INSIGHT SUSTAINABILITY

January 2024

# Developments in sustainability disclosures:

## Better data, better decisions

As investors work to integrate sustainability concerns into every aspect of decision-making, they are faced with a growing number and an evolving shape of national and international reporting frameworks. What can be gained from numerous sustainability disclosure requirements, and where will they lead?

**By Maria Nazarova-Doyle**


**Maria Nazarova-Doyle**
Global Head of Sustainable Investment


In recent years, there has been a concerted push to increase the quality of data available to investors when considering sustainability factors.

High-level taskforces covering climate, nature and social factors have been convened to design frameworks set to become future global reporting standards. Moreover, the importance of standard-setting and data-gathering for the industry has been recognised by the International Financial Reporting Standards Foundation through the launch of the International Sustainability Standards Board (ISSB), accepting that high-level intervention may be required to establish a global, comparable standard.

Across the range of new frameworks, the Task Force on Climate-related Financial Disclosures (TCFD) is arguably the one that has been most widely embraced by lawmakers and regulators, providing globally uniform information to institutional investors in order to bring about the behavioural and system change required for the desired low-carbon future. Its importance was most recently established when the Net-Zero Data Public Utility was unveiled at COP 28 in Dubai, allowing for a public, transparent and comparable tracking of private sector climate commitments and actions.

Where the Taskforce on Nature-related Financial Disclosures has similar aims to the TCFD, it will initially only serve to start a necessary debate within the industry, but I am expecting to see this become widely accepted over time, with nature disclosures integrated into a wider set of environmental disclosures by firms.

In contrast, the UK's Taskforce on Social Factors is not specifically focused on disclosures but rather it aims to provide supporting tools for asset owners to be able to better integrate financially material social factors into their investment and stewardship strategies. There is a fruitful opportunity for this work to support the work of ISSB and their forthcoming efforts to set global standards for social and human capital reporting.

Crucially, we have not only seen new initiatives aimed at improving sustainability disclosures launched in recent years, but also consolidation, which should lead to improvements in interoperability. The launch of the ISSB came during 2021's UN Climate Change Conference in Glasgow, and saw the Climate Disclosure Standards Board, established in 2007, brought together under the same body responsible for implementing the TCFD's recommendations and the Sustainability Accounting Standards Board. Such consolidation will be likely to result in a streamlining of processes, and avoid duplication of efforts, where countries or groups of investors decide to go it alone.

## Meeting beneficiary expectations

In addition to quickly increasing new regulatory requirements, asset owners also have to face the increasing expectations of their end-beneficiaries in providing reports disclosing their portfolios' carbon footprints, social impact, and exposure to modern slavery risk, among other issues.

The weight of expectations on asset owners means asset managers have a crucial role in providing this data in a timely and clear manner, working in alignment to deliver on ultimate beneficiaries' needs.

> **As important as quality data disclosure is to our everyday activities, data only allows us to track an outcome, and cannot itself bring about change. The extent to which disclosure requirements materially change behaviours and governance practices is what every regulator should be considering.**

## Value of disclosure

There is a risk that in increasing the disclosure requirements, regulators will require levels and types of disclosure that are no longer truly additive. There is a utility curve to information disclosure, and at a certain point, any new information simply becomes a matter of an additional dataset.

While many of the proposed data points are likely to be useful, such as the 1,178 data points[1] gathered by the European Sustainability Reporting Standards covering all large listed companies in Europe, it potentially reaches a point where not all data can be properly considered. Sustainable Investment teams risk expending undue effort in comprehending and capturing reporting requirements, at the cost of pursuing actions that can have a meaningful impact on the real economy.

TCFD framework-aligned reporting, however, is now required by law in a number of countries including the UK and is more than a simple disclosure framework. Its emphasis is more on the governance of firms and embedding climate thinking into companies' operations. It is likely that the Taskforce on Nature-related Financial Disclosures, drawing on the success of the TCFD, will be similarly transformational in capturing how companies' day-to-day activities are impacting nature, and focusing boards' and investors' minds on what can be done to conserve and restore the natural habitat.

