TRAINING ON CORPORATE SUSTAINABILITY (II)

CORPORATE SUSTAINABILITY REPORTING

23 FEBRUARY 2023

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Institute for Corporate Sustainability

Richmond Business School

Reporting Sustainability Rationale

Businesses

- Business value no longer concentrated on tangible assets
- 98% of the CEOS consider that sustainability is key in embedding strategy (2022 UN Compact- Accenture CEO Study)

Stakeholders

- Financial information does not provide the whole picture
- Investors, creditors, consumers , employees have diverse interests in businesses

Regulators

- Additional regulatory requirements

The challenges of reporting sustainability information

- Diverse nature of information users
- It affects very diverse areas: bribery, environmental aspects, social impact with requirement of collaborative set ups within the business.
- Resource intensive – cross functional
- Multiplicity of frameworks, standards, metrics reported

Reporting on sustainability performance

WHY

HOW

WHAT

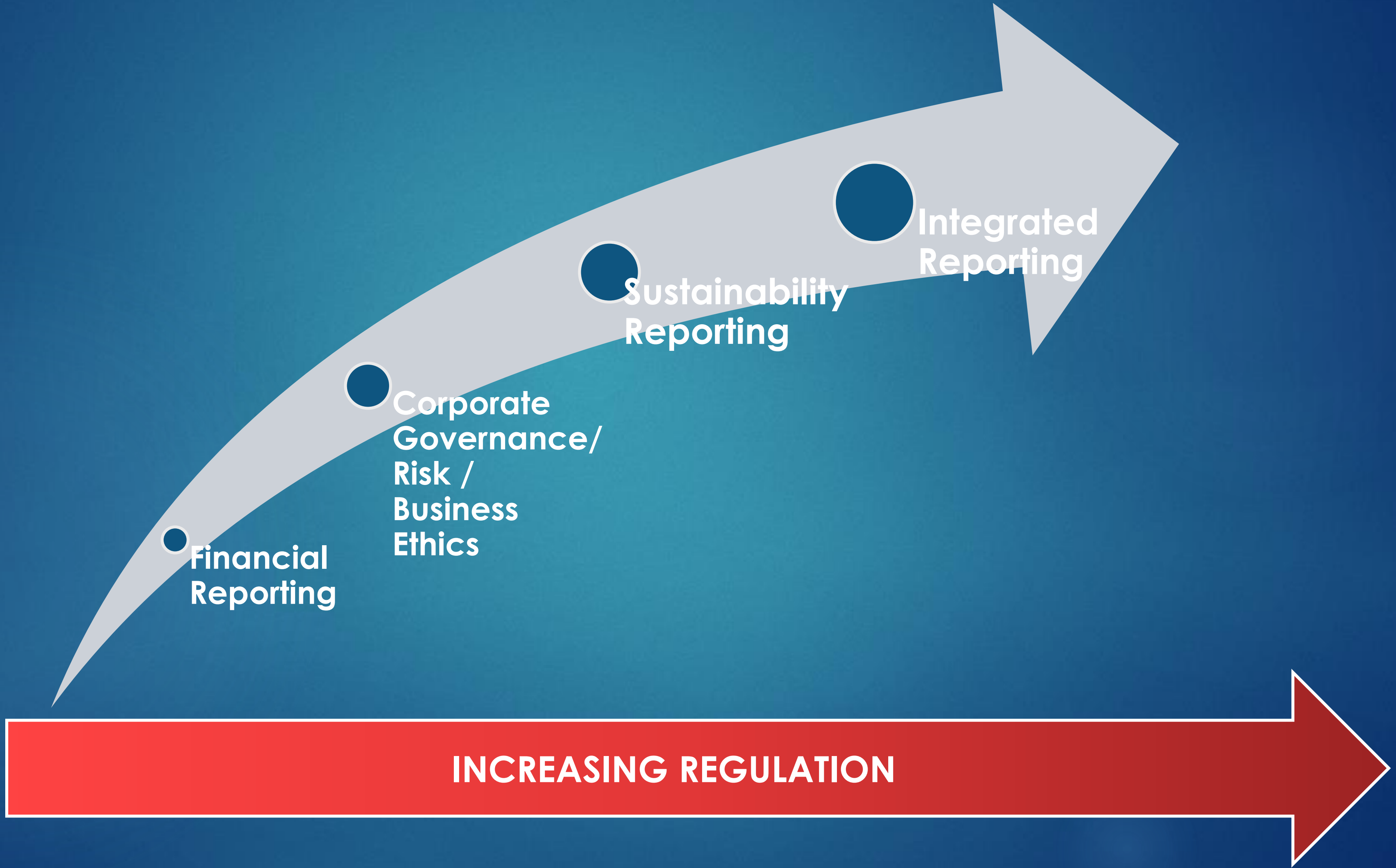
Reporting sustainability performance – Why

- Pressure from stakeholders: Shareholders, creditors, employees, customers, regulators
- Peer pressure
- Transparency on indicators that are financially relevant
- Commercial relationships
- Financial rationale

