Targeting transparency

How Switzerland’s largest companies report on sustainability

2016 edition
Embedding sustainability into corporate governance

Companies are increasingly embedding sustainability into their corporate governance set-up to ensure that the board of directors and the management have an overview of the latest developments in corporate sustainability, link them with the management agenda and identify related business opportunities and risks.

Studies confirm that integration can bring financial benefits

Various studies show that integrating sustainability into corporate governance not only increases stakeholder trust but also positively influences value creation for both the company and its stakeholders in the long term. In addition to these findings, there is a trend toward greater attention to non-financial information by institutional investors.

Further increase in the number of sustainability reports

The share of Switzerland's 110 largest companies publishing a sustainability report keeps growing. While 51% of these companies produced a sustainability report in 2011, just under two thirds reported on their sustainability performance in 2015 (72 companies, 65%). Likewise, the share of reporting companies belonging to the “SMI Expanded” increased from 70% (2011) to 78% for the year 2015 (39 out of 50 companies). The increase from year to year is moderate but constant.

Application of the GRI Guidelines is widespread

Application of the GRI Guidelines as a reporting standard is widespread in Switzerland. In both segments, around 80% of the reporting companies adhere to the GRI Guidelines. Moreover, most companies have already switched to GRI G4.

Studies confirm that integration can bring financial benefits

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Slight increase in the number of reports with external assurance

A third of the reports of Switzerland's 110 largest companies (24 reports, 33%) seek external assurance on their report. Compared with the previous year, this value increased by one report in absolute terms, while it decreased slightly in relative terms as a result of the increased number of sustainability reports (-1%). For companies of the “SMI Expanded” the number of reports with external assurance also increased. This year 19 reports had external assurance (49%), the highest number of assured reports since 2011.

National and international developments support corporate sustainability initiatives

Various developments support the integration of sustainability into strategy, corporate governance and reporting. Besides reporting frameworks and standards, the Financial Stability Board (FSB) now also considers impacts of climate change and related implications for financial reporting. Furthermore, various national and international regulatory requirements aim at increasing the transparency of companies while international initiatives enable companies to link their contribution to sustainable development to societal objectives.
Embedding sustainability into corporate governance

As companies’ activities affect the natural environment and society, they face greater pressures from various stakeholder groups to be accountable for their sustainability impacts and initiatives (see also section 04). Therefore, companies are increasingly expected to embed the management of these impacts into their corporate governance set-up. In Switzerland, this development is reflected in the modification of the “Swiss Code of Best Practice for Corporate Governance” in 2014. The new “Swiss Code” has introduced the concept of sustainable corporate development as a cornerstone to safeguard companies’ interests from a sustainability perspective. However, making sustainability management an integral part of a company’s strategy and business model, establishing corresponding policies and targets, and measuring as well as disclosing sustainability performance pose various challenges, but at the same time offer many opportunities leading to long-term financial benefits, as shown by various academic studies (see section 02.2).

Embedding sustainability into corporate governance

02.1 The role of top management

In order to embed sustainability into the corporate governance set-up, the role of the highest governance bodies, the Board of Directors and Executive Committee, should be to (a) maintain an overview of current developments, (b) link these developments to the top management agenda, as well as (c) leverage opportunities and address risks.

a. Current developments

Top management should establish and maintain screening mechanisms to capture relevant regulatory, market, and societal changes as well as expectation shifts among various stakeholder groups. The identified developments need to be assessed in the context of the company as well as its market environment and serve as a basis to review and challenge the appropriateness of the current sustainability management approach.

b. Links to top management agenda

The relevant sustainability developments have to be linked to the top management agenda. The company needs to define the business case for sustainability and clarify how sustainability management contributes to the company’s value creation. The strategic importance of different sustainability aspects needs to be reflected in the roles and responsibilities of the highest governance bodies. In addition, material sustainability topics should be reported regularly to top management to support its decision-making.

c. Opportunities and risks

Since a company’s main impact is linked to its core business and solution offering, sustainability should be considered for market analyses and embedded into innovation processes. Social and environmental impacts should be considered in the context of strategic enterprise risk management. To foster the understanding of the company’s value creation, social and environmental impacts could be monetized to serve as a basis for management for its decision-making and goal setting.

To gather some insights on how sustainability is currently embedded into the corporate governance of SMI companies, EY conducted a benchmark analysis of the 20 SMI companies based on publicly available information.

