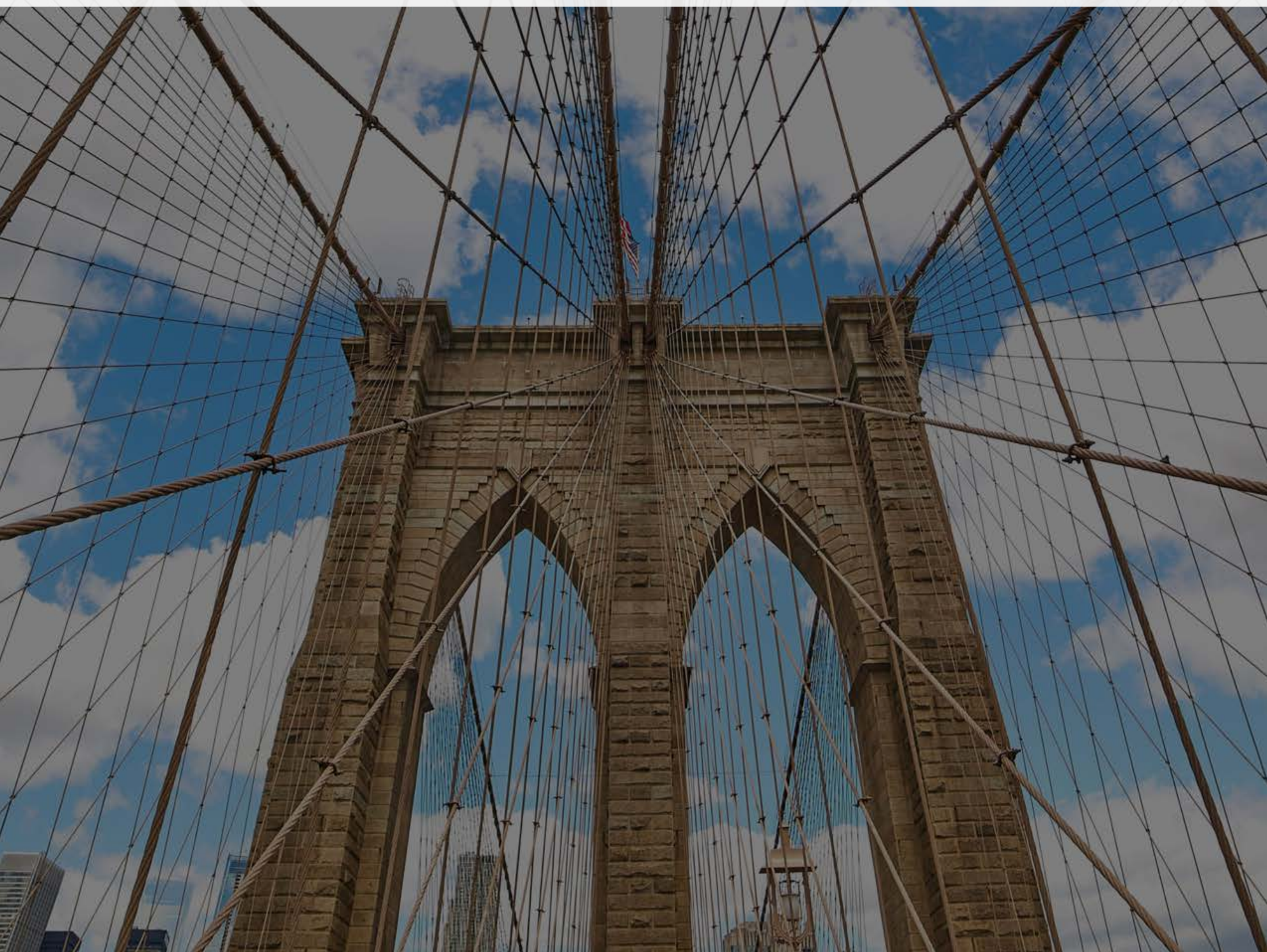
Ceres

DISCLOSE WHAT MATTERS:

Bridging the Gap Between Investor Needs and Company Disclosures on Sustainability



Acknowledgements

This project is generously funded by the Gordon and Betty Moore Foundation. The Gordon and Betty Moore Foundation fosters path-breaking scientific discovery, environmental conservation, patient care improvements, and preservation of the special character of the Bay Area. Visit Moore.org or follow @MooreFound.

This work is part of a conservation and financial markets collaboration between Ceres, World Business Council for Sustainable Development, World Wildlife Fund, and the Gordon and Betty Moore Foundation.

This report was authored by Ceres. We would like to thank our colleagues for their invaluable contributions: Veena Ramani, Jim Coburn, Kristen Lang, Robin Miller, Jacob Robinson, Vincent Gauthier, Karen Rivera, George Grattan, Brian Sant and Meg Wilcox. We would also like to specially recognize our colleague Shelley Alpern for her leadership in developing and stewarding this report.

Ceres would like to express our deep appreciation and thanks to our partners who provided very useful contributions to the report, including:

- **Expert consultants:** Julie Gorte, Ph.D., senior vice president for Sustainable Investing, Impax Asset Management LLC; Meredith Benton, Whistle Stop Capital LLC; Mario Abela, director, Redefining Value, WBCSD; Lois Gutherie, director, Redefining Value, WBCSD; Eszter Vittorio, head of Capital Markets Engagement, GRI; Juliet Markham, head of communications, IIRC
- **Editor:** Heather Green of Heather Green Media
- **Data provider:** The data for this report was provided by Vigeo Eiris. Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. They undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations. For more information, visit:www.vigeo-eiris.com
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About Us

Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses. For more information, visit www.ceres.org.

Executive Summary

Concerns about environmental and social risks increasingly drive Wall Street's decision making. In 2016, responsible investment accounted for 26 percent, or $22.89 trillion, of all professionally managed assets globally—a 25 percent increase from 2014. As markets fluctuate in response to the unpredictability of water risks, climate change-driven natural disasters and human rights concerns, investors look to corporate disclosures to inform them of how companies are navigating these changes. Investors need decision-useful information on how companies are "walking the talk" on these issues.

Yet, at a time when investors need reliable, financially relevant, material corporate disclosures on sustainability, companies are leaving gaps between what investors demand and what they provide. **Global companies are beginning to provide decision-useful sustainability disclosures, but the maturity of their disclosure systems and the rigor of these disclosures are still evolving.**

These are the main findings of our report, *Disclose What Matters*, which analyzes how well the 476 largest companies of the Forbes Global 2000 disclose and perform on five indicators highly valued by today's investors:

- Disclosure Standards
- Board oversight of sustainability
- Materiality assessment
- Stakeholder engagement
- External assurance

Based on our analysis of these elements, we found that the sustainability disclosures of large global companies fall into three phases of maturity:

Phase 1 → Comparability: Companies in this phase adopt commonly accepted disclosure frameworks, in response to market demands for comparability. Most of the large global companies we analyzed are in this phase, with most using the Global Reporting Initiative (GRI) Standards, as well as other established reporting standards and mechanisms.

- 70 percent of major global corporations use the GRI standards in their disclosure, while 58 percent both use GRI indicators and include a GRI Content Index.

Phase 2 → Integration: Companies in this phase demonstrate how they integrate their approaches to sustainability and business performance, improving the quality of their sustainability disclosures. This integration is shown through key systems such as board oversight of sustainability, materiality assessments and stakeholder engagement. While most global companies have these systems in place, the quality of disclosures and connections back to company strategy is still mediocre.

- **Only 15 percent of businesses provide strong disclosure of the role of the board in overseeing sustainability,** including evidence of formal board mandates for sustainability and disclosure of how relevant environmental and social issues are discussed at the board level.
- **Only 23 percent provide detailed disclosure of materiality practices**, including evidence of how the results are then used to inform strategic decision-making.
- **Just 17 percent disclose which specific stakeholder constituencies they are engaging**, how they engaged with them, what feedback they received, and how that feedback was incorporated into corporate strategy and reporting.

Phase 3 → Reliability: Companies in this phase demonstrate that their sustainability disclosures are as reliable as financial disclosures by acquiring external assurance of their disclosures. Very few of the companies assessed perform well on this indicator. Most large global companies do not externally assure their sustainability disclosures, and the quality of the assurance provided is low.

- **Some 58 percent provide no evidence of formal assurance of sustainability disclosures.** Less than 10 percent provide third party verified disclosures with some recommendations for improvements.

Recommendations:

What can global companies do to provide capital markets with useful information that will drive decisions that price sustainability risks appropriately? How can companies evolve through the phases of sustainability disclosure maturity?

1/ Commit to the complete use of sustainability reporting standards.