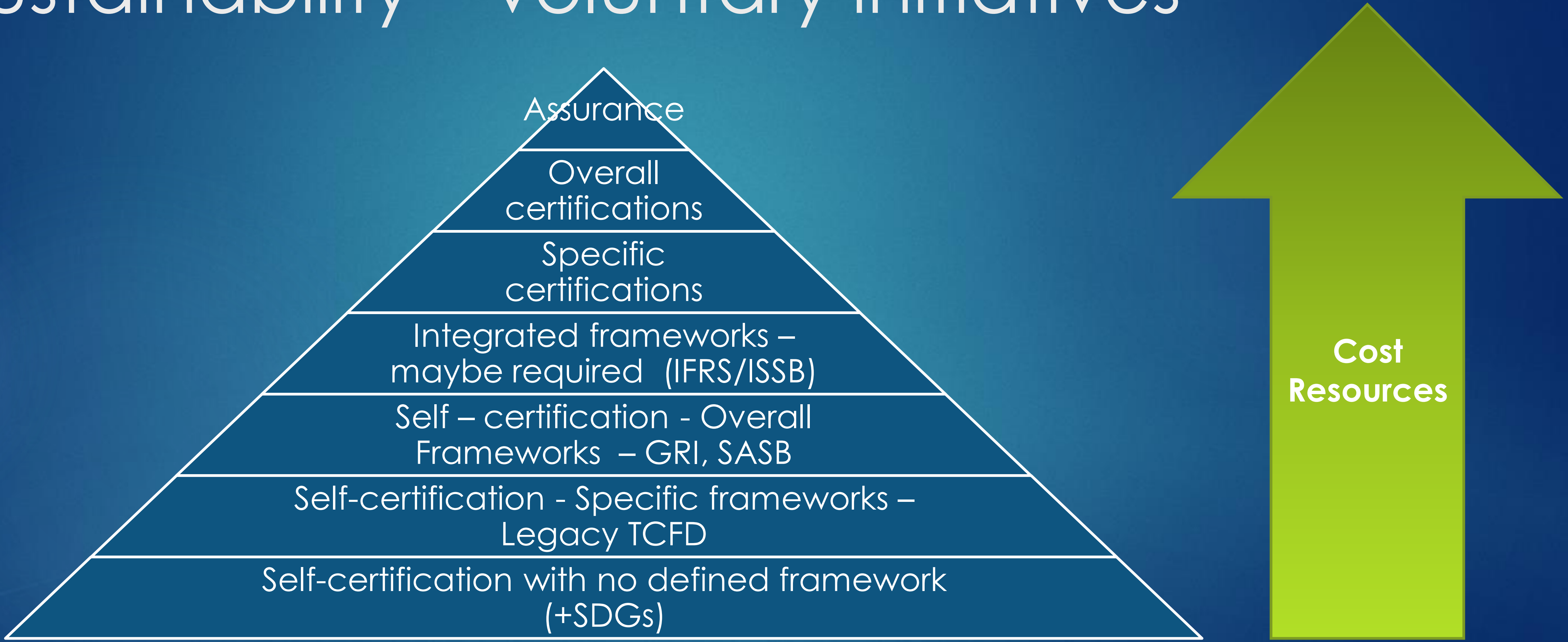
Reporting sustainability performance - What

- Material impacts
- Usefulness – enterprise value or other stakeholders
- Cost effective

