A Closer Look at Water and GHG Emissions Disclosure

Mapping Reporting Practice to an Investor Perspective
ABOUT GRI
GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. With thousands of reporters in over 100 countries, GRI provides the world’s most trusted and widely used standards on sustainability reporting, enabling organizations and their stakeholders to make better decisions based on information that matters. Currently, over 50 countries and regions reference GRI in their policies. GRI is built upon a unique multi-stakeholder principle, which ensures the participation and expertise of diverse stakeholders in the development of its standards. GRI’s mission is to empower decision-makers everywhere, through its standards and multi-stakeholder network, to take action towards a more sustainable economy and world.

The GRI Standards are the first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>5</td>
</tr>
<tr>
<td>2. Principles and Disclosures</td>
<td>6</td>
</tr>
<tr>
<td>3. Investor Expectations</td>
<td>8</td>
</tr>
<tr>
<td>4. Current Practice</td>
<td>14</td>
</tr>
<tr>
<td>5. Shifting the Trillions: How Can Reporters &amp; Investors Understand Each Other?</td>
<td>19</td>
</tr>
<tr>
<td>Annex 1: Methodology</td>
<td>21</td>
</tr>
<tr>
<td>Annex 2: Investor driven frameworks, standards, initiatives and publications</td>
<td>22</td>
</tr>
<tr>
<td>Annex 3: List of interviewees</td>
<td>23</td>
</tr>
<tr>
<td>Annex 4: Elements of investor expectations</td>
<td>24</td>
</tr>
<tr>
<td>Annex 5: GRI G4 and GRI Standards Side by Side</td>
<td>25</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>27</td>
</tr>
</tbody>
</table>

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Executive Summary

Water and greenhouse gas (GHG) emissions are two of the most prevalent and relatively mature topics when it comes to climate change-related reporting, and investors are calling for standardization, verifiability and other key elements that ensure the usability and quality of the information that companies report. This publication takes a closer look at the expectations that investors have about water and GHG emissions reporting, how investors perceive the current practice of reporting, and an assessment of reports to evaluate how the reporting on these topics aligns with the investor perspective.

The principles of sustainability reporting are meant to inspire credibility and trust, but the fact that disclosures are still often perceived as unsatisfactory indicates that how they are applied merits scrutiny. Further, the great range of definitions of materiality is a challenge for corporate reporters and investors alike. A materiality assessment clearly shows how companies define what is material which helps investors better understand what approach is taken.

Based on an assessment of existing reporting initiatives, this research presents an overview of 17 expectations about sustainability reporting expectations that investors have. These are related to Issue Identification, Strategy and Governance, Data and Objectives and Assurance. This ‘proxy’ is later used to assess sustainability and integrated reports.

The perception of investors regarding current water and GHG emissions related reporting has been evaluated by interviews with 15 asset owners and managers. The key findings of the investor interviews are:

- the local context to water related disclosures,
- data availability for water and GHG emissions,
- the disclosure of meaningful objectives and targets,
- a clear view of the relevance or materiality of water and especially GHG emissions for the reporter,
- and lastly the disclosure of scope 3 GHG emissions data.

These findings reflected in the report assessment. Additionally, most reporters in the sample provide limited or no forward-looking data and scenario-analysis. There is also limited reporting on the link between water and GHG emissions performance and management incentives which can contribute to making objectives and targets more meaningful.

This publication can be seen as a conversation starter and encourages an active dialogue between data producers (report issuers) and data users (investors and data service providers) as this is a key opportunity to further align information supply and demand and catalyze the use of ESG information.
I. Introduction

Climate change is the greatest environmental challenge of our time. The signing of the Paris Agreement on 12 December 2015 was a milestone for the world and the global economy. The long-term goal is to keep the rise of global temperature below 2°C compared to pre-industrial limits, by the end of this century. That more than 170 countries have ratified the agreement to date sends a powerful signal: the transition to low-carbon economies is an unstoppable reality.

While the Paris Agreement is an instrument for governments, the private sector is the source of most of the global greenhouse gas (GHG) emissions, so it is also a crucial actor in finding solutions. In cases where political will to drive this change is not strong enough, the private sector and the investment community are stepping in to finance climate change mitigation and adaptation.

Particularly, there is growing demand from investors for companies to be more transparent on their environmental impacts, such as GHG emissions or water use, and to take actions to improve their environmental performance. Investors also recognize the importance and advantages of taking into account private-sector environmental, social and governance (ESG), specifically climate change information, when taking investment decisions. However, they still need to understand how to best interpret and use private sector ESG data to mobilize capital in favor of sustainable business practices.