The use of the GRI Standards is now the expectation, rather than the exception, among global companies. All companies should use the GRI standards in their sustainability disclosures.

The rise of other sustainability disclosure standards has created confusion about which standard to use—along with concern about "disclosure fatigue." Rather than approaching these other standards as additional disclosures, companies should think of them as a way to hone their disclosures for specific audiences.

2/ Disclose the impacts of governance systems for sustainability.

Most large global companies disclose that they have the relevant systems to help them prioritize sustainability issues and make the connections to business performance. But they do not disclose how these systems are being used to drive decision making, including on the financial impacts of these issues. Companies should provide disclosure that bridges this gap.

3/ Externally assure material sustainability disclosures.

When companies are able to provide robust external assurance prepared with the same level of rigor as financial disclosures, these disclosures will provide the "investor ready" and mature approach that investors look for in sustainability disclosures.

Disclose What Matters reveals how much work there is to be done for companies to move through the three phases of maturity in sustainability disclosure so that they can truly satisfy investor demand for strategic, transparent and forward-looking sustainability reporting, or disclosure that matters. **The analysis can help companies can bridge the gap and provide executable, relevant information to investors, moving from simply "disclosing more" to "disclosing what matters."**

Introduction

The need for mature sustainability disclosure from companies—the kind that investors can use to make decisions—is more critical than ever. It is increasingly clear that environmental and social risks, including climate change, water scarcity and human rights violations, have the potential to negatively affect companies' financial performance.[1] At the same time, each of these areas presents opportunities for companies to provide solutions. To correctly price companies, investors need information on all the significant risks and opportunities that companies face.

Moreover, what investors typically need is financially relevant and reliable information—and that means more than anecdotes and success stories.

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In response to investors' efforts, ranging from private discussions with management and board members to shareholder resolutions and multi-stakeholder initiatives, we've seen a tremendous growth in sustainability disclosures by businesses during the past few years.[2]

The question now is: how useful is the information that companies disclose?

This report attempts to answer this question, mapping the gaps between what investors look for and what companies disclose on sustainability. The findings of this report will be useful in moving sustainability disclosure best practice from simply "disclose more" to the more important "disclose what matters." Specifically, companies can use the report results to shape their sustainability disclosures to better suit investor needs. Investors and other stakeholders can leverage the report findings as they engage with companies in pressing them to develop disclosures that matter.

The sustainability disclosure landscape has grown by leaps and bounds

Robust sustainability reporting is barely three decades old. The challenge of creating meaningful disclosure is a considerable one, involving translating factors once considered opaque into comparable metrics and indicators, and providing insights that can improve portfolio performance and shift capital to more sustainable enterprises.

Yet, we are seeing significant progress. A 2017 survey of sustainability reporting affirmed that disclosure on environmental and social factors is now the global norm among large cap companies.[3] Some 93 percent of the world's 250 largest companies now disclose their sustainability performance, and the rates of reporting have been climbing steadily since 1993. As of July 2018, the Global Reporting Initiative (GRI), the most widely adopted sustainability disclosure framework, which Ceres helped launch in 1997, now has 48,500 reports registered in its sustainability reporting database.[4]

Much of this growth is likely fueled by increasing pressure from investors and other stakeholders, as well as by regulatory and quasi-regulatory bodies, including stock exchanges and governments. As of 2018, the Reporting Exchange identified 1809 global reporting provisions in 60 countries that either required or encouraged reporting on environmental and social factors.[5]

This increase in disclosure is driving an expansion of sustainability reporting frameworks, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Project (CDP), and the new Task Force on Climate-related Financial

Disclosures (TCFD). While the sheer number and variety of these options can confuse corporate reporters and other stakeholders, the growth in standards is evidence of the strong interest in corporate sustainability disclosures.

> *Today, the conversation isn't about whether companies should provide sustainability disclosure, it's about what constitutes good disclosure and how companies can be incentivized to provide it.*

Today, the conversation isn't about *whether* companies should provide sustainability disclosure, it's about what constitutes good disclosure and how companies can be incentivized to provide it. The elements of good disclosure are generally understood to be the following: consistency across time, comparability between companies and industries, comprehensiveness of the scope of information provided, reliability, accuracy, and the inclusion of relevant and material sustainability matters. Reporting that meets these criteria is deemed "decision-useful" to investors and other users of corporate reports.

What are investors looking for in sustainability disclosure?

Increasingly, investors are integrating sustainability factors into investment decision making.

In 2016, there were $22.89 trillion in assets globally being managed using sustainability criteria, an increase of 25 percent since 2014. In relative terms, responsible investment now stands at 26 percent of all professionally managed assets globally.[6] At the same time, the percentage of investors who say that Environmental, Social and Governance (ESG) performance played a pivotal role in their investment decision-making grew from a bare majority in 2015 to 68 percent in 2016.[7]

To continue fueling this growth in sustainability investments, investors need good disclosure practices. But what exactly are investors looking for in corporate disclosures?

In order to answer this question, we analyzed surveys asking investors how they use sustainability disclosures.[8,9,10,11] Based on our literature analysis, we identified the following sustainability indicators as those that appear to be particularly relevant to the global investor community. While this list is not all-inclusive, the indicators presented below seem to consistently rise to the top.

- **Disclosure Standards.** By mapping their disclosures to widely-used, market-tested sustainability disclosure standards, firms can produce information that is consistent from year to year and that investors can use for peer comparisons.
- **Board oversight of sustainability**. Corporate boards are bound by fiduciary duty to shareholders to oversee and manage strategic issues, including sustainability, where material. By disclosing details of the role of their boards in sustainability, companies demonstrate the extent to which they consider relevant sustainability issues to be business priorities.
- **Materiality assessment.** A robust materiality assessment allows companies to identify and prioritize issues, including sustainability risks and opportunities. By disclosing the details of their materiality assessments processes *and how they use the results*, companies demonstrate the extent to which they consider sustainability issues to be key to their business, as well as how these issues integrate with business strategy.

- **Stakeholder engagement.** An inclusive stakeholder engagement process allows firms to approach their materiality assessment in a holistic manner. Additionally, by disclosing a robust stakeholder engagement effort, companies demonstrate the extent to which they systematically pay attention to the concerns of outside constituencies, including investors, on issues that can affect the business. This systematic attention can be an important characteristic of proactive risk management.
- **External assurance.** External assurance demonstrates that sustainability disclosures are obtained using rigorous and reliable systems. By externally assuring their sustainability disclosures, companies can increase the confidence that users have in the information presented in a sustainability report.

Methodology

This report analyzes the public disclosures of 476 of the largest companies from the Forbes Global 2000, an annual listing of the largest public companies in the world. These 476 companies were selected to provide a global snapshot of the corporate disclosure practices of the world's largest public companies. The report demonstrates global trends in each of the indicators presented above, providing a cumulative and global assessment of corporate sustainability disclosure. Regional and sector trends are also provided. The data that is the foundation of this research was compiled by Vigeo Eiris, an independent international provider of global ESG research services.

The companies were analyzed on the quality of their disclosures on the five indicators (i) Use of disclosure standards; (ii) Board oversight of sustainability; (iii) Materiality assessments; (iv) Stakeholder engagement; and (v) External assurance. Each assessment involved ranking company disclosures on two to four criteria per indicator. Each assessment was then converted to a score, as well as a percentage. For sectors and regions, average assessments are expressed as percentages.[12] More details about the report methodology can be found in Appendix 1.

Global Findings

Without good information, success in running a company and in investing are largely matters of luck. More information means fewer surprises. Much like disclosure on traditional financial issues, good disclosure on sustainability must be complete, accurate, reliable, consistent, relevant, comparable, and clear.

This section outlines some global trends in how large global companies disclose their sustainability performance.

Most large global companies use the most comprehensive standardized sustainability reporting framework, i.e. the GRI Standards. A large majority (70 percent) of major global corporations use the GRI standards in their disclosures. Some 58 percent both use GRI indicators and include a GRI Content Index.

While most companies put in place systems to connect their sustainability and business strategies, including board oversight, materiality assessments, and stakeholder engagement, the quality of disclosures and the connections back to business strategy is mediocre.

- Only 15 percent of companies disclose evidence that their boards are formally charged with overseeing sustainability issues and have discussed the most relevant issues in boardroom discussions.
- Only 23 percent provide detailed disclosure of materiality practices, including evidence of how the results are then used to inform strategic decision-making.
- Just 17 percent disclose which specific stakeholder constituencies they are engaging, how they engaged with them, what feedback they received, and how that feedback was incorporated into corporate strategy and reporting.

