VBA Disclosure Concept for Material Sustainability Matters

1. INTRODUCTION

The United Nations (UN) is taking decisive action to meet the Sustainable Development Goals set to address the challenges facing economies around the world. These include: poverty, inequality, climate change, environmental degradation, peace and justice.[1] Meanwhile, the United States Securities and Exchange Commission (SEC) has responded to Climate as well as Environment, Social and Governance (ESG) risks and opportunities with an all-agency approach. This includes creation of a Climate and ESG Task Force in the Division of Enforcement, the main objective of which is to identify ESG-related misconduct.[2] Furthermore, after publishing guidance in 2010 (2010 Climate Change Guidance), the SEC has requested public comment on climate disclosures and whether such disclosures adequately inform investors.[3] The feedback received indicates strong support for mandatory climate disclosure rules and has caused the SEC to push forward with the development of mandatory climate risk disclosure rules.[4] And within the European Union (EU), achievement of climate and other ESG targets is intensively pursued by the European Green Deal and the EU Financing Sustainable Growth Action Plan. One important objective is to divert capital flows into sustainable investments in order to achieve sustainable and inclusive growth, manage financial hazards stemming from sustainability risks and foster transparency and long-termism in financial and economic activity,[5] which massively strengthens the capital market relevance of ESG.

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While a few years ago a fraction of companies viewed ESG reporting as a compliance issue or marketing initiative only, most companies today have become aware of the importance of ESG for ensuring long-term profitability and sustainable value creation. As the proportion of ESG-based investments increases worldwide,[6] institutional investors and investor groups are emphasizing ESG risk as a key investment risk in public statements. Indeed, numerous empirical studies have detected evidence of a correlation between ESG activities and financial performance. A meta study examining 2250 empirical studies found a non-negative relation for more than 90 percent of all evaluated empirical studies. More importantly, they also found a positive relation between ESG and financial performance in the majority of all studies.[7]

The rapidly changing climate, deterioration of natural ecosystems and the accelerating loss of biodiversity affects, or will affect, many business models. Investors expect companies to optimise their risk and opportunity profile in accordance with relevant ESG factors. Thus, ESG is now an integral part of risk and opportunity management at many companies, and corporate decision making is undergoing a paradigm shift. Decision makers are eager to identify risks and incorporate opportunities that come along with the sustainability developments described above in order to maximize the shareholder value of the business (*'Value to Business' perspective*). Their focus is on ensuring long-term profitability and sustainable value creation, which is especially relevant for institutional investors who pursue long investment horizons. At the same time, overall acceptance of companies with a negative impact on society (social license to operate)[8] is rapidly decreasing (*'Value to Society' perspective*). So that investors and other stakeholders can derive conclusions about the future development of a company, with its material risks and opportunities, they need relevant, reliable and comparable sustainability information. Up to the present time, however, sustainability reporting standards and frameworks are a mixed bag, making comparable information across companies difficult to obtain. Nevertheless, significant progress has recently been made toward establishing global sustainability reporting standards.

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One promising development is the creation of the **International Sustainability Standards Board (ISSB)** by the International Financial Reporting Standards Foundation (IFRSF). Following the strong support received on their 2020 consultation, the Trustees published an Exposure Draft in April 2021 proposing targeted amendments to the IFRSF Constitution to accommodate creation of an ISSB to set IFRS sustainability standards. These changes were necessary to establish a new board under the IFRSF's existing governance structure to develop international sustainability reporting standards. The new version of the IFRSF Constitution has been published with the announcement of the creation of the ISSB in November 2021. With this announcement, prototypes for climate and general disclosure requirements were published, developed by the Technical Readiness Working Group (TRWG), a group formed by the IFRS Foundation Trustees to undertake preparatory work for the ISSB. But most importantly, the leading investor-focused sustainability disclosure organisations committed to consolidate into the new board. The IFRS Foundation plans to complete consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which represents a merger of the Integrated Reporting

Framework and the SASB Standards) by June 2022.[9] This development may indeed signal the dawn of a new era in corporate reporting.

At nearly the same time, the European Commission (EC) issued their proposed changes to strengthen sustainability reporting in the EU and published a proposal for a **Corporate Sustainability Reporting Directive (CSRD)**. The proposed changes to non-financial reporting regulated within the Accounting Directive (2013/34/EU) are profound. They are designed to give fundamental and direct support to the EC's stated objective of directing investments towards more sustainable activities across the EU. The proposed CSRD emphasises the role of mandatory EU sustainability standards to be prepared by the European Financial Reporting Advisory Group (EFRAG) and issued by the EC. These standards are expected to be based on the recommendations made recently by the EFRAG project Task Force on Non-Financial Reporting Standards, with a first set of standards due for adoption by 31 October 2022, subject to timely finalization of the CSRD and adoption as drafted for these aspects.

» VBA's reporting concept foresees the disclosure of backward-looking as well as forward-looking information with respect to enterprise value and impact on society.

Even though the EC and the IFRSF have published some basic concept considerations with respect to materiality perspectives (outside-in vs. inside-out) and further requirements, it is still unclear what future sustainability reporting standards issued by the ISSB and/or developed by EFRAG will look like in detail. Nevertheless, there is consensus that a conceptual framework for sustainability reporting and the resulting sustainability standards must satisfy investors' and other stakeholders' needs and therefore require disclosure of historical information ('backward-looking information') for the reporting period as well as information about the future sustainability strategy and the gap to be closed to achieve the defined sustainability objectives ('forward-looking information'). Following the double materiality concept (outside-in *and* inside-out perspective), VBA's reporting concept foresees the disclosure of backward-looking as well as forward-looking information with respect to enterprise value and impact on society.

This paper introduces the concept of an integrated reporting framework for sustainability reporting that considers how such information may be presented. VBA's reporting concept aims to serve as a structural platform to connect and integrate existing concepts and frameworks. As mentioned above, investors and other stakeholders rely on backward and forward-looking sustainability information in order to evaluate companies' ESG performance. To meet these expectations, VBA's reporting concept proposes a section with general information and three core components to be disclosed for all material sustainability matters: Historical Data Sheet (component I), Impact Statement (component II) and Strategy & Target Setting (component III); see figure 1.

