Targeting transparency
How Switzerland's largest companies report on sustainability
2015 edition
About the study

This fourth edition of our annual study aims to provide an insight into current developments in integrated reporting (see section 02) as well as to offer an overview of the sustainability reporting activities of the largest Swiss companies today with a comparison over recent years. The study highlights changes in GRI reporting (see section 03) and explores the latest international developments in sustainability reporting (see section 04) providing a future outlook (see section 05).
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Integrated reporting

The trend has reached Switzerland

Integrated reporting has become a focal point of public discussion in Switzerland. More and more companies show an interest in adopting the Integrated Reporting <IR> Framework of the International Integrated Reporting Council (IIRC) in the future. Integrated reporting is more than mere reporting through the combination of financial and non-financial information; it is about company-specific integrated thinking with the aim of creating value.

More than 300 companies around the globe report on the basis of the <IR> Framework

More than 300 companies have committed to the <IR> Framework worldwide. The list of companies shows that businesses across all continents and countries are involved in this global development. The trend toward publishing integrated reports is gaining momentum across all industries on a global level.
The number of sustainability reports as well as their degree of transparency continues to increase

Among the 110 largest companies in Switzerland, the percentage of organizations issuing a sustainability report increased from 54% in 2013 to 62% in 2014. This contributes to the positive trend over the past years, where an increase of 18% has been observed compared with four years ago. Among the SMI Expanded companies, the percentage remains at 70% as in the previous year; however, a greater transparency regarding their sustainability performance can be observed.

Slight increase in the number of reports with external assurance

Around one third of the largest Swiss companies seek external assurance on their report (23 reports, 34%). Compared with the previous year, this number increased slightly. For the SMI Expanded companies, the percentage rose from 43% to 49% (15 reports in 2013 and 17 reports in 2014).

Half of the companies switched to G4

The guidelines of the Global Reporting Initiative (GRI) remain the most widely used standard for sustainability reporting worldwide. More than three quarters of the reporting companies among the 110 largest companies in Switzerland (76%) and SMI Expanded companies (80%) apply the GRI guidelines. The fourth version of the guidelines (G4), published in May 2013, is already applied by just over half of the companies reporting. The remaining companies using the expiring guidelines G3/3.1 will have to adapt their sustainability reporting to the requirements of the current G4 guidelines for the ongoing fiscal year.

Increasing regulatory requirements

Various Swiss and international developments enhance the importance of disclosing and integrating non-financial aspects. There are, for instance, different initiatives and bodies, such as the Global Reporting Initiative (GRI), the Global Sustainability Standards Board (GSSB), the Sustainability Accounting Standards Board (SASB) and the Corporate Reporting Dialogue initiative, whose objective is to strengthen and unify sustainability reporting by further developing frameworks and guidelines. In addition, demand from national regulatory authorities and stock exchanges for greater transparency on sustainability is increasingly apparent. In Switzerland too, the disclosure of non-financial information could be enhanced by the management report, depending on the interpretation of the requirements.

Following the implementation of the EU guideline on disclosing non-financial and diversity-related information, a sustainability reporting requirement is being introduced for large companies listed on the stock exchange in Europe. Furthermore, observing the development from the perspective of stock exchanges, the Sustainable Stock Exchanges (SSE) initiative has gained further members, and several exchanges are considering following the example of the Johannesburg Stock Exchange, where integrated reporting is required of companies wanting to become eligible for listing.
02 Integrated reporting
Disclosing financial information is no longer sufficient to comprehensively capture the situation and value of a company. A large part of the company value can be attributed to intangible and non-financial drivers. Stakeholders therefore require companies to state their most material information from different sources (e.g., annual report, sustainability report, etc.) in an integrated report which comprehensively represents the performance of a company. Following these considerations, the most important standard setters, various big corporations and investors, audit companies as well as regulators decided to establish the International Integrated Reporting Council (IIIRC) in 2010. In December 2013, the IIIRC published the Integrated Reporting <IR> Framework, which provides guidance on the topic of integrated reporting.

The <IR> Framework relies on a principle-based approach and does not prescribe specific indicators or measurement methods. An integrated report presents the material elements of the value creation of a company by combining financial and non-financial information. In doing so, it should illustrate relevant relationships and value changes between various capital types such as financial capital, production capital, human capital, intellectual, natural and social capital. The aim is to present a fundamental and broad understanding of material and immaterial value drivers in order to better estimate possible risks and opportunities as well as the outlook for future success.
Current status of reporting based on the <IR> Framework

On the regulatory side, only the Johannesburg Stock Exchange requires the publication of an integrated report. Further stock exchanges are in the process of evaluating comparable requirements (see chapter 04). In Switzerland, no similar regulatory requirements can be observed and integrated reporting approaches are the exception rather than the rule. Worldwide, over 300 companies have committed to the <IR> Framework. As the list of the companies shows, there are companies from other countries, such as the Netherlands or the United Kingdom, which are more actively shaping this international development. However, the increasing trend toward publishing integrated reports is taking place across industries and on a global level.