The majority of global companies do not offer third-party assurance of sustainability disclosures. Some 58 percent provide no evidence of formal assurance of sustainability disclosures. Less than 10 percent provide third party verified disclosures with some recommendations for improvement.

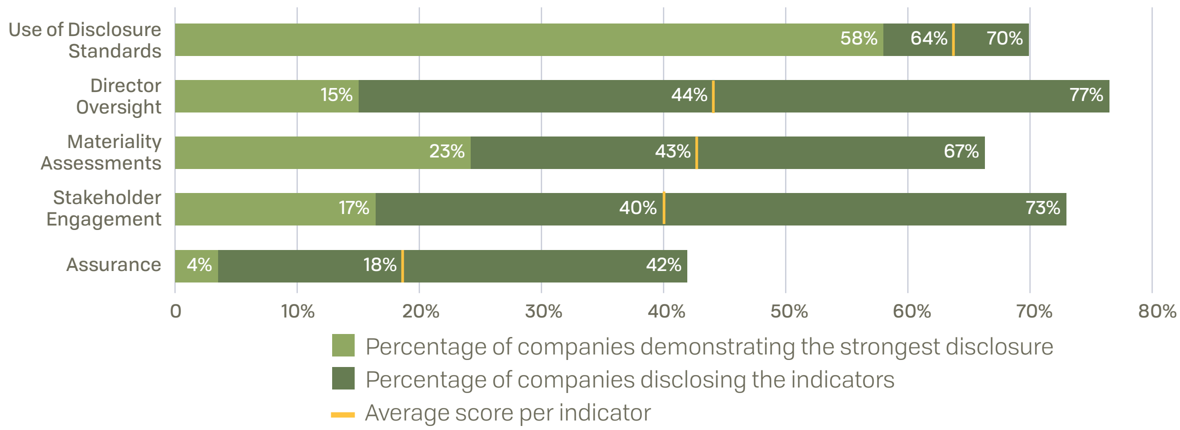
Large European companies consistently provide better disclosure across all indicators compared to other regions. Some 90 percent of the large European corporations have disclosure that was either strong or in the median range compared to their global peers. Some 80 percent of North American companies and 77 percent of Asian companies were median or poor performers. The strong performance of European businesses can be attributed to the wide variety of rules and guidance encouraging the use of sustainability reporting, including the European Union Directive on Non-Financial Reporting.

Hardly any companies provide comprehensive and robust disclosure across all the indicators that investors identified as useful.

CUMULATIVE FINDING

Most large global companies assessed are still in the early stages of providing investor-friendly sustainability disclosures.

Figure 1: Percent of Companies Disclosing and Average Score per Indicator



When considering disclosures across the indicators that we assessed for this report, three phases of maturity become evident. As companies consider how to "disclose what matters," they need to move through these phases of maturity to end up at Phase Three, which represents the best practices in sustainability disclosure.

- **Phase 1 → Comparability:** In this phase, companies conform their disclosures to commonly accepted disclosure frameworks, in response to market demands for comparability. Using standards like the GRI is also a common place to start the sustainability disclosure journey. The majority of the large global companies we analyzed are in this phase, with most using the GRI Standards. Many are doing so in a robust manner by including a GRI Index.
- **Phase 2 → Integration:** In this phase, companies build on Phase One and also demonstrate how they integrate their approaches to sustainability with business performance, thereby further improving the quality of their sustainability disclosures. This integration is shown through key systems, such as formalizing board oversight of sustainability, undertaking materiality assessments, and engaging with stakeholders. While a majority of the companies analyzed state that they have these systems in place, their disclosures are largely still not connecting the dots. The quality of disclosures and the demonstrated connections back to business strategy and financial relevance is still mediocre.
- **Phase 3 → Reliability:** In this most mature phase, companies demonstrate that their sustainability disclosures are as reliable as standard financial disclosures by acquiring external assurance of their disclosures. Very few of the companies assessed perform well on this indicator. Most large global companies do not externally verify their sustainability disclosures.

Findings by Indicator

As companies work out how to disclose what matters, and evolve through the three phases of maturity of sustainability disclosure, they should not just adopt the indicators—they should also act on the insights drawn from them. Each of the indicators is important, but it is the combination of all the indicators that allows companies to demonstrate the quality, preparedness and awareness that investors are increasingly demanding.

Phase 1 → Comparability

Use of Disclosure Standards

Standardized, mandatory financial reporting allows investors to compare companies based on common characteristics including industry, size and geography to assess strengths and weaknesses. However, the prevalence and quality of sustainability disclosure is inconsistent across markets, varying by geography and subject matter. Because investors need disclosures to be comparable for their decision-making processes, companies should use recognized and well-established sustainability disclosure standards such as the Global Reporting Initiative.

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Why use the GRI Standards?

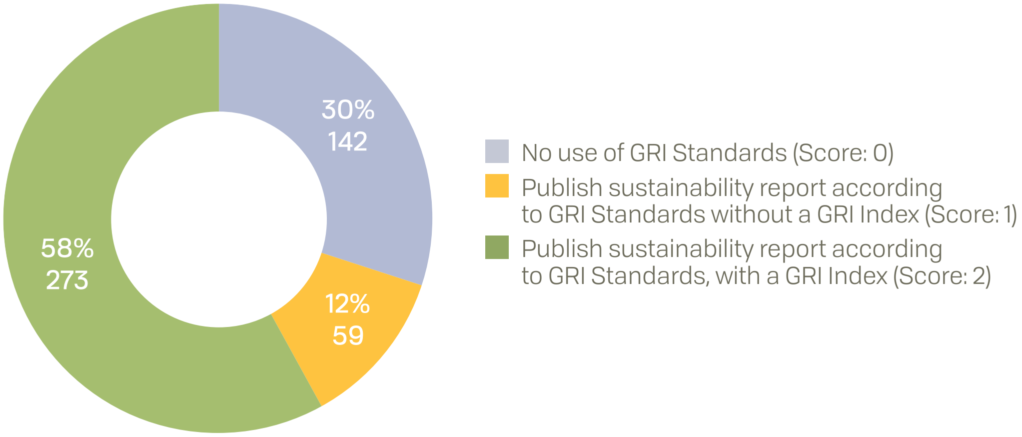
The analysis chose to benchmark use of disclosure standards based on the Global Reporting Initiative (GRI) for several reasons. First, it is the most comprehensive and widely used global framework for sustainability reporting, covering a wide range of economic, environmental and social topics. Second, Most companies that use the GRI also provide a GRI Content Index, which lets users of these reports, including investors, easily access information and compare performance across companies. Third, the GRI's comprehensive design supports the development of disclosures that meet the needs of a wide variety of investors and other stakeholders.

OVERALL FINDING

More than half of large global companies use the GRI Standards and include a GRI Index.

For the most part, large global companies produce comparable sustainability disclosures, with 58 percent of the businesses studied publishing a sustainability report using the GRI standards and including a GRI Index. Still, 30 percent of the companies we analyzed do not use the GRI at all.

Figure 2: Use of Disclosure Standards



The positive results are not surprising, since stakeholder pressures for environmental and social transparency have focused on large companies. In the last decade alone, U.S. shareholders have filed shareholder resolutions calling on more than 300 companies to publish sustainability reports.

The companies in our sample that use the GRI framework are also likely to use other reporting standards, including CDP, SASB, and the IIRC. A growing number have also publicly supported the TCFD recommendations.[13]

These overlaps are also not surprising, since there are many commonalities between the frameworks. The Corporate Reporting Dialogue works to improve the efficiency and effectiveness of corporate reporting by engaging the major organizations that develop disclosure standards on opportunities for better alignment.

It is important to note that while most large global companies use the GRI standards, our analysis did not consider the quality of their conformity to the GRI. Indeed, comprehensive use of any standard, including the GRI, is limited. In practice, we see companies picking and choosing, mixing from a range of reporting frameworks as they develop their disclosures.

Best practices: *Use of disclosure standards:*

3M publishes a sustainability report using GRI standards that includes a GRI Content Index. The company's GRI Index outlines where specific GRI reporting indicators are used in the report or other relevant sources including the Annual Report, Notice of Annual Meeting & Proxy, and other sources on the Investor Relations website.[14]

Other major disclosure frameworks

Task Force on Climate-Related Financial Disclosures

The Financial Stability Board created the Task Force on Climate-Related Financial Disclosures (TCFD) in 2015 to develop a set of recommendations for how companies should disclose climate change-related business risks and opportunities to investors.[15] The recommendations, which were released in 2017, are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. As of July 2018, 290 organizations had expressed support of the TCFD.[16]

CDP

CDP is a nonprofit organization that provides a reporting framework used by companies and governments to report on climate change risks and emissions as well as on water, forests, and supply chain risks. More than 86 percent of large global companies that we assessed disclosed using the CDP questionnaire. Since 2002, more than 6,000 companies have publicly disclosed environmental information through CDP.

