Targeting transparency

How Switzerland's largest companies report on sustainability

2017 edition
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Increasing interest in ESG1 issues among global investors

ESG issues are increasingly considered by institutional investors when taking investment decisions. However, investors indicate that nonfinancial information is often inconsistent, unavailable or not verified.

Improvement potential for Swiss companies

Some Swiss companies are leading in nonfinancial reporting. However, for many Swiss companies, there is improvement potential in areas such as external verification of nonfinancial information, disclosure of management remuneration and transparency in the supply chain management.

1 ESG = environmental, social and governance
**Analysis of sustainability reporting**

**Increase in the number of sustainability reports**

While the share of companies publishing a sustainability report among Switzerland’s 110 largest companies, banks and insurers slightly increased from 65% to 66% (73 companies), 90% of the companies (45 companies) in the SMI Expanded published a sustainability report for 2016 up from 78% in the previous reporting year.

**Sustainability reporting increasingly included in annual reporting**

The inclusion of sustainability reports in annual reporting has increased for both company segments. Of Switzerland’s 110 largest companies that publish a sustainability report, 70% included a comprehensive or a basic sustainability report into their annual reporting (previous year: 61%). For the companies in the SMI Expanded, the share was 67% (previous year: 51%).

**Decreasing share of GRI reports**

The share of reporting companies which apply the GRI Standards has decreased. While for the previous year, 78% of Switzerland’s largest 110 companies that published a sustainability report applied the GRI Standards, only 64% did so for the reporting year 2016 (56 GRI reports for the previous reporting year and 47 for 2016). For the companies in the SMI Expanded, the share decreased from 80% for the previous reporting year to 73% for 2016. However, the absolute number of reports increased from 31 to 33.

**Decline in external verification**

The share of externally verified sustainability reports has decreased. For Switzerland’s 110 largest companies, the share fell from 33% to 32% (24 verified reports for the previous reporting year, 23 for 2016) and for the companies in the SMI Expanded from 49% to 40% (19 verified reports for the previous reporting year, 18 for 2016).

**Increasing consideration of the Integrated Reporting Framework**

Four of the analyzed companies have already aligned their reporting to the Integrated Reporting Framework. Other companies already apply certain <IR> elements or published recommendations of stakeholder panels to move toward Integrated Reporting.
Importance of nonfinancial reporting for investors
Investors increasingly consider sustainability in their investment decisions. This is underlined by the letter of Larry Fink, chairman and CEO of Blackrock, to the CEOs of the S&P 500\(^2\) and the largest European companies.\(^3\) In his letter from 2016, Larry Fink asks the CEOs to focus more on long-term value creation rather than short-term dividend payouts, to be open and transparent about growth plans and to focus on ESG issues because they have “real and quantifiable financial impacts”.

This chapter deals with the increasing importance of ESG topics among institutional investors. The first part of the chapter (chapter 02.1) presents the main findings from a global EY study on the importance of ESG topics for investors. In the second part of the chapter (chapter 02.2), insights about Swiss companies are provided. RobecoSAM, a leading investment company that solely focuses on sustainable investments, shared its view on the current state of nonfinancial reporting in Swiss companies.

\(^2\) Including the largest 500 companies listed in the USA

02 Importance of nonfinancial reporting for investors

02.1 Global investor perspective

**ESG topics are increasingly considered by investors for their investment decisions. This is the result of a global survey among more than 320 institutional investors which was conducted on behalf of EY by an independent research center for the third time.**

This chapter gives an overview of the main results of this global study and therefore provides insights into investors’ expectations on companies’ management and reporting on nonfinancial factors.

According to the survey, investors are convinced that, over the long term, ESG issues have real and quantifiable impacts. Larry Fink’s call for an annual board-approved strategy statement for public companies is largely supported by investors. Moreover, investors agree that ESG topics offer both opportunities and risks but for too long, companies have not considered them core to their business. In addition, investors believe that generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors.

Companies’ nonfinancial performance is pivotal for most of the surveyed investors, with an increase compared to the previous year. Only 5% of the surveyed investors indicated that companies’ nonfinancial performance has never played a pivotal role in their investment decisions in the past twelve months, compared to 26% in the previous reporting year. Additionally, only a small share of investors are not convinced that nonfinancial disclosures are material.

