By KNAV Team

ESG & Sustainability Accounting Standards - A Primer

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As ESG takes center stage, the SASB Standards provide consistency

In 2015, countries reached an agreement ("the Paris Agreement") to mandate companies to include climate related financial disclosures. Globally, companies are striving to increase transparency in their ESG (Environment, Social, Governance) & sustainability disclosures and provide insight into their compliance with the Paris Agreement.

Investors as well are gravitating towards sustainability & ESG focused companies and seek actionable information about the sustainability measures taken by them. Thus, sustainability disclosures are now becoming essential to a company's operational and financial performance. The rising importance is spurring the shift towards better reporting practices and standardization. As per the Governance & Accountability Institute, 90% of S&P 500 companies published sustainability reports in 2019. Also, a recent study by the US SIF (The Forum for Sustainable and Responsible Investment) reported a 42% increase in sustainable investing strategies from $12 trillion in 2018 to $17 trillion in 2020.

The momentum for ESG and sustainability investing is set to continue to grow, with another $20 trillion expected to go into ESG funds over the next two decades, according to Bank of America.

To facilitate companies in generating reliable, transparent performance, the Sustainability Accounting Standards Board (SASB) provides data standards and reporting frameworks as a step toward resolving the sustainability reporting issue.

A. Sustainability Accounting Standards Board and its Standards

Founded in 2011, SASB (www.sasb.org) is one of the most used frameworks and standard setting agencies followed by Global Reporting Initiative (GRI) Standards and Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations.

Currently, it is managed by the Value Reporting Foundation (VRF). SASB develops and publishes accounting standards for financially material sustainability issues. These standards are sector-specific and created for investors who require sustainability related information that impacts a company's valuation.

The concept of sustainable investment is becoming increasingly popular among investors. By harmonizing reporting standards, SASB is not only able to address the proliferation of disclosure frameworks, but also to provide more consistent comparisons between sustainable investments.

These standards enable businesses to report on impacts on the environment, social capital, human capital, business model, innovation, and leadership and governance from a financially material point of view. Over 1300 companies worldwide use SASB standards to report on all three ESG pillars.

Illustration 1: Table - **Disclosures of sustainability issues under SASB materiality map**

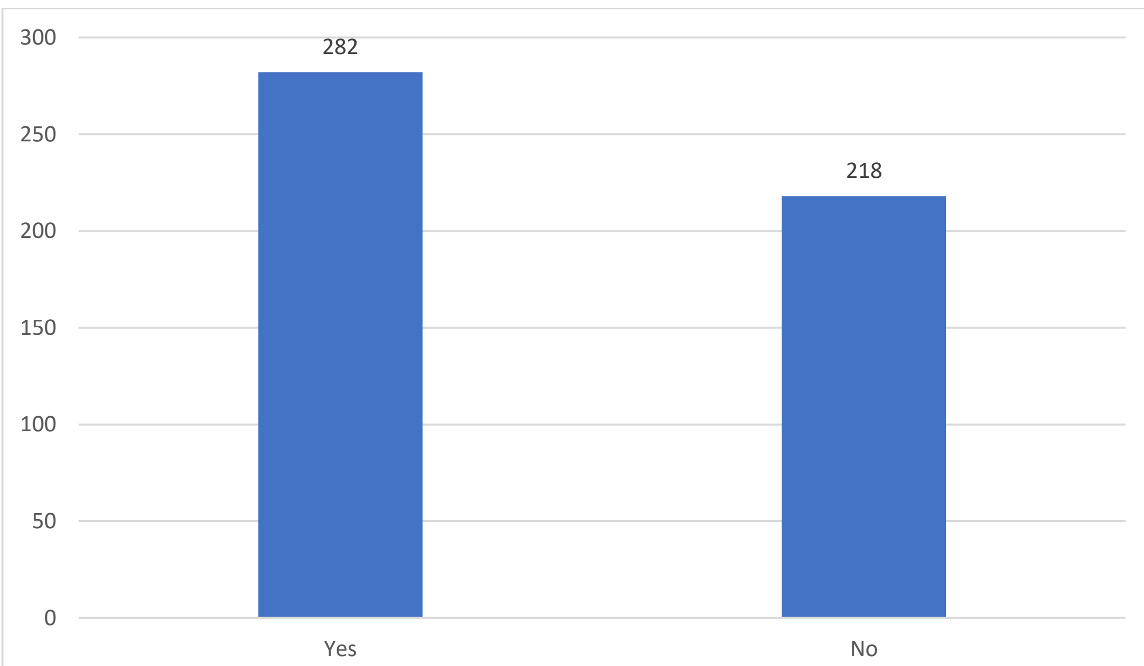
Environment	Leadership and Governance	Business model & Innovation	Social capital	Human capital
GHG Emissions	Business ethics	Product design & lifecycle management	Human rights & community relations	Labor practices
Air Quality	Competitive behavior	Business model resilience	Customer privacy	Employee health & safety
Energy Management	Management of the legal & regulatory environment	Supply chain management	Data security	Employee engagement, diversity & inclusion
Waste and wastewater management	Critical incident risk management	Materials sourcing & efficiency	Access & affordability	
Waste and hazardous materials management	Systematic risk management	Physical impacts of climate change	Product quality & safety	
Ecological impacts			Customer welfare	
			Selling practices & product labeling	

B. Growing prevalence of SASB

As the threat of climate change looms, it becomes even more critical for companies, investors, and regulators to spearhead ESG activism. This gives more weightage to companies which are ESG compliant and report comprehensive disclosures on sustainability.

As per the analysis of Center for Audit Quality (CAQ) on the annual ESG reports published by S&P 500 companies, third-party assurance or verification was received by over 60% of S&P 500 companies that issued an ESG report disclosing the data in their reports.

Illustration 2: Chart – **Acquired Assurance or Verification**



In light of the growing demand for assurance from regulators and others, this number is likely to continue to grow. The analysis also found that the percentage of accounting firms engaged in assurance increased to 15%.

C. Conclusion

As investors become aware of the correlation between long-term profitability and corporate transparency. It is the responsibility of companies to provide investors with information that will influence their investment decisions. Information related to sustainability is included in this.

The SASB standards can be useful for any organization that wants to report on sustainability in detail. In addition, these standards can be used to develop sustainability strategies for the company around the most critical issues in industry. Additionally, these standards help raise the value of sustainability for both corporations and investors, as well as supporting consumer needs and global sustainability goals.