An evolutionary perspective

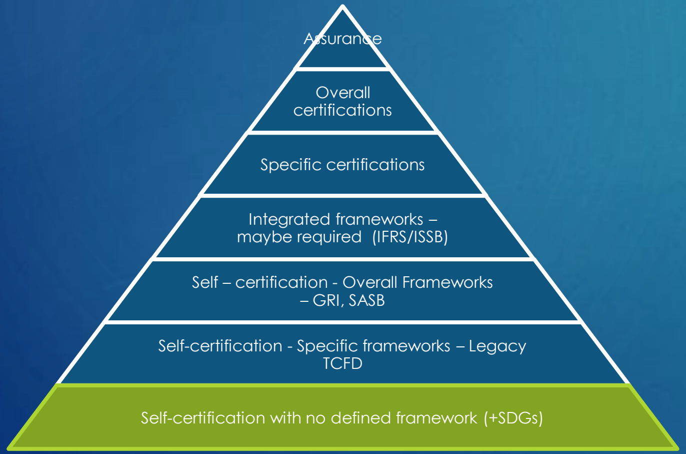


How companies report sustainability – voluntary initiatives



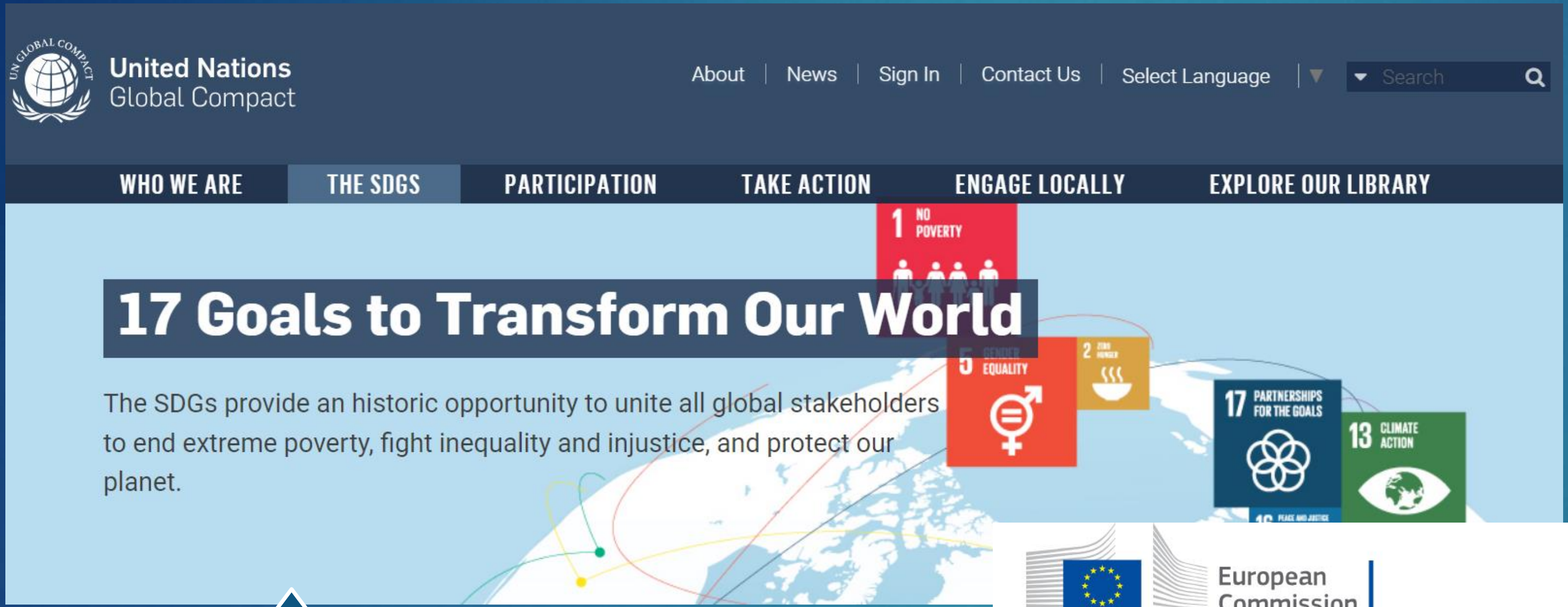
Self-certification with SDGs

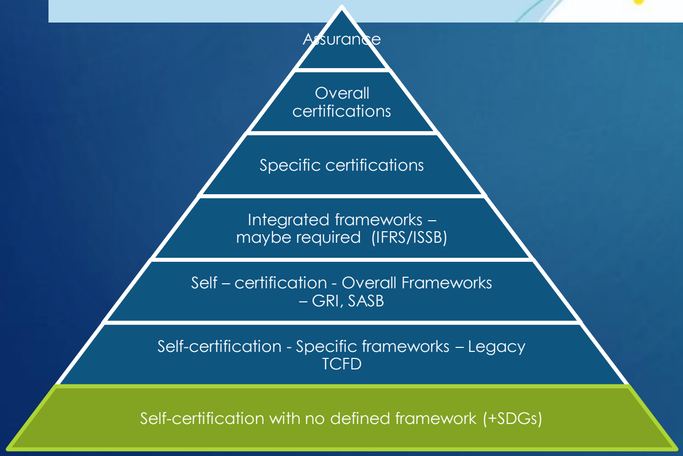
- Businesses and organizations integrate the Sustainability Development Goals on their reporting.
- Well understood and developed
- Challenging given that it is sector-agnostic

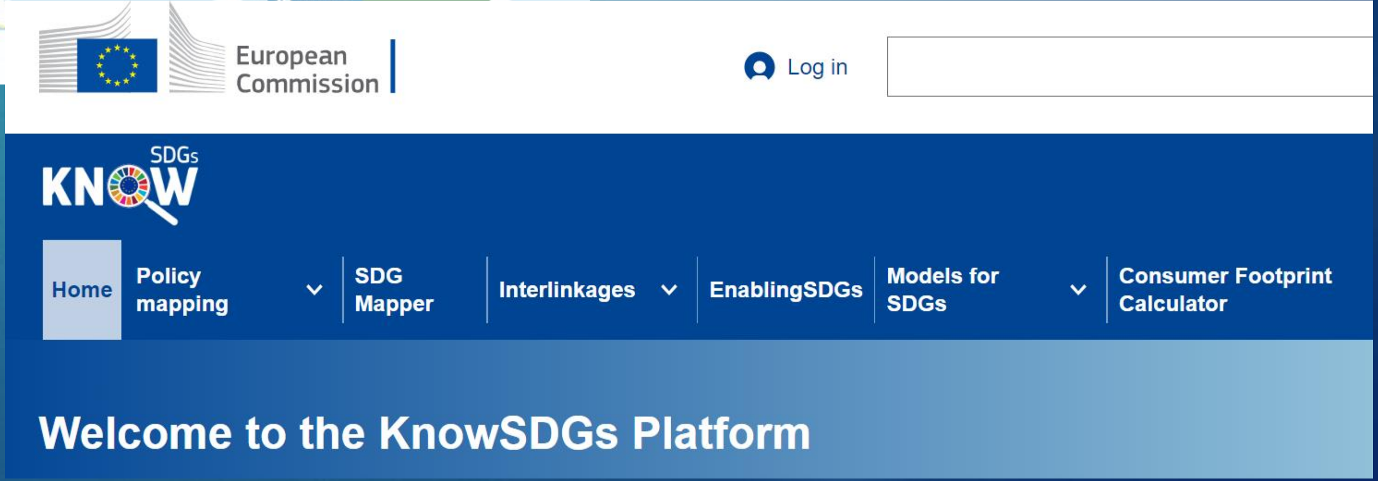


Self-Certification with SDGs – the process

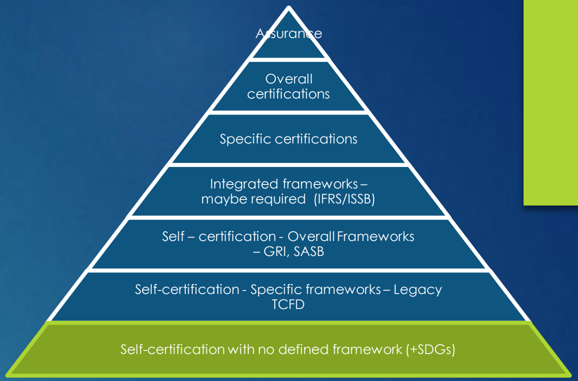
Support resources to integrate SDGs on reporting