The UK's Stewardship Code, in its most recent iteration, has resulted in a similarly important change in mindsets across the industry. As groundbreaking as the Code was upon its publication last decade, reforms in place since 2020 require asset owners and asset managers to think deeply about how they approach their engagement efforts and to disclose outcomes targeted and achieved with stewardship. Where firms fall below expectations, they need to show sufficient improvement in order to be accepted as signatories. The outcome is that quality of stewardship across the market has been significantly elevated in recent years, as noted by the UK regulator in charge of the Code.[2]

All three of these initiatives have a common theme, namely that they improve the quality of overall governance at companies and asset owners. As important as quality data disclosure is to our everyday activities as sustainability professionals, data only allows us to track an outcome, and cannot

[1] A whirlwind fortnight for the EU's sustainability reporting rules - Real Economy Progress (real-economy-progress.com)
[2] According to the Financial Reporting Council's most recent annual review of stewardship reporting, the introduction of the new Code had seen improvements across a number of areas, including the quality of activity and outcome reporting, signatories work to improve the functioning of financial markets and stewardship in asset classes outside of listed equity. 'Report of Stewardship Reporting 2022', November 2022, page 5.

itself bring about change. The extent to which disclosure requirements materially change behaviours and governance practices is what every regulator should be considering when devising further frameworks.

## Global alignment

It is crucial for regulators and standard-setting bodies to work together to provide frameworks that can be applied as widely as possible. The more cohesive, coherent and comparable global requirements are, the more impactful they will be for today's universal owners. Consider the Australian superannuation market which, due to its size, is now allocating nearly half of its assets overseas, or the many European investors who are building up sizeable global equity exposures. For such investors to lead the change required, a simple, single rule book is desirable.

Asset managers have a responsibility to work side-by-side with all parties to ensure that when the groundswell builds for a new disclosure regime, they work with those advocating to ensure it has the desired effect. In the last decade, there have been several important pieces of regulation that were well-intentioned, but ultimately hampered the efficiency of the market they were designed to improve. The European Union's Sustainable Finance Disclosure Regulation is a recent example of this. The European executive launched a consultation in September 2023 to amend rules introduced only 18 months earlier, after the law's proposed fund classification system became an unintended product labelling system. This has led to calls from market participants and national regulators within the EU to revisit the framework. It is hard to overstate how important it is for any new regulation in this area to be well thought out to ensure its effectiveness and deliverability.

## Shifting responsibilities

Whereas earlier sustainability reporting requirements have often been met solely by asset managers' Sustainable Investment teams, we are now seeing a shift to shared responsibility as a number of these frameworks become legal requirements.

Boards and investors will require assurance for new reports to ensure the assessments and data disclosed within them are robust and accurate. We will see detailed audits required, consultancies brought in to test the underlying scenarios used, placing them on par with current financial reporting. With ISSB framework adoption taking off around the world, Australia has published exposure draft legislation in January 2024 to amend its laws governing investors and large companies to compel them to publish mandatory climate-related financial disclosures, including phased assurance requirements, with legislation anticipated in the first half of 2024. It is therefore likely that we will see the responsibility for complying with these disclosures shared with accounting departments, potentially releasing time for Sustainable Investment teams to focus on implementation and real-world outcomes.

Sustainability disclosure standards are in a period of significant flux but the changes facing the industry are ultimately for the better. The matters underpinning all the new disclosure frameworks are about data and information - and good quality data empowers investors to make the most informed decisions possible.

**Important Disclosures**

The following disclosure applies to this material and any information provided regarding the information contained in this material. By accepting this material, you agree to be bound by the following terms and conditions. The material does not constitute an offer, invitation, solicitation, or recommendation in relation to the subscription, purchase, or sale of securities in any jurisdiction and neither this material nor anything in it will form the basis of any contract or commitment. IFM Investors (defined as IFM Investors Pty Ltd and its affiliates) will have no liability, contingent or otherwise, to any user of this material or to third-parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material. In no event will IFM Investors be liable for any special, indirect, incidental, or consequential damages which may be incurred or experienced on account of a reader using or relying on the information in this material even if it has been advised of the possibility of such damages.