**In the past 12 months, how frequently has a company’s nonfinancial performance played a pivotal role in your investment decision-making?**

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequently</th>
<th>Occasionally</th>
<th>Seldom</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>27%</td>
<td>41%</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>2015</td>
<td>24%</td>
<td>28%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>2013</td>
<td>23%</td>
<td>35%</td>
<td>31%</td>
<td>11%</td>
</tr>
</tbody>
</table>

To what extent do you agree with the following statements?

- Over the long term, ESG issues – ranging from climate change to diversity to board effectiveness – have real and quantifiable impacts
- Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors
- Environmental and social issues offer both risks and opportunities, but for too long, companies have not considered them core to their businesses
- Public company CEOs should lay out an explicit strategy each year for long-term value creation AND directly affirm that the company’s board has reviewed it

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Importance of nonfinancial reporting for investors

Recent revelations of noncompliance with ESG expectations by large multinational companies caused investors to re-evaluate and pay closer attention to companies’ nonfinancial disclosures.

To what extent have recent revelations of noncompliance with ESG expectations by large multinational companies caused you to pay closer attention to issuers’ nonfinancial disclosures?

- I pay much closer attention to nonfinancial disclosures as a result of recent noncompliance revelations: 40%
- I pay somewhat closer attention to nonfinancial disclosures as a result of recent noncompliance revelations: 41%
- Recent revelations have not changed my attention to nonfinancial disclosures: 19%

Recent revelations of noncompliance with ESG expectations by large multinational companies caused investors to re-evaluate and pay closer attention to companies’ nonfinancial disclosures.

At the same time, most of the investors and more than in the previous year indicated that companies do not adequately disclose the ESG risks that could affect their current business models and that nonfinancial information is often inconsistent, unavailable or not verified.

Do companies adequately disclose their ESG risks that could affect their current business models?

- Yes: 2016 - 12%, 2015 - 22%
- No, but we are likely to monitor this closely in the future: 2016 - 60%, 2015 - 39%
- No: 2016 - 21%, 2015 - 25%
- Don’t know: 2016 - 7%, 2015 - 14%

Despite the increasing importance of nonfinancial factors, most of the surveyed investors analyze environmental and social impact statements and disclosures on an informal rather than a structured basis.

We usually conduct a structured, methodical evaluation of environmental and social impact statements and disclosures

- Europe, Middle East, India and Africa (EMEIA*):
  - 2016: 42%
  - 2015: 33%
  - 2014: 25%

- Americas:
  - 2016: 25%
  - 2015: 16%

- Asia-Pacific:
  - 2016: 38%
  - 2015: 23%

*Europe, Middle East, India and Africa
02.2 Swiss companies in international comparison

For this study, RobecoSAM, a company specialized in sustainable investments, was asked for its view on the current state of nonfinancial reporting of Swiss companies. In his guest contribution, Edoardo Gai, Head of Sustainability Services at RobecoSAM, outlines to what extent Swiss companies are meeting the expectations of investors on their nonfinancial reporting in international comparison and in which areas there is still improvement potential.

**Quality and availability of nonfinancial information**

The quality and availability of nonfinancial information is an important indicator for the professionalism of a company’s management of environmental and social topics for RobecoSAM. The larger the reporting scope, the more representative the view of the company and the likelihood for this information to be considered by investors. Therefore, RobecoSAM expects companies to publish KPIs and respective progress for their most material issues. In addition, they expect that companies clearly indicate which information has been verified.

Compared with the global average, Swiss companies were rated well in terms of their social and environmental reporting. In RobecoSAM’s methodology, this encompasses reporting scope, assurance and quality of KPIs. However, European companies reached a slightly better score, as can be seen in the following graphic.6

Swiss companies are leading in terms of reporting scope. In this area, Swiss companies were able to improve their performance compared to the previous year.

Swiss companies also performed well in terms of the disclosure of their materiality analysis. For this purpose, RobecoSAM analyzes if the process of identifying material topics is described, if material topics are identified and prioritized, if external stakeholders are included in this process and if goals and progress are disclosed. Swiss companies were rated considerably better than the global average and slightly better than the European average in 2016. However, RobecoSAM points out that while more than half of the evaluated Swiss companies have reached the highest possible score, there are still some Swiss companies that do not disclose any information on the materiality analysis nor on material topics.

Additionally, RobecoSAM measures to what extent companies disclose their ESG opportunities and risks. For this purpose, RobecoSAM analyzes if companies focus on economic, environmental and social topics with the most impact on their success. Therefore, companies are expected to disclose to RobecoSAM which of the three value drivers “revenues”, “costs” and “risks” are influenced by economic, environmental and social topics and which strategies, products and initiatives they have in this regard. In 2016, 59% of the analyzed Swiss companies disclosed their three most material topics and provided the business case as to why these topics are important for the company. In Europe, 63% of the analyzed companies did so and 42% worldwide.