The VBA concept foresees inclusion of a qualitative section, conveying general information about each sustainability matter, in which information on the sustainability activities of the company are disclosed. This section should contain an analysis of all material risks and opportunities identified by the management, similar to the risk management disclosure requirements according to the TCFD recommendations. Furthermore, implemented governance processes, internal controls and other procedures used for managing sustainability risks and opportunities should be described here.[10]

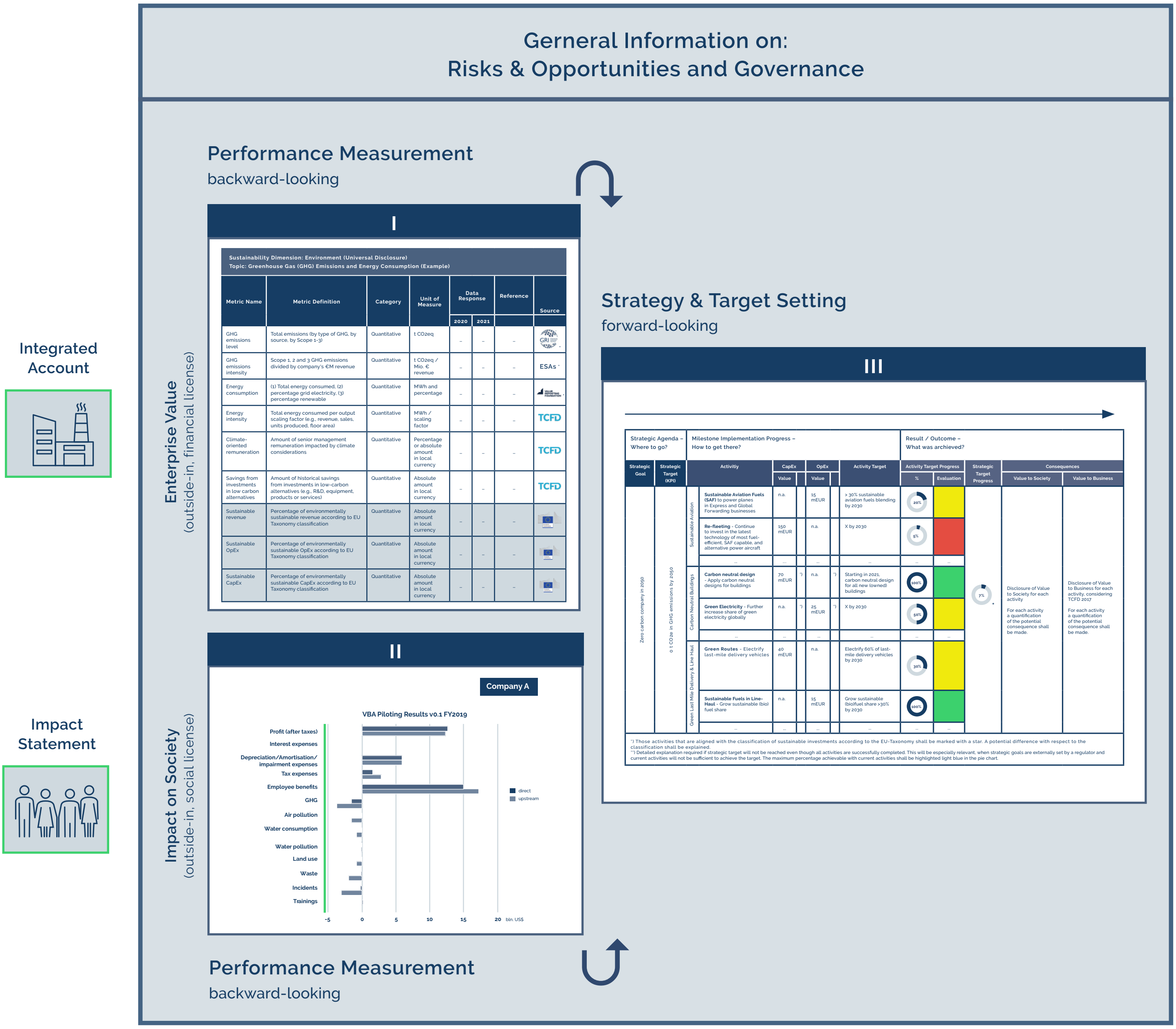

Figure 1: Disclosure Concept

Companies should use a Historical Data Sheet (component I), which requires disclosure of certain mandatory (if material) quantitative metrics derived from existing concepts and frameworks (e.g., Task Force on Climate-related Financial Disclosure – TCFD, Value Reporting Foundation – VRF, Global Reporting Initiative – GRI, World Economic Forum – WEF, European Supervisory Authorities – ESAs). Accordingly, this template represents the core element of the VBA approach to provide historical information and transparency with respect to the ESG performance of a company, which is becoming increasingly relevant for EV valuations.[11]

In order to provide backward-looking, society-relevant information relating to the social license to operate, VBA's disclosure concept foresees inclusion of an Impact Statement (component II).[12] The focus is on standardising the financial measurement of corporate impacts on society and the environment so that the information can be reported. As a group of global companies aiming to integrate social and environmental aspects in decision making, steering and performance evaluation, VBA has developed the first version of a methodology for impact valuation. This first version has been piloted by VBA member companies to assess feasibility and gain practical experience and learnings. The VBA methodology consists of three papers that cover general aspects as well as environmental and socio-economic indicators.[13]

» **In order to provide backward-looking, society-relevant information relating to the social license to operate, VBA's disclosure concept foresees inclusion of an Impact Statement.**

The last area of VBA's disclosure concept represents Strategy & Target Setting (component III), which combines forward-looking information with respect to enterprise value and impact on society. Unlike other sustainability frameworks, which also focus on sustainability strategies for each sustainability matter (e.g., SASB), the core element of our concept is the establishment of a clear link between the sustainability strategy and the activities needed to achieve the strategic targets, as well as the value to society and value to business of those activities. Through targeted disclosure of the Operating Expenditures (OpEx) and Capital Expenditures (CapEx) figures in the reporting period for each explained activity, the link to financial reporting and EU Taxonomy is established. When reporting on this information, companies are recommended to use VBA's Strategy & Target Setting template discussed in Section 3.4.