In applying the <IR> Framework, the major optimization potential seems to relate to the holistic description of a company’s value creation. According to the reporting standard, the value creation of an organization should be comprehensively captured by six types of capital, with intangible values and external effects quantified and monetized as far as possible. In practice, this is a big challenge.

Relationships between financial performance, intangible value and externalities

The value of the organization is in part defined by intangible value. Therefore, correct communication of this value is also important.

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2. Integrated reporting, Elevating value, EY Report, 2014
To do this, it is first necessary to identify the changes in the value created and the related externalities. When, for example, the externality is destroying societal value (e.g., climate change or impairment of biodiversity), the challenge lies in how to mitigate the impacts with a “cost and benefit” approach.

In order to estimate the impact of such external effects on intangible assets, there are already various approaches in use, even though international standards on this matter have not yet been established. For the upcoming years, it can be expected that particularly in the context of integrated reporting, such approaches will gain importance.

In order to gain insights into what a good integrated report could look like, we have to look abroad. Among others, the Crown Estate\(^3\) – a company managing the property of the British Crown – is often taken as a reference. Their integrated report describes the most important internal and external resources and stakeholder relationships that contribute to the value creation of the organization. Further, their report shows how the six financial and non-financial capitals are incorporated in the strategic decision-making process and how their activities’ positive and negative financial, economic and social effects on the value creation can be measured and analyzed for the firm and its stakeholders.

**Benefit of integrated reporting**

A survey by the IIRC (International Integrated Reporting Council) and Black Sun\(^4\) among 66 companies revealed that an important benefit of preparing an integrated report lies in the improved communication between the board of directors and the management, between various company departments as well as with investors. The survey’s key findings show the following benefits of integrated reporting:

<table>
<thead>
<tr>
<th>Benefits of generating an integrated report(^5)</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>Increased understanding of value creation</strong></td>
<td>Almost three quarters of all surveyed companies indicate that their board of directors gained a better understanding of the value creation of the firm through integrated reporting. Two thirds of all surveyed companies have an increased understanding of business challenges and risks, especially those with long-term impact. Moreover, almost 90% state that their investors have gained a better understanding of the firm strategy through integrated reporting, which in turn leads to more confidence in the long-term viability of their business models.</td>
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<td><strong>Improvement of performance measurement</strong></td>
<td>About three quarters of all surveyed companies believe that there is greater focus on measuring the long-term success of their business through integrated reporting.</td>
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<td><strong>Better collaboration</strong></td>
<td>Another three quarters of all surveyed companies state that collaboration between the board, the executives and strategic departments with respect to the company’s goals has improved. Almost all companies experience a positive impact on internal engagement, which in turn is reflected in better communication among the various departments of a firm.</td>
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<tr>
<td><strong>Better long-term decision-making processes</strong></td>
<td>Two thirds of all surveyed companies share the opinion that long-term decision-making is improved.</td>
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<td><strong>Better stakeholder relationships</strong></td>
<td>Just over half of all surveyed companies reported better relationships with institutional investors as well as with analysts. Around 90% see a positive impact on external engagement with various stakeholders.</td>
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\(^3\) http://www.thecrownestate.co.uk/our-business/integrated-reporting/

\(^4\) IIRC and Black Sun, Realizing the benefits: The impact of Integrated Reporting, 2014; IIRC and Black Sun, The Integrated Reporting Journey: The Inside Story, 2015

\(^5\) IIRC and Black Sun, Realizing the benefits: The impact of Integrated Reporting, 2014; IIRC and Black Sun, The Integrated Reporting Journey: The Inside Story, 2015
### Current state assessment

- **Current state assessment and establishment of vision and roadmap**

### Transformational process

- **Business model**
- **Materiality**
- **Connectivity**
- **Integration into management processes**

