG reporting."

Speakers included Sharon Basel, Senior Manager, Sustainability, for General Motors; Ginny Cassidy, Director, Enterprise Sustainability Program, for Medtronic; Jill Purcell, Director, PricewaterhouseCoopers; and Eric Bigelsen, Senior Advisor, Head of Industry Engagement, and Project Leader, ESG, for the EDM Council. Much of the discussion revolved around the recent report titled "ESG Data Management for Corporate Reporting Entities" and written by the EDM Council, a not-for-profit trade association for data professionals.

Bigelsen emphasized that the momentum for ESG data has grown dramatically in recent months and years as the stakes have increased. By one estimate, one-third of all assets under management—or $53 trillion—will be affected by some type of ESG metrics by 2025.

With the anticipated reintroduction of the Financial Transparency Act (FTA) and with other federal regulatory activities afoot, the US government will almost surely need new tools to advance data modernization, explained DFIN President Craig Clay. “We see a potential for regtech to deliver on the promise of artificial intelligence,” he said.

Following are additional takeaways from the October 21st webinar:

- **Consider the desires of a broad swath of stakeholders.** “A lot of reporting is geared towards what investors want and what asset owners want,” said Bigelsen, noting that companies need to extend their thinking to other stakeholders, as well. “What do suppliers and customers want?,” he asked. “And what do employees want to know about their respective companies where they work?”

- **Think through ownership issues.** Ownership issues are a recurring challenge to ESG data governance, said PricewaterhouseCoopers’ Purcell, who explained that responsibility for ESG reporting often falls into a gray area. For instance, she said, depending on where an organization is on its ESG journey, ESG reporting may be done by HR, IR, or even communications.

  Purcell urged companies to promote collaboration between technology and business experts. While IT creates and maintains applications, supports the business, and stores data, IT should not, she said, be held “responsible for the business meaning and content of the data that’s reported.” Instead, leaders who influence strategy need to assume responsibility for understanding the data collected.

- **Determine which ESG data is material.** Materiality is often harder to gauge when data is non-financial, observed Purcell.

  Medtronic has taken a systematic approach to determining materiality by conducting materiality assessments for ESG data every five years. “During that process,” said Cassidy, “we engage internal and external stakeholders, and for us that includes investors, customers, healthcare professionals, policymakers, industry associations, and NGOs. We get their input for identifying the ESG issues most material for Medtronic’s long-term success.”

  At the early stages of an assessment, said Cassidy, the company tends to cast a wide net, interviewing executives aligned with issues trending in the ESG space alongside external stakeholders. In its most recent materiality assessment, Medtronic worked with a consultant to whittle a list of 300 possible ESG issues to a far more manageable list of 14 issues deemed extremely important; these issues now provide focus for the company’s annual ESG disclosures.

- **Look to existing standards for guidance.** Too often, said Bigelsen, companies don’t know which standards to use because of a lack of regulation and little or no consensus on which standards are most relevant.

  Purcell agreed, noting: “Organizations remain uncertain as to how to provide ESG information that informs their business decisions. And this can prevent them from taking action and even to adhering to reporting in multiple standards.”

  That said, forward-looking companies emphasize the importance of taking steps to report ESG data—even in the absence of certainty. “A lot is happening because we're not going to stand still and wait for mandates to come and then try to react," said GM's Basel. "We're putting things in place so we can more rapidly adapt when some of the regulations are finalized."

Medtronic is also refusing to wait for total clarity before acting. At the request of its shareholders, Medtronic is using guidelines from GRI (Global Reporting Initiative), SASB (Sustainability Accounting Standards Board), and TCFD (Task Force on Climate-Related Financial Disclosures) for its ESG disclosures. "We've found those three standards and frameworks to be adequate for meeting the majority of our stakeholder expectations around disclosure," said Cassidy. "Those standards help us determine which particular metrics and data are most meaningful in terms of communicating our performance."

- **Get started early.** Cassidy cautioned against waiting "for that ideal global standard to emerge" before establishing ESG data reporting processes.

  "For companies new to the game, it's a great opportunity to establish robust ESG data processes right up front," she said. First steps should include creating appropriate governance for ESG data and disclosures; committing roles and responsibilities to writing; training individuals about these roles and responsibilities; documenting processes around collection, review, approval, and assurance; inventorying data processes to make sure there are appropriate controls; and engaging in internal audits to make sure those processes already in place are running smoothly.

- **Establish data management programs.** Bigelsen noted that data management programs look both at data that directly relates to ESG (such as, Scope 1 carbon emissions) and also at more indirect data (carbon impacts created by consumers using a company's products).

  The overarching goal here is to understand where ESG data is coming from and how it's being used. "Companies," he said, "need to have effective data management programs in place to provide appropriate governance, controls, understanding of lineage, and data quality to integrate the data into various workflows."

- **Know how you are acquiring data—and from whom.** Inside an organization, there are usually multiple providers of ESG data. For this reason, Medtronic's Cassidy described documenting sources for ESG data as an important responsibility of her company's sustainability steering committee. "We're enhancing internal assurance practices by requiring a peer review for all data submitted for the report," she said.

- **Consider an internal audit process.** Rarely are today's companies performing internal audits of ESG data, but this could change, said Purcell. Now that the SEC has said that companies should be reporting on material ESG issues, she is convinced that C-suite executives should begin aligning with their sustainability teams so that ESG risks are part of governance processes, internally and externally.

- **Rethink the sustainability reporting timeline.** This year, GM delivered its sustainability report on the exact same day that the company delivered its proxy.

  Basel explained that producing the two documents simultaneously meant moving the deadline for the sustainability report forward by two months. Although juggling the two timetables at the same time required considerable effort, the advantage, she said, is that "you build a model that sustainability isn't just part of the company, but it's integrated into the business strategy as part of long-term value creation."

Because GM's sustainability and proxy reports are now published in tandem, the company is engaging senior leaders far more intensively in the creation of the sustainability report. "For the first time," Basel said, senior leaders "are exposed to what we're putting out in the sustainability report before it's published, rather than reading it all after the fact."

- **Anticipate a long journey.** Just as regulators and companies spent decades refining processes around reporting financial data (and changes are still occurring), the process for determining precisely what ESG data should be reported—and how—is bound to be a lengthy one, said Bigelsen. He anticipates that some of the many changes that lie ahead will include standardizing ESG data and making this data machine readable so it can be easily audited.

  "We haven't even figured out financial reporting yet, so we can't figure this all out today," he concluded. "That's why we all need to be collectively committed to this project."