



How can corporate reporting bridge the ESG trust gap?

EY Global Corporate Reporting and Institutional Investor Survey
November 2022



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Foreword

While companies are investing more time, resources and leadership effort into sustainability, there is still a significant disconnect between the respective expectations and goals of companies and their investors when it comes to corporate and sustainability performance. In particular, the ESG disclosures that (along with existing financial statements) can help companies and their stakeholders to communicate and assess performance against strategic risks and opportunities in multiple dimensions.

This disconnect could potentially undermine the smooth running of capital markets and the collective battle against threats, such as climate change. This report explores that issue, drawing on a unique methodology and research from two separate surveys, that canvass the views of 1,040 senior finance leaders at the companies issuing corporate reporting, and 320 senior investors as users of disclosures.

Sustainability continues to be intrinsic to companies' strategies and approaches to long-term value, even in the face of economic volatility and heightened geopolitical risk. In the US, the Inflation Reduction Act sets out a plan for US\$369b of investment to move US energy toward greener sources by incentivizing private capital into energy transition.¹ Authorities across the world are also pursuing various forms of mandatory sustainability reporting, with the EU Corporate Sustainability Reporting Directive (CSRD) confirmed to come into effect on 1 January 2024.

This report outlines a clear hypothesis: that if a company wants to be seen by its shareholders and stakeholders as long-term focused, trusted and attuned to society's expectations, they should embed sustainability into their business model in a systematic, strategic and rigorous way. Given the multi-trillion-dollar assets in sustainable funds, this report examines the important role that sustainability disclosures could play when it comes to building the transparency, accountability and efficiency for global capital markets.

However, the report identifies a fundamental disconnect between companies and investors.

- ▶ Investors are showing a degree of skepticism about companies' sustainability commitments and ESG disclosures.
- ▶ Some companies feel their long-term investments in sustainability are not always recognized and "rewarded" by the investment community. Also, long-term plays can be difficult when investors are quick to react on short-term dips in financial performance.

The root causes of this reporting disconnect could potentially be traced to the fact that investors and companies are not always aligned on long-term value. For example, this research shows that 78% of investors surveyed think companies should make investments that address ESG issues relevant to their business, even if it reduces profits in the short term. However, only 55% of companies surveyed are prepared to take that stance.

This may reflect that company leaders feel the pressure from short-term investors and sell-side analysts on quarterly earnings calls. However, a better understanding between companies and their long-term investors – who are more prepared to give executive teams leeway to make long-term sustainability plays – could help remove some of this mutual reporting confusion. For example, investors might be less inclined to default to short-term metrics if they are furnished with reporting that helps them understand the company's long-term sustainability strategy. This could potentially lessen short-termist pressure on companies.

There are two priorities companies should address when tackling these issues:

- ▶ To align with investors on long-term value, companies should build a better understanding of the sustainability expectations of investors, and how corporate reporting can address their ESG priorities and meet their disclosure needs. This means focusing on communicating progress on material sustainability issues and opportunities help companies and shareholders have more productive discussions. These could be on how the company is driving long-term value; applying the emerging reporting standards; and providing confidence that disclosures have been subject to third-party assurance.
- ▶ To build stakeholder confidence in disclosures, companies should define the involvement of finance leaders in ESG reporting, and more closely connect sustainability and the finance function, including the technologies, operating model and talent required to deliver on this remit.

While this report primarily examines the disconnect between companies and investors, subsequent analysis of this research series will examine these two priorities in greater detail. Overall, we hope this unique perspective from both sides of the reporting debate informs and stimulates your own thinking.



Tim Gordon

EY Global Financial
Accounting Advisory
Services (FAAS) Leader



Dr. Matthew Bell

EY Global Climate Change
and Sustainability
Services (CCaSS) Leader

¹"US climate bill could change the weather," Financial times website, [ft.com/content/2e2855c5-3dfd-4b41-b53a-aeff4671e992](https://www.ft.com/content/2e2855c5-3dfd-4b41-b53a-aeff4671e992).

Executive summary

1. The sustainability and long-term value disconnect between companies and investors

What investors think

78%

More than three-quarters of investors surveyed think companies should make investments that address ESG issues relevant to their business, even if it reduces profits in the short term.

What companies think

55%

But only just over half of finance leaders surveyed believe their company should address ESG issues relevant to the business, even if doing so reduces short-term financial performance and profitability.

80%

Four-fifths of investors surveyed say that “too many companies fail to properly articulate the rationale for long-term investments in sustainability, which can make it difficult for us to evaluate the investment.”

53%

Just over half of large companies surveyed say they “face short-term earnings pressure from investors, which impedes our longer-term investments in sustainability.” And one-in-five finance leaders surveyed (20%) say “investors are primarily focused on quarterly earnings and indifferent to long-term investments such as sustainability.”

2. Corporate reporting could be key to building trust with shareholders and stakeholders

What investors think

99%

Almost all investors surveyed utilize companies' ESG disclosures as a part of their investment decision-making, including 74% of respondents who use a rigorous and structured approach.