Investors are currently calling for standardization, verifiability and increased clarity on the scope of sustainability disclosures and are searching for or developing context-based metrics. A recent study by Ceres, Disclose what matters, says that, although most of the Forbes Global 2000 companies use the GRI Standards as a comparable and industry-wide reporting framework, only a small percentage demonstrate integration between their sustainability and business performance.

GRI sees the dialogue between investors and corporate reporters as an opportunity. This study seeks to discuss the gaps and explore key opportunities to address challenges in sustainability reporting with information from experienced investors. It also analyzes the current reporting practice on water and emissions, comparing it against investor expectation.

The research was done by the GRI with the support of Alcoa Foundation and builds on the recent release of In-focus: Addressing Investor needs in Business Reporting on the SDGs, which is part of the Reporting on the SDGs Action Platform. It also builds on the previous collaboration between Alcoa Foundation, GRI, and RobecoSAM, Defining Materiality: What Matters to Reporters and Investors (2015) and Defining What Matters: Do companies and investors agree on what is material? (2016) which sought to uncover whether sustainability report issuers and investors identify the same topics as material.

3 Collaboration between GRI and UN Global Compact to tackle the challenge of business reporting on the Sustainable Development Goals (SDGs).
There is a general perception that the quality of ESG data needs to improve to be most useful to the investment community. GRI conducted a high-level assessment of data demand and supply, and assessed three key elements of sustainability reporting, to identify the main areas of improvement.

**PRINCIPLES**

As noted in the GRI Standards, the Reporting Principles of comparability, timeliness, reliability, and consistency are fundamental to achieving transparency in sustainability reporting and they should be applied rigorously to ensure that sustainability information inspires credibility and trust. The principles of the most used sustainability reporting initiatives in regard to climate, namely GRI, the Taskforce on Climate-related Financial Disclosures (TCFD), and the Climate Disclosure Standards Board (CDSB), are based on financial reporting principles underpinning the International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) and the underlying conceptual framework for reporting from the International Accounting Standards Board (IASB). These principles are key for effective communication with stakeholders. Since disclosures are still often perceived by investors as unsatisfactory, it can be said that the application of these principles’ merits scrutiny (i.e. how the reporting process is done). If the reporting principles are not correctly applied, the information disclosed may fail to inspire trust, which makes it less useful.

**MATERIALITY**

Reporting material information is a principle common to all reporting frameworks, although the definition of ‘material’ differs among them. Most mainstream investors are typically interested in the disclosures that are currently financially material. However, data disclosed in sustainability reporting often serve as an early warning system, indicating issues that may prove to be financially material in the future. Disregarding these signals can prove bad for business, a growing realization among institutional investors, especially pension funds, which tend to have a long-term investment horizon.

A joint challenge for companies and investors is the wide variety of approaches to materiality, from financial materiality, to a more outward looking definition of impact. Organizations like GRI focus on the importance of clear processes in defining what is material. In this way, investors see the process through which a company determines what is material in terms of their contribution to sustainable development.

The SDGs, but also the Paris Agreement and

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1 In the G4 version of GRI’s Sustainability Reporting Guidelines, the term ‘Aspect’ is used to refer to the list of sustainability subjects covered by the Guidelines and the term ‘topic’ is used to refer to any possible sustainability subject.
policies like the European Union Emissions Trading Scheme or the EU 2050 Long term strategy for a Clean Planet for All help move from a risk to business approach, to the impact space to show how there are contributing to the goals and targets set out in these public policies.

DISCLOSURES
To build on the reporting principles, the ‘how’, it is important to look at the disclosed information that is likely to be used in making investment decisions, the ‘what’. Based on analysis of the most frequently reported environmental GRI disclosures, and how they are used, there seems to be clear overlap between the information companies report on using the GRI reporting framework, and the metrics and indicators that are important to the investment community when it comes to water and emissions.

Previous studies conducted by GRI in collaboration with RobecoSAM and supported by Alcoa Foundation and additional desk research show that there is large overlap between what companies disclose and the issue areas on which investors seek information, especially on environmental issues4,5.

Water and GHG Emissions are common sustainability disclosures and their relative maturity makes them especially interesting to zoom in on. The aforementioned research also showed that for Mining and Metals, and the Hardware Technology and Equipment sectors, environmental and climate issues were considered material by investors and were highly covered by corporate reporters. By focusing on these sectors, this study assesses how information on water and emissions made available by companies aligns with priorities of investors.

This section looks into investor expectations for reporting on water and GHG emissions. These are derived from an assessment of a range of investor-driven sustainability reporting initiatives, and complemented with investor interviews. It also discusses whether investors see gaps between what the initiatives propose, what they want, and what they see in practice.