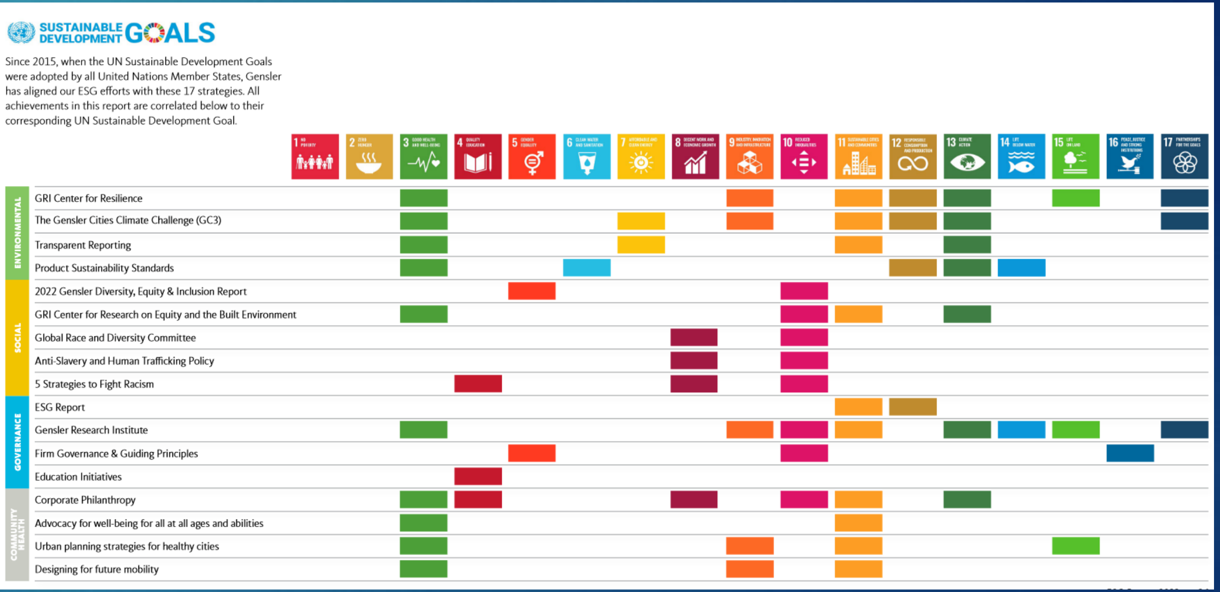


Practical importance



- It sets a common language that corporates start understanding
- It is common practice to report on SDGs

Inditex ESG report 2022



Gensler ESG Report 2023

CDSB, TCFD - Legacy

Climate Disclosure Standards Board

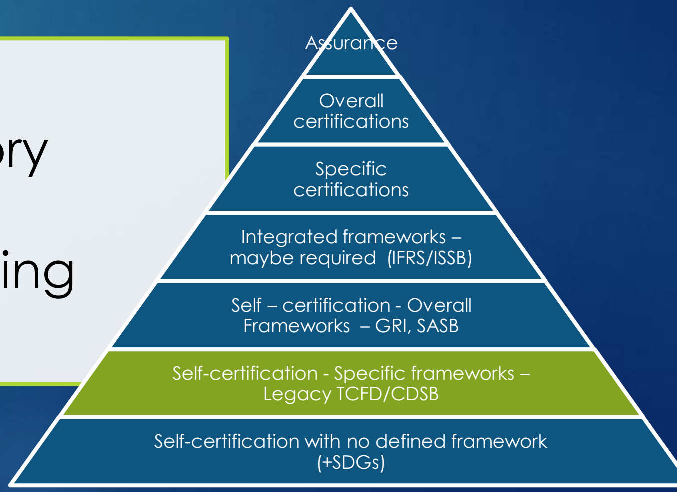
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

CDSB

- Mainly focussed on disclosures on natural capital (recently extended to social capital)
- Principles based
- Aim at financially relevant disclosure

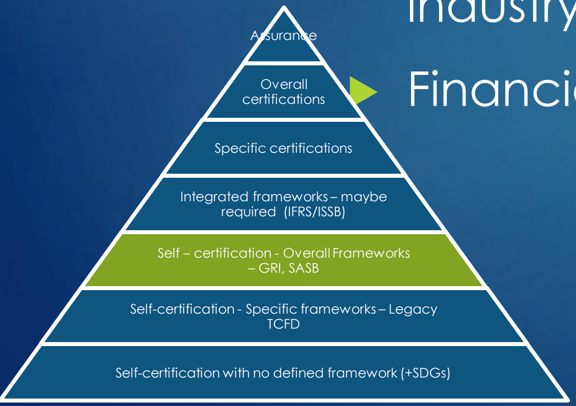
TCFD

- Climate change disclosure that can be included in regulatory information
- Principles regarding the governance, integration and reporting of financially material information