73%

But close to three-quarters of investors surveyed say that “organizations have largely failed to create more enhanced reporting, encompassing both financial and ESG disclosures, which is critical in our decision-making.”

76%

Three-quarters of investors surveyed say “companies are highly selective in what information they provide to investors, raising concerns about greenwashing.”

3. Priorities for transforming the future of corporate reporting and closing the stakeholder disconnect

Get on the same page as investors with disclosures that communicate progress on the material issues that drive long-term value and earn stakeholders' trust. Priority areas for the future of reporting are:

Focus: In addition to other material ESG priorities, companies should respond to investors by aligning their portfolios to net zero, with robust insight into the critical opportunities and risks, including transition risk, physical climate risk and climate scenario analysis.

Accountability: Companies should meet investor requirements for robust governance and board oversight around sustainability. This is seen as important for companies moving from ESG pledges to progress and results, and meeting investors' focus on ESG stewardship and the importance they place on continued engagement with company leaders on sustainability goals and progress.

Transparency: Companies should respond to investors' calls for more consistent, comparable and reliable sustainability reporting. Plus getting ahead of emerging global reporting standards and driving up ESG data quality to meet high investor appetite for global reporting standards and assurance scrutiny of sustainability disclosures.

Define the involvement of finance leaders in ESG disclosures to build confidence in what is reported, including the data analytics capabilities, operating model and talent, that finance would likely require. Priority areas for the future of finance are:

Smart: Companies should craft a data strategy based on a clear understanding of the data challenges and critical use cases, building data analytics capability that allows access to all relevant sources of data internally and externally, and delivers analytical insight, leveraging tools such as artificial intelligence (AI).

Connected: Companies should build the next-generation finance operating model, where finance people collaborate across organizational boundaries. This could help to address wider enterprise goals, with an agile operating model that extends beyond the walls of the enterprise to allow tasks to be completed more dynamically and flex to volatility and disruption.

Talent-led: Companies should disrupt the finance function's traditional skills mix to find the capabilities required to meet changing demands, while also disrupting traditional behaviors and attitudes, to create a more innovative and value-driven culture.



1

The sustainability and long-term value disconnect



Clarifying the role of the finance team in sustainability reporting could be key to effective dialogue and collaboration with stakeholders, from investors to employees.

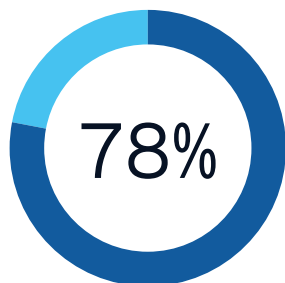
Tim Gordon, EY Global FAAS Leader

For both companies and investors, a long-term view is inseparable from sustainability considerations. For example, the long-term value of a company is seen as inexorably linked to how effectively its leadership team navigates the global energy transition. Some investors have been quick to focus on issues like this by aligning their portfolios to address climate risk. For example, the Net Zero Asset Managers initiative has 273 signatories with US\$61.3t assets under management.²

However, when it comes to the trade-off between short-term earnings and long-term value creation, there is a disconnect between investors and finance leaders. Investors are much more likely to favor decisions that lead to sustainable, long-term value creation, even at the expense of short-term earnings shortfalls, but finance leaders are much less inclined to make that trade-off.

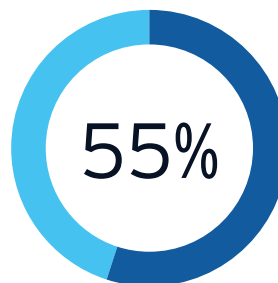
While it may be argued that it is easier to expect these difficult trade-offs to be made than to actually provide them, investors are also showing a focus on the long-term and sustainable value when it comes to their own strategies. The research found that investors are willing to make the trade-offs involved in meeting the demand for sustainable investment vehicles, seeking stable yields and resilient companies that have a long-term future, and addressing major challenges affecting the planet and society. The research found that 76% of investors surveyed are willing to accept “a lower rate of return on investment when the target company has a beneficial impact on planet or people.”

What investors think



More than three-quarters of investors surveyed think companies should make investments that address ESG issues relevant to their business, even if it reduces profits in the short term.

What companies think



But only just over half of finance leaders surveyed believe their company should address ESG issues relevant to the business, even if doing so reduces short-term financial performance and profitability.

² “The Net Zero Asset Managers initiative,” [netzeroassetmanagers website, netzeroassetmanagers.org](https://netzeroassetmanagers.org),

³ “European” is defined by investors from the global research who operate in the following markets: France, the UK, the Netherlands, Sweden and Norway.



Disclosures should play a more important role in moving from sustainability promises to concrete progress, helping to define accountability and a robust framework for company transformation.

Matt Bell, EY Global CCaSS Leader

As figure 1 shows, the main drivers vary by region, with:

- ▶ Americas-based investors surveyed seeking better long-term growth potential
- ▶ European-based investors³ surveyed looking to get ahead of the increasing ESG “premium” for their clients

- ▶ Asia-Pacific-based investors surveyed meeting client demand for “ethical” investment vehicles

In the Americas and Europe, both goals are long-term in nature, reflecting the commitment of the industry to long-term value.