**SUSTAINABILITY REPORTING INITIATIVES CONSIDERED FOR THIS STUDY**

Several capital market and investor-driven initiatives were identified to establish investor expectations; among them the updated **WFE ESG Guidance and Metrics**, the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**, and the **LSE Group’s Guide to ESG Reporting** which is aligned with the FTSE Russel quantitative ESG data points. The recent discussion paper issued by PRI and ICGN on the **Investor Agenda for Corporate ESG Reporting** was also used as input to develop a principle-based proxy of investors’ expectations. See annex 1 and 2 for a full list of the initiatives and how they were selected.

These publications are well known, and publicly available resources created with investor input. The recent **Disclose What Matters** study by Ceres, which looks at a similar question of mapping ESG data supply and demand at a higher level, found that the use of the GRI Standards is now the expectation, rather than the exception, among global companies. All these studies provide insight on, among other things, what investors consider material, what reporting principles and level of context are expected, and what formats work best for investors.

The main recommendations and principles were compared to establish the elements of reporting on GHG emissions and water that would constitute a proxy for investor-relevant data, or data that is useful in investment decision-making.

**CATEGORIES OF INFORMATION SOUGHT BY INVESTORS**

Seventeen elements of investor-relevant reporting on the “what” were often seen in the initiatives considered for this research are listed below, grouped in 4 categories (see Annex 4 for the full list):

- **Issue Identification** focuses on what part of the organization’s value chain is disclosed on, how the material topics have been identified, how stakeholders have been engaged in the reporting process and how their input has informed the disclosure of material topics.

- **Strategy and Governance** looks at how the issues identified relate to the business model, activities and value creation proposition, from a financial and an impact perspective, and how this
3. Investor Expectations

Translates into policies, top-level oversight and responsibilities to ensure the management of these interactions. Combined, this gives an impression of how sustainability factors, specifically water and emissions, are integrated in the overall business strategy.

**Data and Objectives** (or targets) as providers of financial capital, investors are interested in clear insight on how intentions are translated into ambitious targets. Quantitative metrics and targets on their own are not enough on their own, which is why context is needed to be able to interpret this data. A clear example is water withdrawal: An organization might withdraw less water than its peers, but in a severely water stressed area. This means the impact associated with its water use could be several degrees more severe. Building on this, and due to the future-focused nature of climate change-related disclosures are expected to be forward-looking and potentially provide a scenario-analysis, which is also a key element of the TCFD Recommendations.

**Assurance** is a trait of disclosures that investors consider useful to make data more credible and support the quality of the disclosures.

**INVESTOR INTERVIEWS**

Investors have different information needs depending on their investment strategies and beliefs. Some of the relevant factors are whether their objective is risk mitigation or to develop innovative new products based on ESG information, the asset class(es) they focus on, and whether they are looking to inform their engagement and active ownership decisions.

The information that investors demand also seems to depend on the sector a company is operating in, even in areas like water and emissions. This indicates that some investors see differences in risk and opportunities for the same topics in different industries. It is also clear that investors focus on different aspects of disclosure depending on the aforementioned criteria.

Therefore, companies need to determine what particular groups of investors have in common in terms of data needs and build on this to further customize and cater to these specific information needs whenever possible. As an example, the Ceres Water tool shows the attention that investors are giving to water risks. It discusses what they need to consider when integrating water risks into their portfolio and investment decisions. Investors can point to this and other tools in their engagements with companies. Understanding such tools is important for report preparers to see how their data is used and how they can cater to what investors are looking for, such as where risks lie in a company’s value chain, related to water security – physically, regulatory, or social – management systems in place to address the risks, and geographic analysis. In order to get in-depth understanding of the specific needs of some investors, representatives of 15 asset managers and owners were interviewed for this study. The aim was to understand their perspective of the current practice of reporting on water and emissions and look into the gap between the reporting practice and investor expectations.
The interviews were focused on two main questions:

1. “what are the major shortcomings in current disclosures on greenhouse gas emissions?”
2. “what are the major shortcomings in current disclosures on water?”.

The aim of the open-ended approach was to let the interviewees speak from their own experience without influencing what the main challenges might be. This led to a wide range of answers, but there were multiple reoccurring topics which are discussed in this document. Their answers are presented below.