International Integrated Reporting Council

The International Integrated Reporting Council (IIRC) is a global nonprofit that has developed a global framework for integrated reporting, encouraging businesses to disclose concise, strategic and future-oriented information. It provides an umbrella for an organization's reporting suite, pulling together material factors from financial, sustainability, and other reports. As a principles-based reporting framework rather than a standard, the IIRC does not the assess the quality of integrated reports but estimates that approximately 1,600 companies in more than 65 countries are using the International Integrated Reporting <IR> Framework to guide their reporting.[17]

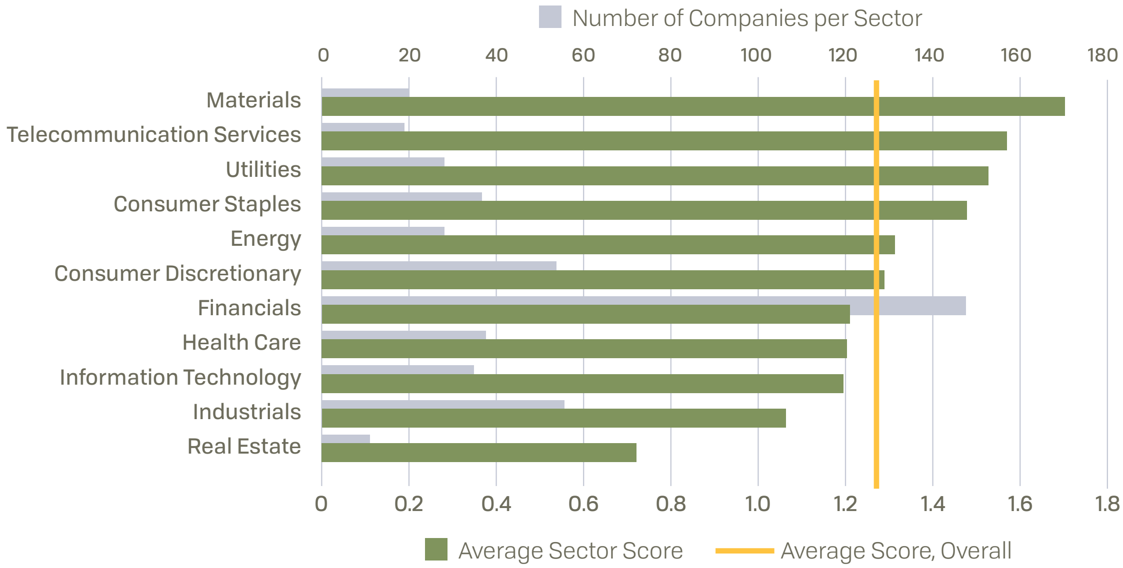
Sustainability Accounting Standards Board

The Sustainability Accounting Standards Board (SASB) is an independent, private-sector standards setting organization focused on fostering high-quality disclosure of material sustainability information that meets investor needs. The SASB develops and maintains sustainability accounting standards—for 79 industries in 11 sectors—that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format. The SASB's approach is materiality focused, evidence-based and market informed. According to SASB's State of Disclosure Reports, which analyzed the financial filings of the top 10 companies in each of the 79 industries, 73 percent of companies reported on at least three-quarters of the sustainability topics included in their industry standard, and 42 percent provided disclosure on every SASB topic.[18]

SECTOR FINDING

Materials, telecommunications, utilities, and consumer staples companies are leaders in providing reports that use the GRI standards. Organizations in the financial, health care, information technology, and industrial sectors demonstrate limited use of the GRI.

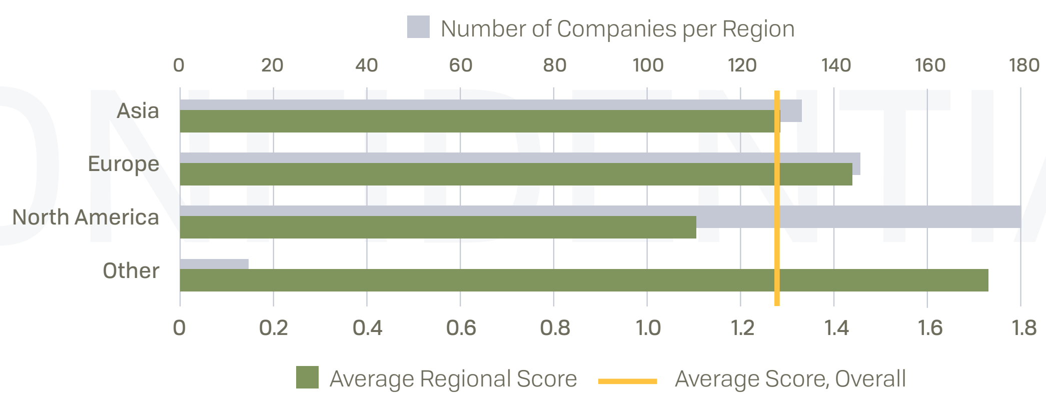
Figure 3: Use of Disclosure Standards — by Sector



REGIONAL FINDING

European companies demonstrate the strongest use of the GRI standards.[19] North American companies demonstrate the weakest uptake of GRI standards. This finding is mirrored by Ceres' 2017 report *Turning Point*, which mapped the sustainability performance of 600 of the largest public companies in the U.S. Only 37 percent of large U.S. companies use the GRI standards to map their sustainability reports.[20]

Figure 4: Use of Disclosure Standards — by Region



Phase 2 → Integration

Director Oversight of Sustainability

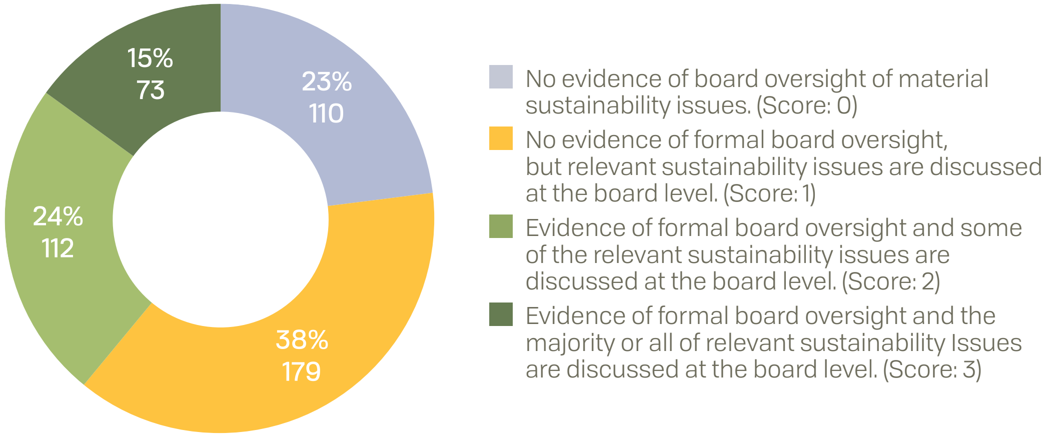
Investors are paying increasing attention to how boards manage oversight of sustainability. A 2017 survey by the CFA Institute revealed that financial analysts believe board accountability is the most important sustainability issue in their investment analysis and decision-making.[21] One reason is the increasingly well-established link between sustainability performance and material financial impacts.[22] Because corporate boards have a fiduciary responsibility to oversee material issues, disclosing the link between board oversight and sustainability issues demonstrates the integration to business strategy that investors are looking to see. The impact an engaged board can have is one of the reasons why board engagement is one of the key markers of the second phase of maturity in sustainability disclosure.

OVERALL FINDING

Most large global companies provide some evidence of board oversight of sustainability issues, but robust systems seem limited.

Some 23 percent of large global companies in our study provide no evidence of board sustainability oversight. Among those that do, disclosure is limited and tends to be marked by sporadic, rather than systematic, board involvement in sustainability. Only 15 percent of businesses provide strong disclosure of the role of the board in overseeing sustainability, including evidence of formal board mandates for sustainability and disclosure of how relevant environmental and social issues are discussed at the board level.

Figure 5: Director Oversight of Sustainability



Board oversight and materiality

Companies with the most robust disclosure of director oversight are far more likely to also disclose materiality assessments. Of the 73 businesses that provide the strongest disclosure on the role of the board in overseeing sustainability, 59 percent produced evidence of having conducted materiality assessments.

