

IIGCC Expectations of Policymakers on Corporate Sustainability Disclosures



IIGCC

The Institutional Investors
Group on Climate Change



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Disclaimer: This material was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.

Introduction

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 360+ members, representing €51 trillion AUM, are able to catalyse real-world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

Demand for relevant, comparable, and decision-useful sustainability-related information continues to grow as investors seek to understand the sustainability performance of investee companies and allocate capital in line with a net zero future. Improving climate-related disclosures is a key priority for IIGCC members, who invest across different economic sectors and geographies. However, we acknowledge that investors need standards that are broader in scope than just climate. While our focus is on climate-related disclosures, many of the expectations set out in this document will be relevant in the context of wider sustainability disclosures.

The current proliferation of mandatory and voluntary disclosure requirements, each with a different focus, audience, breadth and depth of coverage, and with varying levels of adoption across different jurisdictions, has resulted in a fragmented global reporting landscape. This has created substantial challenges for investors, who seek consistent approaches to sustainability disclosures that can facilitate cross-border investment and enable meaningful comparison between holdings.

In collaboration with members of our Policy Steering Group, IIGCC has drawn together a set of investor expectations of corporate sustainability disclosures to support investors' sustainability information needs, regardless of the jurisdiction in which they operate. The expectations cover:

- the scope of sustainability disclosure frameworks
- the content sustainability disclosures requirements should cover
- the need for interoperable sustainability disclosures
- appropriate implementation and sequencing of sustainability disclosures.

These expectations will form the basis of our high-level advocacy and engagement with relevant policymakers, regulators and standards bodies in the UK, the EU, and globally. We will follow up any high-level engagement with more granular positions as relevant, including interventions related to specific jurisdictional frameworks and standards.



Scope

1 Sustainability disclosure requirements should cover the broadest possible range of entities while also recognising the need for proportionality. Climate change presents material financial risks and opportunities to all companies, irrespective of size. To facilitate transparency over these risks and opportunities and increase the availability of consistent sustainability-related information, reporting requirements should capture a broad scope of companies on an economy-wide basis, covering both listed and privately held entities.

However, it is also important to ensure that disclosure standards are proportionate, and do not impose undue burdens on smaller and less well-resourced firms. Materiality assessments should be undertaken to determine what is relevant for companies of different sizes, sectors, and geographies to disclose. For example, smaller companies operating outside of material sectors could be subject to streamlined or otherwise appropriately scaled reporting requirements to reflect their reduced exposure to climate-related risks and more limited capacity to report and manage them. In addition, while data availability and disclosure capabilities are improving rapidly in developed markets, firms operating in emerging and developing economies might struggle to navigate overly complex requirements, and reporting standards will need to account for this.

2 Incorporating a double materiality lens. To ensure a holistic understanding of companies' total sustainability impact and performance, investors need information on how their investees' activities are impacting the climate and environment, as well as how climate change and environmental issues are impacting a company's value: a so-called "double materiality" lens.

By helping investors to identify the adverse impacts that their investments have on the climate and environment, the double materiality approach to disclosures can enhance both investment decision-making and engagement activities.

While our focus is on climate change, social considerations also form an integral part of the "double-materiality" lens, as the social impacts of a net zero transition cannot be ignored if it is to be a successful and inclusive one.

FINANCIAL MATERIALITY

Information on the impacts of climate-related risks and opportunities on the company's business model, strategy, financial performance and position



COMPANY



CLIMATE



Primary audience: INVESTORS

TCFD RECOMMENDATIONS; ISSB STANDARDS

DOUBLE MATERIALITY

Information on the impact of a company's activities on the climate



COMPANY



CLIMATE

Primary audience: WIDER STAKEHOLDERS, INCLUDING CONSUMERS, SOCIETY, EMPLOYEES, INVESTORS

NON-FINANCIAL REPORTING DIRECTIVE; CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

Content

3 Disclosures must enable investors to assess the net zero alignment potential of their holdings. Scientific consensus has established that restricting the increase in global temperatures to 1.5°C, with limited or no overshoot, requires global emissions to approximately halve by 2030 compared to 2019, and to fall to net zero by 2050. It will therefore be essential to ensure sustainability disclosure frameworks include requirements for disclosure of robust, science-based transition plans. These plans should include short, medium, and long-term emission reduction goals, scenario analysis (which explicitly includes a 1.5° Celsius scenario), existing and planned actions to meet them, and details of how these actions will be integrated into the overall strategy. Disclosure of revenues and capital expenditure from green products and services, underpinned by green taxonomies, will also be key to helping investors identify opportunities to invest in climate solutions. Together, these key indicators allow investors to assess whether a company is well positioned to support the global net zero transition.