**Local Context:** A key takeaway from the investor interviews is that water disclosures are much less developed than emissions disclosures. Ten out of the 15 interviews mention the importance of disclosing the local context in the discussion of the interaction of a company with water resources. Investors stressed that companies need to adopt a different approach in reporting on water compared to emissions, as water is much more location dependent than emissions. Companies with operations in water stressed locations need to more prudent in their assessments because their impact is potentially more significant and the business itself more sensitive to changes in the

**Graph notes:** this graph shows in how many interviews the specific issues were highlighted by the interviewee. The different colors represent the topics to which the issues are related.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Water related</th>
<th>Applicable to water and emissions</th>
<th>GHG emissions related</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local context</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Data availability and Completeness</strong></td>
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<tr>
<td><strong>Objectives and Targets</strong></td>
<td></td>
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<tr>
<td><strong>Relevance (general)</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Scope 3 emissions</strong></td>
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7 [www.ceres.org/resources/toolkits/investor-water-toolkit](http://www.ceres.org/resources/toolkits/investor-water-toolkit)
operating environment. Thus, companies need to better disclose their exposure to water with a local perspective. Tools that were mentioned that could assist in ensuring the right kind of disclosure are for example the WRI Aqueduct.\(^8\) GRI Standard: 303 Water and Effluents\(^9\) facilitates the disclosure of context related information as well.

**Data Availability and Completeness:** Many investors indicated that in relation to both water and emissions disclosure, they struggle to obtain the information they require to inform their investment decisions. Some companies are still not disclosing at all, for different reasons ranging from not identifying the topic as material, to not having the management systems in place to gather information, or not knowing where to start. Where some are looking for specific indicators such as long-term carbon intensity targets or avoided emissions, others are looking for metrics that reflect the positive impact that a company has towards, for example, the UN Sustainable Development Goals. As companies also employ a variety of approaches to reporting based on their assessment of what investors might want to know, the end result of their reporting effort may become even harder to navigate for investors. This emphasizes the importance of a continued dialogue between reporters and data-users to streamline disclosure and mitigate reporting fatigue.

**Objective and Targets:** Ten out of 15 investors also cited the disclosure of goals for emissions and water as an area that needs attention. These goals show the intention of a company to mitigate its impacts. However, according to the interviewees, the targets set out are rarely meaningful. A target shows the intention to tackle the issue, but there need to be several other aspects to the disclosure to make it meaningful, including having a clear baseline, and answers to questions including how the target is determined, whether it is in line with the Paris Agreement scenarios and what the progress has been so far. As mentioned by an investor, because there are no legal consequences of disclosing targets, a company should connect them to directors’ remuneration to make them meaningful. The Science Based Targets\(^10\) initiative of the CDP, WRI and others, present a methodology to set targets on greenhouse gas emissions. Such an approach can boost stakeholder and investor confidence.

**Relevance:** There are several angles related to the relevance of information. The first is whether an investor thinks water and emissions are relevant to a company or a sector. Secondly, whether the company thinks the topics are relevant to disclose on. And thirdly, if a company discloses on a topic, it should be clear to the reader why the company sees the topic as relevant. On the first point, many investors interviewed argue that water and emissions are only material for certain sectors such as Oil and Gas, Mining and Metals, or Agriculture. These investors might view a company in a different sector reporting on these issues as reporting irrelevant information. This makes dialogue between the company and its stakeholders a crucial point. Several investors also highlighted challenges relating to the third angle, primarily with regard to GHG emissions, including that it is often not clear why emissions are material to the company. This holds for both the effect of a company’s

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\(^8\) [www.wri.org/our-work/project/aqueduct](http://www.wri.org/our-work/project/aqueduct)


\(^10\) [https://sciencebasedtargets.org/](https://sciencebasedtargets.org/)
emissions on the environment, and how physical and transitional risks created by the emissions and climate change are an increasing challenge to the operation of companies. This is related to setting meaningful targets, as previously discussed, but also scenario analysis, which will be discussed later.

**Scope 3 emissions**

More than half of the investors emphasized the importance of moving past scope 1 and 2 emissions, where the focus currently is, to Scope 3 emissions. This is because investors are moving towards investing in solutions with the SDGs as a framework, and increasingly recognize the urgency of meeting the goals set out in the Paris Agreement. More data is requested on indirect emissions coming from products, and service level data is required. Information on scope 3 emissions is either non-existent or highly incomplete, which ties into the issue of data availability. Investors gather that for many companies, the largest part of emissions that can be associated with the business falls under scope 3. However, investors also understand that reporting on scope 3 emissions comes with the largest challenges such as dealing with double counting if multiple companies are part of a supply chain or contribute to a single end-product.

The graph below shows 5 shortcomings that were mentioned less frequently but are still directly connected to the main shortcomings discussed above.

**SECONDARY SHORTCOMINGS**

![Graph showing secondary shortcomings]

Graph notes: this graph shows the number of interviews in which the specific issues were highlighted by the interviewees. The different colors represent the topics to which the issues are related.