Figure 1. Reasons investors are willing to make long-term, sustainable investment plays over immediate returns

Question: You mentioned that your organization has accepted a lower investment return when targeting a company that has a beneficial impact on environmental or societal issues – what are the primary reasons for accepting a lower yield?

Americas	Europe*	Asia-Pacific
<p>1. Better growth potential over the long term for high-scoring ESG company (43%)</p>	<p>Building our ESG-oriented portfolio before premiums for high-scoring ESG companies rise over the long term (46%)</p>	<p>Our pro-ESG clients accept earning lower returns for companies that have a beneficial ESG impact (39%)</p>
<p>2. Building our brand reputation as a leading ESG investor and meeting client demands for ESG investment products (38%)</p>	<p>Better risk resilience from high-scoring ESG company, leading to more stable performance over the long term (35%)</p>	<p>Better risk resilience from high-scoring ESG company, leading to more stable performance over the long term (36%)</p>
<p>3. Building our ESG-oriented portfolio before premiums for high-scoring ESG companies rise over the long term and our pro-ESG clients accept earning lower returns for companies that have a beneficial ESG impact (both 33%)</p>	<p>Our pro-ESG clients accept earning lower returns for companies that have a beneficial ESG impact (31%)</p>	<p>Building our brand reputation as a leading ESG investor and meeting client demands for ESG investment products (34%)</p>

Note: The question was only asked to 76% of respondents who said they were willing to accept “a lower rate of return on investment when the target company has a beneficial impact on planet or people.”

*Europe = respondents from France, the UK, the Netherlands, Sweden and Norway.



With investors, you need to convince them that you mean business – spelling out what’s material and how you are progressing programs aligned to long-term strategic ESG goals.

Myles Corson, EY Global and Americas FAAS Strategy and Markets Leader

Challenges to investor-company convergence on sustainability performance and corporate reporting

The fact that investors and finance leaders are not aligned when it comes to long-term value trade-offs could perhaps be creating problems further down the line in corporate reporting. For example:

- ▶ If finance leaders do not share investors’ appetite for prioritizing long-term sustainable investments, will a company’s disclosures reflect what investors see as strategic priorities? Or could reporting be seen by investors as lacking a clear narrative on the strategy for growing and protecting long-term, sustainable value? If it is seen as lacking clarity, could this explain why

some companies feel they are not “rewarded” for the long-term sustainable plays they do make?

- ▶ In a similar vein, if companies are seen as less willing to make these difficult trade-offs, will investors become concerned that leaders will not make the investment commitments required to move from ESG promises to concrete progress?

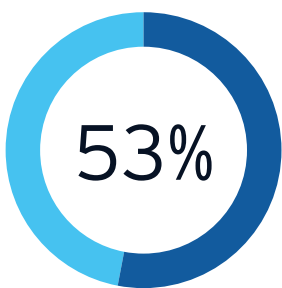
In fact, the research does show a fundamental gap between corporates and stakeholders when it comes to sustainability performance and corporate reporting. Companies are still very focused on what they see as short-term pressure from certain investors, while investors say they do not receive robust insight on a company’s strategy for long-term growth:

What companies think

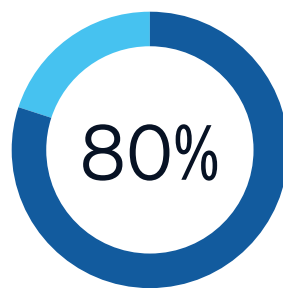
Some companies believe their long-term sustainability plays are not recognized and that they still encounter forces that push for immediate results.

What investors think

Investors do not believe companies always effectively communicate how they are running the company for the long term.



Just over half of the large companies surveyed in the research (those with revenues of more than US\$10b a year), say that they “face short-term earnings pressure from investors, which impedes our longer-term investments in sustainability.”



Four-fifths of investors surveyed say that “too many companies fail to properly articulate the rationale for long-term investments in sustainability, which can make it difficult for us to evaluate the investment.”

One-in-five

Finance leaders surveyed say “investors are primarily focused on quarterly earnings and indifferent to long-term investments such as sustainability.” This sentiment is particularly strong in North America: rising to 35% for the region as a whole and 43% for the US specifically (see the section “The diverse investor landscape has wide-ranging views on sustainability”).



While short-term investors may be primarily focused on quarterly earnings, the influential long-term investors, are likely to look closely at more long-term ESG risks and opportunities.