To summarise, VBA's reporting concept addresses the following informational needs:

- Historical information for the reporting period ('**backward-looking information**') as well as information about the future sustainability strategy and the gap to be closed to achieve the defined sustainability objectives ('**forward-looking information'**)

- The **double materiality concept** (CSRD) and the **building block approach** (IFRS Foundation, IFAC) to sustainability reporting ('Value to Society' and 'Value to Business') in financial reporting

- Mandatory **disclosure of all sustainability matters** (if material), at least those sustainability matters proposed by the European Commission within the Proposal for the CSRD or by other standard setters and regulators (ISSB, SEC and others)

- Conceptual ties to the **EU Taxonomy**

- Incorporation of **quantitative** disclosures (e.g., sustainability metrics) and **qualitative** disclosures (e.g., sustainability strategy, measures etc.)

- A suitable **mix of standardised metrics** to be disclosed by all entities along with **entity-specific disclosures** based on principles to be defined

2. BASIC CONSIDERATIONS

2.1. Location and Integration of Sustainability Reporting

VBA has deliberately developed a stand-alone reporting concept and decided against recommending a specific location for publishing of sustainability information. Within the Non-Financial Reporting Directive (NFRD), the EC implemented a Member State option, which enabled Member States to exempt companies from including the non-financial statement into the management report.[14] From the experience of current practice,[15] however, the EC has acknowledged that the option to publish a separate report hinders the availability of information that connects financial and information on sustainability matters.[16] Accordingly, the proposal of the CSRD foresees that companies should report sustainability information in the management report and that Member States should no longer be allowed to exempt companies from the obligation to include information on sustainability matters into the management report.[17] Though it seems reasonable to expect that the whole (both dimensions) of sustainability reporting will be mandatory in the management report in the EU and certain other jurisdictions,[18] the VBA reporting concept can be adapted to a variety of regulatory regimes. The only fixed stipulation is that it should be a mandatory part of corporate reporting and published together with financial reporting.

German Accounting Standard (GAS) 20 – Group Management Report,[19] for example, includes some disclosure requirements when companies voluntarily report on their strategic objectives and the strategies pursued to achieve them in the consolidated management report.[20] For those cases where companies already report in detail on some strategies and goals, it would certainly make sense from the point of view of the favoured integrated account approach to combine the existing strategy disclosures with the proposed sustainability reporting on the strategic orientation of the company by using the VBA Strategy & Target Setting template.

2.2. Qualitative Requirements

VBA's reporting concept serves as a structural platform to connect and integrate existing concepts and frameworks. Therefore, disclosed information should comply with the CSRD requirements proposed by the EC with respect to qualitative characteristics of sustainability information. The proposed Article 19b, which would be included in the Accounting Directive (2013/34/EU), clarifies that information to be reported when applying new sustainability reporting standards must be understandable, relevant, representative, verifiable, comparable and represented in a faithful manner.[21] The disclosures required by the VBA reporting concept satisfy all of these requirements.

Similar to the type of information specified under the CSRD according to the EC, the information to be disclosed under VBA's reporting concept will consist of forward-looking and backward-looking information and can be qualitative or quantitative in nature.[22]

To achieve a high degree of acceptance in practice, especially through the facilitated data generation, the VBA reporting concept considers a wide range of existing concepts and frameworks (including related metrics). These include, for example:

- International Financial Reporting Standards Foundation (IFRSF)
- Value Reporting Foundation (VRF), especially Sustainability Accounting Standards Board (SASB) standards
- Impact Management Project (IMP) Structured Network
- World Economic Forum (WEF) International Business Council (IBC)
- European Financial Reporting Advisory Group (EFRAG)
- Task Force on Climate-related Financial Disclosures (TCFD)
- European Commission (EC)
- Global Reporting Initiative (GRI)
- 3 European Supervisory Authorities (ESAs)[23]
- Embankment Project for Inclusive Capitalism (EPIC)
- Harvard Business School IWAI (Impact Weighted Accounts Initiative)

2.3. Scope and Reporting Boundary

Taking regulatory requirements as a starting point, VBA's reporting concept specifies mandatory disclosure of all material sustainability matters, at least those sustainability topics proposed by the European Commission within the Proposal for the Corporate Social Responsibility Directive (CSRD) or by other regulators (SEC and others):

Environment[24]	Social	Governance
• Climate Change Mitigation • Climate Change Adaption • Water & Marine Resources • Resource Use & Circular Economy • Pollution • Biodiversity & Ecosystems • ...	• Equal Opportunities • Working Conditions • Human Rights, Fundamental Freedoms and Democratic Principles and Standards[25] • ...	• Role & Composition of Board and Management • Ethics & Corporate Culture (incl. bribery & corruption) • Political Engagements • Business Relationships • Control & Risk Management • ...

Table 1: Sustainability Topics

It is important to note that companies are required under the VBA reporting concept to report on *all* material sustainability matters, even if not included in the above list. When disclosing sustainability information, the question of reporting boundaries comes up. Inherent in the primary goal of sustainability reporting (i.e., transparency about the company's contribution to sustainable development) is the issue of accountability. Focusing on the definition of accountability as: a "concept in corporate governance that is the acknowledgement of responsibility by an organisation for actions, decision, products and policies that it undertakes,"[26] it seems reasonable to focus on the control concept within financial reporting (e.g., International Financial Reporting Standards (IFRS) or United States Generally Accepted Accounting Principles (US-GAAP)). Following the international discussions on development of a comprehensive corporate reporting system,[27] where the five leading organisations in sustainability and integrated reporting came to the conclusion that the Conceptual Framework for Financial Reporting set forth by the International Accounting Standards Board (IASB) is well-suited to sustainability-related financial disclosure, VBA also relies on these same reporting boundaries. In accordance with the Impact Management Project (IMP), sustainability reporting should be consistent with financial reporting and additionally include those effects from outside the scope of consolidation that have a significant effect on enterprise value. Hence, the reporting boundary has two aspects:[28]

- Sustainability-related reporting should be consistent with financial reporting, i.e., should apply the same definition of the reporting entity used for financial reporting;

- Risks, opportunities and outcome attributable to or associated with other entities/stakeholders beyond the reporting entity[29] should be included in case of significant effect on the ability of the reporting entity to create enterprise value.[30]

3. DISCLOSURE CONCEPT

3.1. General Information

3.1.1. Risks & Opportunities
In order to structure the process of standardisation, the VBA reporting concept foresees inclusion of a section in which companies report on sustainability activities based on backward-looking information. For each sustainability matter, historic information should be provided through several content elements, of which two are the core elements *Historical Data Sheet* and *Impact Statement* already presented in the introduction.