Certain statements in this material may constitute "forward looking statements" or "forecasts". Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of earnings, performance, and cash flows. These statements involve subjective judgement and analysis and reflect IFM Investors' expectations and are subject to significant uncertainties, risks, and contingencies outside the control of IFM Investors which may cause actual results to vary materially from those expressed or implied by these forward-looking statements. All forward-looking statements speak only as of the date of this material or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to IFM Investors or any person acting on its behalf are qualified by the cautionary statements in this section. Readers are cautioned not to rely on such forward-looking statements. The achievement of any or all goals of any investment that may be described in this material is not guaranteed.

**Past performance does not guarantee future results. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.**

This material may contain information provided by third parties for general reference or interest. While such third-party sources are believed to be reliable, IFM Investors does not assume any responsibility for the accuracy or completeness of such information.

This material does not constitute investment, legal, accounting, regulatory, taxation or other advice and it does not consider your investment objectives or legal, accounting, regulatory, taxation or financial situation or particular needs. You are solely responsible for forming your own opinions and conclusions on such matters and for making your own independent assessment of the information in this material. Tax treatment depends on your individual circumstances and may be subject to change in the future.

Environmental, Social, and Governance ("ESG") strategies may take risks or eliminate exposures found in other strategies or broad market benchmarks that may cause performance to diverge from the performance of these other strategies or market benchmarks. ESG strategies will be subject to the risks associated with their underlying investments' asset classes. Further, the demand within certain markets or sectors that an ESG strategy targets may not develop as forecasted or may develop more slowly than anticipated. There is no guarantee that the ESG strategy or determinations made by the adviser will align with the beliefs or values of a particular investor.

**US Disclosure**

This material is for use with institutions only and not for use with retail investors. The material, if presented in the US, is offered by IFM (US) Securities, LLC, a member of FINRA and SIPC.

**Australia Disclosure**

This material is provided to you on the basis that you warrant that you are a "wholesale client" or a "sophisticated investor" or a "professional investor" (each as defined in the Corporations Act 2001 (Cth)) to whom a product disclosure statement is not required to be given under Chapter 6D or Part 7.9 of the Corporations Act 2001 (Cth). IFM Investors Pty Ltd, ABN 67 107 247 727, AFS Licence No. 284404, CRD No. 162754, SEC File No. 801-78649.

**Netherlands Disclosure**

This material is provided to you on the basis that you warrant that you are a Professional Investor (professionele belegger) within the meaning of Section 1:1 of the Dutch Financial Supervision Act (Wet op het financieel toezicht). This material is not intended for and should not be relied on by any other person. IFM Investors (Netherlands) B.V. shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of this material.

**United Kingdom Disclosure**

This material is provided to you on the basis that you warrant that you fall within one or more of the exemptions in the Financial Services and Markets Act 2000 ("FSMA") [(Financial Promotion) Order 2005] [(Promotion of Collective Investment Schemes)(Exemptions) Order 2001, or are a Professional Client for the purposes of FCA rules] and as a consequence the restrictions on communication of "financial promotions" under FSMA and FCA rules do not apply to a communication made to you. IFM Investors (UK) Ltd shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material.

**Switzerland Disclosure**

This Information is provided to you on the basis that you warrant you are (i) a professional client or an institutional client pursuant to the Swiss Federal Financial Services Act of 15 June 2018 ("FinSA") and (ii) a qualified investor pursuant the Swiss Federal Act on Collective Investment Schemes of 23 June 2006 ("CISA"), for each of (i) and (ii) excluding high-net-worth individuals or private investment structures established for such high-net worth individuals (without professional treasury operations) that have opted out of customer protection under the FinSA and that have elected to be treated as professional clients and qualified investors under the FinSA and the CISA, respectively.

**Compliance code: IFM-22Jan2024-3334075**