Current developments

With regard to current developments, the best-in-class company scores 83%, whereas the SMI group average is significantly lower, with only 35% of the requirements met. Novartis’ Governance, Nomination and Corporate Responsibilities Committee (GNCRC) provides a good example of how sustainability-related developments are monitored. In view of the strategic importance assigned to sustainability, the committee closely monitors and discusses emerging trends with regard to corporate responsibility.2

Management agenda

One company obtains full marks in the integration of sustainability into its corporate governance set-up. On average, SMI companies meet 66% of the requirements, whereas one company satisfies only 17% of the requirements. For instance, Syngenta’s good growth plan outlines the company’s business case for the strategic importance of different sustainability aspects.

Opportunities and risks

Regarding sustainability opportunities and risks, the best-in-class company meets 83% of the criteria. On average, only 38% of the requirements are met. LafargeHolcim provides a good example of how the most valuable sustainability insights and understanding of markets feed back directly into research and development and other innovation functions. Besides the consideration of sustainability-related risks, LafargeHolcim is among the pioneers in Switzerland when it comes to evaluating environmental as well as social impacts in monetary units.4

Integration of sustainability into the corporate governance of SMI companies

The analysis shows a wide variety of results. The best-in-class company meets 89% of all requirements, whereas the SMI group average is significantly lower, with around half of the requirements met (46%). One company only meets 6% of all requirements as it does not publish any information on current developments nor on its evaluation of opportunities and risks related to sustainability.

- Best in class company
- SMI group average
- Lowest performer

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Embedding sustainability not only increases stakeholders’ trust, but first and foremost drives long-term value creation for the company as well as its stakeholders. Several recent studies confirm that incorporating sustainability into the corporate governance set-up can lead to financial benefits (such as increased financial performance or market valuation) in the long term (see figure below).

Overview of recent studies examining the link between sustainability and financial performance of companies

<table>
<thead>
<tr>
<th>Integration of sustainability into company policies</th>
<th>Company value</th>
<th>Financial performance</th>
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<tbody>
<tr>
<td>positive correlation (Harvard and LBS)³</td>
<td>positive correlation (University of Zurich)⁴</td>
<td></td>
</tr>
<tr>
<td>Quality of Integrated Reports</td>
<td>positive correlation (Stanford and others)⁵</td>
<td>-</td>
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For instance, a study by Harvard and LBS professors ³ tracking the performance of 180 companies from 1992 to 2010 showed that companies which had adopted environmental and social policies could significantly outperform their peers with higher stock market value. An investment of USD 1 in a portfolio of sustainable companies in 1993 would have led to a return of USD 22.6 by 2011, compared to USD 15.4 for the same investment in less sustainable firms. The characteristics of sustainability-focused companies in this study included formal responsibility of a board member for sustainability-related matters, linkages between top executive compensation and sustainability, establishment of processes for stakeholder engagement, focus on long-term value creation, as well as measurement and disclosure of non-financial performance.

The positive effects of embedding, measuring and disclosing sustainability information can also be noticed at Swiss companies. A recent analysis conducted at the University of Zurich explored the link between non-financial indicators, in particular environmental, social, and governance (ESG) policies, and the financial performance of the largest listed Swiss companies over the 2005-2015 period.⁴ A significant positive correlation was found between companies’ ESG scores (depicted as the average of around 20 sustainability indicators) and companies’ return on equity (ROE) as well as return on assets (ROA).

Another recent study by Stanford, Auckland and Pretoria university professors,⁷ which covered the top 100 companies listed on the Johannesburg Stock Exchange over the 2011-2013 period, shows that both stock liquidity and market value are positively correlated to the quality of the companies’ integrated reports. The findings imply that a 10% rise in integrated reporting quality would yield a 3.6% increase in firm value. The reasons can lie in the availability of a holistic view of the company’s financial and non-financial value creation in the context of its business strategy and model, leading to better decision-making. A similar argument holds for investors, who gain relevant insights into how the firm creates value.