First, however, companies should report general information on the nature, type and extent of identified risks and opportunities that arise from sustainability matters to which the entity is exposed during a given reporting period. Depending on the sustainability matter in question, a differentiation between types of risks and opportunities should be made.

Climate-Related Risks
For Climate-related risks, current practice differentiates between risks relating to the transition to a lower-carbon economy (transition risks) and risks relating to the physical impacts of climate change (physical risks). Based on the framework of the Task Force for Climate-related Financial Disclosure (TCFD), transition risks can be further disaggregated to policy and legal risks, technology risks, market risks and reputational risks.[31] The degree of financial and reputational risk associated with transition risks may vary depending on the nature, speed and focus of these changes. Physical risks involve risks from climate change that are associated with disruption to business activities, including risk to facilities and infrastructure, impact on operations, water and raw material availability and supply chain disruptions.[32] Furthermore, physical risks can be acute or chronic. Acute risks represent one-off disruptions (e.g., extreme weather events) that can still have significant impacts on companies' business activities. Chronic physical risks refer to longer-term changes in climate patterns (e.g., persistently higher temperatures) that may cause sea level rise or chronic heat waves.[33]

Efforts to address risks arising from sustainability matters also create opportunities for companies, which are expected to be a significant driver of enterprise value. A consistent categorisation and disaggregation of opportunities therefore also comprise an important element of a disclosure concept,[34] enabling investors and other stakeholders to better assess companies' ESG status. Similar to risks, opportunities will vary depending on the region, market and industry in which a company operates. If material differences prevail in terms of risks and opportunities in certain regions, markets or industries, companies should explain those differences.[35]

Climate-Related Opportunities
According to the Task Force for Climate-related Financial Disclosure (TCFD), efforts to mitigate and adapt to climate change can bring the following opportunities for companies: [36]

- Operating cost savings through improved resource efficiency
- Energy cost savings through the adoption of low-emission energy sources
- Improvement of competitive position through innovation and development of new low-emission products and services
- Access to new markets
- Improvement of resilience along the supply chain

In addition, companies should disclose information on how sustainability-related risks and opportunities are identified, assessed and managed. When describing these processes, a company should also report on their integration into the company's overall risk management.[37]

3.1.2. Governance

A robust governance structure with a committed leadership, clear direction and strategic influence is a fundamental prerequisite for the successful integration and effective management of sustainability matters at a company.[38] Therefore, it is essential to disclose information about the company's governance around sustainability-related risks and opportunities.

Disclosures relating to governance processes, controls and procedures used for managing sustainability risks and opportunities should include:[39]

- a description of the board's oversight of sustainability-related risks and sustainability-related opportunities;
- a description of management's role in assessing and managing sustainability-related risks and opportunities;
- the identity of the board member, senior executive or committee responsible for sustainability-related risks and opportunities;
- board skills and competencies to govern and manage strategies designed to respond to sustainability-related risks and opportunities; and
- a description of how the board holds management accountable for the implementation of sustainability-related policies, strategies and targets, including whether and how related performance metrics are incorporated into remuneration policies.[40]

This information allows investors and other stakeholders to assess whether a company is already compliant with the expected Sustainable Corporate Governance Directive of the EC,[41] which aims to improve the EU regulatory framework on company law and corporate governance.[42]

3.2. Historical Data Sheet

The Historical Data Sheet contains relevant information about the ESG performance of the reporting company in the reporting period and previous years for consistent and comparable sustainability-related disclosure. It represents the key element presenting backward-looking information with a focus on enterprise value (component I in figure 1) and serves as the section of sustainability reporting where quantitative metrics are disclosed. Acknowledging the heterogeneity of business models, VBA's reporting concept suggests requiring companies to disclose certain standardised metrics that should also include the disclosures required by the EU Taxonomy Regulation. Employing a 3-layered logic as proposed by EFRAG,[43] the VBA reporting concept differentiates between: **universal**, **sector-specific** and **company-specific** disclosures.[44] Thus, for all three disclosure types, companies should use the blank template (table A.1 in Appendix A).[45] The Historical Data Sheet, e.g., for 'greenhouse gas emissions', could include the following metrics:

Sustainability Dimension: Environment (Universal Disclosure)
Topic: Greenhouse Gas (GHG) Emissions and Energy Consumption (Example)

Metric Name	Metric Definition	Unit of Measure	Data Response[46]		Reference[47]	Source[48]
			2020	2021		
GHG emissions level	Total emissions (by type of GHG, by source, by Scope 1-3)	t CO2eq	...	...	...	GRI Empowering Sustainable Decisions *
GHG emissions intensity	Scope 1, 2 and 3 GHG emissions divided by company's €M revenue	t CO2eq / Mio. € revenue	...	...	...	ESAs *
Energy consumption	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	MWh and percentage	...	...	...	VALUE REPORTING FOUNDATION *
Energy intensity	Total energy consumed per output scaling factor (e.g., revenue, sales, units produced, floor area)	MWh / scaling factor	...	...	...	TCFD
Climate-oriented remuneration	Amount of senior management remuneration impacted by climate considerations	Percentage or absolute amount in local currency	...	...	...	TCFD
Savings from investments in low carbon alternatives	Amount of historical savings from investments in low-carbon alternatives (e.g., R&D, equipment, products or services)	Absolute amount in local currency	...	...	...	TCFD
Sustainable revenue	Percentage of environmentally sustainable revenue according to EU Taxonomy classification	Absolute amount in local currency	...	...	...	European Commission
Sustainable OpEx	Percentage of environmentally sustainable OpEx according to EU Taxonomy classification	Absolute amount in local currency	...	...	...	European Commission
Sustainable CapEx	Percentage of environmentally sustainable CapEx according to EU Taxonomy classification	Absolute amount in local currency	...	...	...	European Commission

Table 2: Historical Data Sheet (example: greenhouse gas emissions)

3.3. Impact on Society

The Impact Statement (component II) represents the key element to provide backward-looking society-relevant information relating to the social license to operate. The focus is on standardising financial measurement and reporting of corporate impacts on society and the environment so that the information can be readily assessed by investors and stakeholders.[49]