### Integrated management

- **Integrated thinking**
- **Integrated reporting**

#### Integrated thinking

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<tr>
<th>Component</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Business model</strong></td>
<td>Articulate the business model and the value creation process of the organization along the entire value chain by identifying key inputs and outputs. It should show the key input factors, the performed value-adding activities of the company and the value created for stakeholders over the short, medium and long term.</td>
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<tr>
<td><strong>Materiality</strong></td>
<td>Identify the topics that have material impact on the company’s future performance. As part of the materiality process, the business model, the company’s vision and strategy, the business context as well as stakeholders’ expectations have to be taken into consideration. The resulting list of material topics forms the management agenda.</td>
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<td><strong>Connectivity</strong></td>
<td>Define the connectivity between the material topics, the company’s strategy and its value creation process as outlined in the business model. Thereby, a common understanding of the interrelatedness and dependencies between financial and non-financial information is established as well as how the value creation process can be steered.</td>
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<tr>
<td><strong>Integration into management processes</strong></td>
<td>Review the corporate governance, strategic focus, goal setting and controlling, enterprise risk management, etc., in order to identify improvement potential for optimizing the company’s value creation. Through the implementation of according changes the integration and interlinkage of management processes gets enhanced.</td>
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#### Integrated reporting

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<tr>
<th>Component</th>
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<tr>
<td><strong>Content</strong></td>
<td>Develop the structure and content of the integrated report by incorporating the current insights gained through the integrated thinking work stream. For a first report, at least the business model and the material topics should be described and linked to the available financial and non-financial information.</td>
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<tr>
<td><strong>KPIs</strong></td>
<td>Link available key performance indicators (KPIs) to the business model and material topics for reviewing their suitability to measure the company’s value creation. As a consequence, existing KPIs might no longer be of relevance or have to adapted while new company-specific KPIs would have to be defined.</td>
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<tr>
<td><strong>Data management processes</strong></td>
<td>Define the methodologies and data management processes for the material KPIs, including data quality, approval and assurance requirements. Implement the changes to existing reporting approaches and systems to align them with the integrated reporting requirements.</td>
</tr>
<tr>
<td><strong>Performance results</strong></td>
<td>Capture and disclose performance data for all material KPIs to present a comprehensive overview of the company’s value creation. Additionally the KPIs have to be linked to strategic priorities and goals as well as to risks and opportunities with regard to the company’s future business success.</td>
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#### Timeline

- **Current state assessment and establishment of vision and roadmap**: 2 to 4 weeks
- **Integrated thinking and establishment of vision and roadmap**: 2 to 3 years
Switching to integrated reporting

The <IR> Framework does not prescribe any specific requirements regarding the question of how companies should implement integrated thinking and reporting. In order to provide a common perspective, the companies in most cases start with a gap analysis of the current reporting setting in comparison with the <IR> Framework. Such an analysis can be completed within a couple of weeks, whereas experience shows that the following transformation process may take several years.

The individual work steps are time-consuming and require the involvement of several decision-makers from various functional areas. Moreover, new systems might potentially be required for collecting non-financial data in order to enable the availability and processing of relevant data. This process leads to an integrated mindset within the firm, which puts management in a position to better understand the entire complexity of the value generation process. As a result, an integrated report can be generated based on a comprehensive understanding of the firm, which in turn prepares the insights for the stakeholders. The benefit of integrated reporting shows (see page 9) that, besides responding to stakeholder needs, integrated management primarily generates a more comprehensive information base for the company, which enhances management decisions in line with the long-term business success.

The worldwide trend of integrated reporting is enhanced by the willingness of companies to better understand, measure, manage and communicate their value creation. A switch to integrated reporting, however, requires a resource intensive and complex process, which involves a deeper examination of the value creation of a company as well as of the stakeholders’ needs. In this respect, committing to integrated reporting should be a strategic decision.
Analysis of sustainability reporting
The results of the study are explained in this section. As in previous years, to improve comparability two segments were examined separately. The first segment contains the 100 largest companies, the five largest banks and the five largest insurers headquartered in Switzerland (see section 03.1). The second group comprises the 50 SMI Expanded companies (see section 03.2).9

For each segment, we looked at the number of sustainability reports, the form of reporting, whether the guidelines of the Global Reporting Initiative (GRI) were applied and whether companies had sought external assurance (see also section 06). The analysis is based on the companies’ most recent annual reports and sustainability reports (available as of June 2015). Section 03.3 offers an overview of general developments in GRI reporting in Switzerland and internationally.

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6 The 100 largest Swiss companies, headquartered in Switzerland, according to Handelszeitung “Die grössten Industrie-, Handels- und Dienstleistungsunternehmen in der Schweiz 2014” (the largest industrial, trade and service companies in Switzerland in 2014). The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.

7 The five largest Swiss banks, headquartered in Switzerland, according to Handelszeitung “Die grössten Banken in der Schweiz 2014” (the largest banks in Switzerland in 2014). The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.