Interestingly, of the 110 companies that showed no evidence of director oversight of sustainability, nearly 25 percent provided evidence of strong materiality assessment processes. If the absence of disclosure of any board oversight equates to an actual absence of board oversight, then some company managements may be conducting materiality assessments but not sharing that information with the board. This would represent a significant challenge to directors carrying out their fiduciary duties—and a missed opportunity to share valuable insights that can inform strategic decision-making. In their engagements with companies, investors should ask not just whether they conduct materiality assessments, but whether they also share the results with their boards.

Ceres' reports *View from the Top: How Corporate Boards can Engage on Sustainability Performance* and *Lead From The Top: Building Sustainability Competence On Corporate Boards* provide detailed recommendations on how corporate boards can effectively oversee material sustainability issues, and include recommendations on strong disclosure on this issue.[23,24]

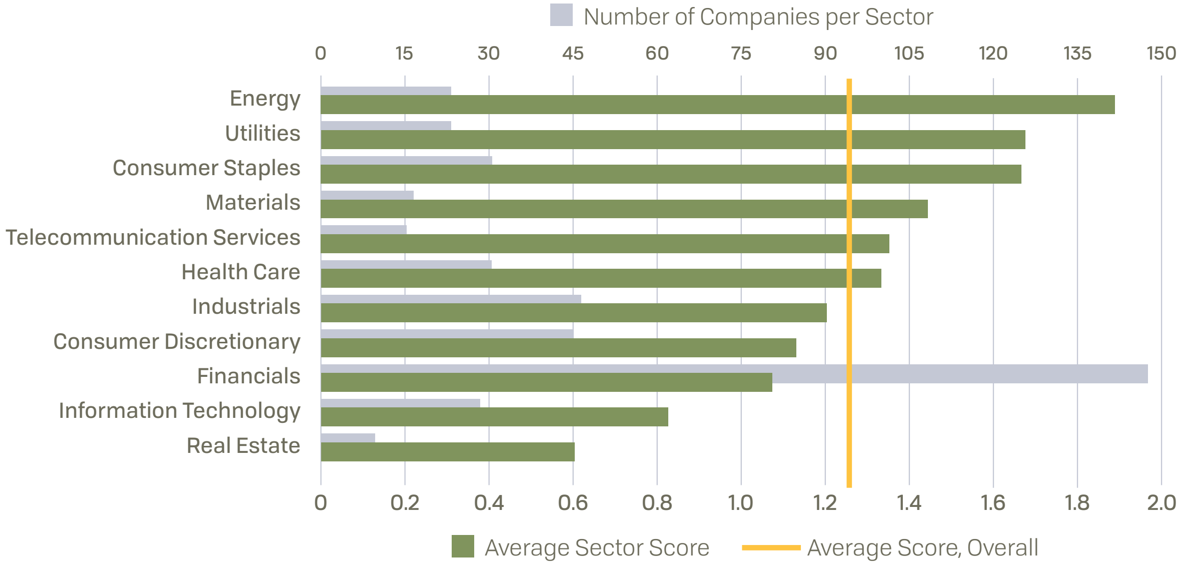
Best practice: *Director oversight of sustainability*

The L'Oreal Board of Directors has a Strategy and Sustainable Development Committee composed of five members and chaired by the CEO. It examines the societal and environmental consequences of corporate strategy developments and oversees the company's commitments to sustainable development. The company's Director of Corporate Social Responsibility and Sustainability regularly reports to the Board the progress made on the implementation of the company's 2020 sustainability commitments.[25]

SECTOR FINDING

Global companies in the energy, consumer staples, utilities, and materials sectors provided the most disclosure on this indicator, while real estate companies lagged.

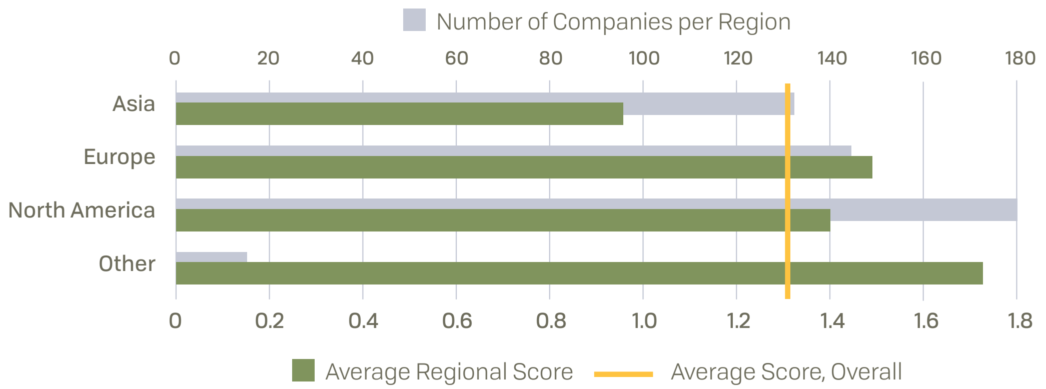
Figure 6: Director Oversight of Sustainability — by Sector



REGIONAL FINDING

European companies are more likely to provide evidence of director oversight of sustainability, while Asian companies lag. Ceres' Turning Point report found that the boards of 31 percent of large U.S. companies have formal oversight of sustainability.[26]

Figure 7: Director Oversight of Sustainability — by Region



Materiality Assessments

Because large companies face a wide range of potential sustainability risks, most reporting standards encourage companies to use a materiality lens to guide their disclosures. Companies exercise their judgement to determine which issues, including sustainability topics, are material to them.

The GRI defines materiality topics as those that "reflect the reporting organization's significant economic, environmental, and social impacts" or "substantively influence the assessments and decisions of stakeholders." This definition is broader than the legal materiality definition used in financial reporting, where materiality "is commonly thought of as a threshold for influencing the economic decisions of those using an organization's financial statements, investors in particular."[27]

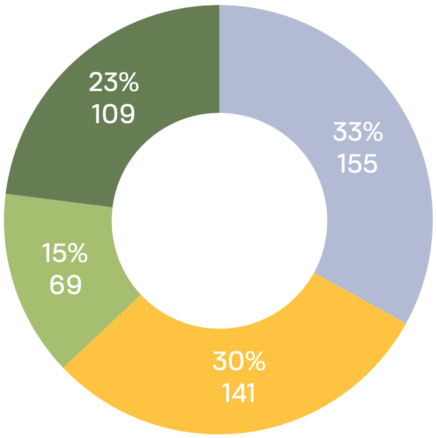
Rather than examining compliance to a specific type of materiality assessment, we looked at: whether companies disclosed details about their approach to materiality and stakeholder engagement; whether they provided the results of their assessments; and whether they provided evidence of how they were acting on prioritized issues. This link between insight and action is especially critical to helping investors understand how much companies consider sustainability a financially relevant issue and how the prioritization process affects corporate strategy. One of the characteristics of companies in the second phase of maturity on their sustainability disclosures is showing this connection between insight and action.

OVERALL FINDING

Most large global corporations disclose some evidence of having performed a materiality assessment, but the disclosure on the connections to corporate strategy is limited.

67 percent of large global companies conduct some level of materiality assessment for sustainability. However, most of these companies focus on the process of determining materiality, rather than on disclosing the impacts of such assessments. Just 23 percent of the companies both demonstrate strong materiality processes, and show how the results of such materiality processes are leveraged for internal decision making, for instance on strategy or prioritizing disclosures.

Figure 8: Materiality Assessments



- Does not provide evidence of having performed a materiality analysis. (Score: 0)
- Has performed a materiality analysis, but provides limited details about the process and stakeholders involved. (Score: 1)
- Has performed a comprehensive materiality analysis, provides a strong disclosure of the process and involves a wide variety of internal and external stakeholders throughout the assessment. (Score: 2)
- Has performed a comprehensive materiality analysis, provides strong disclosure of process, involves a wide variety of internal and external stakeholders throughout the assessment AND provides evidence that results are leveraged strategically internally. (Score: 3)

Best practices: *Materiality assessments*

BT Group analyzes materiality through an annual review, drawing on multiple sources of qualitative and quantitative information and publishing a materiality matrix. The company describes various methods of interaction with stakeholders and provides charts demonstrating the specific interests of those stakeholders. It analyzes that data, wider societal interest, potential financial impacts on the company over three years, and other factors to make decisions about strategy and to focus reporting on the most material issues.[28]

Materiality Judgment Guidance

The practical reality for companies preparing their external corporate reports is that they must navigate a number of factors in determining materiality:

- The information needs of multiple stakeholders;
- Multiple reporting provisions;[29]
- Internal objectives for reporting;
- External objectives for reporting (e.g. evidencing contribution to the SDGs, measuring impact, compliance etc.);
- Concerns about reporting "volume and clutter" obscuring important information.

