



## CORPORATE-INVESTOR DIALOGUE

# Exploring Disclosure Effectiveness

## CONNECTING BUSINESSES AND INVESTORS ON THE FINANCIAL IMPACTS OF SUSTAINABILITY

### INTRODUCTION

Sustainable investing has gone mainstream, now representing one out of every three dollars under professional management—and counting. The integration of environmental, social, and governance (ESG) factors into investment decision-making is no longer niche or “nice to have.” For large, global asset owners and managers, it’s table stakes. In the wake of this trend, the number of companies using SASB Standards to disclose sustainability information to investors has increased more than 4X since the start of 2020. Today, 40% of Global S&P 1200 companies use SASB Standards in core communications with investors.

Yet best practices for SASB disclosure are still emerging. To help identify, develop, and disseminate the most effective approaches, the SASB Alliance has convened several Corporate-Investor Dialogues: first, an in-person event in New York in the fall of 2019, a second virtual event in the summer of 2020, and a third virtual convening in the fall of 2020. The dialogues provided an opportunity to surface direct investor feedback on the quality and usefulness of companies’ SASB disclosure. To facilitate candid discussion, these convenings followed Chatham House Rules.

SASB Standards are designed to facilitate more effective communication between companies and investors about business-critical ESG risks and opportunities. Similarly, these dialogues were intended to bring companies and investors face to face to cut through the noise and build a shared understanding of the characteristics of high-quality, decision-useful disclosure.

As one participant noted, the events offered a rare opportunity to receive direct, unvarnished feedback from “a unique group of issuers and investors focused on ESG information that is driving investment decisions.”

### The Participating Companies

Corporate participants included sustainability executives and leaders from companies’ legal and compliance functions. They represented firms at various stages of maturity in terms of sustainability disclosure, including:

- U.S. insurance company
- U.S. real estate company
- Canadian telecommunication services company
- U.S. mid-stream oil & gas company
- Philippine telecommunication services company
- U.S. real estate services company
- U.S. integrated power producer and retailer

## SASB STANDARDS—A POWERFUL LINE OF SIGHT INTO HOW A BUSINESS WORKS

Robust ESG disclosure is becoming a “must have” for investors who increasingly rely on it when making decisions. As one investor explained, assessing a company’s potential to deliver future returns is the first order of business. Key ESG data can play a significant role in understanding the risks and opportunities likely to influence that potential.

Naturally, participating investors are eager to see financially material sustainability data become more readily available and more standardized, and they lauded the participating companies for contributing to that vision. The disclosure practices they valued the most included:

- **Context:** It is most useful when companies not only report performance data, but also explain how the business is managing the SASB topics as opportunities or risks.
- **Focus:** Separating investor-relevant content from content that is relevant to other stakeholders makes it easier for investors to find and use the information that is most useful to them.
- **Convenience:** Most reports included a table of SASB metrics, but those with the data provided alongside the metric were easier to use than those that referred to a page number.
- **Reliability:** When companies included a third-party assurance report, it was noticed by the investor participants and universally praised.
- **Authenticity:** Investors appreciate reports that present an honest view that isn’t “overly flowery or self-serving,” but rather is “matter of fact about the challenges they and the industry face.”

Although investors were impressed with the reports overall, they pointed out that the disclosure rarely clarified how ESG considerations are factored into business decisions. Investment professionals said they want to know more than just the numbers. They also seek to understand how management views key sustainability challenges and how it plans to mitigate the risks and capitalize on the opportunities.

Making a related point, investors observed that these and other sustainability disclosures tend to focus solely on risks and gave short shrift to opportunities. Moreover, when enterprises disclose ESG risks, they often do so without detailing the potential downside financial, operational, or reputational impact. Without this analysis, investors said they can be hampered in assessing the long-term value of a potential investment.

### The Participating Investors

SASB solicited feedback on the company disclosures from dozens of investors in North America and Europe, including executives from asset management firms, sovereign wealth funds, pension funds, and state treasuries. Prompts included:

#### Content

- Do you feel like the content gave you a better sense of how the business is managing the SASB topics as opportunities or risks?
- If the company excluded a SASB topic or metric, did they explain why? Do you agree with the explanation?
- Was the information “decision-useful”?
- Is there supplemental information that would have been useful?