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5 Including companies invited for DJSI Europe
6 All data for the graphics of chapter 02.2 has been provided by RobecoSAM
Assurance

External assurance improves the reliability of nonfinancial information. This not only increases stakeholders’ trust in the data but also the likelihood that investors will use this information. Though Swiss companies are rated well in terms of the assurance of their nonfinancial information compared with the global average, European companies reach a higher average score.

<table>
<thead>
<tr>
<th>Rating of assurance 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental data</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Global average of all companies</td>
</tr>
<tr>
<td>Companies of DJSI Europe</td>
</tr>
<tr>
<td>Swiss companies</td>
</tr>
<tr>
<td>Social data</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Global average of all companies</td>
</tr>
<tr>
<td>Companies of DJSI Europe</td>
</tr>
<tr>
<td>Swiss companies</td>
</tr>
</tbody>
</table>

Conclusion

Overall, European companies perform very well in terms of their nonfinancial reporting according to RobecoSAM. For Switzerland, while some companies have a leading role, there is a considerable gap between these and the other Swiss companies. According to RobecoSAM, there is improvement potential for Swiss companies in terms of external verification of nonfinancial KPIs, in terms of disclosure of the management compensation as well as in terms of transparency in the supply chain management, where Swiss companies perform considerably better than the global average but below European average. This also holds true for the presentation of the business case for the material topics and for the disclosure of the influence of ESG topics on the value drivers of the company.

EY thanks RobecoSAM and in particular Edoardo Gai for the data and views provided for this study, which give valuable insights into nonfinancial reporting of Swiss companies.

Governance

To assess the inclusion of nonfinancial issues in the management agenda, RobecoSAM analyzes if these topics are reflected in the variable remuneration of the top management. In around a third of the analyzed Swiss companies, environmental KPIs influence the variable compensation of CEOs. For social KPIs, this is the case in around half of the companies and in around 40% of the companies for KPIs related to the company’s external perception.

In addition, RobecoSAM assesses if responsibility for sustainability is embedded at board level. In this regard, Swiss companies perform better than the global and the European average.
Analysis of sustainability reporting
This chapter provides an overview of the results of this year’s analysis of sustainability reporting in Switzerland. In line with previous years, the analysis covers the sustainability reporting of Switzerland’s 100 largest companies, five largest banks and five largest insurers (chapter 03.1) as well as the companies in the SMI Expanded (chapter 03.2). 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 chapter 06). The analysis is based on the companies’ most recent annual reports and sustainability reports (available as of July 2017). In line with previous studies, we also analyzed sustainability reporting according to GRI for Switzerland and internationally (chapter 03.3) as well as the application of the Integrated Reporting Framework among Swiss companies (chapter 03.4).

7 The 100 largest companies headquartered in Switzerland, according to Handelszeitung “Die grössten Industrie-, Handels- und Dienstleistungsunternehmen in der Schweiz 2016” [the largest industrial, trade and service companies in Switzerland in 2016]. 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 banks headquartered in Switzerland, according to Handelszeitung “Die grössten Banken in der Schweiz 2016” [the largest banks in Switzerland in 2016]. 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.

9 The five largest insurers headquartered in Switzerland, according to Handelszeitung “Die grössten Versicherungsgesellschaften in der Schweiz 2016” [the largest insurers in Switzerland in 2016]. 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

Overall, 73 of Switzerland’s 110 largest companies, banks and insurers (66%) published a sustainability report for the reporting year 2016. This is an increase of one report (one percentage point) compared to the previous reporting year.

Of Switzerland’s 110 largest companies, banks and insurers, 73 (66%) published a sustainability report for 2016.

Among the companies in this segment, 54 published a comprehensive sustainability report that covers at least 10 KPIs (49%). A basic sustainability report with around five to ten key performance indicators as well as respective development over time was published by 19 companies (17%).

Seventy percent of reporting companies have integrated a basic (26%) or a comprehensive (44%) sustainability report in their annual reporting, while 30% only reported about their sustainability performance in a separate sustainability report. This is a considerable increase in integration compared to 61% in the previous reporting year.