In the absence of universally agreed objectives and standards for navigating these issues, determining what is material and what to include in corporate reports, why, to what extent, how and for whom depends primarily on judgement. Despite the burgeoning sustainability reporting landscape and demand for sustainability information from regulators, investors and others, there is evidence of a disconnect between the sustainability information investors seek and the information provided by companies.[30] The WBCSD is developing an ESG Disclosure Judgement Handbook that seeks to help companies navigate a judgement process designed to identify decision-useful information for disclosure to an investor audience.

SECTOR FINDING

The telecommunications and materials sectors provide the strongest disclosure of materiality assessments, while utilities and consumer staples are also above average. Companies in the information technology, energy, industrials and real estate sectors provide limited disclosure of materiality assessments.

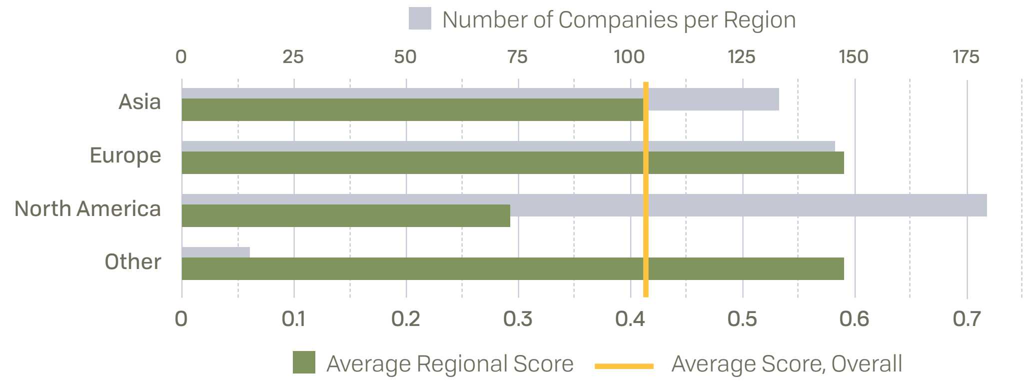
Figure 9: Materiality Assessment — by Sector

REGIONAL FINDING

Companies in Europe, Brazil and Australia provide the strongest disclosure on materiality, while the North American companies provide the poorest.[31] These findings echo those of the Ceres' *Turning Point* report. In *Turning Point*, which applied the same criteria and scoring system to 600 American companies, only six percent disclosed details of how the results of the materiality assessment informed strategic decision-making, in contrast to 23 percent in our international sample.

This data highlights a serious gap between what investors want and what U.S. companies are delivering, which poses a challenge to investors. A recent survey of investment professionals managing 43 percent of the global institutional assets, or $31 trillion dollars, found that 82 percent use sustainability information because it is financially material to investment performance.[32]

Figure 10: Materiality Assessment — by Region



Approach to Stakeholder Engagement

Companies engage with a broad range of stakeholders, including investors, consumers, suppliers, public interest groups, and regulators to identify emerging areas of concern and understand which issues are most relevant to outside stakeholders.

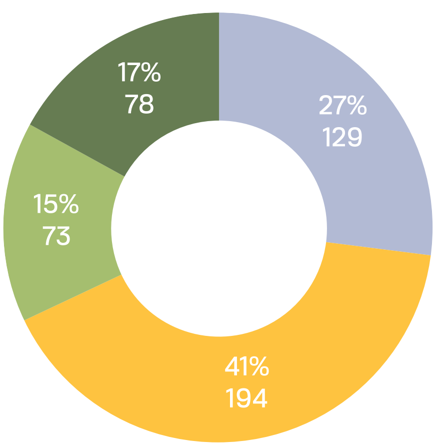
Thoughtful stakeholder engagement can help with risk management, drive a company's sustainability goals, and provide insight into new market possibilities, while poor stakeholder engagement can put shareholder value at risk. Successfully incorporating stakeholder engagement in driving corporate strategy and risk, and demonstrating this integration in the disclosure process, demonstrates a level of sophistication inherent in the second phase of maturity in sustainability disclosure. Robust stakeholder engagement is also a key component of materiality assessment.

While 73 percent of large global companies provide some disclosure on how they engage on sustainability issues, our assessment shows that most companies are not doing so in a strategic manner. 41 percent provide minimal disclosure on the details of stakeholder engagement, while 15 percent appear to primarily use stakeholder feedback to structure their corporate disclosures. Only 17 percent provide robust details of their efforts to engage stakeholders, including a description of how stakeholders are engaged on sustainability issues, feedback received, and details on how it is incorporated into the company's strategy and reporting.

OVERALL FINDING

While most large global companies disclose some level of stakeholder engagement, they provide limited disclosure on how stakeholder feedback affects corporate strategy and decision making.

Figure 11: Stakeholder Engagement



- Does not provide a summary of stakeholder constituencies or efforts to engage stakeholders on sustainability issues in a formal way. (Score: 0)
- Discloses a summary of stakeholder constituencies involved without additional details on efforts to engage stakeholders on sustainability issues in a formal way. (Score: 1)
- Discloses a summary of stakeholder constituencies involved, includes a description of how stakeholders are engaged on sustainability issues AND provides a summary of feedback received (company responses are primarily focused on reporting). (Score: 2)
- Discloses a summary of stakeholder constituencies involved and includes a description of how stakeholders are engaged on sustainability issues, feedback received, AND provides details on how it has been incorporated into the company's strategy and reporting. (Score: 3)

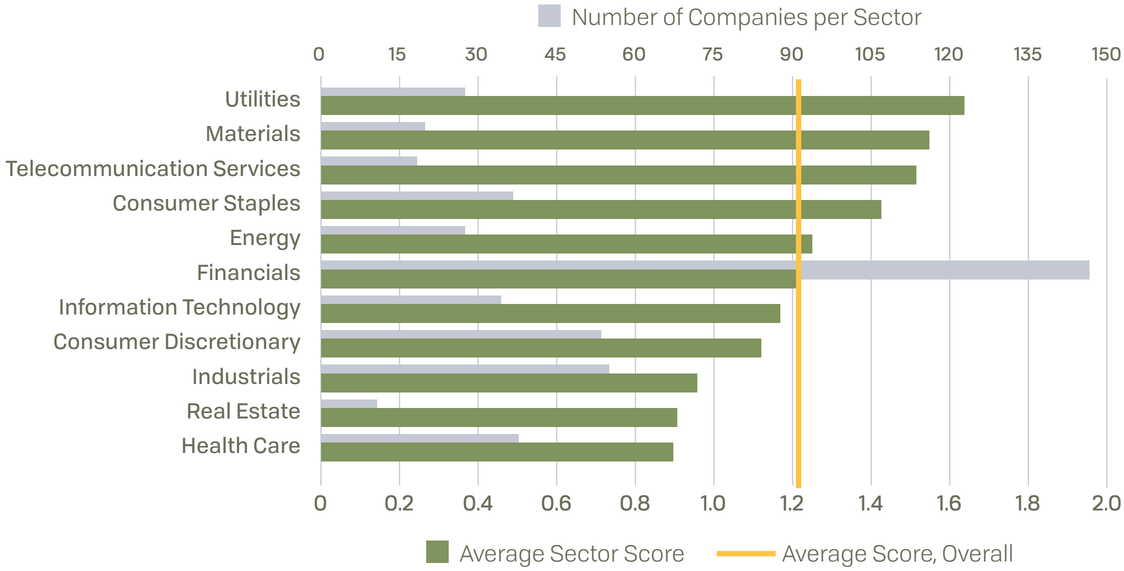
Best practices: *Approach to stakeholder engagement*

Tata Motors reports that broader and more inclusive stakeholder engagement provides valuable inputs. The company aligned its sustainability report with GRI reporting principles, including stakeholder inclusiveness. The company's process involves direct and detailed consultation with different stakeholder groups such as communities, suppliers, road safety experts, customers, investors and others, which helped it identify critical issues and focus on topics that are most important to its stakeholders.[33]

SECTOR FINDING

Companies in the utilities, consumer staples, materials and telecommunication sectors had better disclosure on their efforts to engage stakeholders, while companies in health care were laggards.