In addition to these tangible financial benefits, companies’ governance bodies have to be aware that investors do care about sustainability. An EY study shows that about 80% of the 200 institutional investors surveyed worldwide take environmental and social disclosures and overall non-financial performance into consideration when making investment decisions. Moreover, 80% of investors consider mandatory board oversight of non-financial performance reporting as essential or important.⁸

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³ Eccles, Ioannou & Serafeim, The Impact of Corporate Sustainability on Organizational Processes and Performance, 2011
⁴ Does Transparency Pay?, Applied Business Modeling & Analytics 2016, Semmearaid
⁶ EY, Tomorrow’s Investment Rules 2.0, 2015
⁸ EY, Tomorrow’s Investment Rules 2.0, 2015
Survey of over 200 institutional investors on how the following ESG disclosures about a prospective investment would affect the investment decision.

Growing interest in non-financial reporting

- Percentage of responding investors who consider mandatory board oversight of non-financial performance reporting essential or important: 80%
- Percentage of responding investors who consider non-financial data relevant to all sectors: 61.5%
- Percentage of responding investors who use a structured, methodical evaluation of environmental and social impact information: 37%

Non-financial disclosures affect investment decisions

How would the following disclosures about a prospective investment affect your investment decision?

- Non-financial disclosure is not linked to financial performance:
  - Rule out investment immediately: 12.0%
  - Reconsider investment: 55.4%
  - No change in investment plan: 32.6%
- Risk or history of poor environmental performance:
  - Rule out investment immediately: 15.3%
  - Reconsider investment: 9.1%
  - No change in investment plan: 75.6%
- Human rights risks from operations:
  - Rule out investment immediately: 17.7%
  - Reconsider investment: 9.1%
  - No change in investment plan: 63.2%
- Limited verification of sustainability information:
  - Rule out investment immediately: 20.3%
  - Reconsider investment: 17.9%
  - No change in investment plan: 61.8%

While the currently available research provides powerful arguments why companies should make sustainability an integral part of their strategy and business model, these insights are not yet widespread. Few Swiss blue chips listed in the SMI have started to embrace these ideas and overall there is considerable room for improvement.

In order to create long-term value, companies have to embed sustainability at both top management and operational levels throughout the whole company. Without a strong commitment at the top, only limited incremental improvements can be achieved. We encourage companies to stop considering sustainability as a mere topic of communication or the duty of a single department. Sustainability is a governance matter. Board members should consider their duty to maintain oversight and make it a regular discussion item on their agenda, while ExCom members should have direct operational responsibility and consider it as an integral part of the company strategy.
The results of the study are explained in this section. As in previous years, to allow comparability two segments were examined separately. The first segment contains the 100 largest companies,\(^\text{10}\) the five largest banks\(^\text{11}\) and the five largest insurers\(^\text{12}\) headquartered in Switzerland (see section 03.1). The second group comprises the 50 SMI Expanded companies (see section 03.2).\(^\text{13}\)

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 2016). Section 03.3 offers an overview of general developments in GRI reporting in Switzerland and internationally.

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\(^{10}\) The 100 largest Swiss companies, headquartered in Switzerland, according to Handelszeitung “Die grössten Industrie-, Handels- und Dienstleistungunternehmen in der Schweiz 2015” (the largest industrial, trade and service companies in Switzerland in 2015). 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.

\(^{11}\) The five largest Swiss banks, headquartered in Switzerland, according to Handelszeitung “Die grössten Banken in der Schweiz 2015” (the largest banks in Switzerland in 2015). 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.

\(^{12}\) The five largest Swiss insurers, headquartered in Switzerland, according to Handelszeitung “Die grössten Versicherungsgesellschaften in der Schweiz 2015” (the largest insurers in Switzerland in 2015). 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.

03 Analysis of sustainability reporting

03.1 The largest companies, banks and insurers

Seventy-two of the 110 largest companies, banks and insurers headquartered in Switzerland published sustainability reports for 2015 (65%). Whereas in the year 2011 it was still 51%, the share has constantly increased compared to 2014 from 62% to 65%.

Seventy-two of the 110 largest companies, banks and insurers headquartered in Switzerland (65%) report on sustainability.

For 2015, 61 of the largest companies issued a comprehensive sustainability report based on the GRI Guidelines and incorporating 10 or more relevant key performance indicators. This corresponds to more than half of the companies. Eleven companies published basic sustainability reports, which contain information on about five performance indicators and show their development over time. For almost half of the reporting companies (33 companies, 46%) the information for 2015 is stated in the annual report, whereas 28 companies (39%) published their sustainability performance in a standalone sustainability report. Compared with 37% in the previous year, this shows a slight shift toward separate disclosure.