In 2016, 64% of reporting companies (47 companies) applied the GRI reporting guidelines. This is a considerable decrease compared to the previous reporting year, when 78% of reporting companies (56 companies) applied GRI. Six companies, which reported according to GRI in the previous reporting year, did not do so for the reporting year 2016. Only one company that did not apply GRI in the previous reporting year reported according to GRI for 2016. Out of the six companies that did not publish a report in the previous reporting year but did so for 2016, only one applied GRI.

<table>
<thead>
<tr>
<th>Year</th>
<th>No report</th>
<th>Basic report</th>
<th>Comprehensive report</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8%</td>
<td>45%</td>
<td>47%</td>
</tr>
<tr>
<td>2013</td>
<td>5%</td>
<td>49%</td>
<td>46%</td>
</tr>
<tr>
<td>2014</td>
<td>7%</td>
<td>55%</td>
<td>38%</td>
</tr>
<tr>
<td>2015</td>
<td>10%</td>
<td>55%</td>
<td>35%</td>
</tr>
<tr>
<td>2016</td>
<td>17%</td>
<td>49%</td>
<td>34%</td>
</tr>
</tbody>
</table>

With reference year for: 2012–2016 = 110
In regard to the application of GRI G4 by the 110 largest companies, the main results are listed below:\(^{11}\):

- For the reporting year 2016, 38 companies reported according to GRI G4 (52% of reporting companies). This is a decline of one report and two percentage points compared to the previous reporting year.

- The GRI G4 “in accordance” option “comprehensive” was applied by 12 companies for the reporting year 2016, which amounts to 17% of the reporting companies. In the previous year, this option had been applied by 13 companies (18% of reporting companies).

- Seventeen companies reported according to GRI G4 “in accordance” option “core”, which is equal to 23% of reporting companies. The number of companies remained the same compared to the previous reporting year. However, due to the lower number of reporting companies for the previous reporting year, this was equal to 24% of reporting companies.

- Similar to the previous reporting year, nine companies (12% of reporting companies) reported according to GRI G4 without indicating an “in accordance” option.

Additionally, four companies (5% of reporting companies) already applied the GRI Standards which will replace GRI G4. Three companies applied the “in accordance” option “core” and one the option “comprehensive”.

Five other companies that reported according to GRI did not indicate which version of GRI they applied. Since the transition period from GRI G3 to GRI G4 ended in 2015 (see targeting transparency 2016), this version was no longer applied.

In total, 23 companies and therefore 32% of reporting companies sought external assurance for their sustainability report. This is a slight decrease of one report and one percentage point compared to 2015.

\(^{11}\) The “in accordance” options are described in greater detail in chapter 06
03.2 SMI Expanded companies

A sustainability report for the reporting year 2016 was published by 45 of the 50 companies in the SMI Expanded and therefore by 90% of the companies in the index. This is a considerable increase compared to the previous reporting year, when only 39 companies (78%) published a sustainability report.

45 of the 50 companies in the SMI Expanded and therefore 90% of the companies in the index published a sustainability report for the reporting year 2016.

In line with the previous reporting year, 34 companies published a comprehensive sustainability report including at least 10 KPIs (68%). Eleven companies (previous year: five) published a basic sustainability report with around 5 to 10 KPIs and respective development over time (22%).

Two-thirds (67%) of reporting companies included a comprehensive (42%) or a basic (25%) sustainability report in their annual reporting, while 33% solely reported in a separate sustainability report. Compared to the previous year, when only 51% of companies included a comprehensive or a basic sustainability report in their annual report, this is a considerable increase of the share of companies that integrate their sustainability reporting in their annual reporting.

The number of companies in the SMI Expanded that apply the GRI reporting guidelines increased from 31 for the previous reporting year to 33 for the reporting year 2016. As a result of the increase in the number of sustainability reports, the share of reporting companies which applied the GRI Guidelines decreased from 80% to 73%. Two companies which applied GRI in the previous year did not do so for 2016. Only one of the reporting companies that did not apply GRI for the previous reporting year did so for 2016. Out of the five companies that did not publish a sustainability report in the previous year but did so for 2016, two applied the GRI reporting guidelines.
In summary, regarding the application of GRI G4:

- For the reporting year 2016, 28 companies (63% of reporting companies) applied GRI G4. This is an absolute and a relative increase, since only 23 companies (59% of reporting companies) applied GRI G4 in the previous year.

- Eight companies (18% of reporting companies) applied the GRI G4 “in accordance” option “comprehensive”. Compared to the previous year, this is a slight decrease of one report (23% of reporting companies).