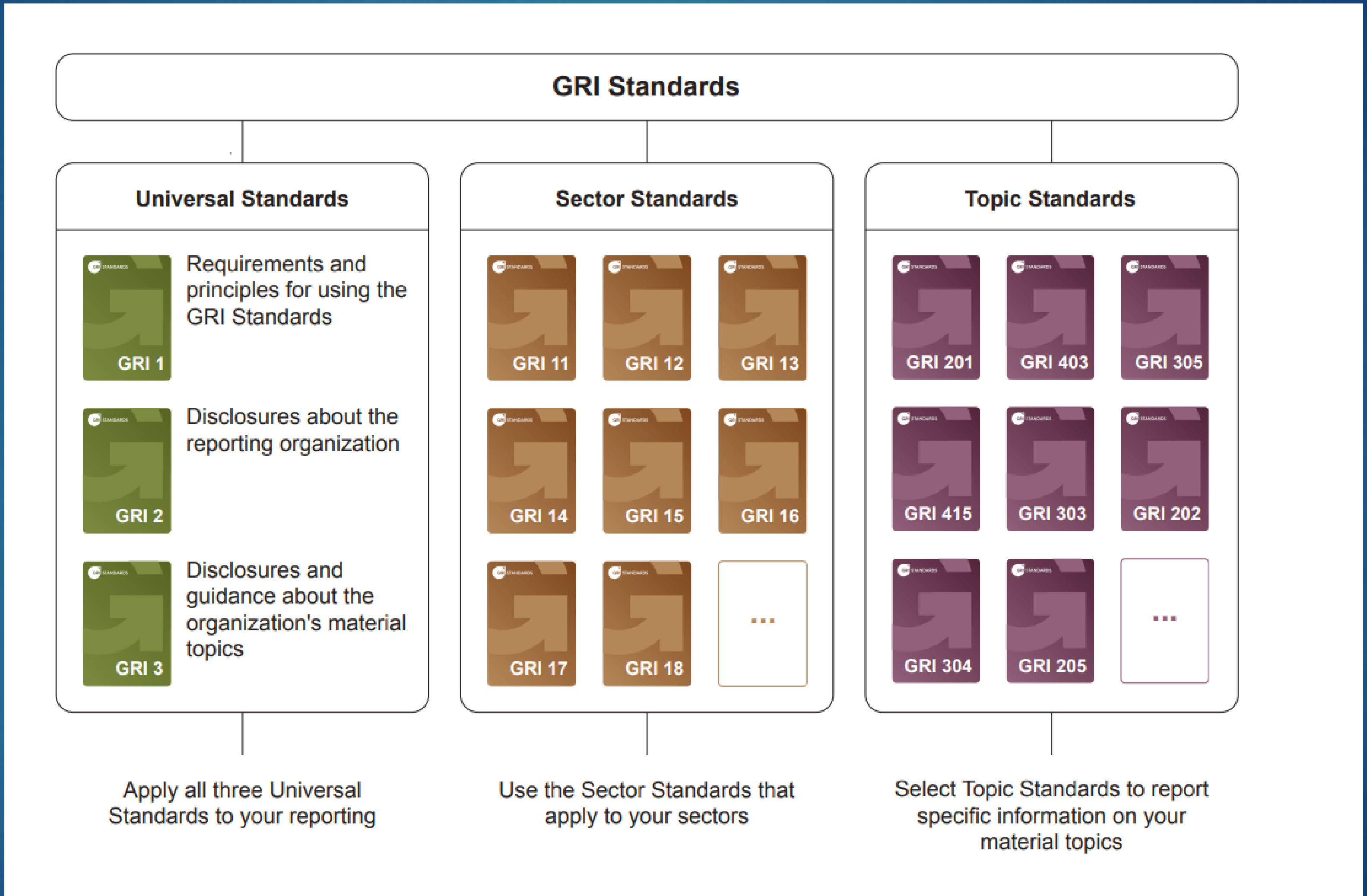


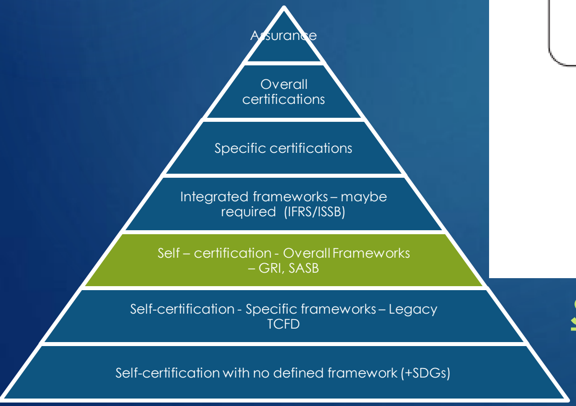
GRI and SASB

- GRI
  - Standard setting with metrics related to impacts on the economy, environment and society by companies
  - Principles and topic specific disclosures are made
  - Widely used to report to a variety of **stakeholders**
- SASB
  - Standard setting with disclosure topics and metrics that are decided to be industry specific
  - Financially relevant and hence mainly addressed to **investors/sharehol**



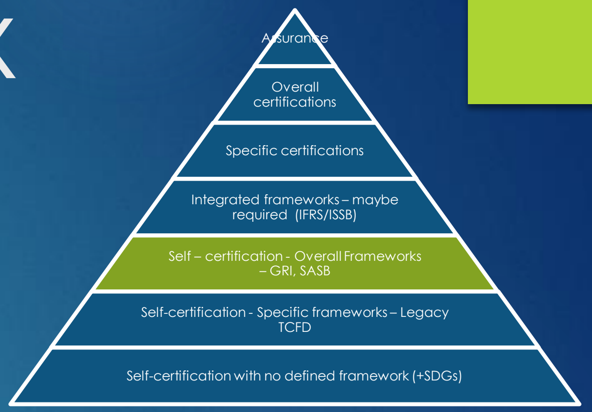
GRI Structure





Source: a-short-introduction-to-the-gri-standards.pdf (globalreporting.org)

Example – GRI Content Index



7.2.2. Balance of material topics

GRI 2-4; 3-2; 3-3

Material topic	GRI standards	Content	Coverage[1]	Involvement[2]
1. Ethical behaviour and governance	GRI 3: Material topics 2021 GRI 205: Anti-corruption 2016 GRI 206: Anti-competitive behaviour 2016 GRI 405: Diversity and Equal Opportunity 2016 GRI 415: Public Policy 2016	3-3 205-1 to 205-3 206-1 405-1 415-1		
2. Risk management and control systems	GRI 3: Material topics 2021 GRI 418: Customer privacy 2016	3-3 418-1		
3. Stakeholder engagement	GRI 3: Material topics 2021	3-3		
4. Responsible communication	GRI 3: Material topics 2021 GRI 417: Marketing and labelling 2016	3-3 417-1 to 417-3		
5. Value chain transparency and traceability	GRI 3: Material topics 2021	3-3		
6. Responsible purchasing practices	GRI 3: Material topics 2021	3-3		

Source: Inditex Non-Financial Report

7.2.5. GRI Content Index

Statement of use	INDITEX has reported in accordance with the GRI Standards for the period 01/02/2022 to 31/01/2023
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standards	Not applicable

GRI Standard	Disclosure	Page number(s) and/or direct answer	Omissions	External Assurance	Global Compact principle
General Disclosures					
GRI 2: General Disclosures 2021					
	The Organization and its reporting practices				
	2-1 Organizational details	125, 195 Industria de Diseño Textil, S.A. For further information about the nature and legal form of the Company, refer to the 2022 Annual Corporate Governance Report available at the corporate web page of Inditex, Compliance section, Good Corporate Governance heading. As for the location of the Company's headquarters, it is as follows: Avenida de la Diputación s/n Edificio Inditex, Arteixo, A Coruña, Spain. Information about the location of the operations is available at the Appendix I of the Annual Accounts: "Composition of the Inditex Group" available at the corporate web page of Inditex, Investors section, Financial Information heading.			