3.4. Strategy & Target Setting

This section is intended to inform report recipients on how management will approach the respective sustainability matters and to explain the whole strategy, including the ESG targets of the company. Following the conceptual approach presented in the introduction (figure 1), this chapter covers component III, representing forward-looking information with respect to both the inside-out (Value to Society) and outside-in (Value to Business) perspective. Existing frameworks for sustainability reporting, for instance the Sustainable Accounting Standards of the investor-orientated Value Reporting Foundation,[50] already oblige companies to disclose information on their sustainability strategies. For investors and other stakeholders, it is of fundamental importance to understand whether management has defined a strategy with clear and precise objectives (strategic goal) and how the progress towards the respective objectives is measured. In addition, to provide investors and other stakeholders relevant information about the consequences of the strategy, the proposed reporting concept requires information on the estimated impact on the society (Value to Society) and on the enterprise value (Value to Business). In order to report on this information, we highly recommend using the blank template (table B.1 in Appendix B).[51] The Strategy & Target Setting, e.g., for 'greenhouse gas emissions', could include the following activities presented below.

» For investors and other stakeholders, it is of fundamental importance to understand whether management has defined a strategy with clear and precise objectives (strategic goal) and how the progress towards the respective objectives is measured.

The template consists of three elements:

First, in order to demonstrate to investors and other stakeholders the strategic objectives of the company with regard to the sustainability matter, the company should disclose on **aggregated level** its strategy (row: Strategic Goal) with (a) clear and unambiguous strategic target(s) (column: Strategic Target), which should be defined by a KPI. This element represents the strategic agenda of the company.

Second, the component Strategy & Target Setting includes the disclosure of Milestone Implementation Progress, which differentiates between activity-specific and overall strategic disclosures. For activity-specific information, the reporting concept proposes a requirement that companies provide disaggregated information on **activity level** (clustered by sustainability areas). Thus, a company lists and briefly explains all (ongoing) relevant activities (column: Activity) that contribute to the defined strategic goal(s) and separately discloses the following information for every activity:

- CapEx and OpEx (both for the reporting period)
- Activity Target
- Evaluation of Activity Target Progress (in percent)

Capital and operating expenditures (CapEx and OpEx) refer to those incurred in the relevant reporting period with respect to each activity. It seems reasonable to expect that the listed CapEx and OpEx that contribute to the defined strategic goal of the respective sustainability matter will also be classified as a sustainable investment according to the EU Taxonomy Regulation.[52] However, under rare circumstances or for specific industries, there will be cases where no alignment exists between CapEx and OpEx listed in the Strategy & Target Setting disclosure and the classification of sustainable investments. In such cases, a company should be required to explain why the referring activity is not considered sustainable according to the EU Taxonomy Regulation.

Similar to aggregated disclosure relating to a company's strategy, a company should set a target for each activity (column: Activity Target), which should be defined by a KPI. In order to enable investors and other stakeholders to assess the progress of each activity, companies should visually present activity target progress (in percent) with respect to the defined KPI (column: Evaluation of Activity Target Progress).

Furthermore, the information presented as Milestone Progress should include overall strategic disclosures. Aggregating across all listed activities, the target progress with respect to the defined strategic goal(s) needs to be visually presented (column: Strategic Target Progress). This approach allows investors and other stakeholders to assess the progress of the strategy separately for each sustainability matter.

It is expected that companies will set their strategic goals in such a way that the listed activities collectively will be sufficient to achieve a strategic goal (i.e., 100%) relating to a sustainability matter. However, there will be cases where the strategic target will not be reached even though all listed activities are successfully completed. This will be especially relevant when strategic goals are externally set by a regulator and current activities are not sufficient to achieve the target. In such cases, the VBA reporting concept requires a detailed explanation of the reasons, including the disclosure of the percentage of the strategic goal (KPI) not covered by the listed activities. The maximum percentage achievable with current activities should be highlighted light blue in the pie chart.

Finally, companies must report on the **consequences** of each activity. This applies, on the one hand, to the effects on society (column: Value to Society) and, on the other, to the effects on enterprise value (column: Value to Business). Thus, companies should report on the consequences for each activity separately. For an activity's Value to Society, the company must disclose all qualitative and quantitative information necessary to understand the activity's impact on society.[53] For an activity's Value to Business, the company must disclose all information necessary to understand the activity's impact on the enterprise value of the business. The disclosure on both dimensions should include both qualitative and quantitative information.

Climate-Related Impacts
When disclosing climate-related information, companies should differentiate between potential financial impacts from transition risks and potential financial impacts from sustainability-related opportunities. For both reporting areas, companies should consider the TCFD 2017 Examples of Climate-related Risks as a starting point. Hence, the following aspects could be relevant:

Potential Financial Impacts from Transition Risks:

- Increase in operating costs (e.g., higher compliance costs, increased insurance premiums)
- Write-offs, asset impairments and early retirement of existing assets due to policy changes
- Increase in costs and/or reduction in demand for products and services resulting from fines and judgments
- Reduction in revenue from decreased demand for goods/ services
- Reduction in revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions)
- Reduction in revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention)
- Reduction in capital availability
- ...

Potential Financial Impacts from Climate-Related Opportunities:

- Increase in revenue through demand for lower-emission products and services
- Increase in revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services)
- Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
- ...

As far as possible, quantitative measures and metrics should be used to report on the Value to Business and Value to Society, which is difficult in many cases due to forecast uncertainties. Suitable methods and metrics with sufficient reliability must still be developed here.

