TRENDS IN SUSTAINABILITY REPORTING AND INTEGRATED REPORTING IN SWITZERLAND

By Roger Müller, Mark Veser and Chiara Rinaldi

Sustainability reporting is widely spread among Swiss companies with a number of reporters increasing year after year. And now Integrated Reporting is also on the rise.

At its sixth release, the annual review of the status of sustainability reporting in Switzerland (EY, Targeting transparency, 2017) shows that while sustainability reporting in Switzerland is common practice, particularly among listed companies, also Integrated Reporting is increasingly being adopted with various levels of adherence to the framework.

INCREASE IN SUSTAINABILITY REPORTING

In our 2017 analysis as illustrated below, both the share of companies in the SMI Expanded and of the 100 largest companies, five largest banks and five largest insurers publishing a sustainability report has risen for the reporting year 2016 compared to 2015. For the companies in the SMI Expanded, the share of reporters increased noticeably from 78% to 90%, with only five of the 50 companies in the index not publishing a sustainability report. The share of reporters of the 110 largest Swiss companies rose only slightly from 65% to 66%.

RELATIVE DECREASE IN EXTERNAL ASSURANCE

In EY’s latest global investors’ study, over two-third of institutional investors stated that having external assurance on the reported content is very useful or essential. In contrast to that statement, in the Swiss market the share of reporting companies seeking external assurance decreased from 59% in 2012 to 54% in 2016.

---

1 EY, Is your nonfinancial performance revealing the true value of your business to investors?, 2017
assurance for their sustainability reports decreased for both the companies in SMI Expanded and the 110 largest Swiss companies. This decrease, however, is mainly due to the increase of new reporters most of which did not seek external assurance (yet) as in absolute terms the number of companies having their reporting assured remained stable. For the companies in the SMI Expanded, the share dropped from 49% to 40% from the reporting year 2015 to 2016. Regarding the 110 largest Swiss companies, the share of reporters seeking external assurance slightly decreased from 33% to 32% from the reporting year 2015 to 2016.

DECLINE IN THE APPLICATION OF THE GRI REPORTING FRAMEWORK

International and national regulations for sustainability reporting commonly recommend the use of recognized reporting guidelines such as the framework provided by the Global Reporting Initiative (GRI). In the Swiss market, however, we notice that there is a decrease in the application of the GRI Reporting Framework both for the companies in the SMI Expanded and for the 110 largest Swiss companies. The share of companies in the SMI Expanded applying the GRI Reporting Framework declined from 79% for the reporting year 2015 to 73% for 2016. For the 110 largest companies, the number decreased from 78% to 64% in the same period. In both cases, this is mainly due to new reporters not applying GRI.

Meanwhile, five of the analyzed companies have already started to apply the GRI Standards in their sustainability reporting for 2016. GRI Standards will come into effect in July 2018 and replace GRI G4.

SUSTAINABILITY REPORTING INCREASINGLY INCLUDED IN THE ANNUAL REPORT WITH RISING INTEREST IN THE INTEGRATED REPORTING FRAMEWORK

In our global investors' study, surveyed institutional investors reported that the most useful source of nonfinancial information for making investment decisions was a company’s annual report while the second-most-useful source was an integrated report.

Swiss companies increasingly include their sustainability reporting into their annual reporting. 67% of the reporting companies within the SMI Expanded included a basic or comprehensive sustainability reporting section in their annual reports, while 33% published their sustainability information solely in a separate sustainability report. This is a considerable increase in the inclusion of sustainability information into annual reporting up from 51% in the prior year. For Switzerland’s 110 largest companies, 70% of reporting companies reported on sustainability in their annual report, up from 61% in the previous year.
In 2016, among the companies assessed, ten explicitly mentioned the Integrated Reporting Framework or the IIRC (International Integrated Reporting Council) in their annual or sustainability reporting. We identified three levels of maturity of a company’s Integrated Reporting approach:

- The first category includes companies, which apply a broader definition of value creation but do not explicitly refer to the Integrated Reporting Framework. Examples of this category are Nestlé’s “Creating Shared Value” approach and Syngenta’s “The Good Growth Plan”.

- Companies in the second category do not explicitly commit to Integrated Reporting but apply selected elements of the Integrated Reporting (<IR>) Framework. For example Glencore, Swisscom or LafargeHolcim include some elements. In particular, the later publishes an integrated profit and loss statement, wherein it discloses the value it creates and destroys through its business activities taking into consideration also socio-economic and environmental aspects and monetizing them.

- Finally, the third category encompasses companies that publicly commit to the Integrated Reporting Framework. Besides Coca Cola Hellenic Bottling, SGS and UBS (as already mentioned in previous publications), both Clariant and Panalpina aligned their 2016 reporting to the <IR> Framework. Moreover, Adecco and Fenaco explicitly expressed their intention to move towards an Integrated Reporting strategy in their CSR report 2016 and “Lagebericht” 2016 respectively. Givaudan also stated its ambition to move “towards an integrated reporting strategy” in its sustainability report 2016.

The continuous growing inclusion of nonfinancial data in annual reports and the rising adoption of Integrated Reporting reflect an increased demand for such information by investors, but also stakeholders in general. This is supported by the expanding introduction of sustainability reporting requirements and guidelines in many countries worldwide. For Swiss companies, the most relevant ones are the SIX Swiss Exchange regulation and the EU Directive regarding non-financial information.

**SIX SWISS EXCHANGE REGULATION REGARDING SUSTAINABILITY REPORTING**

The SIX regulation on sustainability reporting entered into force on 1 July 2017 and will come into effect for all reports that are published from 1 January 2018 onwards. With the new regulation, sustainability reporting will remain voluntary for listed companies. However, they have the possibility to “opt in”. In this case, companies will have to publish their sustainability report within eight months of the closing date of the financial reporting. These reports will have to remain available for five years and to be prepared in accordance with an “internationally recognized” reporting standard. SIX has published a list with standards that currently encompasses GRI, SASB, UNGC and EPRA Sustainability BPR (for real estate companies). Companies that decide to voluntary “opt in” must inform SIX about this intention. SIX will mention companies that are opting in on their webpage, which will serve as a quality trademark for the respective companies.
EU DIRECTIVE ON THE DISCLOSURE OF NON-FINANCIAL AND DIVERSITY INFORMATION

In 2014, the EU Directive 2014/95/EU was enacted and became effective in December 2016. This directive provides increased legal requirements for transparency on non-financial information in management reports of large public interest entities (PIEs) in all EU member states. PIEs are listed companies, banks, insurance companies, and other organizations designated as public interest entities by the respective governments. Affected organizations have to provide information about environmental, social and employee related matters, respect for human rights and the fight against corruption and bribery. Disclosure of diversity information only applies to large listed companies. National governments had to transpose the directive into national law with the option to elevate reporting requirements further. The directive applies to all reporting cycles that begin after 31 December 2016. Swiss companies listed in EU member states as well as Swiss financial service providers with a large enough presence in EU countries are also affected by the respective national legislation. In these cases, companies have to assess whether national requirements can be met by a consolidated report published by the Swiss parent company or whether additional local disclosures are needed.

Overall, increasing stakeholder demands for sustainability related information, regulatory developments as well as recent commitments and intentions identified in our analysis of companies’ current reports suggest that both sustainability reporting and especially Integrated Reporting, are likely to further gain importance in the Swiss market in the reporting year ahead.