- **Water related**
- **Applicable to water and emissions**
- **GHG emissions related**

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11 The GHG Protocol Corporate Standard classifies a company’s GHG emissions into three ‘scopes’. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. Source: [https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf)
3. Investor Expectations

**Forward looking data** and scenario-analysis are also seen as a major challenge for disclosure. Current ESG disclosures are primarily backward looking, which, as several investors pointed out, is not a bad thing as they value being able to see the progress a company is making over the years; this builds trust and credibility. However, it also means that forward-looking data is still in its infancy, although the TCFD recommendations\(^2\) have increased awareness on this issue. The interviews and the First Steps study by CDSB\(^3\), which finds that only 5 of the largest 80 European companies by market capitalization report to have done a scenario-analysis, and only one disclosed the outcomes, indicate their implementation has yet to gain traction. From the interviews, investors acknowledge this major challenge for companies, and state that showing awareness of future impact, through the disclosure of policies and capital expenditures aimed at mitigating climate impacts is already a step in the right direction.

**Relevance, Financial Relevance and Materiality** are closely related. Investors often mentioned the requirement to link the disclosures on water directly to financial indicators such as revenues. The sense is that it is not always clear how water or emissions, and the risks and opportunities associated with them, have the potential to influence the business financially. A specific KPI that was mentioned by one of the interviewees was the percentage of revenues that are exposed to water risks. These kinds of indicators can communicate the materiality of a topic. However, these KPIs can vary per investor. There is thus a need for ongoing dialogue between the company and their investors, and between investors and standards setters like GRI, to align where possible and limit the reporting burden. A third of the interviewees also explicitly called for a more **Sector-based approach**. Again, referring to **Relevance** and **Materiality**, there seems to be agreement that different sectors need to focus more on specific topics. According to one of the investors, one size does not fit all when it comes to sustainability reporting, and a sector approach will lead to better comparison between peer companies. GRI is currently establishing the work plan from which Sector Standards will be produced. This plan will start its first pilot and roll out in 2019.

\(^3\) [www.cdsb.net/sites/default/files/cdsb_nfrd_first_steps_2018.pdf](http://www.cdsb.net/sites/default/files/cdsb_nfrd_first_steps_2018.pdf)
4. Current Practice

Thirty English-language GRI G4 sustainability reports retrieved from the GRI Sustainability Disclosure Database and published in either 2016 or 2017 were used to assess reporting alignment. The key areas of reporting that were analyzed related to the GRI 303 Water and Effluents 2018 and GRI 305 Emissions 2016 of the GRI Standards. Reports released during 2016 and 2017 were used to provide a contemporary and representative sample of sustainability reporting. To focus the scope of the research, reports from the Mining, Metals, Technology Hardware and Equipment sectors were used, as they had been previously covered in GRI research funded by Alcoa Foundation. This builds on the previous finding of relatively satisfactory overlap on material topics for these sectors and allows a closer examination of how information is presented to investors.

The sample has been constructed to give a fair representation of the database per sector and geography. European and Asian companies had a notably higher representation in the sample. An overview of the sectors, geographies and size of companies is provided below.

### DISTRIBUTION OF ANALYZED REPORTS

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<th>SECTOR</th>
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<tbody>
<tr>
<td>Mining and Metals</td>
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<tr>
<td>Hardware Technology and Equipment</td>
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<tr>
<td>Asia</td>
<td>40%</td>
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<tr>
<td>Europe</td>
<td>30%</td>
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<tr>
<td>Northern America</td>
<td>13%</td>
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<tr>
<td>Latin America &amp; the Caribbean</td>
<td>10%</td>
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<tr>
<td>Oceania</td>
<td>3%</td>
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<table>
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<th>SIZE</th>
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<tbody>
<tr>
<td>MNE</td>
<td>50%</td>
</tr>
<tr>
<td>Large</td>
<td>50%</td>
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</tbody>
</table>
FINDINGS OF THE REPORT ANALYSIS
A broader analysis of the sectors assessed in this report confirmed that most report preparers report on water and emissions to some degree. 95% of the reports from the Mining and Metals industries covered water and 93% disclosed information on emissions. In the reports from the Hardware Technology and Equipment industries 79% had some disclosure on water and 87% reported on emissions.14

The analysis of reporting practices that are related to the interview results is followed by a broader discussion of the findings of the report assessment.

GAP ANALYSIS: GHG EMISSIONS
Firstly, the sustainability- or integrated reports were assessed on a wide range of criteria based on the elements of investor expectations. In line with the outcomes of the investor interviews, 4 key elements were identified. 30% of the companies in the sample report on how emissions and climate change are linked to corporate financial performance. This means that there is for example a clear explanation of how emissions reduction and energy save costs, or the costs of taking part in carbon trading schemes. Twenty three percent of the reports allude to the potential impacts but do not clearly describe how they would influence the bottom line of the company. Most reports do not link the issue to financial performance in any way. This is in line with the findings from the interviews that there is often a lack of explanation about how emissions are material to the company.