- Thirteen companies (29% of reporting companies) applied the GRI G4 “in accordance” option “core” for the reporting year 2016, compared to eleven companies in the previous year (28% of reporting companies).

- Seven companies (16% of reporting companies) applied GRI G4 but did not mention which “in accordance” option they used.

Three companies (6% of reporting companies) in the SMI Expanded already reported according to the GRI Standards for the reporting year 2016. Two of them applied the “in accordance” option “core” and one “comprehensive”.

Two companies reported according to GRI but did not indicate which version they applied.

Eighteen of the sustainability reports of the companies in the SMI Expanded (40% of the reports) were externally assured. The is a slight decrease of one report compared to the previous reporting year (previous year: 49% of the reports). The decrease in the share of assured reports was mainly caused by the increased number of reporting companies, since five of the six companies that reported on their sustainability performance for the first time did not seek external assurance.
The GRI reporting framework remains the most widely used standard for sustainability reporting. As mentioned above, 64% of Switzerland’s 110 largest companies that published a sustainability report and 73% of the reporting companies in the SMI Expanded applied GRI for the reporting year 2016. In this chapter, we provide an overview of the reporting according to GRI in Switzerland and globally.

Global development

After the number of sustainability reports according to GRI constantly increased between 2000 to 2015, this was not the case for the first time for 2016. While 4,237 GRI reports were published for the reporting year 2015, there were 4,198 GRI reports for 2016. In line with the previous reporting year, most GRI reports were published in Asia and in Europe. Publishing 1,481 (35% of all GRI reports), Asia is leading for the first time followed by last year’s leader Europe with 1,403 reports (34% of all GRI reports). In line with the previous reporting year, they are followed by Latin America, North America, Africa and Oceania.

For the reporting year 2016, the number of worldwide sustainability reports according to GRI decreased for the first time.

In line with the previous reporting year, most GRI reports were published in Asia and in Europe. Publishing 1,481 (35% of all GRI reports), Asia is leading for the first time followed by last year’s leader Europe with 1,403 reports (34% of all GRI reports). In line with the previous reporting year, they are followed by Latin America, North America, Africa and Oceania.

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12 See the GRI Reports List including all GRI Reports since 1999, https://www.globalreporting.org/services/Analysis/Reports_List/Pages/default.aspx, accessed on 02.07.2017
The financial services sector is the industry with most GRI reports published in Switzerland for 2016, accounting for 23% of all GRI reports. This is followed by the technology sector with 15% of all GRI reports as well as life sciences and chemicals with 14%. Both power and utilities companies as well as real estate and construction companies were responsible for 8% of all GRI reports each and logistics and transportation companies for 7%. The retail and consumer products industry accounts for 6% of all GRI reports in Switzerland and both public services, universities and NPOs as well as mining and metal published 2% of all GRI reports each.

Development in Switzerland

Similar to the global development, the application of GRI is also on the decline in Switzerland. For the reporting year 2016, 96 companies published a report according to GRI, whereas for the previous reporting year 107 GRI reports had been published.

The application of the GRI Reporting Framework declined in Switzerland.
03.4 Integrated Reporting

The Integrated Reporting (IR) Framework of the International Integrated Reporting Committee (IIRC) aims to provide a more comprehensive picture of the value creation of companies based on financial and nonfinancial information. With Clariant, Panalpina, SGS and UBS, four of the analyzed companies explicitly communicated their ambition to develop an Integrated Report and aligned their reporting to this framework. Another company with this ambition and connection to Switzerland is Coca-Cola Hellenic Bottling. Additionally, Adecco, Fenaco and Givaudan also communicated their intention to move toward Integrated Reporting. ABB and Geberit, on the other hand, published the recommendations of their stakeholder panels to consider the Integrated Reporting Framework.

Other companies such as Glencore and Swisscom apply certain IR elements, but do not explicitly reference the framework. LafargeHolcim, for example, publishes an Integrated Profit and Loss Statement which illustrates the value that is created and destroyed by the company’s business activities including socio-economic and environmental aspects along with financial aspects.

For further information on “Integrated Reporting”, see chapter 04
Investors increasingly consider sustainability in their investment decision-making, as illustrated in chapter 02. Additionally, there are various other national and international developments which influence sustainability management and reporting. New stock exchange regulations and developments in national and international regulations regarding sustainability reporting as well as in standards and initiatives are presented below.
04.1 Stock exchange regulations

**SIX**

SIX regulation on sustainability reporting

The SIX regulation on sustainability reporting entered into force on 1 July 2017 and affects reports that are published from 1 January 2018 onward. With the new regulation, sustainability reporting will remain voluntary for listed companies. However, listed companies will now have the possibility of “opting in”. In this case, the sustainability report has to be published within eight months of the closing date of the financial reporting, remain available for five years and follow an “internationally recognized” reporting standard. SIX has published a list with standards which currently encompasses GRI, SASB, UNGC and EPRA Sustainability BPR (for real estate companies).