8 The five largest Swiss insurers, headquartered in Switzerland, according to Handelszeitung “Die grössten Versicherungsgesellschaften in der Schweiz 2014” (the largest insurers in Switzerland in 2014). The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.

Sixty-eight of the 110 largest companies, banks and insurers published reports for 2014 (62%). This means that the number of reports has increased again this year. The number of companies reporting on sustainability has steadily increased every year since 2010, with a higher increase this year compared with previous years.

Of the 68 reports issued for 2014, 52 were prepared in accordance with the GRI guidelines (76%). The percentage remained roughly the same as last year. Three companies adopted the GRI Reporting Framework for reporting purposes, but did not implement all of the requirements (4%).

With regard to the application levels of the old GRI guidelines G3.0 and G3.1, the changes in 2014 were as follows:

- Three companies (4%) declared the use of the GRI G3.0/G3.1 framework, but did not provide details on the application level.
- Nine reports (13%) were presented according to application level C/C+, compared with 10 reports in 2013 (17%).
- Application level B/B+ was achieved by five companies (7%), whereas in 2013 there were 10 reports with this application level (17%).
- Five reports (7%) fulfilled the criteria for the highest application level A/A+, compared with 13 in 2013 (22%).
- As expected after the introduction of the G4 guidelines, fewer companies reported in accordance with versions G3.0 and G3.1 for the year 2014. Whereas 36 companies reported according to G3.0/G3.1 in 2013, there were only 25 companies reporting according to these standards in 2014.
Regarding the application of the latest GRI G4, which will supersede the third generation by 31 December 2015, the following conclusions can be drawn:

- A considerable 27 leading companies reported using G4 for 2014. This corresponds to 41% of the largest 110 companies reporting in accordance with the GRI guidelines. In the previous year, only 10 companies reported using G4 (17%).
- Eight companies met the requirements of the “In accordance” option G4 Comprehensive (around 12%). This number has doubled since 2013, when only four companies used this comprehensive option.
- The “In accordance” option G4 Core requirements were met by 13 companies (20%). In 2013, only four companies reported in accordance with this option (7%).
- Six companies stated having used the G4 guidelines for 2014, without using the “In accordance” option (9%). The accordance options are described in greater detail in the section 6 (Definitions).

In reporting year 2014, more companies that had in the previous year reported according to the G3.0 and G3.1 versions of application level A and B switched to G4 than those which had reported according to G3.0 and G3.1 application level C.

Of these, only companies which had reported according to application level A/A+ switched to G4 Comprehensive. It can be assumed that most companies currently reporting according to G3/G3.1 will also move to G4 over the next year as the GRI transition period comes to an end. Further comments on the changes to G4 can be found under “Fourth generation of GRI guidelines (G4)” in section 4.

The number of companies seeking external assurance for their reports has increased slightly in absolute terms, while it has declined in relative terms. It should be noted that the slight increase is due to previously reporting companies which are now also getting external assurance. For 2014, 23 reports received external assurance (34%), while 21 reports were assured in both 2012 and 2013 (36% in 2012 and 35% in 2013). These figures have remained relatively stable since 2011, when 36% of the reports received external assurance.
Thirty-five of the 50 SMI Expanded companies published sustainability reports for 2014 (70%). Despite a change in the composition of the index, this value remains the same as in the previous year. In contrast to the development of the 110 largest companies, banks and insurers, this percentage remains relatively stable. While 64% of the companies published reports for 2010, the number increased to 70% in 2011 (35 reports) and then decreased to 68% (34 reports) due to a change in the composition of the SMI Expanded in 2012.

Of the 35 reports issued for 2014, 28 (80%) were prepared in accordance with the GRI guidelines. Three companies adopted the GRI Reporting Framework for reporting purposes, but did not implement all of the requirements (8%).

The study revealed the following additional points with regard to the application level of GRI G3.0/G3.1:
- One company met the GRI G3.0/G3.1 requirements without declaring the application level (3%). In 2013, only one company did not declare the application level (3%).
- Four companies qualified for application level C/C+ (11%). In the previous year, three did (8%).
- The criteria for application level B/B+ were met by three companies (9%). In 2013, six companies met the criteria (17%).
- Two reports (6%) satisfied the requirements for application level A/A+ in 2014, while in 2013, eight companies did (23%).
- The decline associated with the two highest application levels can be explained by the fact that most companies already switched to the new version G4 for 2014.

