

Tackling globally standardized ESG disclosure is a business imperative

a data-centric approach supported by XBRL

25th XBRL Europe Digital Week

ESG Working Group

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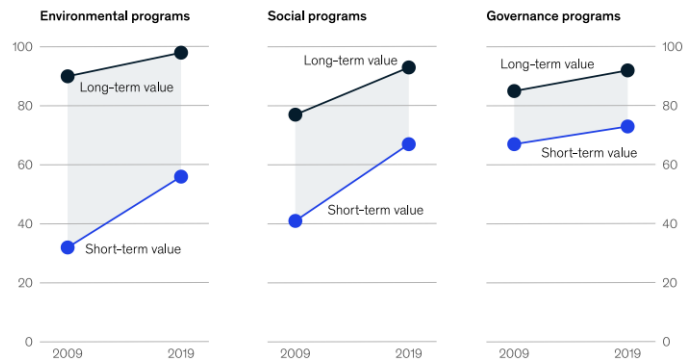
Materiality has and will be always applicable to any financial report – implicit inclusion of ESG disclosures

- Implicit inclusion of ESG disclosure is **not good enough**¹
 - Only a handful of companies had pro-actively self-identified pandemic risks as a material factor on the S1 and 8-K form²
- A global non-financial report standard for integral ESG disclosure is needed³
 - Regulators are enforcing ESG disclosure to increase transparency and improve sustainability – European regulators are in the lead!
 - Shareholder & investors need ESG disclosures and are including ESG data in their portfolios to hedge risks and find alpha⁴
- In conclusion: I prefer to emphasize the **opportunities of ESG disclosure** and to take the **stakeholder perspective**

How can we all benefit? How can XBRL help?

Room for improvement in ESG disclosure value creation – taking stock

Share of respondents who say given program creates value, %¹



Question was asked only of respondents who said environmental, social, and governance programs increase shareholder value. Respondents who said "substantially negative," "negative," or "no effect" are not shown; total n = 136 in 2009 and n = 342 in 2019.

Perspective on value and performance⁵

- 83% expect positive ESG program contribution to shareholder value in the next 5 years
- 10% median premium to acquire a company with a positive ESG record

Data-centric tendencies

1. Increased ESG self-reporting – generates large volumes of ESG data, despite the lack in transparency and comparability⁶
2. Increased **data-centric ESG analysis** over leveraging ESG data reports
 - The APG and PGGM Artificial Intelligence powered Sustainable Development Investment Asset Owner Platform⁷
 - Blackrock’s integrated ESG focus⁸
3. **Europe regulators** are taking the lead in enforcing ESG disclosure which will result in highly usable ESG data (NFRD for large Public Interest Entities with more than 500 employees)

COVID-19 ESG boost? Despite the economic down turn^{1, 2}

Issues in globally standardized ESG disclosure

1. Too many standards

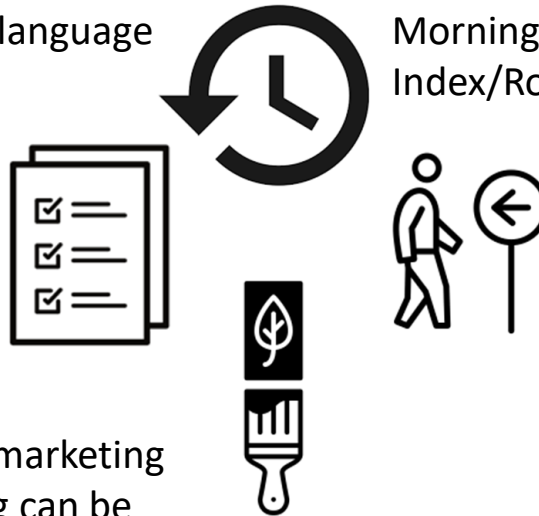
- Standards focusing on E, S or G – minority qualify as integral standards^{9, 10}
 - Is aligned good enough?¹¹
- Absence of standard reporting language
- Neutral or negative screening applied¹²

4. Greenwashing

- Flimsy proof – data instead of marketing slogans, although self-reporting can be insightful^{12, 13}
- Avoid fluffy language, suggestive pictures, irrelevant claims and gobbledegook^{14, 15}