SASB Structure

- Sector based
- Relevant metrics based

Environment

Social Capital

Human Capital

Business Model and Innovation

Leadership & Governance

Consumer Goods

Food & Beverages

Resource Transformation

Extractive Mineral Processors

Healthcare

Services

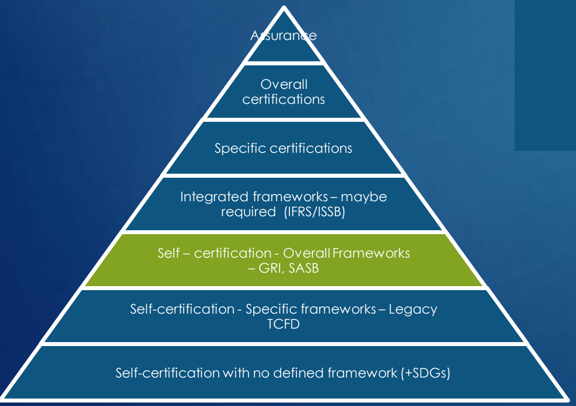
Financials

Infrastructure

Technology & Communications

Renewable sources & alternative energy

Transportation



Example

Labor Conditions in the Supply Chain	Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor	CG-AA-430b.1	Specifically, 65% of the suppliers and 56% of the factories active in the year 2022 were audited either through a pre-assessment or social audit during this same period. To contextualise this data, it is necessary to take into account that the periodicity of the social audits varies depending on the ranking obtained in the previous audit. In this sense, the interval between audits of suppliers or manufacturers with A or B rankings will be longer than in those with a C or D ranking. In fiscal year 2022, 96% of suppliers were ranked A o B. In 2022, 2,075 pre-assessment audits were carried out (98% carried out by external auditors), and 5,955 social audits (95% carried out by external auditors). Regardless of whether the audits are performed by internal or external auditors, the methodology used is Inditex's own audit methodology. More information on pages 115-116, 215, 220-224, 322-324
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits	CG-AA-430b.2	Pages 215-218, 322-324
	Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	CG-AA-430b.3	Pages 222-236, 291-298
Raw Materials Sourcing	(1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities	CG-AA-440a.3	Pages 187-191, 206-209, 210, 215-216, 232-236, 291, 298, 305-309
	(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social	CG-AA-440a.4	Pages 187-189, 215-216

Source: Inditex - Statement of non-financial information

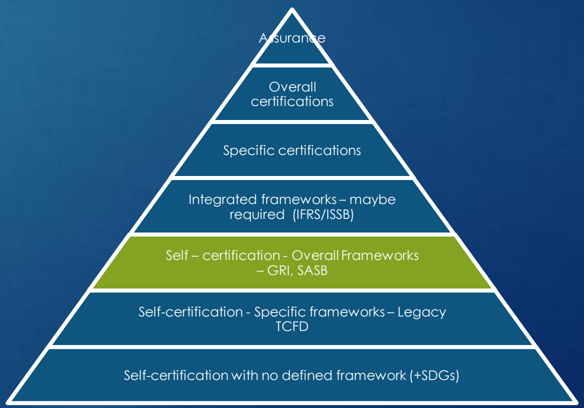
Apparel, Accessories & Footwear

The Apparel, Accessories & Footwear industry includes entities involved in the design, manufacturing, wholesaling and retailing of various products, including adult and children's clothing, handbags, jewellery, watches and footwear. Products are… More

Relevant Issues (3 of 26)

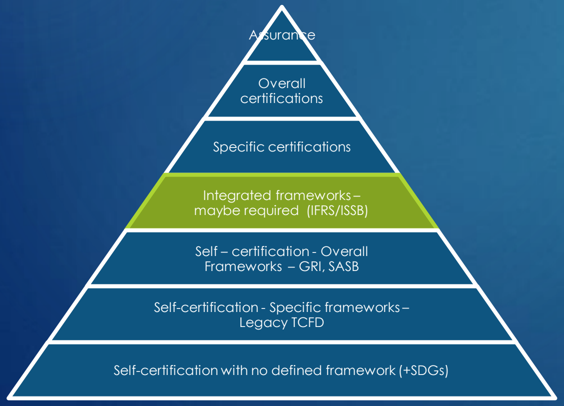
Environment	Social Capital	Human Capital	Business Model and Innovation	Leadership and Governance
GHG Emissions	Human Rights & Community Relations	Labour Practices	Product Design & Lifecycle Management	Business Ethics
Air Quality	Customer Privacy	Employee Health & Safety	Business Model Resilience	Competitive Behaviour
Energy Management	Data Security	Employee Engagement, Diversity & Inclusion	**Supply Chain Management**	Management of the Legal & Regulatory Environment
Water & Wastewater Management	Access & Affordability		**Materials Sourcing & Efficiency**	Critical Incident Risk Management
Waste & Hazardous Materials Management	**Product Quality & Safety**		Physical Impacts of Climate Change	Systemic Risk Management
Ecological Impacts	Customer Welfare			
	Selling Practices & Product Labeling			

Source: SASB



Integrated Reporting

- Businesses are the result of a combination of capitals: financial, manufactured, intellectual, human, social and relationship and natural.
- In the same way, businesses yield outputs on the same dimensions
- These impacts are reported and they can add or detract value from businesses over the short, medium or long term



INTEGRATED REPORTING <IR>

Is there light at the end of the tunnel?