 Seventy percent of the SMI Expanded companies published a sustainability report and nearly half (49%) of them opted for external assurance
Regarding the application of the latest GRI G4, the following conclusions can be drawn for 2014:

- Fifteen companies of the SMI Expanded are now reporting according to GRI G4. In 2013, only six companies did.
- Six companies met the requirements of the “In accordance” option G4 Comprehensive (17%). This number has thus also doubled since 2013 for the companies listed in SMI Expanded.
- Seven companies report according to “In accordance” with option Core (20%). That is four more than in 2013.
- Two companies (6%) declared the use of the GRI G4 version in 2014, but did not provide details on the chosen option.

In 2014, 49% (17 out of 35) of the reporting companies obtained external assurance for their reports. These 17 reports equal the highest number achieved in 2012. The analysis shows that companies listed in the SMI Expanded are more likely to seek external assurance than the 110 largest companies, banks and insurers.
The GRI Reporting Framework remains the most widely used standard for sustainability reporting. In Switzerland, around three quarters of the sustainability reports of the largest companies (76%) and of the SMI Expanded companies (80%) are based on this reporting standard. This section provides an overview of how GRI reporting has developed at an international level as well as in Switzerland.\(^*^\)

**Global development**

The development of GRI reports published from 2000 to 2014 continues to show a significant increase in sustainability reporting. Whereas in 2000, only 43 companies published a sustainability report in accordance with GRI guidelines, there were 3,657 in 2014. In recent years, the number of companies using the GRI guidelines has increased by between 300 and 500 each year, which constitutes an annual increase of more than 10%. The trend of disclosing non-financial information thus continues its uninterrupted upward trajectory.

\(^{10}\) See GRI ReportList including all GRI Reports since 1999, <https://www.globalreporting.org/services/Analysis/Reports_List/Pages/default.aspx>, accessed on 13.07.2015

A breakdown of reports by region for the year 2014 shows that Europe leads the way, confirming last year’s trend. Thirty-seven percent of the reports are from European countries, compared with 28% from Asia and 15% from North America.
Development in Switzerland

Switzerland is no exception to the global trend, with a significant increase in the number of sustainability reports prepared according to the GRI guidelines. Between 2001 and 2003, very few Swiss organizations published a sustainability report. However, after 2004, the number of reporting companies increased exponentially in line with the global development of sustainability reporting. In 2013, 90 companies already reported sustainability information, joined by an additional 17 companies in 2014 making a total of 107 reporting companies. This represents an increase of around 20%, which in turn corresponds to the highest increase so far.

The breakdown of Swiss reports by industry reveals that banks and insurers are the most represented industry in Switzerland, accounting for 20% of reports (21 reports). They are followed by retail and consumer products with 18 reports (17%) and the technology industry with 13 reports (12%). The life science and chemicals as well as power and utilities industries issued eight reports each. The logistics and transportation industry as well as public services, universities and NPOs are each represented with seven reports. The breakdown by industry remains largely unchanged compared with the previous year, despite the increase in the number of published reports in the industries that had so far issued relatively few reports.

The practice of publishing sustainability reports has established itself with companies and is now considered good practice. This is evidenced by an analysis of reports by the largest Swiss and SMI companies over the past few years, as well as the significant increase in reports by companies, regardless of their size, according to the GRI database.
The global trend toward higher transparency relating for the sustainability performance of companies is further strengthened by various Swiss and international developments, which are described in this chapter. Starting with a focus on sustainability reporting standards, this section looks at the fourth generation of GRI guidelines (G4), the Global Sustainability Standards Board (GSSB), the Sustainability Accounting Standards Board (SASB) and the Corporate Reporting Dialogue initiative. Subsequently, we explore the increasing regulation of sustainability reporting by national authorities and stock exchanges, in Switzerland as other countries.

Standards of sustainability reporting

In 2014, three quarters of the reports of the largest 110 companies were based on the guidelines of the Global Reporting Initiative (GRI) (52 out of 68 companies), the most widely used sustainability reporting guidelines. About half of these companies applied the third generation of GRI guidelines (G3.0 and G3.1, 25 companies), while the other half (27 companies) prepared their reports according to the fourth generation (G4)\(^\text{11}\) (as explained in section 3). New sustainability reports published after 31 December 2015 should all be prepared on the basis of G4. Of the 27 companies reporting according to G4, all companies reporting on the basis of G4 Core or Comprehensive (21 companies) have disclosed a materiality matrix as required by G4.