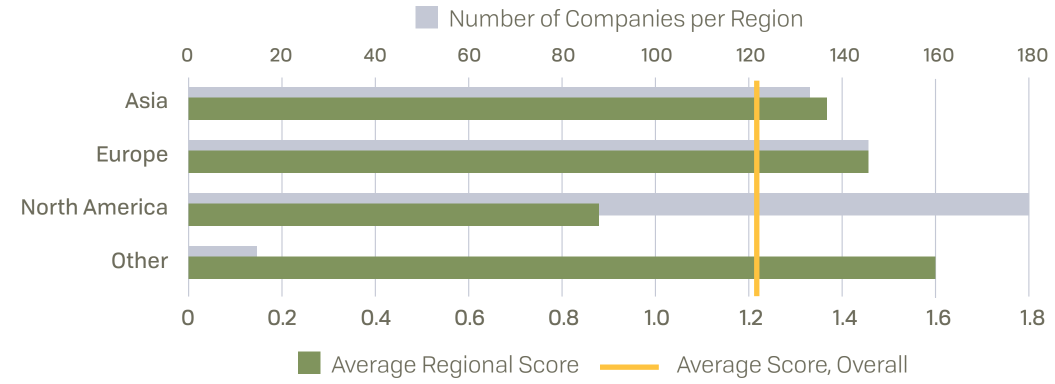
Figure 12: Stakeholder Engagement — by Sector



REGIONAL FINDING

North American companies tended to produce less disclosure on stakeholder engagement as compared to their global counterparts, while Brazilian, European and Asian companies were generally assessed above average.[34] Ceres' *Turning Point* report found that 64 percent of large US companies "provided no evidence of systematic stakeholder engagement."[35]

Figure 13: Stakeholder Engagement — Region



Phase 3 → Reliability

Assurance

Assurance, or third-party verification, increases confidence in disclosure. Investor surveys on sustainability disclosures have ranked external assurance a close third (behind board oversight and audit committee oversight) in establishing accountability for sustainability reporting, with two-thirds of investors saying that independent verification is "very useful" or "essential."[36] When companies are able to demonstrate to investors that their sustainability disclosures will stand up to external assurance in a similar manner to what is routinely applied to financial statements, this helps underscore that sustainability disclosures are trustworthy and credible—a key identifier of the final stage of maturity in disclosures.

Recent findings on Assurance from Accountancy Europe and WBCSD

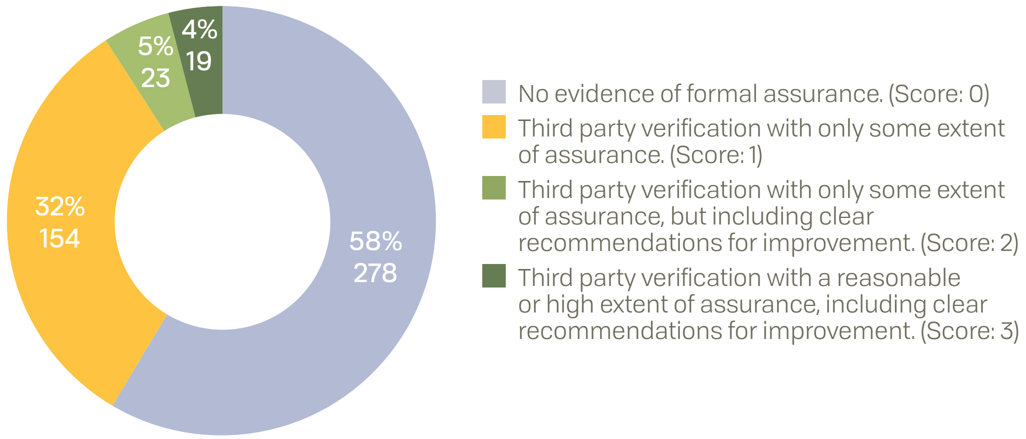
Accountancy Europe and the World Business Council for Sustainability Development (WBCSD) collaborated on *Responding to Assurance Needs on Non-Financial Information: Analysis of Expert Feedback*, released in May 2018.[37] The report analyzes expert feedback and solutions offered on six important challenges in providing ESG assurance in the EU. Areas covered include navigating the diversity of choices of professional standards to choose from (including applying and communicating the differences between limited and reasonable assurance); lack of maturity in company's ESG reporting processes; defining the scope of the assurance engagement; assessing subject matter (including forward-looking subject matter); assessing reporting criteria; and assessing materiality.

OVERALL FINDING

Most large global companies do not meaningfully assure their sustainability disclosures.

Company performance in the assurance indicator was the worst for any indicator in this study. 58 percent of global companies provide no evidence of any level of assurance. Less than 10 percent of the companies provide third party verified sustainability disclosures with some level of assurance and recommendations for improvement. Only 4 percent provide a reasonable or high level of assurance.

Figure 14: Assurance (Overall)



Despite the fact that investors clearly value assurance of sustainability reporting, most global companies do not yet seem prepared to provide it. Many factors could explain this poor performance, including companies underestimating investor demand and lacking confidence that the data can be assured or that the benefits will justify the costs.

It is likely to take considerable additional pressure from investors, securities regulators, and/or securities markets to improve the state of sustainability reporting assurance. Until then, most companies will not reach the third phase of maturity in sustainability disclosure.

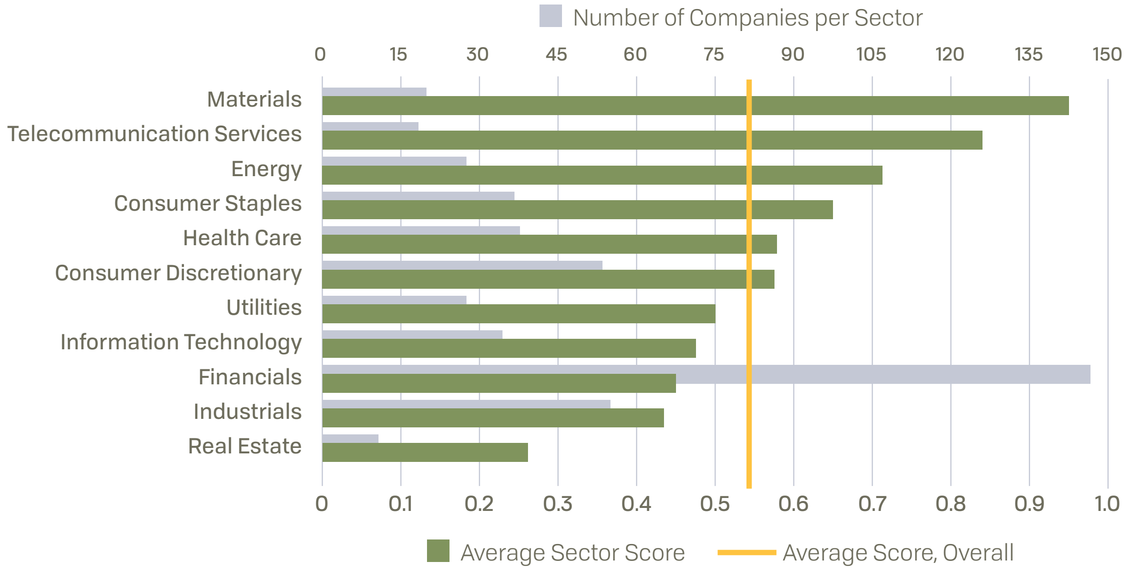
Best practices: *Assurance*

Philips' sustainability information is audited by an accounting firm in accordance with the Dutch law that is based on an International Standard on Assurance Engagements standard. The audit is aimed at obtaining reasonable assurance of the company's policies, business operations, and achievements in corporate social responsibility. It provides significant details about the process, including analyzing the systems for collecting information, visiting production sites to validate source data, and evaluating the presentation of the information overall, while also discussing the limits of the audit process.[38]

SECTOR FINDING

Global companies in the materials, telecommunications, and energy and consumer staples sectors provided the best evidence of robust assurance processes, while companies in real estate lagged.