Of the 72 reports issued for 2015, 56 were prepared in accordance with the GRI Guidelines (78%), which is an increase by two percentage points in relative terms compared to the previous year. GRI requires that all companies applying G3/G3.1 switch to the G4 version for sustainability reports published after 31 December 2015 at the latest. As this transition period has now expired, most of the companies prepared their 2015 reports on the basis of G4. However, some of the companies still are listed as having issued G3 reports because at the time of our analysis (June 2016) the reports for 2015 had not yet been published.

The following conclusions can be drawn on the application of GRI G4:14

- 39 companies applied G4 for their reports for 2015 (54%). In the previous year, 27 companies reported in accordance with G4 (41%).
- 13 companies met the requirements for the G4 Comprehensive option (around 18%). For 2014, only eight companies used this option (12%).
- The G4 Core option requirements were met by 17 companies (24%). For 2014, 13 companies reported in accordance with this option (20%).
- Nine companies stated that they used the G4 Guidelines for 2015 without indicating which option they applied (12%).

Moreover, four companies (6%) used the GRI Guidelines (without mentioning the version), but did not provide details on the application level/in accordance options. In the previous year there were three (4%). As expected, fewer companies reported in accordance with the previous versions G3 and G3.1. Whereas 25 companies reported according to G3/G3.1 for 2014 there were only 13 for 2015. Four companies (6%) stated that they used the GRI G3/G3.1 framework, but did not provide details on the application level. Six companies (8%) reported using application level C/C+, one company (1%) using application level B/B+ and two companies (3%) using the highest application level A/A+.

The number of reporting companies seeking external assurance for their reports has increased by one report in absolute terms, while it has declined as a percentage due to the higher amount of reports. For 2015, 24 reports received external assurance (33%), while 23 reports were assured in 2014 and 21 reports in 2013 (34% for 2014, 25% for 2013). For 2012 and 2011 36% of the reports were assured.

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14 The *“in accordance options”* are described in greater detail in section 06.
03.2 SMI Expanded companies

Thirty-nine of the 50 SMI Expanded companies published sustainability reports for 2015. At 78%, this translates into more than threequarters of the companies. This is an increase compared to previous years. 70% of the companies published information with regard to their sustainability performance for 2011, 2013 and 2014 while the share decreased to 68% (34 reports) for 2012 due to a change in the composition of the SMI Expanded.

78% of the SMI Expanded companies published a sustainability report for 2015 and 49% of them opted for external assurance.

All five companies that published basic sustainability reports included their information in their annual report. 15 companies included their comprehensive sustainability reports in the annual report (38%, compared to 51% for 2014). 19 companies published a standalone sustainability report (49%). This number has been increasing since 2011.

Of the 39 reports issued for 2015, 31 (80%) were prepared in accordance with the GRI Guidelines.

For 2015, the study revealed the following additional points with regard to the application of the latest GRI G4 version:

- Twenty-three companies of the SMI Expanded reported according to GRI G4 (59%). For 2014, fifteen companies did (43%).
- Nine companies met the requirements of the G4 Comprehensive option (23%).
- Eleven companies reported in accordance with the G4 Core option (28%).
- Three companies stated that they used the G4 guidelines for 2015, without indicating which option they applied (8%).

Moreover, three companies (8%) adopted the GRI Guidelines (without mentioning the version) for reporting purposes, but did not implement all of the requirements. A decreasing number of companies are using the application levels of GRI G3/G3.1 due to the new version G4. For the reporting year 2015 two companies met the GRI G3/G3.1 requirements without declaring the application level (5%). The criteria for application level C/C+ were met by two companies (5%), for application level A/A+ by one company (3%). No company used the application level B/B+.

For 2015, 19 out of the 39 reporting companies (49%) obtained external assurance for their reports. This is the highest number recorded since 2011. 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.
03 Analysis of sustainability reporting

03.3 GRI reporting: Switzerland in the international environment

The GRI Reporting Framework remains the most widely used standard for sustainability reporting. In Switzerland, more than three quarters of the sustainability reports of the 110 largest companies (78%) and of the SMI Expanded companies (80%) are based on the reporting principles contained in this framework. This section provides an overview of how GRI reporting has developed at an international level as well as in Switzerland.15

Global development
The development of GRI reports published from 2000 to 2015 continues to show a significant increase in sustainability reporting. Whereas for 2000, only 43 companies published a sustainability report in accordance with the GRI Guidelines, this number soared to 4,237 for 2015. In recent years, the number of companies using the GRI Guidelines has increased by between 300 and 500 each year, which is an annual increase of more than 10% and an increase of 15% for the year 2015. The trend of disclosing non-financial information thus continues its uninterrupted upward trajectory worldwide.

