Sustainability reporting – don’t let perfect be the enemy of good

By Alan Porter, Fund Manager, Sanlam Investments

As managers of a strategy that invests in companies that combine strong sustainability and dividend credentials, we often get asked about the quality of sustainability data and reporting. Sustainability reporting has improved over recent years and this needs to continue to allow investors to make informed decisions over how to allocate their clients’ capital. However, we believe that perfect sustainability data should not be the enemy of good data, that is, investors should focus on companies with data and reporting goals that are directionally improving.

The debate over sustainability data and reporting has parallels with what investors have been faced with for years regarding financial reporting standards. American companies report using generally accepted accounting principles (GAAP) but most also release adjusted numbers (non-GAAP) and a reconciliation between the two. They do this, typically, to exclude irregular or non-cash expenses. Outside of the US, the most used accounting rules are the International Financial Reporting Standards (IFRS). Their aim is to make financial statements consistent, transparent, and easily comparable around the world. There are differences between IFRS and GAAP reporting. Furthermore, many companies restate historic numbers for a variety of reasons such as reflecting acquisitions and disposals, or just simply a reclassification of divisional reporting. As much as we want sustainability reporting to be consistent, we must remember financial reporting isn’t.

We felt that one of the more interesting items to come out of COP26 was the IFRS announcement on developments to provide global financial markets with high-quality climate and sustainability disclosures. IFRS are to form a new International Sustainability Standards Board (ISSB) to develop a set of global sustainability disclosure standards. In addition, leading investor-focused sustainability disclosure organisations are going to consolidate into the new board. These include the Climate Disclosure Standards Board (a CDP initiative) and the Value Reporting Foundation (which houses the SASB Standards). This will help reduce the proliferation of standards. Finally, a working group established to undertake preparatory work for the new ISSB has published prototype climate and general disclosure requirements for the ISSB to consider.

These developments are very encouraging. An improvement in sustainability disclosure, a streamlining of the bodies involved, and a sense of urgency are all required to allow investors to make more informed decisions and align their portfolios appropriately.

Fund risks

The Fund has holdings which are denominated in currencies other than sterling and may be affected by movements in exchange rates. Consequently the value of an investment may rise or fall in line with the exchange rates. FPR-0025861