Strategy & Target Setting (example: greenhouse gas emissions)

Strategic Agenda – Where to go?		Milestone Implementation Progress – How to get there?							Result / Outcome – What was archieved?				
Strategic Goal	Strategic Target (KPI)	Activitiy		CapEx		OpEx		Activity Target	Activity Target Progress		Strategic Target Progress	Consequences	
				Value		Value			%	Evaluation		Value to Society	Value to Business
Zero carbon company in 2050	0 t CO2e in GHG emissions by 2050	Sustainable Aviation	**Sustainable Aviation Fuels (SAF)** to power planes in Express and Global Forwarding businesses	n.a.		15 mEUR		> 30% sustainable aviation fuels blending by 2030	20%		7% **	Disclosure of Value to Society for each activity For each activity a quantification of the potential consequence shall be made.	Disclosure of Value to Business for each activity, considering TCFD 2017 For each activity a quantification of the potential consequence shall be made.
			Re-fleeting - Continue to invest in the latest technology of most fuel-efficient, SAF capable, and alternative power aircraft	150 mEUR		n.a.		X by 2030	5%				
			...			...		...	...	...			
		Carbon Neutral Buildings	**Carbon neutral design** - Apply carbon neutral designs for buildings	70 mEUR	*)	n.a.	*)	Starting in 2021, carbon neutral design for all new (owned) buildings	100%				
			Green Electricity - Further increase share of green electricity globally	n.a.	*)	25 mEUR	*)	X by 2030	50%				
									...	...			
		Green Last Mile Delivery & Line Haul	**Green Routes** - Electrify last-mile delivery vehicles	40 mEUR		n.a.		Electrify 60% of last-mile delivery vehicles by 2030	30%				
			Sustainable Fuels in Line-Haul - Grow sustainable (bio) fuel share	n.a.		15 mEUR		Grow sustainable (bio)fuel share >30% by 2030	100%				
			...					...	...	...			

*) Those activities that are aligned with the classification of sustainable investments according to the EU-Taxonomy shall be marked with a star. A potential difference with respect to the classification shall be explained.
**) Detailed explanation required if strategic target will not be reached even though all activities are successfully completed. This will be especially relevant, when strategic goals are externally set by a regulator and current activities will not be sufficient to achieve the target. The maximum percentage achievable with current activities shall be highlighted light blue in the pie chart.

Table 3: Strategy & Target Setting (example: greenhouse gas emissions)

APPENDIX A

A.1 Template for Historical Data Sheet

Sustainability Dimension: … (universal, sector-specific or company-specific disclosures) Topic: …						
Metric Name	Metric Definition	Unit of Measure	Data Response[54]		Reference[55]	Source
			2020	2021		
…	…	…	…	…	…	…
…	…	…	…	…	…	…
…	…	…	…	…	…	…
…	…	…	…	…	…	…
…	…	…	…	…	…	…
…	…	…	…	…	…	…

A.2 Historical Data Sheet Example for Working Conditions

Sustainability Dimension: Social (universal disclosures) Topic: Working Conditions – Occupational Safety						
Metric Name	**Metric Definition[56]**	**Unit of Measure**	**Data Response[57]**		**Reference[58]**	**Source**
			2020	**2021**		
Total recordable incidents[59] (TRI)	Number of work-related injuries in the reporting period	#	...	...	...	SASB*[60]
Total recordable incident rate (TRIR)	Number of work-related injuries per 1,000,000 working hours in the reporting period	# / 1,000,000 h	...	...	...	SASB
Lost time incidents (LTI)	Number of lost time incidents in the reporting period	#	...	...	...	SASB
Lost time incident rate (LTIR)	Number of lost time incidents per 1,000,000 hours worked in the reporting period	# / 1,000,000 h	...	...	...	SASB
Lost day rate	Number of workdays lost as a result of recordable incidents expressed as a weighted average	days / incident	...	...	...	ESAs
Total fatalities	Number of work-related incidents resulting in death in the reporting period	#	...	...	...	GRI
Fatality rate	Number of work-related incidents resulting in death per 1,000,000 working hours in the reporting period	# / 1,000,000 h	...	...	...	GRI
Average training hours	Average hours of health, safety and emergency response training for (a) full-time employees, (b) contract employees and (c) short-service employees	hours / employee	...	...	...	SASB
Monetised impacts of work-related incidents on organisation	Number and type of occupational incidents multiplied by the direct costs for employees, employees per incident (including actions and/or fines from regulators, property damage, healthcare costs, compensation costs to employees)	#, $	...	...	...	WEF IBC

Sustainability Dimension: Social (sector-specific disclosures) Example: Waste Management

Topic: Working Conditions – Occupational Safety

Metric Name	Metric Definition	Unit of Measure	Data Response		Reference	Source
			2020	2021		
Safety percentiles[61]	Safety Measurement System BASIC percentiles for: (1) Unsafe Driving, (2) Hours -of-Service Compliance, (3) Driver Fitness, (4) Controlled Substances/ Alcohol, (5) Vehicle Maintenance and (6) Hazardous Materials Compliance	Percentiles	...	...	...	SASB
Road accidents and incidents	Number of road accidents and incidents	#	...	...	...	SASB
...	...	...	...	...	...	...

Sustainability Dimension: Social (sector-specific disclosures)
Topic: Working Conditions – Occupational Safety

Metric Name	Metric Definition	Unit of Measure	Data Response		Reference	Source
			2020	2021		

APPENDIX B

B.1 Template for Strategy & Target Setting

Strategic Agenda – Where to go?		Milestone Implementation Progress – How to get there?							Result / Outcome – What was archieved?				
Strategic Goal	Strategic Target (KPI)		Activitiy	CapEx		OpEx		Activity Target	Activity Target Progress		Strategic Target Progress	Consequences	
				Value		Value			%	Evaluation		Value to Society	Value to Business
Strategic Goal für Sustainability issue in [year]		Sustainability Area 1		...		...			20%		7% **		
				...		...			5%				
			...	...	...	...	...	...	...	...			
		Sustainability Area 2		...	*)	...	*)		100%				
				...	*)	...	*)		50%				
			...	...	...	...	...	...	...	...			
		Sustainability Area 2		...		...			30%				
				...		...			100%				
			...	...	...	...	...	...	...	...			

*) Activities aligned with the classification of sustainable investments according to the EU Taxonomy marked with a star. Any potential differences with respect to the classification to be explained.
**) Detailed explanation required if strategic target will not be reached even though all activities are successfully completed. This will be especially relevant, when strategic goals are externally set by a regulator and current activities will not be sufficient to achieve the target. The maximum percentage achievable with current activities shall be highlighted light blue in the pie chart.