Europe and Asia are leading: two thirds of reports published worldwide come from Europe and Asia.

A breakdown of reports by region for 2015 shows that Europe is no longer the sole leader when it comes to sustainability reporting, but now shares this role with Asia. In addition, Latin America has overtaken North America and now publishes the third-highest number of reports. Thirty-four percent of the reports are from Europe, 33% from Asia and 17% from Latin America.

Development in Switzerland
In Switzerland, there was no increase in the number of sustainability reports prepared according to the GRI Guidelines for 2015. After a significant increasing trend in recent years, the number of reports remained constant for 2015 putting Switzerland not in line with the international trend. Compared to the previous year, the number of sustainability reports remains at 107. However, as around 20 companies that had published reports for 2014 at the time of this analysis had not yet published a new report, the results for Switzerland may still change for the reporting year of 2015.

For 2015, 107 Swiss companies published a sustainability report according to the guidelines of the Global Reporting Initiative.

The breakdown of Swiss reports by industry reveals that banks and insurers is the most represented industry in Switzerland, accounting for 20% of the reports (21 reports). They are followed by retail and consumer products with 17 reports (16%) and technology with 14 reports (13%). Further, life sciences and chemicals is represented with 12 reports (11%), power and utilities with nine reports (8%) and real estate and construction with eight reports (8%). The breakdown by industry remains largely unchanged compared with the previous year.

The practice of publishing sustainability reports is now established and considered common practice. This emerges from an analysis of the reports published by the largest Swiss and SMI companies over the past few years, as well as the increase in reports by companies worldwide according to the GRI database.

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15 See the GRI Reports List including all GRI Reports since 1999. https://www.globalreporting.org/services/Analysis/Reports_List/Pages/default.aspx, accessed on 02.09.2016
The trend toward embedding sustainability into a company’s corporate governance and into reporting is partly attributable to demands from various stakeholders for credibility and transparency. This is emphasized further by various Swiss and international developments, which are described in this chapter. The first section of this chapter presents the latest developments in relation to various reporting guidelines and standards. The second section of the chapter presents various regulatory developments in countries and stock exchanges. The final section contains information about international initiatives aimed at linking the contribution of a company with societal challenges.
04 Current developments

04.1 Reporting guidelines and standards

GSSB The Global Sustainability Standards Board (GSSB), which is responsible for revising the GRI guidelines and transitioning them to reporting standards. The new standards will improve the structure and format of the content, reduce redundant information and simplify future updates. The new structure includes three universal standards applicable to all organizations and 33 topic-specific standards.

The changes to the current G4 guidelines mainly relate to the format and the presentation of the requirements. For instance, a clearer distinction is made between mandatory requirements (“shall”), recommendations (“should”) and guidelines (“can”). GSSB is also working on the further development of sector-specific details which will, however, only constitute recommendations in the future. The final standards have been published after the assessment of the public consultations in the fall of 2016.

SASB The US non-profit organization Sustainability Accounting Standards Board (SASB), founded in 2011, develops sustainability reporting standards, including sets of indicators, based on sector-specific materiality standards. The SASB aims at integrating the corresponding sustainability information into the reporting of US companies to the Securities and Exchange Commission (SEC) (using Form 10-K and 20-F). Until March 2016, SASB developed a provisional sustainability standard for 79 industries in the 10 sectors of health care, financials, technology and communications, non-renewable resources, transportation, services, resource transformation, consumption (two segments), renewable resources and alternative energy and infrastructure.

The provisional sustainability reporting standards are currently undergoing a one-year review by companies and investors as well as internal cost/benefit analyses. The final standards are expected to be published in 2017.