- In November 2021 there was a declaration to form ISSB (International Sustainability Standards Board) and combine the efforts of CDSB (CDP), TCFD, SASB and IIRC
- This should set the path to more consistent sustainability disclosures in parallel to the evolution to IFRS (accounting) standards
- The idea is that sustainability reporting should follow the same rigor than financial reporting and that both complement each other

IFRS Foundation

IASB

ISSB

Recent Developments

- Consolidation of frameworks by purpose

Former Frameworks

- CDSB
- SASB
- TCFD
- IR

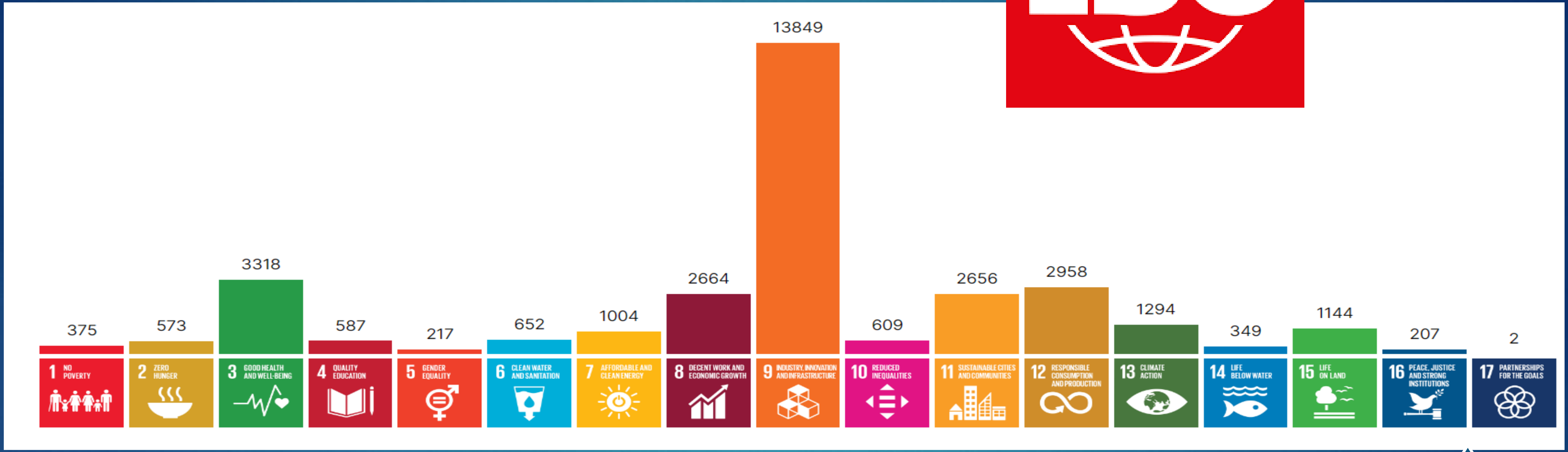
Consolidation onto

- IFRS/ISSB
- - So far S1/S2 Standards

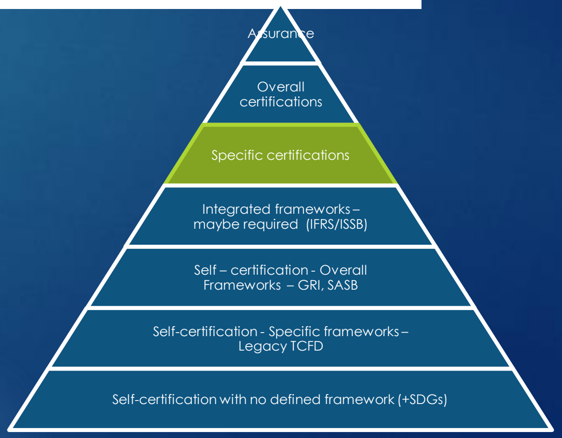
Main Purpose

- Financially relevant disclosure
- Investors
- Shareholders

Certifications – ISO 14001

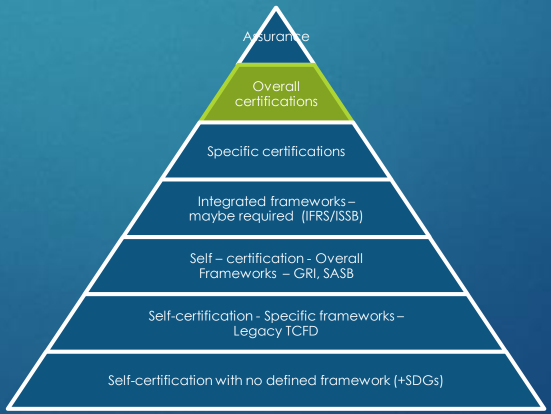


[ISO - Sustainable Development Goals]



B-Corp Certification

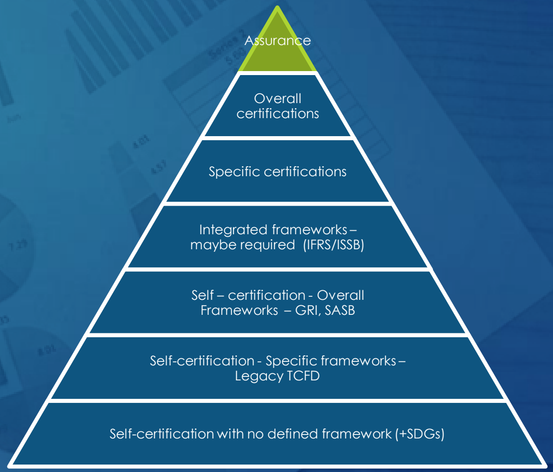
- Set up by the B Lab non for profit organization
- Completion of a B Impact assessment on areas such as governance, workers, community, environment and customers
- Attainment of 80 points
- Legal change to the Articles of Association is required



Auditors

Assurance implies that an independent external party would provide a certification that the disclosure is authentic an has been prepared to truly reflect the sustainability impacts of the company

- Reasonable
- Limited



What reporting to choose

Are you a..