#### Format

- Was it easy to absorb/read the content in the format it was presented?
- Is there a different format you think would have worked better?

#### Other

- What did you like best about the company’s report?
- Any other comments you think the company should hear?

ESG governance is another key lens through which investors view an organization's strategy, risk management, and operations. However, they said it wasn't always clear who was in charge of overseeing sustainability matters within the organization—for example, whether or not it falls under a senior executive's ambit or what role the board of directors plays.

One corporate participant says the feedback they received helped their company recognize an opportunity to more clearly articulate how ESG considerations factor into their business strategy. "We report per the TCFD guidance on what our climate-related strategy is," she notes, "but we don't specifically disclose our management strategy for other E, S, or G related issues," as recommended in SASB's Standards Application Guidance. "We have either tried to address the feedback in our upcoming ESG report or have put plans in place to try and address in the future."

## ANALYZING THE DATA

Investors understand that companies often prepare sustainability disclosure to serve a variety of different users with different objectives. Indeed, many companies' reports strive to meet the needs of everyone from consumers and employees to executives and Wall Street analysts. To cover all these bases, investors recommended that preparers tailor different content to different audiences. For example, they recommended including infographics that tell the high-level data story in a way that is accessible to all stakeholders. Then, for investors, they suggested supplementing that disclosure with more detailed data tables and contextual discussion of the factors that affected performance.

*"As an investor, what we look for in terms of understanding proactive management is disclosure of targets and progress against meeting them," said an investor participant.*

*"Our ESG report is over 100 pages long," says one corporate participant who found similar feedback helpful. Since the event, the participant noted, "We have created an investor presentation that highlights the main ESG issues we are trying to communicate with investors."*

Investors often want to normalize data in order to compare performance across different companies of various sizes and scales of operations. Thus, they strongly endorsed the practice of supplementing reports with data-driven spreadsheets, allowing them to more readily conduct their own analyses. In addition, if an enterprise operates in different sectors and markets, investors prefer that ESG performance be broken out at the function or business unit level to allow for apples-to-apples comparisons. As one investor participant noted, "A lot of companies selectively disclose and don't cover all their subsidiaries. That can be frustrating and misleading."

## MAKING THE GRADE IN PRESENTATION

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Although sustainability reporting has traditionally focused on a broad set of stakeholders, investors are the primary audience for SASB disclosure, and they benefit when form follows function. For example, investors said they appreciate disclosures in which text and data are tightly aligned to each other, creating a more robust understanding of not just performance but the context in which that performance was achieved.

Similarly, investors noted that performance on SASB metrics should be more explicitly tied to financial results, rather than compartmentalized in separate documents or filings. For example, a corporate participant suggested that it is important to understand, if ESG risks materialize, how they will impact specific functions of the business as well as the company as a whole. An investor participant echoed this sentiment, remarking, “This is often the missing link in many reports: companies report on what they are told is material, but they can go farther in linking to broader goals and impact.”

Additionally, there was mixed feedback regarding referencing other documents and reports with hyperlinks. On the one hand, investors appreciate easy access to related materials. On the other, some felt it made the report cumbersome and difficult to use. As a rule of thumb, many financial professionals urged companies to include only what investors need in the report and steer clear of excessively long documents.

In the end, the Dialogues reminded participants that investors view SASB disclosure as a way to better understand whether the company’s past results are a good indicator of its future performance. Thus, they suggested, an effective mix of backward-looking data and forward-looking analysis is crucial.

## CONCLUSION

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All participants generally agreed that investor-focused sustainability disclosure is an emerging and rapidly evolving practice, so it will take time to get it right. The important thing is to get started, establish a baseline, and then build a more sophisticated approach over time.

Direct feedback from your investor base—or from fellow SASB Alliance members—can be an invaluable source of continuous improvement. “As a corporate issuer you are continuously trying to enhance your disclosure to be more responsive to investor requests,” said one corporate participant. “It is good to hear if the disclosures you are making are resonating with the investor audience and that they find your disclosure valuable—or getting feedback on what you should change to make it more valuable.”

An investor participant agreed: “The more people that come to the table, [the more] we’ll all benefit from it.”