<IR> The Integrated Reporting (<IR>) Framework of the International Integrated Reporting Committee (IIRC) aims at providing a more comprehensive picture of the value creation of companies based on financial and non-financial information. This reporting standard is applied globally by more than 1,000 organizations. While the Johannesburg Stock Exchange (JSE) is the only stock exchange which requires integrated reporting from its listed companies, there are countries in which <IR> has become largely established, independent of relevant requirements. For instance, more than a third of Dutch listed companies are working toward <IR>. There are also companies in Switzerland which are aligning their reporting to the <IR> framework. At least 10 companies refer to the <IR> framework or the IIRC in their reporting. To date, SGS and UBS are the only SMI companies which explicitly refer to <IR> as the basis for the enhancement of their reporting.

CRD In order to meet demand for greater consistency and comparability between various corporate reporting frameworks and standards, the IIRC introduced the Corporate Reporting Dialogue (CRD) initiative which issued the Statement of Common Principles of Materiality in March 2016. This shows the differences and similarities regarding the understanding and assessment of the materiality of various standard setters such as CDP, CDSB, Climate Disclosure Standards Board, FASB, Financial Accounting Standards Board, CRI, IASB (International Accounting Standards Board), IIRC, ISO (International Organization for Standardization) and SASB. The common feature of all frameworks and standards is that they define material information as any information which is capable of making a difference to the conclusions stakeholders may draw.

FSB In December 2015, the Financial Stability Board (FSB) created the working group Disclosure Task Force on Climate Related Risks (CDTF), chaired by Mark Carney, Governor of the Bank of England, to address the economic consequences and risks of climate change. In order to create better information for climate risks, the CDTF will issue various recommendations for the voluntary disclosure of these risks in annual reports. A first report of the working group was published in March 2016 presenting the scope and objectives of the working group, analyzing existing reporting requirements and initiatives and listing seven fundamental principles for effective reporting. These seven fundamental principles are: present relevant information, be specific and complete, be clear, balanced, and understandable, be consistent over time, be comparable among companies within a sector, industry, or portfolio, be reliable, verifiable, and objective and be provided on a timely basis. Work is currently being carried out on a second report which will contain specific recommendations and guidelines for voluntary transparency on the role of companies in relation to climate risks. It is expected to be published in 2016.

16  https://www.globalreporting.org/information/about-gri/governance-bodies/Global-Sustainability-Standard-Board/Pages/default.aspx
18  https://www.globalreporting.org/standards/
19  http://www.sasb.org/
20  http://integrareporting.org/fr-networks/
21  http://integrareporting.org/fries/more-than-a-third-of-dutch-listed-companies-are-working-towards/
From fiscal year 2017, EU Directive 2014/95/EU on the disclosure of non-financial information and diversity information (revision of accounting directives), which entered into force in 2014, will require listed companies with more than 500 employees as well as financial services companies to disclose certain sustainability information. For this purpose, the EU Commission intends to publish non-binding guidelines by the end of 2016,24 which have to be transposed into national law by the EU member states by 6 December 2016. It is foreseeable that certain countries will make use of the option to exceed the (minimum) requirements of the EU Directive, as has been done, for example, by Denmark or as is planned by Germany and Sweden. As demonstrated by the Nordic countries, this will result in a significant increase in the number of affected companies. The EU’s original estimate of approximately 6,000 companies required to disclose corresponding information is therefore expected to increase.

In Denmark, the Directive is applicable not only to large public-interest entities but also to medium-sized companies, resulting in an increase in the national scope of application from 50 to around 1,100 companies. In addition to the disclosure requirements already in place, the 50 largest public-interest companies have to disclose corresponding information from fiscal year 2016. Germany has published a ministerial draft statute which largely envisages a one-to-one implementation of the EU Directive. Going beyond the requirements of the EU Directive, companies will have to report to a greater extent on non-financial aspects in their operations having an impact on their long-term performance in their (group) management report.25 Like Denmark, Sweden already had disclosure requirements and therefore plans to apply the Directive to all public-interest entities, regardless of their size.

To address the EU Directive, the Fédération des Experts Comp-tables Européens (FEE) - Accounting Working Party recommend-ed the application of guidelines and standards already in place (especially GRI and <IR> as well as SASB) in its recently published position paper.26

In October 2015, the Modern Slavery Act 2015 entered into force in the UK.27 Under this Act, a company must state the steps taken to ensure that no compulsory labor, slavery and human trafficking is taking place in the supply chain. The Modern Slavery Act 2015 affects around 12,000 companies worldwide. From fiscal year 2016, Sec. 54 of the British Act also requires Swiss companies operating in the UK and reporting revenue of more than GBP 36m to prepare a slavery and human trafficking statement for each fiscal year and to report on the steps taken to prevent this from happening in their supply chain and business processes. The statement must be published in a prominent place on the company’s homepage.