14 See annex 1 for more details on the methodology.
Objectives are often disclosed, 63% of the reports contain some form of, often but not always quantitative, objectives or target. This seems to conflict with investor perception. Looking more closely, it becomes clear that none of the reports disclose the scientific basis for the targets (for example in relation to the Paris Agreement) and only four reports discuss the strategic nature of the target, for example, whether it involves complying with current or anticipated regulation.

From the sample, 44% reports address scope 3 emissions, which is higher than what could be assumed from the interviews. That said, questions about the boundary, completeness and reliability of scope 3 emissions disclosures remain on the minds of investors as the level of reporting varies considerably. Some companies in the sample report only on their business travel emissions, which reveals the challenge for investors. For scope 1 and 2 it is reasonably clear what the boundaries for reporting are, but for scope 3 the boundaries are much wider, and depend heavily on what the reporter decides to disclose on.

When looking at whether performance on emissions is linked to executive compensation, only 13% of reports disclose that performance on sustainability targets is part of remuneration polices. Yet it remains unclear what this really means as the reported information is not granular enough (reference is made to the executive remuneration being linked to environmental performance, at large).
GAP ANALYSIS: WATER
For water, the reports were also assessed on a wide range of criteria based on the elements of investor expectations. The gap regarding local context that was identified in the investor interviews is also largely reflected in the report assessment. Only two of the companies assessed clearly reported what the water stress was in the
4. Current Practice

Areas they operate in, and both used the WRI Aqueduct tools. Thirty percent of the reports did acknowledge awareness of the importance of tackling water from a location and context-based approach. However, these reports lacked an explanation of what percentage of operation was located in water stressed areas and the degree of stress. The majority of the reports did not discuss the local context at all. Companies need to be much more explicit about the local context when reporting on water if they aspire to provide useful information to investors.

Results for water objectives and targets are similar to those of emissions. Many reports disclose them but there is no clear reasoning behind the objectives and targets. Additionally, targets are often very near term. Rarely are goals set beyond 2020 or even the next reporting year; this means it is not clear how these goals contribute to the long-term strategy of the company. Compared to emissions, fewer companies link water to their corporate financial performance. If reporters do make such a link, it is about cost savings through improved efficiency. Although some companies talk about the possible influence of climate change on water availability, only two companies state to have done scenario-analysis related to both emissions and water.

More generally some key observations are relevant for both water and emissions. Although almost all companies in the Mining and Metals, and Technology Hardware and Equipment sectors identify both water and emissions as material topics, few reports clearly describe why the topic is deemed material. The challenge of climate change is often cited as a reason to report on emissions, but how the company itself contributes to the challenge, or how it will be affected needs more attention. For water this is similar although the approach is different. Although water impacts are for a large part in its operation, for the other sectors the impacts are most significant in the supply chain. This was also mentioned in the interviews, that next to a geographical aspect of operations, supply chain was also an area where reporting needs to improve.

Water and emissions policies and managements systems are often placed within a wider policy realm of environment and climate, which signals overall commitment, but leads to less detailed information about how companies are tackling the underlying and more tangible impacts, and the implementation and evaluation of policies is only disclosed in a handful of reports.

From a management perspective, reports tend to address the oversight that the board has on the overall sustainability strategy of the company, but there is little notice regarding the accountability and responsibilities on the topics specifically. Although this signals the intention to mitigate risks or seize opportunities, it does not give investors much on which to build their investment decisions.

Assurance is the last aspect discussed. A large portion of the reports receive some form of external assurance which contributes to the reliability and credibility of the report. However, for the report to be truly credible, specific assurance on the water and emissions data is needed. Most reports do not clearly show the degree to which this data is assured.
In the interviews, investors were asked to what degree they use sustainability reports themselves. Sixty seven percent of the investors said they use sustainability reports themselves mostly for engagement and active ownership purposes whereas they rely on ESG data, research or index providers such as Bloomberg, MSCI, FTSE Russel and Sustainalytics for aggregated and quantitative metrics. Sustainability reports are an important source of information for data service providers who often rely on publicly available and disclosed information. This means that there are other key actors beyond the report issuers and the investors that should be included in the dialogue.