Marc Siegel, EY Americas FAAS Corporate and ESG Reporting Leader

The diverse investor landscape has wide-ranging views on sustainability

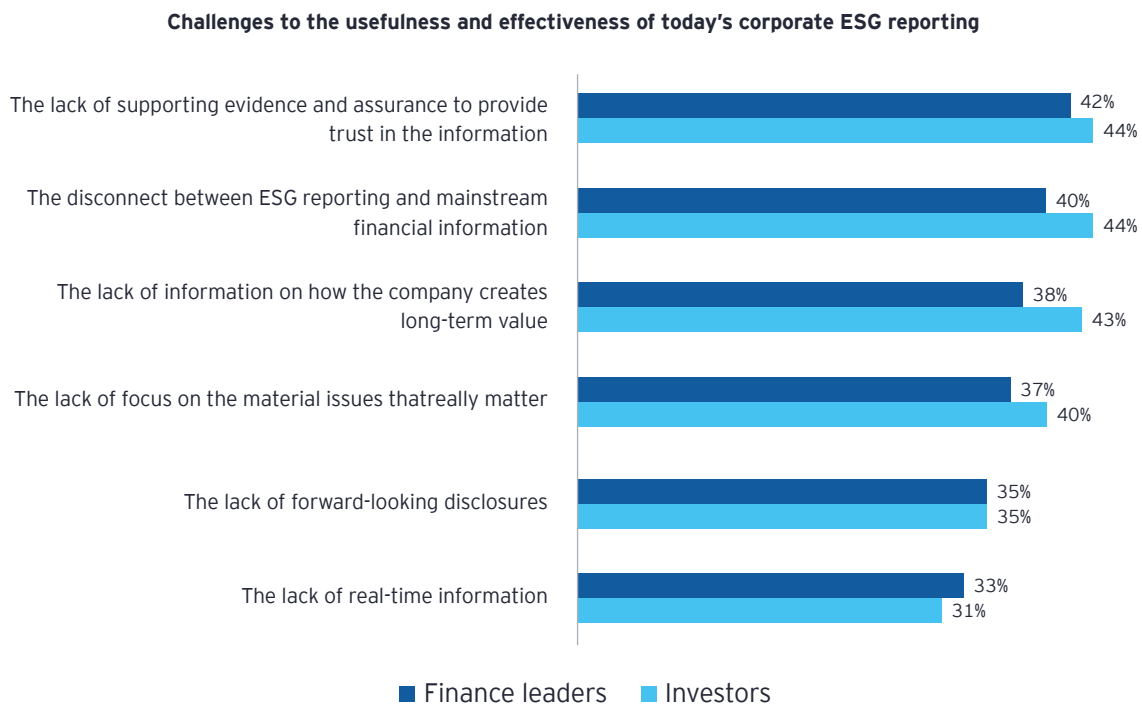
The research found that 43% of US-based finance leaders surveyed believe investors are primarily focused on quarterly earnings, which is much higher than other regions. Although this report refers to “investors” as a whole, it is recognized that – at a more granular level – the investor ecosystem is diverse, including asset owners, passive and index funds, active investors and sell-side analysts. This higher US sentiment on quarterly earnings perhaps reflects that sell-side analysts are a significant presence on earnings calls in the region.⁴

Transforming corporate reporting could play an important role in closing this disconnect. In fact, one area where investors and companies are aligned is the challenges that undermine today’s sustainability disclosures. As figure 2 shows, both groups feel the three main issues are:

1. The absence of assurance and evidence
2. A disconnect between mainstream financial reporting and sustainability disclosures
3. The lack of insight into a company’s strategy for long-term value creation

Figure 2. Companies and investors are aligned on the challenges to effective reporting.

Question: Both investors and companies were asked to say if any of the following aspects are challenges to the usefulness and effectiveness of companies’ sustainability disclosures.



In the following section, the report examines the important role a more enhanced approach to corporate reporting could play in closing the disconnect between companies and capital markets.

“

We need to express – with the highest degree of confidence – the reliability, accuracy, and precision of what we are reporting and, ultimately, the confidence that we will achieve the goals that we have set.

Prat Bhatt, SVP and Chief Accounting Officer, Cisco

Cisco: putting finance at the heart of a more sustainable future

Prat Bhatt, SVP and Chief Accounting Officer, and Ciara Lee, ESG Controller, at Cisco discussed their views on how finance can elevate sustainability reporting and drive progress against ESG targets.

Prat Bhatt

“One of our primary objectives in the near term is to prepare the company to report on the standards that we expect will be coming from the SEC once finalized, but also international requirements. There’s a lot of work involved in understanding what those requirements could be and, while the rules aren’t yet finalized, translating that into the data, systems, processes, and controls that we will need.

The other part of what we’re seeking to do is around broader governance. There are a lot of things that I believe finance can bring to the table in terms of bringing governance rigor

and driving accountabilities deeper in the organization. For example, connecting the sustainability commitments that we’ve made back to our operational processes, the way we budget, our targets and how we report.”

Ciara Lee

“When it comes to sustainability reporting, we are trying to focus on those areas where finance teams can bring value. The first is data. If you take emissions data as an example, it’s clearly not financial data and it often comes from external sources. Therefore, we need to put the right controls around that, bringing additional rigor and objectivity. We offer a fresh pair of eyes and can bring an end-to-end perspective to see if there are any enhancements that we could make.

The second area is formalizing our processes around ESG risks. And the third area is around the responsibility and opportunity that finance has to work across the organization. This is about bringing all the functions together so that there is alignment on our strategy and ultimate goals.”

“

You have to find a balance between the necessity of being compliant but not being seen by your colleagues as someone who’s slowing the journey. You need to collaborate really well.

