Four Sustainability Reporting Highlights of 2013

2013 should be remembered as a transformative year for sustainability. Significant developments emerged not just from sustainability reports, but from non-profits and regulators concerned with stakeholder interests and reporting standards. Discussed below, are noteworthy events that suggest a trend toward mandatory reporting.

1. GRI's New "G4" Standard

First, the Global Reporting Initiative (GRI) published its new "G4" standard. As the international non-profit behind the most widely used sustainability reporting framework, GRI's historical challenge has been to establish a cadre of dedicated reporters across diverse industries. With voluntary reporting now in vogue, the G4 promotes substance over form through an increased emphasis on "materiality" and giving stakeholders the information they need.

Gone are the days of reporting on irrelevant matters to achieve the "A+" application level for reports. Now, a sustainability report prepared "in accordance" with the GRI standard should be lean and green – the product of a stakeholder engagement process geared toward identifying material issues that must be addressed in the report. The G4 standard increases the focus on disclosing why certain aspects are material, adding transparency to the process. Moreover, when an organization lacks information to report on material items, it now must report on the timeline and necessary actions for resolving data gaps. In short, the G4 emphasizes materiality and promotes accountability, making it an important development for 2013.

2. SASB Standards

Next, the Sustainability Accounting Standards Board (SASB) began the roll-out of its own sustainability reporting program after achieving accreditation by the American National Standards Institute. SASB, a U.S. non-profit, aims to develop a comprehensive set of disclosure standards for public companies filing their Form 10-K annual reports and other required materials with the U.S. Securities and Exchange Commission (SEC). Unlike the G4 standard, SASB offers an industry-specific standard for material disclosures. While the G4 reveals different issues material to each organization through an individualized stakeholder engagement process, SASB identifies common industry reporting criteria, including through feedback from industry working groups.

SASB issued its first set of standards in 2013, focusing on the health care sector. Standards for nine additional industry sectors (and a total of 88 industries) are expected to be issued over the next two years. This aggressive schedule will likely culminate with the SEC considering whether to enforce the standards. If enforced, SASB standards could fundamentally change current sustainability reporting practices in the United States. Voluntary reporting could become mandatory, and public companies might dispense with standalone sustainability reports in favor of integrated 10-K reporting. At a minimum, public companies would have to consider whether their disclosures meet the industry-specific standards. Regardless of the SEC's view, each industry will be challenged to adapt to SASB's reporting approach and incorporate it into current reporting practices.

3. SEC Reponses To "No-Action" Requests

For its part, the SEC made its own strides in sustainability this year. The Agency disagreed with several "no-action" requests filed by public companies that sought to exclude sustainability-related shareholder proposals from their proxy statements. Companies argued that climate change proposals were already "substantially implemented" through their sustainability reports and participation in the Carbon Disclosure Project. The SEC routinely disagreed, since matters addressed in voluntary disclosures did not compare "favorably" with the shareholder proposals.

Most visible perhaps, was the SEC's response to a no-action request from PNC Financial Services Group, where shareholders requested that PNC assess greenhouse gas emissions from its lending portfolio. The company sought to exclude the proposal because it dealt with matters relating to ordinary day-to-day business. The SEC disagreed with PNC's request, noting "the proposal focuses on the significant policy issue of climate change." This reflects a departure from recent prior decisions by the SEC and a subtle nod to the Agency's 2010 climate change guidance, likely triggering a renewed focus on substantive climate change disclosures in the 10-Ks.

4. EPA Amendments To GHG Reporting Program

Finally, at a time when the U.S. Environmental Protection Agency (EPA) is facing multiple challenges to its authority to regulate greenhouse gases (GHGs), the Agency updated and strengthened its GHG reporting rule. Since 2009, the rule has required reports for certain facilities that generate more than a threshold annual amount of GHGs. The November 2013 amendments update the global warming potentials that entities must use to report, keeping in step with the Fourth Assessment Report issued by the Intergovernmental Panel on Climate Change. The amendments ensure improved reporting accuracy and that data is compatible with the United States' own international GHG reporting obligations. EPA acknowledged that more facilities will now be required to report as a consequence of the amendments.

The above illustrates just a few sustainability highlights for 2013, but they suggest a trend toward mandatory sustainability reporting. Based on the new G4 standard and SASB standards, there is an increased emphasis on providing investors and other stakeholders with material sustainability information. SASB clearly seeks to articulate standards that will be used for required financial reporting, and the SEC appears responsive based on policy trends that bolster the need for climate change analysis and disclosures by public companies. Meanwhile, these trends are consistent with EPA's decision to update its GHG reporting rule. Although that rule reflects a small portion of sustainability-related disclosures and applies only to certain facilities (as opposed to an entire organization), EPA's amendments show that GHG reporting requirements are here for the long-term. Given the events of 2013, sustainability reporting is evolving from mainstream to mainstay for many companies.

Should you have any questions about this or any other sustainability or environmental issues, please feel free to contact Matt Mattila , or any other member of our Sustainability Practice Group . Note: An adapted version of this article was published Dec. 20, 2013 on TriplePundit.com and may be accessed here: http://www.triplepundit.com/2013/12/looking-back-sustainability-highlights-2013/#!

ATLANTA
1170 Peachtree Street N.E.
Suite 800
Atlanta, GA 30309

CHATTANOOGA
832 Georgia Avenue
Suite 1000 Volunteer Building
Chattanooga, TN 37402

NASHVILLE
401 Commerce Street, Suite 720
Nashville, TN 37219-2449