B.2 Strategy & Target Setting Example for Working Safety

Strategic Agenda – Where to go?		Milestone Implementation Progress – How to get there?					Result / Outcome – What was archieved?				
Strategic Goal	Strategic Target (KPIs)		Activitiy	CapEx Value	OpEx Value	Activity Target	Activity Target Progress %	Activity Target Progress Evaluation	Strategic Target Progress	Consequences: Value to Society	Consequences: Value to Business
Industry leader in occupational safety	0 fatalities each year*	Processes & Policies	Draft and implement group-wide occupational safety policy	n.a.	0.2 mEUR	Implementation for all company units / subsidiaries under management control by 2023 (weighting for number of employees)	100%		40%**	• Reduce lost time due to injuries → EV ⬆ • Reduce direct costs including medical expenses, compensation payments and costs for legal services → EV ⬆ • Reduce indirect cost including training new employees, accident investigations, implementation of corrective measures and machine or equipment repair → EV ⬆	• Improve trust/ reputation; customer satisfaction → EV ⬆ • Reduce future risks → EV ⬆ • Good environment for employees / customers → EV ⬆ • Compliance with EU norms/ standards → EV ⬆ • Improvement of collaboration with subcontractor / reputation → EV ⬆
			Initiate group-wide ISO 45001 certification (Occupational health and safety management systems)	n.a.	1 mEUR	Implementation for all company units / subsidiaries under management control by 2025 (weighting for number of employees)	40%				
	LTIs reduced by 50% by 2030*		...		...	...	...	...			
		Training	Implement group-wide safety training, specifically adapted to the respective field of work	n.a.	2 mEUR	By 2025, 100% of staff complete a yearly safety training	25%		30%**		
			Implement occupational safety onboarding process for external contractors including safety training (virtual or in-person)	n.a.	1 mEUR	By 2030, 80% of external contractors receive safety training prior to starting their work	50%				
	LTIR reduced by 50% by 2030*		...	...	...	...	...	...			
		Audits	Initiate yearly peer-based audits for production facilities in which site EHS managers audit compliance with occupational safety policy and share best practices	n.a.	0.5 mEUR	Complete 100 yearly peer-based audits by 2025, raise that number to 200 by 2030	30%		25%**		
	Severity rate reduced by 50% by 2030*		Expand external auditing for all sites, ensuring compliance with safety procedures outlined in the group-wide policy	n.a.	2.5 mEUR	Include all major production sites (in total covering at least 85% of production output) in external auditing by 2030	40%		35%*		
			...	...	...	...	...	...			

*) Base year 2020.
**) Detailed explanation required if strategic target will not be reached even though all activities are successfully completed. This will be especially relevant, when strategic goals are externally set by a regulator and current activities will not be sufficient to achieve the target.

END NOTES

1 United Nations, Department of Economic and Social Affairs – Sustainable Development, https://sdgs.un.org/goals.

2 SEC 2021, SEC Announces Enforcement Task Force Focused on Climate and ESG Issues, https://www.sec.gov/news/press-release/2021-42.

3 SEC 2021, Public Input Welcomed on Climate Change Disclosures, https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

4 Gensler 2021, Speech 28 July 2021, https://www.sec.gov/news/speech/gensler-pri-2021-07-28.

5 Communication from the Commission – Action Plan: Financing Sustainable Growth, 2018, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52018DC0097&from=EN.

6 Broughton/Maurer 2021, Companies Spend Big on ESG Investments, Hoping for Long-Term Payoff, in: The Wall Street Journal, June 14th, https://www.wsj.com/articles/companies-spend-big-on-esg-investments-hoping-for-long-term-payoff-11623670200.

7 Friede/Busch/Bassen 2015, ESG and financial performance: aggregated evidence from more than 2000 empirical studies, in: Journal of Sustainable Finance & Investment, 5 (4), 210-233.

8 For more information on the 'social license to operate' concept that has emerged as a leading concept to assess the legitimacy of extractive operations, see Meesters et al. 2021, The Social License to Operate and the legitimacy of resource extraction, in: Current Opinion in Environmental Sustainability 2021, 49, 7-11.

9 IFRSF 2021, IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements, https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.

10 Those disclosure requirements primarily take into consideration the proposed requirements of the five leading organisations in sustainability and integrated reporting (CDP, CDSB, GRI, IIRC and SASB) within the joint paper faciliated by the Impact Management Project, World Economic Forum and Deloitte, Reporting on enterprise value – Illustrated with a prototype climate-related financial disclosure standard, December 2020, https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf.

11 For a more detailed description of the Historical Data Sheet, see Section 3.2.

12 For a more detailed description of the Impact Statement, please refer to the Methodology – Impact Statement General Paper, https://www.value-balancing.com/_Resources/Persistent/2/6/e/6/26e6d344f3bfa268252 44ccfa4a9743f8299e7cf/20210210_VBA%20Impact%20Statement_GeneralPaper.pdf.

13 For a list of all VBA publications relating to the Methodology Impact Statement, see https://www.value-balancing.com/en/downloads.html.

14 Article 19a (4) of Directive 2013/34/EU. This possibility also applies for the consolidated non-financial statement referred to in Article 29(a)(4) of Directive 2013/34/EU.

15 Twenty Member States that have used that option. For further issues exacerbating this problem, like different publication times for financial and sustainability information, see recital 50 of Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Corporate Social Responsibility Directive, CSRD), 21. April 2021.

16 See recital 50 of Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Corporate Social Responsibility Directive, CSRD), 21. April 2021.

17 See recital 50 of Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Corporate Social Responsibility Directive, CSRD), 21. April 2021.

18 Nevertheless, it is important to note that the discussions between investors, other stakeholders, standard setters and institutes of public auditors are still ongoing. For different views concerning the location of disclosing value to society-related information in Germany, see IDW 2021, IDW Comment Letter to CSRD Proposal, pp. 3-4, https://www.idw.de/blob/130454/5f7f59a723003769fab2c7a200c56855/down-csrd-entwurf-bmjv-data.pdf and ASCG 2021, European Commission's proposal for Corporate Sustainability Reporting Directive, p. 5, https://www.drsc.de/app/uploads/2021/05/210526_DRSC_SN_BMJV_CSRD.pdf.

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20 See GAS 20 – Group Management Report, note nos. 40-44 and 56.

21 Paragraph 4 of Article 1 of the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Corporate Social Responsibility Directive, CSRD), 21. April 2021.

22 Paragraph 3 of Article 1 of the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Corporate Social Responsibility Directive, CSRD), 21. April 2021.

23 Joint Committee of the European Supervisory Authorities (European Securities and Markets Authority, ESMA; European Banking Authority, EBA and European Insurance and Occupational Pensions Authority, EIOPA), Joint Consultation Paper – ESG disclosures, April 2020: https://www.esma.europa.eu/sites/default/files/jc_2020_16_-_joint_consultation_paper_on_esg_disclosures.pdf.