Ciara Lee, ESG Controller, Cisco

2



The key to building trust with shareholders and stakeholders



Before effective reporting can begin, strategies and goals should be defined by dedicated sustainability professionals.

Velislava Ivanova, EY Americas Chief Sustainability Officer; Americas CCaSS Leader

A company’s ESG disclosures are one of the important insights investors use to understand the impact of sustainability issues on a business’s performance, risks and long-term growth prospects. The report finds that:

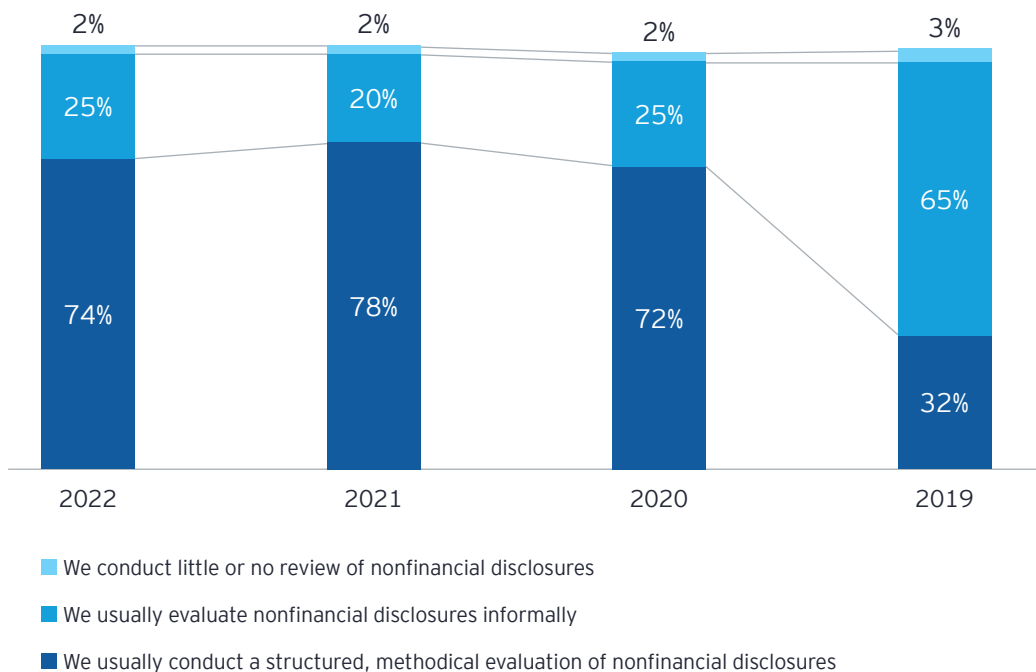
► Today, 99% of investors surveyed utilize a companies’ ESG disclosures as a part of their investment decision-making, including 74% of respondents who use a rigorous and structured approach.

► Out of the 320 investors surveyed, only five said “we conduct little or no review of nonfinancial disclosures.”

As figure 3 shows, this is a significant step up from just four years ago – in the 2018 EY Global Institutional Investor Survey, only 32% of investors surveyed were using a rigorous approach.

Figure 3. Company sustainability disclosures can be important to investment decision-making

Question: Which one of the statements best describes how you and your investment team evaluate nonfinancial disclosures that relate to the environmental and social aspects of a company’s performance?



Note: 2022 and 2020 data does not add to 100% because of rounding.



The focus on climate risk within new disclosure rules could accelerate sustainability transformation.

Hanne Thornam, Ernst & Young AS CCaSS Leader

At the same time as investors are making companies' disclosures a core element of their investment decision-making, only around half of the finance leaders surveyed (55%) feel "major investors are putting even more scrutiny on our performance against ESG goals, which will be increasingly key to accessing capital markets." Once again, this could reflect a disconnect between the importance investors place on a company's long-term sustainability narrative and how important finance leaders believe it to be to the industry.

Should investors do more to build robust capability when it comes to disclosure analysis?

Figure 3 highlights the number of investors surveyed using a structured and methodical approach when it comes to analyzing sustainability disclosures is flatlining. This is sitting at 74% investors surveyed in 2022 when it had already reached 72% of investors surveyed in 2020. So in 2022, as in 2020, a quarter of the investors surveyed are using an informal approach.

More investors are likely to move toward a more structured approach as regulators step up scrutiny of their sustainability practices. The Sustainable Finance Disclosure Regulation (SFDR), which came into force in the EU in March 2021, imposes tougher requirements on the classification of investment products. As investors face increasing pressure to provide clarity and transparency on sustainability claims, they should examine the technologies, skills, and controls and processes required for a rigorous approach to disclosure analysis.

The significant disconnect between investors and companies on sustainability disclosures

There is a marked disconnect between investors and companies when it comes to the sustainability disclosures in today's corporate reporting. Investors feel strongly that they do not get the reporting and data-driven insight they require to inform their investment decision-making and how they evaluate a company's growth and risk profile. Almost three-quarters (73%) of investors surveyed say "organizations have largely failed to create more enhanced reporting, encompassing both financial and ESG disclosures, which is critical in our decision-making."