Large

Target audience stakeholders

GRI

Target audience investors

SASB/ IFRS

Assurance

Small/medium

Specific sector certifications

B-Corp Certification

Reporting on SDGs is well established as a common language across all corporates

Completing the reporting ecosystem

REPORTER (COMPANIES)

SUSTAINABILITY REPORTS OR SIMILAR

FOLLOWING ONE OF THE FRAMEWORKS/ STANDARDS

AGGREGATORS

INFORMATION COULD BE COLLECTED FROM REPORTERS OR PUBLICLY AVAILABLE SOURCES

RATING COMPANIES

ANALYTICS COMPANIES

INDEX COMPANIES

USERS (INVESTORS/ STAKEHOLDERS)

CDP

- It acts as a de-facto disclosure framework
- Mainly environmental disclosure by companies, cities and public authorities
- Environmental focus (water, energy , forestry)
- Companies answer questionnaires
- Very often at the request of investors
- Companies are ranked between A and F

The regulation is already here

- ISSB – Release of S1 and S2 standards (to be adopted by a number of countries) - Global
- EU – Additional sustainability disclosures
- FCA – UK, Sustainability Reporting Disclosures
- SEC – Proposal on climate disclosure - US

Sustainability Regulation

Greatest legislative development - complexity

- Comprehensive disclosure from 2024 (reporting in 2025)
- Due diligence on the supply chain – business partners
- Greenwashing and financial sector specific legislation

Strong legislative drive

- Transition Plan Taskforce – To be implemented in 2025 for reporting in 2026
- Due diligence regulations
- Emphasis on financial sector – Sustainability Disclosure Requirements (SDR)

Backslash to SEC proposals

- California – Disclosure on GHG, climate related financial risks, voluntary carbon market disclosures (combat 'greenwashing') – SB-253, SB-261, AB-1305
- SEC – Climate disclosures as part of the Annual Report (legal implications)

Biodiversity emphasis

Due diligence regulations – value chain (social, environmental)

INCREASED LITIGATION RISK

EU Legislation – others to follow?

CSDR (Corporate Sustainability Reporting Directive)

ESRS (European Sustainability Reporting Standards)

EU TAXONOMY
Activities aligned with a net zero by 2050

- ✓ SFRD - Sustainable Finance Disclosure Regulation
- ✓ ESG Rating providers regulation
- ✓ EU Green Bond Standards

Financial Sector

- ✓ Timing – Starting reporting in 2025
- ✓ Assurance limited – Reasonable from 2028
- ✓ Could affect non-EU companies
- ✓ Comparability with ISSB, GRI
- ✓ Double Materiality

Other regulations
CSDDD – Due diligence on value chain (social, human rights) - 2027
EU Deforestation regulation – specific supply chains – 2024
Greenwashing Regulation - 2026

UK – Not very far behind

TPT Transition Plan Taskforce

FINANCIAL CONDUCT AUTHORITY

Sustainability Impact™

Sustainability Mixed Goals™

Sustainability Focus™

Sustainability Improvers™

- Transition to Net Zero Plans - sector approach (From 2026)
- Sustainability Disclosure Requirements (from May 2024)
  Label systems in investment products

Global developments

TNFD

Taskforce on Nature-related Financial Disclosures

GREENWASHING REGULATIONS
LEGAL AND DISCLOSURE LIABILITY

Useful resources

- (2024) *SASB*. Available at: https://sasb.org/ (Accessed: 07 February 2024).
- (No date) *Inditex.com*. Available at: https://www.inditex.com/itxcomweb/en/sustainability (Accessed: 07 February 2024).
- *The 17 goals | sustainable development* (no date) *United Nations*. Available at: https://sdgs.un.org/goals (Accessed: 07 February 2024).
- *CEO Climate Leadership & Sustainability Study* (no date) *Accenture*. Available at: https://www.accenture.com/us-en/insights/sustainability/ungc (Accessed: 07 February 2024).
- *EU taxonomy for Sustainable Activities* (no date) *Finance*. Available at: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en (Accessed: 06 February 2024).
- *The global leader for impact reporting* (no date) *GRI - Home*. Available at: https://www.globalreporting.org/ (Accessed: 07 February 2024).
- *How your company can advance each of the sdgs: UN global compact* (no date) *How Your Company Can Advance Each of the SDGs | UN Global Compact*. Available at: https://unglobalcompact.org/sdgs/17-global-goals (Accessed: 07 February 2024).
- *PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels* (2023) *FCA*. Available at: https://www.fca.org.uk/publications/policy-statements/ps23-16-sustainability-disclosure-requirements-investment-labels (Accessed: 07 February 2024).
- *The taskforce on nature-related financial disclosures* (2024) *Taskforce on Nature-related Financial Disclosures*. Available at: https://tnfd.global/ (Accessed: 07 February 2024).
- *Transition plan taskforce: Setting a gold standard* (2024a) *Transition Taskforce*. Available at: https://transitiontaskforce.net/ (Accessed: 07 February 2024).
- *Transition plan taskforce: Setting a gold standard* (2024b) *Transition Taskforce*. Available at: https://transitiontaskforce.net/ (Accessed: 06 February 2024).
- *Welcome to the KnowSDGs platform* (no date) *KnowSDGs*. Available at: https://knowsdgs.jrc.ec.europa.eu/ (Accessed: 07 February 2024).

Any questions?