\(^{11}\) \(<\text{https://www.globalreporting.org/standards/g4/Pages/default.aspx}\>\)
The Global Reporting Initiative has made a change in its governance structure and created the **Global Sustainability Standards Board (GSSB)**. The GSSB works independently of GRI management and is responsible for the development and publication of the GRI guidelines as well as the interpretation of concepts and requirements of the GRI Standard. In August 2015, the GSSB issued its first interpretation, which qualified the G4 requirement G4-32-b in relation to the GRI Index. G4-32 contains requirements that have to be fulfilled in order to report “in accordance” with the G4 guidelines. Due to various feedbacks from stakeholders, the GSSB decided that in case external assurance is obtained for a report, the column on assurance in the content index no longer needs to be filled out in order to report “in accordance” with G4. Further statements by the GSSB regarding other indicators will follow.

The **Sustainability Accounting Board (SASB)**, founded in 2011, promotes the development of sustainability reporting standards for specific industries, including sets of indicators that are based on sector-specific materiality analyses. The SASB aims to develop sustainability standards for 88 industries in 10 sectors by 2016. In addition to the first standards for sustainability reporting in the health care and financial industries as well as the non-renewable resources sector, the SASB has developed guidelines for the technology and communications, transportation, services and resource transformation sectors, as well as for some of the consumer goods industry. The standards for the following sectors are currently being developed: the rest of the consumer goods industry, renewable resources and alternative energy as well as infrastructure. The SASB aims at integrating the corresponding sustainability information in the reporting of listed US domestic and foreign companies. The first report prepared in accordance with the SASB standards was published by the American company Bloomberg in June 2015. Since the firm operates in three industries, it applied three SASB standards in its Impact Report 2014.

Various sustainability standards and ratings require the disclosure of different information. In order to provide clarity across frameworks and standards, the International Integrated Reporting Council (IIRC) has launched the **Corporate Reporting Dialogue Initiative**. Participants of this initiative are, besides the IIRC itself, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Project (CDP), the Financial Accounting Standards Board (FASB) and many more. Together, these organizations have created a corporate reporting landscape map providing a snapshot of the frameworks, standards and requirements through the lens of the integrated reporting <IR> Framework. It describes for all standards and frameworks which requirements can be addressed under the reporting elements of the <IR> Framework and which requirements can be related to the six capital types of the <IR> Framework.

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12 <https://www.globalreporting.org/network/network-structure/technical-advisory-committee/Pages/default.aspx>
13 <http://www.sasb.org/>
15 General professional services, internet- and media services as well as media production and -distribution
16 <http://corporatereportingdialogue.com/>
Under the new **Swiss accounting law, a partial revision of the Swiss Code of Obligations (CO)**, large companies subject to a statutory audit have to disclose more information. In line with the EU guidelines, the new provisions require the preparation of a management report, a cash flow analysis and additional disclosures in the notes to the annual financial statement. This management report must be a stand-alone element of the annual report. In general, the management report should present “the business performance and the economic position of the undertaking (…) at the end of the financial year from a point of view not covered in the annual accounts.” The management report should also include information on the number of full-time positions on a yearly average, the implementation of a risk assessment, the booking and order position, research and development activities, and information on extraordinary events as well as the outlook for the future.

The goal of these new requirements is to acquire a better understanding of the company through additional information in order to estimate possible risks and opportunities. It is still open, however, as to what the management report should look like in detail. The EU guidelines could serve as a reference point for possible requirements. In addition, the disclosure of sustainability aspects and of non-financial information is required if they are relevant for the representation of the development of the business, the company results and its situation. Companies must observe these new regulations for the fiscal year 2015.

The **EU Directive on the disclosure of non-financial information as well as diversity information** (amendment of the Accounting Directive) was approved by the EU Council on 29 September 2014 and entered into force on 6 December 2014. The Directive includes a regulatory disclosure requirement of non-financial information for certain large companies and groups. It is based on a “comply or explain” approach. This means that if companies do not disclose the required information, they have to justify the reasons for the omission. The detailed requirements of this Directive were explained in last year’s study. Currently, discussions regarding the concrete implementation of this EU Directive under national law are being held in the various EU member states. So far it is still unclear to what extent particular countries will make use of the opportunity for further requirements. As of July 2015, Denmark is the only country that has transposed the Directive into its national legislation. The EU member states have until the end of 2016 to follow suit. The national ones, will be applied as of 2017. Since many Swiss companies follow international standards as well as national efforts, the increased regulation in the EU also has an impact on Swiss corporations, in particular if they are quoted on a stock exchange in the EU. Indirectly, other companies are also under pressure to meet the information needs of investors in order to avoid competitive disadvantages.