24 The environmental sustainability topics proposed by the European Commission within the CSRD are consistent with

EU Taxonomy requirements to classify Revenue, CapEx or OpEx as sustainable.

25 Within the CSRD, the EC refers to the democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union. See proposed Article 19b (2)(b) (ii) in Article 1 – Amendments to Directive 2013/34/EU (4).

26 Gittel/Magnusson/Merenda 2012, The Sustainable Business Case Book, Chapter 4, p. 133, https://saylordotorg.github.io/text_the-sustainable-business-case-book/s08-accountability-for-sustainabil.html.

27 Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf.

28 IR 2021, International <IR> Framework, Paragraph 3.30.

29 CDSB 2018, CDSB Framework for reporting environmental information, natural capital and associated business impacts, REQ-07 Organisational boundary, p. 27.

30 CDP, CDSB, GRI, IIRC and SASB 2020, Joint paper faciliated by the Impact Management Project, World Economic Forum and Deloitte, Reporting on enterprise value – Illustrated with a prototype climate-related financial disclosure standard, December 2020, p. 16, https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf.

31 For a detailed explanation of those different transition risks, please refer to TCFD 2017, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, pp. 5-6, https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf.

32 For a definition of physical risks see Reisinger/Howden/Vera 2020, The Concept of Risk in the IPCC Sixth Assessment Report: A Summary of Cross-Working Group Discussions. Intergovernmental Panel on Climate Change, Geneva, Switzerland. p. 15, https://www.ipcc.ch/site/assets/uploads/2021/02/Risk-guidance-FINAL_15Feb2021.pdf.

33 TCFD 2017, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, p. 6.

34 On the importance of consistent categorisation of Climate-related risks for the TCFD framework, see TCFD 2017, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, p. 7.

35 SASB Standards often require a discussion of potential differences in strategies, plans, and/or reduction targets for different business units, geographies, or emissions sources. See for example Iron & Steel Producers - Sustainability Accounting Standard, Greenhouse Gas Emissions, EM-IS-110a.2. Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets, note no. 4.

36 For a detailed explanation of those different opportunities, please refer to TCFD 2017, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, pp. 6-7.

37 The required information represents an extension of Recommendations of the Task Force on Climate-related Financial Disclosures.

38 Eapen 2017, Business for Social Responsibility (BSR), https://www.bsr.org/en/our-insights/blog-view/how-to-build-effective-sustainability-governance-structures.

39 The disclosure requirements represent an extension of the climate-related governance disclosure requirements of the the five leading sustainability standardsetters; see CDP, CDSB, GRI, IIRC and SASB 2020, Joint paper faciliated by the Impact Management Project, World Economic Forum and Deloitte, Reporting on enterprise value – Illustrated with a prototype climate-related financial disclosure standard, December 2020, p. 16, https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf.

40 If the performance metrics differ from those performance metrics presented within the Historical Data Sheet (see below), companies should be required to disclose the reasons why management-relevant metrics are not included in the remuneration policies.

41 After a public consultation, the current status foresees the proposal for a Directive after the disclosure of consolidated feedback.

42 For further information on this initiative, see European Commission, About this initiative, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en.

43 European Reporting Lab @ EFRAG – Proposals for a relevant and dynamic EU Sustainability Reporting Standard-Setting (February 2021), p. 9.

44 Here, companies have the opportunity to disclose individual company-specific metrics.

45 The Appendix also includes an example for a Historical Data Sheet when disclosing information on social matters (working safety); see table A.2 in Appendix A.

46 Depending on the jurisdiction in which the company is disclosing sustainability information, the data response could also cover more reporting periods to be coherent with financial reporting.

47 In this column, companies should reference to sections, e.g., in their annual report, that contain additional / more detailed information on the topic.

48 Those sources marked with a star indicate that the referring metric is included in several frameworks or standards.

49 The VBA methodology consists of three papers that cover general aspects as well as environmental and socio-economic indicators. For a list of all VBA publications relating to the Methodology Impact Statement, see https://www.value-balancing.com/en/downloads.html.

50 Those Standards were originally developed and published by the Sustainability Accounting Standards Board (SASB), which is has meanwhile merged with the International Integrated Reporting Council (IIRC) to form the Value Reporting Foundation (VRF). For more information about their merger, see https://www.valuereportingfoundation.org/news/welcome-remarks-from-the-ceo/.

51 The Appendix also includes an example for a Strategy & Target Setting when disclosing information on social matters (working safety); see table B.2 in Appendix B.

52 Activities aligned with the classification of sustainable investments according to the EU Taxonomy Regulation are marked with a star.

53 For impact measurement and valuation guidance, see VBA's General Method paper, which introduces the calculation

methodology for monetary impact valuation. For a more detailed deep-dive, see topic papers on socio-economic and environmental impacts. All papers can be found at: https://www.value-balancing.com/en/downloads.html.

54 Depending on the jurisdiction in which the company is disclosing sustainability information, the data response could also cover more reporting periods to be coherent with financial reporting.

55 In this column, companies are to reference to sections, e.g., in their annual report, that contain additional / more detailed information on the topic.

56 All metrics listed should be disclosed for (a) full-time employees and (b) contract employees.

57 Depending on the jurisdiction in which the company is disclosing sustainability information, the data response could also cover more reporting periods to be coherent with financial reporting.

58 In this column, companies are to reference sections, e.g., in their annual report, that contain additional / more detailed information on the topic.

59 A recordable incident refers to a recordable work-related injury or ill health. SASB and GRI – based on guidance by the United States Occupational Safety and Health Administration (OSHA) – define recordable work-related injury or ill health as, "Work-related injury or ill health that results in any of the following: death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness; or significant injury or ill health diagnosed by a physician or other licensed healthcare professional, even if it does not result in death, days away from work, restricted work or job transfer, medical treatment beyond first aid, or loss of consciousness" (quote from GRI 403: Occupational Health and Safety 2018).

60 Note: KPIs indicated with a star are not listed separately in the SASB standards but are included in the calculation of the KPI TRIR / LTIR respectively (see table).

61 This represents an example of a country-specific metric, referring to the classification system used by the US Federal Motor Carrier Safety Administration (FMCSA). The metric may be adapted to the respective geographical jurisdiction.