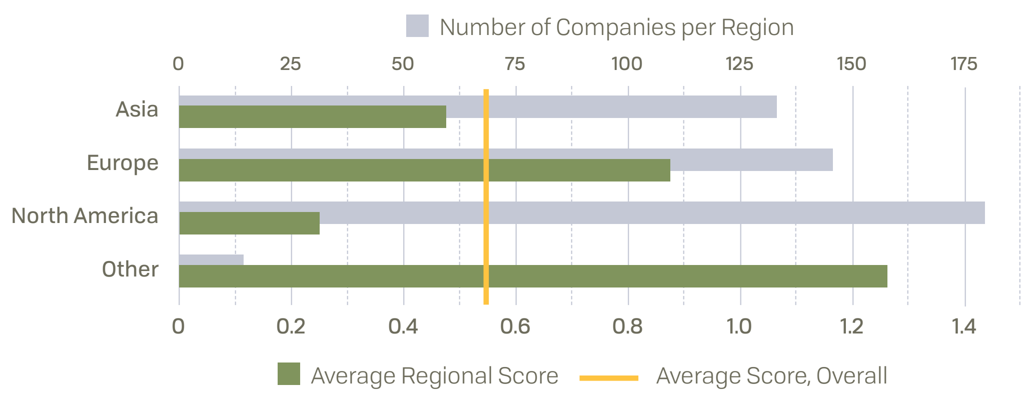
Figure 15: Assurance — by Sector



REGIONAL FINDING

Of the 42 companies with the strongest assurance of their sustainability disclosures, almost half were European. Assurance is not mandatory in the majority of European countries, but many may have implemented requirements in 2017 as a result of the European Non-Financial Reporting Directive.[39,40] North American companies accounted for more than half of the companies that provided no formal disclosure of assurance processes—even though they represented 38 percent of the entire sample. GRI data from 2013 shows that the lagging position of U.S. companies is not new.[41]

Figure 16: Assurance — by Region



Disclosure of sustainability targets

One of the best ways for companies to demonstrate they understand the importance of sustainability, manage risks and opportunities related to sustainability, and incorporate sustainability into their governance structures is to set clear goals. These goals should come with objective accomplishment criteria (quantitative if possible), and with clear accountability for achieving them. Our analysis considered the extent to which companies disclosed environmental and social targets, using a set of 19 specific goals across issue areas that are sometimes included in company sustainability reporting. We found that with one exception—goals related to greenhouse gas emissions—none of the rest of the goals were used by a majority of the companies in our sample. In fact, it was far more common to see that only 5-10 percent of the companies in the sample had established goals in any of the 19 areas other than GHG emissions reduction.

This failure to disclose well on goals across issue areas likely reflects that the parameters of sustainability that are considered material differ from sector to sector, industry to industry, and even company to company within the same industry. Thus, we would not necessarily expect that a majority of companies in our sample had, for example, adopted goals for water use, or set goals for product safety. Water use is obviously important in some companies, such as beverage companies and food producers, and product safety is a key factor for motor vehicle manufacturers, but neither is universally or even broadly material across our entire sample. It will be useful for investors to continue to monitor whether companies are adopting goals in material environmental and social areas as they become more adept at using all the indicators of progress in sustainability disclosure.

Recommendations

As our analysis shows, while large global companies are starting to put in place the disclosure systems investors are looking for, this adoption is not yet producing the kind of decision useful disclosures that investors want and need.

So what can global companies do to bridge this gap and provide capital markets with useful information that will drive decisions that price environmental and social risks appropriately? How can companies evolve across the phases of sustainability disclosure maturity?

Our recommendations are:

1. Commit to the comprehensive use of sustainability reporting standards

The data show that the use of the GRI appears to be the expectation, rather than the exception among the large global companies analyzed for this report. Adopting this widely used, market-tested framework provides a solid foundation for a mature sustainability disclosure process.

The rise of other sustainability disclosure standards, such as SASB, CDP, and the IIRC, and increased attention to the TCFD recommendations, has created confusion about which standard to use—adding to the concern about "disclosure fatigue." We recommend that, rather than approaching these standards as additional expectations, companies think of them as a way to hone the disclosures they are already making to suit specific audiences.

The standard-setting organizations are heeding market concerns about confusion and disclosure fatigue and are working together to eliminate overlap. For example, GRI and SASB are planning to release maps that show how their standards interrelate.[42] Many other disclosure groups have released details on how their standards correspond with other.[43,44,45]

2. Disclose the impacts of governance systems for sustainability

Investors care about governance systems for sustainability, such as board oversight, materiality assessments, and stakeholder engagement, because they demonstrate how companies prioritize sustainability issues and whether they see these issues as financially relevant. In other words, the establishment of these sustainability systems helps move companies towards integrating their business and sustainability strategies, and eventually their business and sustainability disclosures.

The data show that most large global companies disclose that they have the relevant systems in place—yet they do not disclose how these systems are being used to drive decision making on business performance and financial relevance. Companies should provide disclosure that bridges this gap. Adopting these systems helps businesses produce high-quality disclosures, moving the company along the "integration" maturity curve and helping them better meet investors' expectations.

Investors have a key role to play in this recommended practice. Company-shareholder dialogues should be used to confirm that companies are not approaching these systems in a "check the box" manner, and are instead using the systems to define and propel strategy.

3. Externally assure material sustainability disclosures

When a company provides sustainability disclosures that they expect investors to use, they need to demonstrate that the disclosures have been prepared with the same level of rigor as financial disclosures and can be relied on to the same extent. Robust external assurance provides the reliability that investors look for. Willingness to ensure that disclosures are "investor ready" in this way defines a mature approach to sustainability disclosure.

Conclusion

Our analysis reveals how much work there is to be done for companies to move through the three phases of maturity in sustainability disclosure so that they can truly satisfy investor demand for strategic, transparent and forward-looking sustainability reporting, or disclosure that matters. Still, the trend toward better sustainability reporting is on the rise and the forces pushing for more disclosure are growing.

As companies improve the quality of their reporting, investors will be able to price investments accurately and shift capital toward low-carbon, sustainable businesses.

As companies improve the quality of their reporting, investors will be able to price investments accurately and shift capital toward low-carbon, sustainable businesses. As the disclosure of this information becomes more widespread, capital markets will reward companies that make management of sustainability risks and opportunities part of their long-term thinking and planning. These market signals will incentivize companies to continue to provide the kind of mature sustainability disclosures that capital markets and investors need.

Appendix: Methodology

The research universe for this report is comprised of 476 of the largest companies from the Forbes Global 2000, an annual listing of the largest publicly listed companies in the world. The data was compiled by analysts at Vigeo Eiris, an independent international provider of global environmental, social and governance (ESG) research and services for investors and public & private organizations. For more information, visit www.vigeo-eiris.com.

Companies were scored on five indicators:

- **Use of disclosure standards.** Companies were scored using the following criteria:
  - Score of 0: No public disclosure based on the GRI framework.
  - Score of 1: Publish sustainability report according to GRI guidelines.
  - Score of 2: Publish sustainability report according to GRI guidelines, with GRI Index.
- **Director oversight of sustainability.** Companies were scored using the following criteria:
  - Score of 0: There is no evidence of board oversight of materially relevant sustainability issues.
  - Score of 1: There is no formal board oversight, but relevant sustainability issues are discussed at the board level.
  - Score of 2: Evidence of formal board oversight and some of the relevant sustainability issues are discussed at the board level.
  - Score of 3: Evidence of formal board oversight and the majority or all of relevant sustainability Issues are discussed at the board level.
- **Materiality assessment.** Companies were scored using the following criteria:
  - Score of 0: Does not provide evidence of having performed a materiality analysis.
  - Score of 1: Has performed a materiality analysis, but provides limited details about the process and stakeholders involved.
  - Score of 2: Has performed a comprehensive materiality analysis, provides a strong disclosure of the process and involves a wide variety of internal and external stakeholders throughout the assessment.
  - Score of 3: Has performed a comprehensive materiality analysis, provides strong disclosure of process, involves a wide variety of internal and external stakeholders throughout the assessment AND provides evidence that results are leveraged strategically internally.
- **Approach to stakeholder engagement.** Companies were scored using the following criteria:
  - Score of 0: Does not provide a summary of stakeholder constituencies or efforts to engage stakeholders on sustainability issues in a formal way.
  - Score of 1: Discloses a summary of stakeholder constituencies involved without additional details on efforts to engage stakeholders on sustainability issues in a formal way.
  - Score of 2: Discloses a summary of stakeholder constituencies involved, includes a description of how stakeholders are engaged on sustainability issues AND provides a summary of feedback received (company responses are primarily focused on reporting).
  - Score of 3: Discloses a summary of stakeholder constituencies involved and includes a description of how stakeholders are engaged on sustainability issues, feedback received, AND provides details on how it has been incorporated into the company's strategy and reporting.

- **Assurance.** Companies were scored using the following criteria:
  - Score of 0: No evidence of formal assurance.
  - Score of 1: Publication of third-party verified sustainability data with only some extent of assurance.
  - Score of 2: Publication of third-party verified sustainability data with only some extent of assurance, but including clear recommendations for improvement.
  - Score of 3: Publication of third-party verified sustainability data with a reasonable or high extent of assurance, including clear recommendations for improvement.

"Reasonable assurance" indicates that the assurors have carried out enough work to be able to make statements about the report which are framed in a positive manner: "the reported environmental data accurately reflects the CSR performance in 2014." "Limited assurance" indicates that the assurors have only carried out enough work to make statements about the report which are framed in a negative manner: For instance, "nothing has come to our attention which causes us to believe that the reported environmental data is not accurate."

Endnotes

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