### National laws

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National laws

The accounting legislation of the United Kingdom requires the publication of a strategic report in addition to an annual report for middle-sized and large companies. The strategic report has to describe the principal risks and uncertainties that the company faces as well as an analysis of the development and performance of the company’s business during the reporting year. The review must, to the extent necessary for an understanding of the position of the company’s business, include an analysis using key financial performance indicators and where appropriate other key performance indicators, including information relating to environmental and employee matters. Listed companies must include, to the extent necessary, information about environmental matters, the company’s employees, as well as social, community and human rights issues. In addition, companies also need to include information on their strategy and business model in their strategic report in line with the trend in integrated reporting.

20 <http://www.legislation.gov.uk/ukdsi/2013/9780111540169/contents>
The Sustainable Stock Exchange (SSE) initiative was launched by the United Nations (UN) as a partnership between the UN, UN-supported organizations, stock exchanges, investors, companies, regulators and governments to promote sustainable investment and to enhance corporate sustainability management, performance and reporting. A stock exchange can become a partner if it makes a voluntary public commitment to promote sustainability in its market. To this end, the stock exchange is called upon to document its progress on ESG activities in fact sheets. To date, about 60 stock exchanges worldwide have joined the SSE, for example the Deutsche Börse, the London Stock Exchange Group, the NASDAQ, the New York Stock Exchange, the Egyptian Exchange, the Borsa Istanbul Stock Exchange, the Bombay Stock Exchange, the Johannesburg Stock Exchange and many more. Every year, the SSE publishes a Report on Progress, which reviews the sustainability initiatives of the stock exchanges. In 2014, it found that out of 55 stock exchanges considered, 40% offered at least one index integrating social and/or environmental issues, and over one third provided either sustainability reporting guidance or training to the listed companies on their exchange. Furthermore 12 exchanges required aspects of environmental and social reporting, with the exchanges in Brazil, Canada, India, Malaysia, Pakistan, Singapore and Spain requiring such reporting for all listed companies.

Besides the disclosure of information on sustainability, the Johannesburg Stock Exchange in South Africa is so far the only stock exchange since 2010 which calls on companies to commit to the <IR> Framework. According to the “King Code of Governance Principles for South Africa 2009” (King III), the preparation of an integrated report is a listing requirement of the stock exchange. Other stock exchanges, for instance in Singapore, have already announced their intention to follow this approach and to promote integrated reporting among companies listed on their stock exchange.
Outlook
The preceding sections have shown:

- The global trend of integrated reporting is becoming increasingly important through the readiness of companies to better understand, measure and communicate their value creation. This trend is also supported by regulatory developments.
- The first Swiss companies are going to switch to integrated reporting in the coming years.
- Integrated reporting can make a significant contribution to communicating the integration of sustainability aspects into business strategy and processes, and thus to highlighting the associated value added for various stakeholders.
- In this context, the description, quantification and possible monetization of non-financial value creation of companies will further gain in importance, with corresponding approaches being developed further.
- The international trend of disclosing sustainability information (in the annual report) will be encouraged through the increasing number of guidelines and regulatory framework requirements of governments and stock exchanges. With this, the need to implement and use suitable systems will also increase.
- In Switzerland, it can be expected that the trend toward more transparency regarding sustainability performance will continue to increase in the coming years.
Definitions

**Sustainability**
The most frequently used definition of sustainability is related to the description of sustainable development included in the Brundtland report, i.e., development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Although there are many possible definitions, “sustainability” in a business context is generally considered to include three aspects that have to be taken into account in equal measure:

- Economic sustainability, which demands economic action geared toward long-term prosperity.
- Environmental sustainability, which is concerned with preserving the natural world, the environment and the planet’s resources.
- Social sustainability, which is about community participation and distributive justice.

In a business context, the term “corporate social responsibility” (CSR) is also often heard. There is a great deal of overlap between “sustainability” and “corporate social responsibility” and they are usually used synonymously. As a result, the titles of the published reports can vary even though they all cover the same points. “Sustainability” is used as a general term throughout this study.

**Sustainability reporting**
Organizations use sustainability reporting to present their performance in this area. After determining what progress has been made with regard to sustainable development goals, they have to communicate the conclusions to internal and external stakeholders. Reports cover the organization’s economic, environmental and social impacts. A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions.

Organizations need to be aware that the different stakeholders often have different expectations from sustainability reports:

- Management is keen to improve sustainability performance and reporting quality as a way to avoid risks and enhance reputation.
- Investors need assurance that their investees address sustainability opportunities and risks appropriately.
- Companies require information about their suppliers’ sustainability impact.
- Consumers are increasingly considering sustainability aspects when making purchasing decisions.
- As a result of public pressure, governments are making companies accountable for the direct and indirect cost of their business operations (e.g., cost for the environment).
- Employees want to work for a responsible company.
- Environmental groups, human rights organizations and the media are increasingly questioning the impact of corporate activities and are asking for more information.