The increasing international regulation of sustainability reporting by stock exchanges has prompted the Issuers Committee of the Regulatory Board of SIX Swiss Exchange to consult on these developments. As a result, the Issuers Committee decided in May 2016 that sustainability reporting should remain voluntary for companies with a primary listing of equity securities on SIX Swiss Exchange. However, amendments to the Directive Corporate Governance (DCG) as well as the Directive Regular Reporting Obligations (DORO) are planned in this regard, which will, however, only apply to companies which publish a sustainability report voluntarily.28 The preliminary draft states that a sustainability report must comply with an interna-tionally recognized standard. The company may publish the sustainability report together with the annual report or separate-ly. Companies who intend to publish a sustainability report must notify SIX Stock Exchange, indicating the framework they intend to use. If the sustainability report is not part of the annual report, the company must provide SIX Stock Exchange with a weblink to the relevant document on its website. A reporting obligation is also planned for the amendments to the underlying frameworks or a discontinuance of sustainability reporting. Consultation on the planned amendments to the SIX Exchange Regulation ended in mid-July.

### SSE

Stock exchanges in more than 40 countries encourage or require companies to disclose non-financial performance indicators in order to be listed. At the end of May 2016, the Sustainable Stock Exchanges (SSE) initiative comprised 54 partner exchanges,29 including Nasdaq, NYSE, London Stock Exchange, Euronext and Deutsche Börse.30 The SSE launched a campaign which will provide Environmental, Social and Governance (ESG) guidelines to all partner exchanges of the SSE and of the WFE (World Federation of Exchanges) by the end of 2016.31 These are intended to provide additional support to stock exchanges and listed companies in their ESG and sustainability reporting. To date, such guidelines are only in place at every fifth stock exchange. The remaining stock exchanges either have no guidelines in place (50%) or are currently drafting them (30%).32

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24 http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_de.html#more
25 EY publication, CCS’S Germany, draft ministerial statute on the CSR directive
30 You can find a detailed description of the SSE in the prior year study.
32 http://www.sen-initiative.org/engagement/eng-guidance/
## 04.3 Link to societal challenges

### SDGs

On 25 September 2015, the UN Security Council adopted the Sustainable Development Goals (SDGs). The UN member states thus committed to specific economic, social as well as ecological goals in order to foster sustainable development. The goals came into effect on 1 January 2016 and are set to be reached by 2030. The SDGs are aimed at alleviating global poverty, protecting the planet on a long-term basis and ensuring prosperity in all countries. They specifically include, for example, targets for the expiry of subsidies for non-renewable energy sources, export measures or requirements of financial regulation. The 169 targets in total must now be implemented into national law. For this purpose, the Swiss Federal Council published a report on its Sustainability Development Strategy 2016-2019 with a corresponding action plan at the end of January. In this context, the industrial sectors impacted by regulatory measures such as the CO₂ incentive or the Basel III requirements are described. Furthermore, companies are called to integrate sustainability into their business activities in order to make a contribution to the SDGs. The SDG Compass was developed in order to help companies understand, implement and communicate the SDGs using business tools and indicators. The first companies are starting to align their objectives to the SDGs and to define long-term targets in line with the SDGs in their sustainability reporting. For example, in its sustainability report Credit Suisse refers to four case studies in which it illustrates how its activities contribute to the realization of a number of specific SDGs.

### WBCSD

In order to better understand and measure environmental and social aspects, the World Business Council for Sustainable Development (WBCSD) launched the Natural Capital Protocol (NCP) as well as the Social Capital Protocol (SCP). They offer guidance on how natural and social capital and their impacts and dependencies can be understood and measured in the company. In particular, they are aimed at advancing developments in the qualitative, quantitative and monetary evaluation of ecological and social impacts and relationships. In this context, the application of the protocols will support companies in risk management and strategic decision-making. While the development of the SCP is still in its infancy, the NCP has been finalized and was published in July 2016. In addition to the Natural Capital Protocol, two sector-specific implementation guidelines for the food and beverage industry as well as the apparel industry were published.