IIGCC recommends that all sustainability disclosure frameworks and standards should reference the criteria developed by the Climate Action 100+ [Net Zero Company Benchmark](#) as a core disclosure requirement. The Benchmark, which builds on TCFD recommendations, was developed to provide investors with robust and comparable information on how companies are aligning their business strategies and operations with the goals of the Paris Agreement and a net zero emissions future. Emission reduction targets should include short, medium, and long-term components, including Scope 3 where applicable. Material sectors should disclose additional sector-specific indicators (e.g. those developed under IIGCC's [Net Zero Standard for Oil and Gas](#)). Guidance for corporate targets could draw on sectoral methodologies developed through the Science Based Targets Initiative, as well as Carbon Performance analysis developed by the Transition Pathway Initiative.

Transition plans and accompanying disclosures allow investors to make informed assessments of a company's ability to manage climate risks and take advantage of climate-related opportunities. They are an essential tool to regularly monitor progress over time, and support stewardship activities. They will also help companies to attract and retain quality, long-term capital, and enable investors to differentiate between these companies and those operating on a 'business as usual' basis.

It will also be important to ensure a differentiated approach between investors' transition plans and those made by corporates, to support investor assessments of current and forward-looking alignment of their holdings. For investors, IIGCC recommends that standard setters should incorporate disclosures recommended by the Paris Aligned Investment Initiative's [Net Zero Investment Framework](#) (NZIF) to ensure a comprehensive approach to alignment-related reporting.

4 Material climate-related risks and opportunities must be fully integrated into financial accounts. This is vital for consistent and effective capital allocation, and aligns with existing international reporting requirements (e.g. International Financial Reporting Standards).¹ However, existing disclosure frameworks do not yet require accounts to be drawn up in line with net zero. Mandatory Paris-aligned accounting would help to shift capital flows towards net zero and reinforce existing recommendations for companies to align their strategies and business models with the goals of the Paris Agreement (e.g. under TCFD and the forthcoming EU Corporate Sustainability Reporting Directive). We would recommend that companies make their disclosures in line with IIGCC's [Investor Expectations for Paris-aligned accounts](#).

¹ IFRS requires material information (i.e. information that could reasonably be expected to influence decisions made by investors) to be disclosed in financial statements under International Accounting Standard 1 (IAS1).

Interoperability

5 Disclosures should be internationally consistent, building on existing, widely used frameworks and standards. Investors and companies are already navigating an “alphabet soup” of mandatory and voluntary frameworks and standards. This has led to fragmentation in the reporting landscape, undermining the capacity of investors to meaningfully assess the sustainability performance of their holdings across jurisdictions. Efforts to make disclosure initiatives coherent and interoperable will help to address this fragmentation and support greater consistency of reporting. As a baseline, companies should seek to implement and disclose against TCFD recommendations, addressing both transition and physical risks and opportunities respectively (rather than on an aggregated basis) as part of their reporting. The TCFD reporting framework provides a well-established foundation for climate disclosures, which has been widely adopted by both companies and investors and is applicable across a broad range of sectors. The Climate Action 100+ Benchmark includes a dedicated indicator on TCFD disclosures, and investors can report on their implementation of the NZIF in line with the TCFD reporting structure (section 9 of the NZIF implementation guide).

Implementation

6 Appropriate sequencing, coherency, and verification of reporting requirements. To support the flow of information across the investment chain, sustainability disclosure requirements for corporates should enter into force before investors and other financial market participants are required to make these disclosures. In addition, it will be important to ensure that corporates are disclosing the information that investors need to meet their own reporting obligations (e.g. under EU Sustainable Finance Disclosure Regulation and UK TCFD/Sustainability Disclosure Requirements regimes for asset managers and asset owners). To ensure credibility of the disclosures, they should be verified by an independent third party.





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