This study uses the term “sustainability report” to refer to two different types of report. The category “comprehensive sustainability reports” includes those that are based on the GRI guidelines or that incorporate 10 or more relevant key performance indicators (KPIs) (in line with GRI) to offer an integrated view of the organization’s sustainability performance. This category can also include reports that are published every two years. The category “basic sustainability reports” encompasses publications that contain some sustainability indicators (around five KPIs in line with GRI) and/or the development of sustainability initiatives and targets over time. Not included in this study are individual sustainability chapters in the annual report that do not mention KPIs or details of specific developments over time, as well as information provided on a company’s website that is not referenced in the annual report.

The study also examines what form reporting takes. Three categories were defined: “basic sustainability report included in the annual report,” “comprehensive sustainability report included in the annual report” and “separate sustainability report.”

**Global Reporting Initiative**
The Global Reporting Initiative (GRI) is an organization based on a multi-stakeholder network. The organization developed the Sustainability Reporting Framework, which is the most widely

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used guidance of its kind around the world. For 2014, companies reported in line with the third generation of the Guidelines (G3.0/G3.1) as well as the latest generation of the Guidelines (G4). Published in May 2013, this version will definitively replace the third generation as of 31 December 2015.

The GRI guidelines define principles to determine the content of the report as well as information on a company’s high-level strategic understanding of sustainability. These are complemented by disclosures on management approach and performance indicators. The GRI Reporting Framework also contains Indicator Protocols for the economic, environmental and social aspects as well as product responsibility, labor practices and human rights. Sector Supplements provide additional industry-specific guidance. All of the elements are considered to be of equal weight and importance.

The application levels C, B and A of G3.0/G3.1 indicate the extent of application. The main differences among the levels are the number of indicators used and the scope of disclosures on organizational strategy/profile and management approach. Level C means that the minimum GRI requirements are met, while level A represents compliance with all requirements. A plus (“+”) is awarded at each level if external assurance is provided.27

Under G4, an organization has two options: “core” or “comprehensive” reporting. The “core” option requires only key elements of a sustainability report. The report must include at least one indicator per material aspect according to the materiality assessment. The “comprehensive” option builds on the “core” option and requires a higher level of detail regarding the standard disclosures. In particular, additional information has to be disclosed regarding remuneration, training and diversity of the governance body and their role in the development of vision and values. Furthermore, companies are required to report on all indicators related to material aspects. Besides the removal of the application levels, the “+” previously signaling external assurance, has also been discontinued.28

This study investigates whether the sustainability reports are based on the G3.0/G3.1/G4 GRI guidelines and, if so, which application level or “In accordance” option was used.

External assurance
External assurance by an independent third party gives the reader confidence that the data and information is correct and that the report provides a reasonable and balanced representation of the sustainability performance. Organizations are free to choose the scope and depth of the assurance engagement; however, assurance reports must always disclose the scope and basis of the engagement. Applying internationally recognized standards, such as the International Standard on Assurance Engagements (ISAE) 300029 or the AccountAbility 1000 Assurance Standard (AA1000AS)30, safeguards the quality of the assurance engagement. For companies that operate only in Switzerland, the use of the Swiss standard PS950, which was modelled on ISAE3000, is also common. External assurance offers the reporting organization a number of benefits, including:

- Greater transparency and credibility with stakeholders, which in turn improves internal and external acceptance of the organization’s adherence to principles of responsible conduct.
- Reduced risk that reports will fail to meet stakeholders’ needs and/or that the report will contain incorrect or irrelevant information.
- Constructive feedback in connection with the assurance engagement, which boosts the quality of information and helps pinpoint potential improvements as a way to enhance good business practice and strategy.
- Processes optimization and efficiency gains thanks to reliable data, which supports targeted sustainability investments and activities.

For the purposes of this study, reports were only classified as having received external assurance if they had been verified using generally accepted assurance standards or other good practice guidelines.

With a global network of sustainability professionals, EY is there to support you anywhere in the world. We can guide you through individual steps or a general improvement process, whether that means analyzing your organization’s current situation, developing a comprehensive sustainability strategy, implementing and examining the measures defined or helping you ensure reliable communication. As a member of relevant national and international organizations (including GRI, Global Compact, FEE), we are always up to date and ready to act, whatever the current environment of sustainability standards and trends.

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