Moreover, companies that decide to voluntary “opt in” must inform SIX about this. Thus, the list of companies opting in will be published on the SIX website.

**SGX**

Singapore Exchange (SGX) Sustainability Reporting Guide

Representative of the internationally increasing requirements of stock exchanges, the regulation of Singapore Exchange (SGX) is presented here. The SGX sustainability reporting guide introduced by Singapore Exchange (SGX) in 2016 requires listed companies to publish a sustainability report on a “comply or explain” basis. Sustainability reports should encompass a section on “material ESG factors”, “policies, practices and performance”, “targets”, “sustainability reporting framework” and a “board statement”. Listed companies will have 12 months from 31 December 2017 onward to publish a sustainability report.

Furthermore, companies will have to publish a board statement in their report, instead of a compliance statement, in which the company’s sustainability activities are described. The sustainability report must be published at least once a year and not more than five months after the end of the financial year.

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04.2 National and international regulations

“The responsible business initiative”\textsuperscript{17}

According to its committee, the aim of this initiative is to ensure that companies incorporate the protection of human rights and the environment into their business activities. Since the focus of the initiative is the companies’ activities abroad, the envisaged obligation for due diligence also applies to companies’ operations outside of Switzerland. As part of this obligation for due diligence, companies which are de facto managed from Switzerland would have to examine whether their business activities entail risks in regard to human rights or the environment. If this is the case, companies would have to take measures and report about these risks. If a company does not comply with this obligation for due diligence, it would be liable for the damage caused abroad. This also includes damage caused by subsidiaries. A company is only exempted from this liability if it has complied with the due diligence obligation. The Swiss population will vote on this initiative presumably at the end of 2018 or in 2019.

EU Directive on disclosure of nonfinancial information\textsuperscript{18}

The EU Directive 2014/95/EU was introduced at the end of 2014 and requires reporting on nonfinancial and diversity-related information of listed companies with more than 500 employees as well as of financial services companies. The EU member states had to transpose the Directive into national law by 6 December 2016. However, several countries did not meet this deadline.

Some countries such as Germany and Austria transposed the Directive into national law with only minor changes. Other EU member states exceed the requirements of the Directive in their national laws. Denmark and Sweden, for example, lowered the threshold from 500 to 250 employees, and in France and Italy, the respective law requires external verification. Approximately 6,000 companies in the EU are affected by this Directive and are therefore required to publish a respective nonfinancial report.

Swiss companies that are listed in the European Union as well as Swiss financial services companies are also affected by the Directive. In the case of financial services companies, local obligations in all countries where the company operates need to be assessed in case the threshold is reached to verify whether country level disclosure is required or whether the group reporting can be referred to instead. In June 2017, the European Union published its “guidelines on nonfinancial reporting”, which support companies in their nonfinancial reporting efforts.\textsuperscript{19}

\textsuperscript{17} http://konzern-initiative.ch/?lang=en
\textsuperscript{18} http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=DE
\textsuperscript{19} The guidelines are available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN
The recast of this EU Directive requires pension funds to consider ESG factors in their investment decisions. On the one hand, pension funds must conduct a risk assessment that covers climate-related risks as well as risks related to resource use and to respective changes in regulations. This risk assessment has to be conducted every three years or whenever there are changes in the respective risks.

On the other hand, the Directive allows pension funds to consider ESG factors in their investment decisions. Therefore, it will no longer be possible to reject consideration of ESG factors by referring to fiduciary duty. The EU member states will have time to transpose the Directive into national law until January 2019.21

### 04.3 Standards and initiatives

#### EU High-Level Expert Group on Sustainable Finance

This group was founded in 2016 by the European Commission. It includes 20 experts from financial services companies, civil society and science. Its aim is to support the European Commission in developing a comprehensive EU strategy in the area of sustainable finance. Specifically, the group will develop recommendations on how the EU regulation can be adapted to promote sustainable finance. In July 2017, the expert group published its interim report \(^{23}\) and the final report is expected to be published in December 2017.