2. Lack of history

- Data sets go back only 5-10 years⁴
- Changed/revised definitions over time
- Consolidation in sell market (e.g. Morningstar/Sustainalytics and Dow Jones Index/Robeco SAM)



3. Signals behaviour

- Society and regulators adjust metrics and weighting of metrics over time - E, S, and G and within category^{5, 13}
- Back testing is also difficult to impossible, as ESG has been differently priced by the market over the years⁴

Sell side consolidation is not sufficient to drive data-centric ESG enclosure – we need legislator metrics to make an impact



Reflections

- Rating agencies incorporating ESG capabilities fast tracks the global standardisation of EGS data as well as their ability to truly incorporate ESG in their strategies
- However the sell side will remain scattered for the medium term

* Moody's acquired a majority stake in Four Twenty Seven and Vigeo Eiris

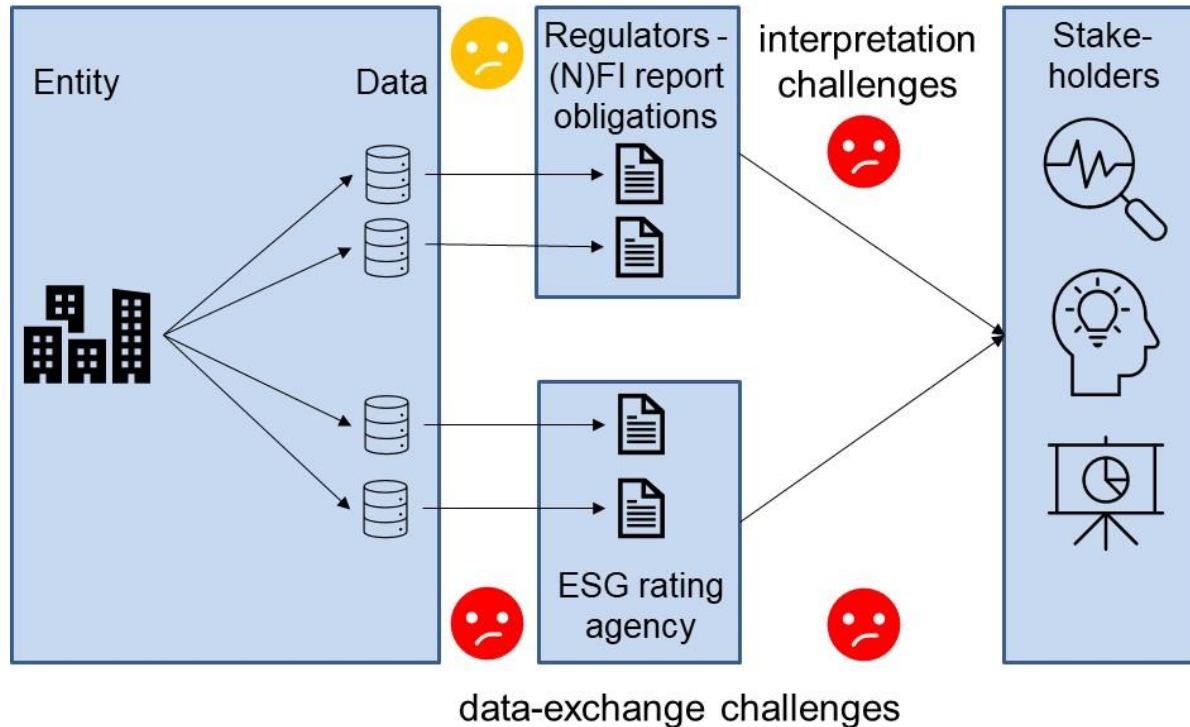
** ISS acquired only the Investment Climate data division

Issues with ESG reports of rating agencies

1. Black-boxing¹², which is hindering a data-centric approach
2. ESG disclosure of rating agencies is unrelated
 - Correlation of five ratings from agencies was on average 0.61 – compared to a 0.99 correlation of Moody's and S&P credit rating¹⁶