Transforming sustainability disclosures – the EY 2022 Global Climate Risk Barometer

Providing investors with the environmental sustainability reporting they require puts a significant onus on the climate disclosures of companies. The EY 2022 Global Climate Risk Barometer, a comprehensive analysis of disclosures made by more than 1,500 companies across 47 countries, found that company reporting reflects both climate risk and opportunity. Some of the findings include:

- ▶ Three-quarters (75%) of companies surveyed had performed risk analysis, with companies focusing almost equally on physical and transition risks.
- ▶ Nearly two-thirds (62%) of companies surveyed performed opportunity analysis, with "products and services" listed most frequently.

However, there are still significant challenges to disclosure effectiveness. For example, the Barometer found that while more companies are reporting on climate risk, they are not providing meaningful commentary about the challenges they face. The Barometer identifies that:

- ▶ The majority of companies surveyed (51%) are still either not conducting scenario analysis, or not disclosing the results.
- ▶ Just 29% of companies surveyed are referencing climate-related matters in their financial statements, both qualitatively and quantitatively.

Read more: ey.com/2022BarometerReport.



It's important to move away from incrementalism and to also get ahead of emerging reporting standards rather than waiting for the final answer.

Nicky Landsbergen, Ernst & Young Australia CCaSS Partner

This disconnect could reflect that companies are on a corporate reporting journey, with standard-setters also responding to a fast-changing area (see “Toward global sustainability reporting standards”). In fact, the research reflects that finance leaders believe their journey could have further to go. The survey asked respondents whether they were satisfied that they furnished investors with relevant and material sustainability reporting. Just 54% of respondents said to a “significant” or “very significant” extent, with a consistent picture emerging from respondents across the Americas (56%), Asia-Pacific (55%) and Europe (49%).

These ongoing challenges with sustainability disclosures could potentially create a trust deficit. Some companies feel the complex trade-offs they can be asked to make are not always recognized, and the research shows that investors in turn are skeptical about companies’ intentions.

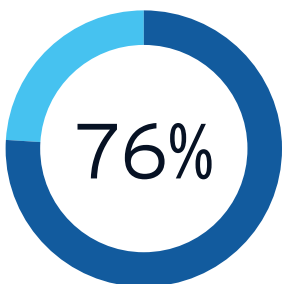
Toward global sustainability reporting standards

There is encouraging progress on global reporting standards. At the 2021 United Nations Climate Change Conference (COP26), the International Financial Reporting Standards (IFRS) Foundation announced the creation of a new board – the International Sustainability Standards Boards (ISSB) – to create a single set of standards.⁵ The ISSB issued its first two exposure drafts (EDs) for comment on 31 March 2022. This included one on general disclosure requirements and a thematic ED on climate-related disclosure requirements. The deadline for comments was 29 July 2022, with final standards expected to be ready before the end of 2022.

Timing of any adoption will likely depend on local jurisdictions, but this could represent a seismic change for reporting. Some companies – including competitors – could adopt the standards as early as possible on a voluntary basis, allowing first-movers to take an early lead on the industry’s sustainability narrative. Getting ahead of the curve could be important in terms of both advantage and preparation.

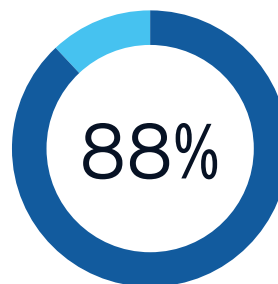
What investors think

Concerns over cherry-picking



Three-quarters of investors surveyed say “companies are highly selective in what information they provide to investors, raising concerns about greenwashing.”

Skepticism about transparency commitment



More than three-quarters of investors say “unless there is a regulatory requirement to do so, most companies provide us with only limited decision-useful ESG disclosures.”

In the following section, the report examines what can be done to close this gap and provide a fundamental reinvention of corporate reporting.

⁵“IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements,” IFRS website, [ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/](https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/), accessed 3 November 2021.



3

Priorities for transforming the future of corporate reporting and closing the stakeholder disconnect



Investors want to see sustainability reporting that speaks their language of material risk and opportunity.

Ben Taylor, EY Global CCaSS Strategy and Markets Leader

For CFOs, financial controllers and other senior finance leaders, as well as CEOs and board-members, this disconnect should be a concerning development. There are two particular challenges that companies should confront if they are to close the gap and support a strategy of long-term value creation:

- ▶ Building a better understanding of the sustainability expectations of investors, and how disclosures can address material ESG issues and earn the trust of stakeholders. The first section below looks at investor expectations around reporting on the material sustainability risks and opportunities that can affect long-term value, emerging reporting standards and third-party assurance.
- ▶ Once that understanding is in place, building confidence in reporting around ESG disclosures, which can be affected by continuing concerns about the transparency and quality of companies' reporting and the requirement for investor-grade sustainability disclosures. The second section looks at defining the involvement of finance leaders in sustainability reporting, and more closely connecting sustainability and broader initiatives currently underway to transform the modern finance function, including the development of data analytics and business insight capabilities, creating a more agile operating model and upskilling of talent required to transform reporting.