#### Sustainable Development Goals (SDGs)

The SDGs are global societal goals the member states of the United Nations have agreed on. They should be achieved by 2030 with the help of businesses and NGOs. Increasingly, the SDGs are included in companies’ sustainability strategies and reporting. Twenty-four of Switzerland’s 110 largest companies, banks and insurers and 17 companies in the SMI Expanded mentioned the SDGs in their current sustainability reporting. To help companies in this effort, GRI, UN Global Compact and the “World Business Council for Sustainable Development” (WBCSD) developed the SDG Compass \(^{25}\). The SDG Compass helps companies align their corporate strategy to the SDGs and measure the company’s contribution to the achievement of the SDGs. Along with various other resources, the SDG Compass comprises a useful mapping document which reveals the links between the SDGs and the specific GRI indicators. \(^{26}\)

#### The Reporting Exchange

“The Reporting Exchange” is an information platform which was developed by the “World Business Council for Sustainable Development” (WBCSD) in collaboration with the “Climate Disclosure Standards Board” (CDSB) and “Ecodesk”. The goal of the platform is to provide information on requirements in the area of sustainability reporting which are checked by experts. The platform comprises data on 30 countries including Switzerland. It will be continuously extended to further countries to include all relevant economies globally. \(^{28}\)

#### GRI Standards

GRI Standards will replace GRI G4. They will cover three universal standards which are applicable to all reports as well as 33 topic-specific standards. This modular structure of the GRI Standards will allow for more flexibility for future adaptions. The differences between requirements (“shall”) and recommendations (“should”) are clearer in the GRI Standards compared to GRI G4. The application levels “core” and “comprehensive” remain the same as in GRI G4. In addition, single standards can be used individually to report about specific sustainability aspects by referencing GRI (“GRI referenced”). All GRI reports published from 1 July 2018 onward must be in accordance with the GRI Standards. Some Swiss companies already published their sustainability report according to the GRI Standards, among them Autoneum, Dätwyler, LafargeHolcim, Sika and Swiss Prime Site. \(^{30}\)

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\(^{25}\) http://sdgcompass.org/


\(^{27}\) https://www.reportingexchange.com/

\(^{28}\) http://www.wbcsd.org/Projects/Reporting/News/helping-you-make-sense-of-the-sustainability-reporting-landscape

\(^{29}\) https://www.globalreporting.org/standards/

\(^{30}\) GRI provides various resources on the GRI Standards. Especially the document “Mapping G4 to the GRI Standards - Complete (Excel)” is helpful for the transition from GRI G4 to the GRI Standards. The documents are available at https://www.globalreporting.org/standards/resource-download-center/
The Integrated Reporting Framework provides a holistic view on companies’ value creation and considers both financial and nonfinancial aspects. It aims to capture how different capitals are deployed, how they are correlated and which tradeoffs a company has to make in this regard. On its website, the IIRC lists more than 500 companies which published reports that either refer to Integrated Reporting or are influenced thereby\(^\text{22}\). The region with most reporters is Europe with 170 reporting companies, followed by Africa with 166, Asia with 115, Australasia with 21, North America with 19 and South America with 15 reporting companies. In total, there are eight Swiss companies on IIRC’s list.

In the context of this project, a framework will be tested which aims to support companies in measuring their long-term value creation and communicating it to stakeholders such as investors, shareholders, consumers or employees. The framework was developed by EY\(^\text{34}\) and aims to depict the entire value a company generates by using “human, physical, financial and intellectual capital”. Amongst others Aetna, DuPont, Johnson & Johnson, Nestlé, PepsiCo and Unilever will test the framework during 18 months. At the end of this testing period, the companies, together with the participating investors, will evaluate to what extent the framework will provide better insights into the companies’ value creation.

The Natural Capital Protocol was published in July 2016 by the Natural Capital Coalition. It includes an industry-specific guide for the food and beverage industry as well as the apparel sector. The protocol measures the influence and dependence of companies on nature. Its aim is to increase companies’ understanding of natural capital and its inclusion in corporate decision-making. The Natural Capital Coalition includes around 250 organizations such as academic institutions, companies, investors and governments. It published a tool kit to support companies in the implementation of the Natural Capital Protocol in mid-July 2017. This database is available for free and features various instruments for the implementation of the Natural Capital Protocol\(^\text{36}\).

The Social Capital Protocol was published in March 2017 and includes sector-specific guidelines for the forest product sector. The aim of the protocol is to promote the measurement of the social impacts of companies and to integrate these into corporate decision-making. The protocol supports companies in the measurement, evaluation and management of social capitals and includes guidelines, examples, case studies and relevant tools.