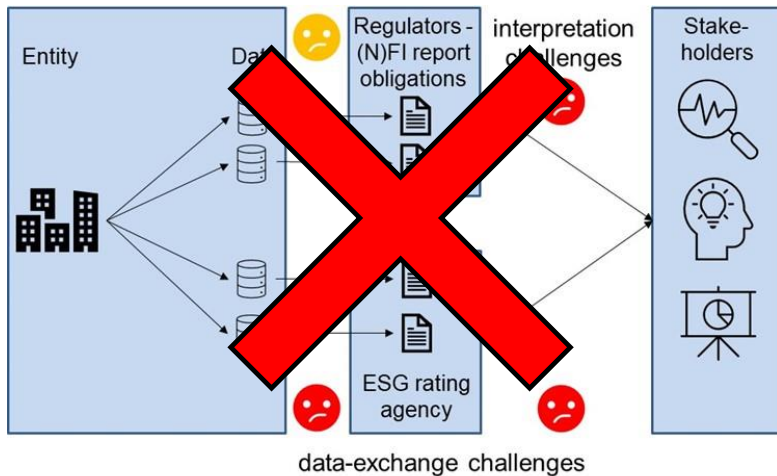
When available, legislator metrics can be incorporated in the reports of rating agencies

Data-centric ESG discloser based on regulatory metrics, powered by XBRL^{17, 18, 19}



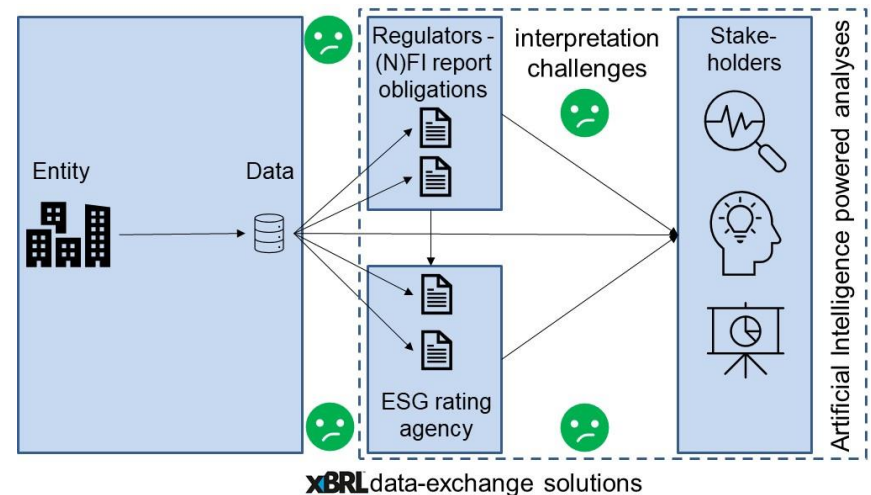
Poor ESG data quality, intransparency and the absence of data-exchange standards **negatively impact achieving sustainability goals**, and also **jeopardize the ability to hedge risks and find alpha**

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Improvement is coming from opportunities to **analyse the ESG data**, not from the ability collect the data
Technologies such as **Artificial Intelligence power ESG analytics** – think Truvalue Labs’ – Machine Learning

Also wouldn't it be great to scale up **ING and Philips** collaboration in a **one billion Euro sustainability loan** by using XBRL data exchange solutions for any entity in combination with significantly smaller loans²⁰



Call for action

1. European regulators, i.e. the European Commission, need to enforce digitized single definitions and data storage (open access) – define minimal requirements
2. XBRL community to continue to engage with the stakeholders to ensure^{17, 18, 19}
3. Investors to continue to build ESG capabilities as well as their ability to truly incorporate ESG in their strategies
4. Entities to implement process and governance to ensure high quality/accurate ESG disclosures
5. Ensure sufficient ESG leadership²¹ – consider appointing a Chief Sustainability Officer, or even better a Sustainability Director reporting to the CFO, COO or Chief Risk Officer. This ensures ESG is an integral part of risk management as well as of doing business
6. Be prepared for the future: the next level ESG disclosure is on activity level - segmenting entity's activities is needed¹²

Thank you – Q&A

- Thank you for taking the time to participate
- Thank you, René van der Meij and Matthieu Garat for offering the opportunity to present
- Thanks to Marla Dans, Dutch pension fund SMEs, Enrico Evink, Bas Groenveld, Paul Hulst and Paul Staal for providing input and challenging me



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