Priority one: Getting on the same reporting page as investors and stakeholders when it comes to ESG disclosures

In terms of investor expectations, the main elements can be characterized as the requirement for greater focus, accountability and transparency:

1. Focus: Companies should respond to investors aligning their portfolios to net zero.

Investors want companies to focus on the material ESG issues that drive long-term value, be it societal issues such as workforce diversity or climate-focused environmental issues. However,

given that many investors have already aligned their portfolio to net zero, or plan to do so soon, this report focuses on increasing scrutiny of companies' net zero transition progress. As well as wanting meaningful insight into transition risk, physical climate risk, and credible and sophisticated climate scenario analysis, investors also want to understand the bottom- and top-line potential of a company's climate investments. To meet investor demands for robust climate disclosures, there are a number of areas where companies can focus their efforts: prioritizing materiality, benchmarking disclosures against peers and preparing for the implementation of the ISSB's new standards.

2. Accountability: Companies should meet investor requirements for robust governance and board oversight around sustainability strategy and results.

Investors recognize that robust governance can be important if companies are to move from sustainability pledges to concrete progress, with boards playing a key role in challenging the executive team's sustainability strategy and providing oversight of progress. According to the research, investors put a particular emphasis on boards having the sustainability knowledge and skills to fulfil this remit, which can be built through exposure to external expertise and training. In addition, boards and executive teams will likely require meaningful and credible sustainability data and insight to make informed decisions and measure and manage progress. Making sustainability choices can often involve complex trade-offs between different capital allocation priorities, a commitment to long-term strategic sustainability investments, and the willingness to go beyond a compliance focus to re-examine core assumptions about the business and operating model. As investors increasingly focus on ESG stewardship, they will likely engage in direct dialogue with the company on sustainability goals and progress. They could also move to more challenging action if they feel the company is not confronting an issue with the right urgency or commitment.

3. Transparency: Companies should meet investor requirements for more consistent, comparable and reliable sustainability reporting by getting ahead of emerging global reporting standards and driving up ESG data quality.

The research identifies that investors want to see companies focus on the credibility and trust of their sustainability data and reporting disclosures. There are two elements to this. First, the role of reporting standards in providing confidence in the consistency, comparability and reliability of sustainability disclosures. Investors are clear about the importance of globally consistent standards to improving the quality and transparency of companies' sustainability reporting. Timing of adoption for the international sustainability standards in development is likely to depend on local jurisdictions, but companies that get ahead of the curve could take an early lead on their industry's sustainability narrative. Second, the requirement for issuers to seek third-party assurance of their sustainability disclosures is also fast gaining momentum. The research shows that investors consider assurance to be a leading practice when it comes to their confidence in the credibility of sustainability reporting. For companies, building the quality of sustainability data could be important in a world where reporting is increasingly subject to assurance scrutiny.

Priority two: Define the involvement of finance leaders to build confidence in ESG disclosures

Business leaders, as well as investors and other stakeholders, should have confidence in a company's sustainability reporting. However, the research shows this confidence is lacking on both the investor and company side. Investors are skeptical about certain aspects of reporting on ESG issues, while not all companies feel able to give their current reporting a complete vote of confidence.

Defining the involvement of a finance leader can play a part in building that confidence. CFOs and financial controllers are close to strategic decision-making and seasoned reporting practitioners, including the standards and assurance that are seen as key to credibility and quality. However, if it is decided to involve the finance leader and their team, then the function should be ready. For many finance functions, this will likely require a fundamental transformation. The research shows that only a minority of finance leaders surveyed feel they have a mature capability when it comes to sustainability reporting.

This issue will be examined in greater depth in further articles in this corporate reporting research series. However, as a starting point, finance leaders should more closely connect the sustainability reporting agenda and broader initiatives currently underway to transform the modern finance function.

There are three qualities that could be important, with the future finance function defined as a team that is smart, connected, and talent-led:

1. Smart

Today, companies face significant data challenges when it comes to meeting fast-changing reporting requirements. For example, financial controllers were primarily concerned that they lack "the real-time data needed to inform decision-making and reporting on a continuous, ongoing basis." To address these sorts of challenges, companies will likely require seamless information and insight flows. To make this happen finance functions should be able to gather, clean and analyze data as an asset; extract insights using analytics and tools such as AI; and then build the connectivity so that insight and data flows to stakeholders in real-time, with intuitive visualization and self-service tools. A robust data strategy should be based on a clear understanding of the company's specific data challenges and critical use cases.

2. Connected

As finance leaders respond to changing demands, such as sustainability reporting, finance team-members will likely be confronted with more complex, multi-faceted challenges. Addressing these issues will require greater collaboration across organizational boundaries and interactions with new stakeholders. This points to a new finance operating model, where finance people collaborate seamlessly to address wider enterprise goals, such as transforming the quality and accessibility of ESG data. As well as greater internal collaboration, an agile operating model that extends beyond the walls of the enterprise can help tasks to be completed more dynamically and flex to volatility and disruption. In the future, the outcome will matter, regardless of who contributes the data, the tools, the skills or the systems, either within or outside the company.