This research found that corporate reporters still struggle to clearly communicate the actual materiality of information they disclose. Sustainability and the environment are often addressed, but the specific information needed to determine the impact the company has on climate change, and what this means for their long-term strategy, is generally not provided or needs to improve for sustainability reports to really inform investment decisions. This is especially the case for the ever-increasing group of investors who aim to measure the impact of their investment portfolios. Scenario analysis and a more forward-looking focus can help inform investor decisions. It can also help a company better understand the business case for either adapting or transforming business models to prepare for a changing regulatory environment as anticipated in the Principles for Responsible Investment, ‘the inevitable policy response to climate change’.¹⁵

From the interviews, when talking about specific data points, the ones that need most attention are providing the local context for water related impacts such as geographical information to be able to identify water stressed operations and how these issues are managed. Regarding emissions, a further focus needs to be on solving the challenges that currently surround scope 3 emissions reporting.

It is necessary to have a dialogue involving all the players in the landscape: reporters, investors, ESG data service providers, regulators, and standard setters. The current focus on climate and the strong support by big players such as the European Commission, the TCFD, and the Corporate Reporting Dialogue’s alignment project are all efforts to tackle the challenges in corporate reporting. At this time, bottom-up and top-down developments and progress are being made. With

¹⁵ www.unpri.org/climate-change/the-inevitable-policy-response-to-climate-change/3578.article
publications such as the SSE regulator report,\textsuperscript{16} market regulators are provided insight into how they can catalyze sustainable development. Keeping track of these developments will be important for corporate reporters and is intended to help reach a level of confidence in corporate reporting that will lead to an increase of green finance and responsible investment to secure a sustainable future for all.

\textsuperscript{16} www.sseinitiative.org/securities-regulators/
Methodology

The research conducted for this publication was done in three steps. Firstly, it was important to establish an understanding of investor expectations for corporate sustainability reporting and translate this to criteria that can be used to assess how well reports are aligned with the expectations. The expectations are mostly related to what we define as sustainable reporting principles that lead to investor-grade information. Examples of this are timeliness, context, and comparability. This report does not assess the content of disclosure.

There are multiple investor driven initiatives that can be used as a proxy for investor expectations. The investor’s proxy is picked following these criteria:

• The initiative must be investor driven or written from the investor/stakeholder perspective.
• The initiative or publication comes from a well-known source.
• Climate-related disclosures are a key part of the initiative.
• The initiative or publication is public.
• Information on the initiative was accessible or downloadable online.
• The initiative was available in English.

The second step was to assess corporate sustainability reports based on the established proxy of investor expectations. These reports are collected from the Global Reporting Database, a freely accessible database with over 50 thousand sustainability reports based on the GRI sustainability reporting framework or other methodologies. The reports assessed for this study were selected based on the following criteria.

• The report was published by an organization from one of two sectors. Sectors are defined according to Business Activity Groups/CIGS and sector disclosures. These sectors are Technology Hardware and Equipment, and Mining and Metals.
• Published from 2016 to 2017.
• ‘In accordance’ with GRI G4 guidelines.
• The report was accessible or downloadable online.
• The report was available in English

The sector-wide statistics from the sectors were retrieved for the GRI Benchmarking Service on 31 August 2018.

• When analyzing the G4 reports for benchmarking, only the reporting claims made in the GRI Content Index have been taken into account; further information such as assurance statements, content of the report, etc., has not been analyzed.
• These are reports following the G4 guidelines, with a declared ‘in accordance’ options (Core or Comprehensive) and publication years from 2013 to 2017, that have been included in the GRI Sustainability Disclosure Database.
• The majority of the data available in the database is collected by GRI in collaboration with its data partners and captures all reports of which GRI is aware.
Investor driven frameworks, standards, initiatives and publications

(in alphabetical order)

- Addressing Investor Needs in Business Reporting on the SDGs (GRI, PRI, UN Global Compact)
- Carbon Disclosure Standards Board (CDSB)
- Ceres Water Toolkit
- EU Non-Financial Reporting Directive (NFRD)
- London Stock Exchange (LSE) Group: Your Guide to ESG Reporting
- Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD)
- Sustainability Accounting Standards Board (SASB)
- Sustainable Stock Exchanges (SSE) Initiative
- The Investor Agenda for Corporate ESG Reporting
- Transition Pathway Initiative (TPI)
- World Federation of Exchanges (WFE) ESG Guidance
List of interviewees

(in alphabetical order)

- Aberdeen Standard Investments
- Aegon Asset Management
- Alecta
- AP7
- East Capital
- Hermes Investment Management
- Liontrust
- Mirova
- PCAF/ACTIAM
- PCAF/MN
- PGGM
- Santander
- Santander Asset Management
- State Street Global Advisors
- Walden Asset Management/Boston Trust
Elements of investor expectations