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\(^{31}\) https://integratedreporting.org/

\(^{32}\) http://examples.integratedreporting.org/all_reporters, as of 27.06.2017

\(^{33}\) https://www.inc-cap.com/embankment-project/

\(^{34}\) Further information on the framework is available at http://www.ey.com/uk/en/services/assurance/ey---long-term-value

\(^{35}\) http://naturalcapitalcoalition.org/

\(^{36}\) The toolkit is available at https://www.naturalcapitaltoolkit.org/

### TCFD Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) was tasked by the Financial Stability Board (FSB) with developing recommendations for companies for voluntary and consistent disclosures on opportunities and risks resulting from climate change. This supports investors, creditors and insurers in gaining a better understanding of climate-related opportunities and risks of the reporting companies. In July 2017, TCFD published its final report, recommending that companies report on 11 specific topics.

In Switzerland, Glencore, for example, relates its internally developed framework to identify and manage climate-related opportunities and risks to the recommendations of TCFD.

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk management</th>
<th>Metrics and targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Describe the board’s oversight of climate related risks and opportunities.</td>
<td>• Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</td>
<td>• Describe the organization’s processes for identifying and assessing climate-related risks.</td>
<td>• Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</td>
</tr>
<tr>
<td>• Describe management’s role in assessing and managing climate-related risks and opportunities.</td>
<td>• Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.</td>
<td>• Describe the organization’s processes for managing climate-related risks.</td>
<td>• Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
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<tr>
<td></td>
<td>• Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td>
<td>• Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</td>
<td>• Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</td>
</tr>
</tbody>
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38 [https://www.fsb-tcfd.org/](https://www.fsb-tcfd.org/)
Outlook
A further increase in regulations in the area of sustainability management and reporting as well as considerations of ESG factors by investors is expected in the upcoming years. An example in this area is the EU High-Level Expert Group on Sustainable Finance, which is currently developing recommendations on how to adapt EU regulation in order to promote sustainable finance. In this context, the increase in stock exchange regulations as for example outlined above for Switzerland and Singapore is worth mentioning.

Because ESG factors are becoming more and more important, it is expected that investors will increasingly evaluate relevant factors on a structured basis and across all asset classes. Swiss Re for example considers ESG benchmarks for the management of its investment portfolios.41

In this context, a holistic view of companies’ value creation as proposed by the Integrated Reporting Framework and the Embankment Project for Inclusive Capitalism will be increasingly important. This is accompanied by a growing link between financial and nonfinancial factors as promoted by TCFD and the Natural and Social Capital Protocol. For companies, this development does not necessarily mean extending their nonfinancial reporting, but first and foremost increasingly linking disclosed information with the business model and the corporate strategy. From a management and a reporting perspective, this leads to increasing requirements on the quality of gathered nonfinancial data.

41 http://www.swissre.com/media/news_releases/nr20170706_MSCI_ESG_investing.html
Definitions

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 often used. There is a great deal of overlap between “sustainability” and “corporate social responsibility” and they are often 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 sustainability 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 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 sustainability opportunities and risks appropriately
- Business partners require information about their suppliers’ sustainability impacts
- 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 impacts of their business operations (e.g., impact on 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 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 report” 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”.

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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 most current version, the GRI Standards, was published in 2016. Content-wise, the GRI Standards are aligned with GRI G4 and mainly differ in terms of format. The new modular structure of the GRI Standards will enable more flexibility for future adaptations.

All GRI reports published starting from 1 July 2018 will have to be in accordance with the GRI Standards. Until this date, there is a transition period in which GRI G4 can still be applied. 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 Indicators for economic, environmental and social aspects as well as product responsibility, labor practices and human rights. Sector Supplements provide additional industry-specific guidance. The application of these indicators is dependent on the materiality of the respective company.

Under GRI G4 and the GRI Standards, 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 its role in the development of vision and values. Furthermore, companies are required to report on all indicators related to material aspects.

Besides the "comprehensive" and the "core" option, the GRI Standards offer the possibility to use specific standards individually by referencing GRI ("GRI referenced"). This study investigated whether the sustainability reports are based on the 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 an increased level of confidence that the data and information is reliable 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
- Process optimization and efficiency gains thanks to reliable data, which support 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.

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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, Accountancy Europe), we are always on top of new developments and ready to act, no matter what the current environment of sustainability standards and trends are.

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