### SBTs

The Science-Based Targets (SBTs) are focused at reducing greenhouse gas emissions. This initiative was launched in 2014 by CDP, UN Global Conduct, WRI (World Resource Institute), and WWF (World Wide Fund for Nature). Based on the Sectoral Decarbonization Approach (SDA), companies from various industries can select from seven target setting methods. The SDA allocates the global 2°C carbon budget to various industrial sectors, taking into account the CO₂ reduction potential and the economic growth potential of the respective sector. Within each sector, companies can determine which reduction target they should set. To date, more than 160 companies have committed to SBTs, including more than 10 Swiss companies. For example, Coca-Cola Hellenic Bottling commits to reduce scope 1 and 2 emissions by 50% per liter of produced beverage by 2020 compared to 2010 and to reduce emissions across the total value chain by 25% per liter of produced beverage over the same period.
Increasingly, sustainability is directly linked to the value creation of companies. This link is not only strengthened by the companies themselves, but it also reflects the expectations of investors, regulators and other stakeholder groups. It is likely that this integrated perspective will become more firmly anchored from both a company and a stakeholder perspective.

Integrating corporate sustainability enables companies to seize opportunities and identify potential risks. Furthermore, better management and investment decisions can be taken based on relevant non-financial information. Accordingly, also due to growing regulatory requirements, the integration of sustainability considerations into corporate governance will be increasingly important for the governance set-up and for optimizing value creation.

Consequently, the measurement and monetization of this added value will be more and more crucial for the company and its stakeholder groups. While this is still an experimentation field, the rollout of international standards, such as the Natural Capital Protocol, will most likely support this development. On the one hand, this will increase the willingness of companies to adopt respective data collection methods and on the other hand, the comparability of the respective data will increase.

Insights from quantification mainly serve as an information basis for management purposes in order to improve value creation. In addition, relevant data can be used for integrated reporting. This reporting approach is likely to gain a stronger foothold in Switzerland and as a result quantitative data of the value created for different stakeholder groups will likely be more prominent in annual reports in the future.

With regard to sustainability reporting, a significant increase in reporting companies is expected on a European level due to the EU policy on disclosure of non-financial and diversity-related information which will come into effect in the 2017 reporting year. Even though most Swiss companies are not directly affected, they will still seek to keep up with international competitors. In addition, it will be interesting to see to what extent the planned SIX regulation will lead to an increase in sustainability reporting by listed companies. This may also affect the use of the GRI Guidelines as the regulation is intended to prevent reporting without a reference to a recognized standard.

As sustainability-related data is increasingly used as a basis for management decision-making or investor analysis as a result of the abovementioned developments, the quality of the underlying data will become key. This will lead to an increase in the quality of the processes through the expansion of IT support and enhancement of control systems - which in turn will influence the demand for external audit.
Sustainability
The most frequently used definition of sustainability is related to the description of sustainable development 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 published reports can vary even though they all cover the same topics. “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 results 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 organization’s performance, including both positive and negative contributions.

Organizations need to be aware that the different stakeholders often have different expectations of 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 sustainable opportunity 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., costs 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 report” 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 have been 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 Guidelines, which is the most widely used guidance of its kind around the world. The fourth generation (G4) was published in May 2013 and replaced the third generation (G3.1) as of 31 December 2015. As the transitional period which has been defined by GRI has now expired, most companies reporting according to G3/G3.1 have adapted G4 for the reporting year 2015. However, some companies are still listed as users of G3/G3.1 since, at the date of the analysis (June 2016), the most recent report available was published the prior year.

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 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/G3.1 indicate the extent of application. The main differences between the levels are the number of indicators used and the scope of disclosures on the organizational strategy/profile and the 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.

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 or 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 its role in the development of vision and values. Furthermore, companies are required to report on all indicators related to material aspects. Besides removing the application levels, the “+” previously signaling external assurance has also been dropped.

This study investigated whether the sustainability reports are based on the G3/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) 3000 or the AccountAbility 1000 Assurance Standard (AA1000AS), safeguards the quality of the assurance engagement. For companies that operate in Switzerland only, the use of the Swiss standard PS 950, which was modeled 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.

Definitions

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, FEI), we are always up to date and ready to act, whatever the current environment of sustainability standards and trends.

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