ELEMENTS OF EXPECTATION

ISSUE IDENTIFICATION
• Organizational boundaries
• Material topics and stakeholder engagement.
• Identification of risks and opportunities and how they are managed

STRATEGY AND GOVERNANCE
• Relation between risks and opportunities and the business activities
• Link between risks and opportunities and financial performance
• Policies and implementation
• Board oversight, top level responsibility and remuneration policies
• Integration of risk and opportunities in the overall business strategy

DATA AND OBJECTIVES
• Objectives and targets
• Science-based targets and objectives
• Context for metrics and targets
• Methodologies for data collection and use of standards (GHG protocol etc.)
• Positive and negative aspects (balance)
• Peer comparison and benchmarking
• Forward looking data and scenario analysis

ASSURANCE
• External assurance
GRI has included climate related metrics in its Standards since 1997 to allow companies to communicate their climate related impacts. These metrics have changed over time and because this research uses G4 reports in the sample, we compare them with the current GRI Standards 2016, and the revised GRI 303; Water and Effluents 2018. G4 was introduced in 2012 and replaced by the GRI Standards in 2016. The two documents are compared to be able to identify the changes over time and trends of current reporting on water and emissions.

As can be seen from Figure 1, which show the water-related disclosures from GRI over time, there have been some significant changes. For example, water reused and recycled is no longer considered essential to understand the impacts of an organization’s water use. These revisions are done to reflect internationally-agreed best practices.

<table>
<thead>
<tr>
<th>G4: Water</th>
<th>GRI 303: Water 2016</th>
<th>GRI 303: Water and Effluents 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Total withdrawal by source</td>
<td>• Water withdrawal by source</td>
<td>• Interactions with water as a shared resource</td>
</tr>
<tr>
<td>• Water sources significantly affected by withdrawal of water</td>
<td>• Water sources significantly affected by withdrawal of water</td>
<td>• Management of water discharge-related impacts</td>
</tr>
<tr>
<td>• Percentage and volume of water recycled and reused</td>
<td>• Water recycled and reused</td>
<td>• Water withdrawal</td>
</tr>
<tr>
<td>G4: Effluents and Waste</td>
<td>GRI 306: Effluents and Waste</td>
<td>• Water Discharge</td>
</tr>
<tr>
<td>• Total water discharge by quality and destination</td>
<td>• Water discharge by quality and destination</td>
<td>• Water Consumption</td>
</tr>
<tr>
<td>• Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization’s discharges of water and runoff</td>
<td>• Water bodies affected by water discharges and/or runoff</td>
<td></td>
</tr>
</tbody>
</table>
and recent developments in water stewardship and reporting, as well as harmonization with other frameworks. The first apparent change is the inclusion of elements that previously were part of the Effluents and Waste guidelines but are now part of the Water and Effluents Standard. Also, the most recent standard requires more content on the Management Approach to focus on how water is managed as a shared resource and impacts at the local level. Water consumption gives a clearer idea of impact, as it is designed to measure water that is not returned to the environment, and there is more emphasis on areas with water stress and where action is needed. Also, there is a distinction between freshwater and other resources, to better assess critical impact on freshwater. And there is more reporting about impacts in the supply chain.

Emissions reporting, as one of the most mature areas of sustainability disclosure, is consistently considered essential information. Previous research shows that investors’ needs are well reflected in the GRI reporting frameworks over time. These are broadly considered the relevant metrics and can be used to calculate preferred ratios and such by investors and other data-users.

### Annex 5: GRI G4 and GRI Standards Side by Side

<table>
<thead>
<tr>
<th>G4: Emissions</th>
<th>GRI 305: Emissions 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct greenhouse gas (GHG) emissions (Scope 1)</td>
<td>• Direct (Scope 1) GHG emissions</td>
</tr>
<tr>
<td>• Energy indirect greenhouse gas (GHG) emissions (Scope 2)</td>
<td>• Energy indirect (Scope 2) GHG emissions</td>
</tr>
<tr>
<td>• Other indirect greenhouse gas (GHG) emissions (Scope 3)</td>
<td>• Other indirect (Scope 3) GHG emissions</td>
</tr>
<tr>
<td>• Greenhouse gas (GHG) emissions intensity</td>
<td>• GHG emissions intensity</td>
</tr>
<tr>
<td>• Reduction of greenhouse gas (GHG) emissions</td>
<td>• Reduction of GHG emissions</td>
</tr>
<tr>
<td>• Emissions of ozone-depleting substances (ODS)</td>
<td>• Emissions of ozone-depleting substances (ODS)</td>
</tr>
<tr>
<td>• NOX, SOX, and other significant emissions</td>
<td>• Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions</td>
</tr>
</tbody>
</table>
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