3. Talent-led

The research shows that finance leaders are looking to actively disrupt the finance function's skills mix. While core finance skills are likely to continue to provide the foundations of the function, it is clear finance leaders are looking to the new capabilities required to meet changing demands and new ways of working. The research identifies a strong focus on the agility of the finance operating model, including dedicated operating officers with an outsourcing and shared services focus, as well as the IT specialists required to transform the finance team's digital backbone. But as well as disrupting skills, finance leaders should also disrupt culture and behaviors. More than half of finance leaders surveyed (54%) say that "traditional back-office behaviors and mindsets in finance are slowing the modernization of the function," perhaps indicating that many respondents think more should be done to shift their team's culture from a back-office mindset to a more innovative and value-driven footing. This can require a comprehensive approach ranging from the right incentives to the need for senior finance leaders to role model desired behaviors.



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Sustainability reporting is becoming as important as financial reporting both for the regulators and for the users of the accounts.

Jayne Hodgson, Senior Vice President Accounting,
Reporting & Control, bp

bp: reimagining reporting and control for a more sustainable future

Jayne Hodgson, Senior Vice President Accounting, Reporting & Control at bp, discussed how finance leaders can respond to fast-changing sustainability accounting and reporting requirements.

As the regulatory environment around sustainability reporting and assurance changes, including the SEC's proposals around climate disclosures,⁶ how is this affecting the work of your team?

“Sustainability reporting is becoming as important as financial reporting both for the regulators and for the users of the accounts. The very nature of sustainability reporting brings different challenges, and as we build out the control and assurance framework around the disclosures we are reaching across a multi-disciplinary set of skills that reaches beyond finance. My team is playing a pivotal role not only in the operation of controls, but also in educating the organization, particularly non-finance folks, on the importance of a strong control environment.”

What would you say are some of the success factors when it comes to delivering verifiable and credible disclosures around climate and other sustainability issues?

“It all comes back to data: how the data is collected and how that data is assured. For example, if an engineer is measuring emissions, what controls are in the process, and how are the controls captured and documented? This raises the question over who sits in the second line of defense monitoring these controls and the skill set of this team.

Companies should be assessing their assurance framework and the state of readiness to move to provide assurance in this space.

We have had positive feedback on our TCFD disclosures but this is a new area for all businesses and is very different from financial reporting. Companies should not underestimate the need to prepare for disclosure requirements in this space, whilst acknowledging that the impact may be different based on sector and company size.”

⁶“SEC moves towards requiring corporate climate disclosures”, Financial Times, March 21 2022.



The way forward: embracing transparency



Companies that are good at sustainability reporting are generally those that really embrace transparency.

Tim Gordon, EY Global FAAS Leader

The issues raised in this report will likely require action in a range of areas, from the need to increase climate risk analysis capabilities, to embedding sustainability into board governance systems. However, from a reporting perspective, one theme stands out: that investors are clear they want and expect standardization, comparability and consistency in a company's sustainability disclosures. Investors want sustainability disclosures that are as rigorous as traditional financial reporting and they want sustainability reporting and performance owned at the most senior level, with clear accountability.

For some companies, answering this call for a major reimagining of reporting could mean assigning responsibility for this new discipline to the finance leader and their team. Regardless of the governance decision, this area could also require a wholesale change in mindset. Companies that are good at sustainability reporting are generally those that really embrace transparency – seeing it as a route to resilience, agility and trust. Being transparent, for example, means not “sugar-coating” sustainability issues and being open when initiatives are not going to plan. Without that true transparency commitment, it is unlikely that companies will ever meet the expectations of their shareholders and stakeholders.

About the research

This report draws on two surveys - one of companies and one of investors, providing a fresh perspective on the corporate reporting and sustainability debate from both the issuers of reporting and the users of those disclosures. The research was conducted by FT-Longitude on behalf of EY Global Financial Accounting Advisory Services and EY Global Climate Change and Sustainability Services.

In all, 1,040 chief financial officers (CFOs) and financial controllers of large companies were surveyed alongside 320 respondents from major buy-side institutions around the world:

- ▶ Among the 1,040 company respondents, 50% are CFOs (including 16% group CFOs) and 34% are financial controllers. The respondents were drawn from 25 countries across the Americas; Asia-Pacific; and Europe, the Middle East, India and Africa (EMEIA), with 14 sectors represented. And 29% of the companies had revenues of more than US\$10b a year.

- ▶ Among the 320 institutional investor respondents, more than a quarter (27%) are chief investment officers, and respondents were drawn from 23 countries across the Americas; Asia-Pacific; and EMEIA. There is representation across different segments – banking and capital markets, insurance, wealth & asset management – and one-in-five (20%) have assets-under-management of US\$50b or more.

This research series is supplemented by interviews with finance leaders and investment decision-makers, as well as the contributions and insights of the following EY subject matter professionals:

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EYG no. 010241-22Gbl.

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