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Why non-financial reporting matters

Europe needs sustainable, environmentally-friendly growth, and the EU's Green Deal promises to deliver the green transformation that society needs – while at the same time supporting an inclusive economic growth.

The UN Sustainable Development Goals provide the target society is aiming for. A key component of reaching this target will be measuring companies' sustainability practices. Environmental, social and governance factors relevant to sustainable value creation are increasingly material to business performance. Investors, regulators and other stakeholders all want to know how companies perform in these areas.

However, for an accurate measurement of long-term sustainable value creation, there needs to be a single framework integrating all ESG reporting metrics. Today, companies face challenges in measuring and reporting on their long-term value creation in a consistent manner at international level – the various ESG metrics and frameworks hinder companies from demonstrating value creation in a comparable and meaningful way.

Bank of America fully supports the work of the World Economic Forum's International Business Council (IBC) on a common core set of metrics to standardise ESG reporting. The IBC, chaired by our CEO Brian Moynihan, along with the Big Four and in collaboration with all stakeholders, built on the wide range of existing standards – such as TCFD, GRI, and SASB – and identified those ESG factors material to business performance. The IBC's "Stakeholder Capitalism Metrics" provides a core and expanded set of metrics that will lead to greater consistency, comparability and compatibility with the existing sector-specific approach, and will serve as one of the building blocks for a global standard.

These metrics are NOT a new ESG standard in themselves, but rather a foundational set of existing metrics and disclosures deemed most critical for sustainable value creation – distilled together to help deliver a new kind of corporate leadership.

The EU is also reviewing its own rules for non-financial reporting, as part of its Green Agenda to progress towards the disclosure of more meaningful and comparable data to support financial decisions. We would suggest that such work at EU level should be informed by and build on already existing and verified standards.

Looking more widely, we recommend that standards on non-financial reporting should be established at international level, as achieving the UN SDG goals must be a global ambition. Moreover, any standards should converge towards the development of a systemic global solution – similar, for example, to international accounting standards.

Ideally in our view, a reporting standard should cover the entire range of ESG reporting, including the broader range of environmental factors. The metrics will need some uniform characteristics. They will need to be industry and business model agnostic, while remaining relevant and material to each; they will need to be measurable, verifiable and comparable across firms; and they will need to describe the connection between sustainability and longer-term financial results. For this purpose, we propose that any new standard follows the IBC's four pillars that are aligned with the SDGs and principal ESG domains: Principles of Governance, Planet, People and Prosperity. Metrics like Sustainability reporting should be developed with the same level of governance and controls that support financial reporting and hence be auditable. It is not an easy task, and will require some imagination and creativity.

The time has therefore come for all parties, including companies, investors, regulators, and governments to work together to achieve these ends and establish a single sustainability standard-setter. This should be independent and properly funded, with broad stakeholder composition and the requisite expertise at both the board and staff levels, to address the full suite of ESG reporting. We support the IFRS Foundation in leading the discussions on developing a global sustainability reporting standard.

To address the challenge of climate change, ambitious international solutions are called for. An internationally-accepted common reporting framework embedding non-financial and financial considerations will lead to a better allocation of capital – and in turn will help address one of humanity's most pressing challenges.