wbcsd

Enhancing the credibility of non-financial information
the investor perspective

pwc

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[a] See page 2 for the definition of NFI

Foreword

Shifting the financial system to reward more sustainable companies is crucial for transitioning to a sustainable future – and investors are an important piece of the puzzle.

But, many investors don't have the information they need to make capital allocation decisions based on a company's sustainability performance. Because of this, the World Business Council for Sustainable Development (WBCSD) and PwC embarked on this study to understand what information investors need in order to include such considerations into their decision-making processes.

Through investor roundtables and interviews in Australia, Denmark, Frankfurt, Hong Kong, India, Johannesburg, London, the Netherlands, New York, São Paulo, Tokyo and Toronto, it became clear that investors are not getting the sustainability information they want or need to make informed decisions. Reasons for this include the fact that there's too much information across conflicting frameworks and that there are differing definitions for what sustainability is and does from company to company. Plus, investors have difficulty assessing to what extent the information can be relied on.

WBCSD is working to address these issues through projects in risk management, purpose-driven disclosure, reporting and assurance with a focus on bringing alignment, clarity and better-quality data.

The ideal result will be to provide "financial grade" information to investors, so that they can begin rewarding the companies who are more sustainable.

Now more than ever, financials are only part of a company's story. Both WBCSD and PwC are committed to increasing trust in sustainability information and finding a way of applying it effectively. This report is an important step in the right direction.

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Executive summary

Globally, there has been a surge in the amount and variety of information reported to investors outside of financial statements.

This report explores what value this information has for investors, what could make it more reliable and what role assurance can play in increasing confidence in it.

This includes non-GAAP financial measures and other key performance indicators (e.g. organic sales growth), as well as information on the environmental, social and governance (ESG)-related risks and opportunities.

There is a clear appetite from investors for information outside of the financial statements. The investors interviewed said it gives important context to the financial information and insight into the long-term viability of the company.[a] But investors can be skeptical about its relevance and reliability. Over a series of interviews and roundtables, investors explained the challenges they face in using NFI – with many of these arising from the numerous reporting frameworks and initiatives in this area, the sheer volume of information reported and the perceived lack of high-quality, consistent and comparable information.

During this research, it became clear there are key elements that contribute to investors' confidence in assessing the reliability of NFI. Overwhelmingly, they depend on their perception of management and the board to make their decisions, supported by their own plausibility assessments and sense of balance in the corporate communications they use. The investors interviewed also identified a role for independent assurance.

Overall, investors said that to increase their confidence in NFI, they want to know if a company is identifying and addressing risks, whether it has effective governance and internal controls, if the methodology behind the metrics is appropriate and has been applied consistently, if it can be benchmarked with peers and whether its scenarios and estimates are reliable.

To address this, there are actions that companies, data aggregators, assurance providers, standard setters and regulators can take or should consider to improve the relevance and reliability of NFI.

Investors want companies to show how NFI is integrated in their strategic decision-making and are looking for material information to be underpinned by controls and processes on a par with those used for financial information. There is work for reporting and assurance standard setters to do to enable an environment that continues to support innovation in this growing area – including providing greater clarity and comparability on measurement protocols. Additionally, the investors interviewed called for innovation by assurance providers to increase their confidence in NFI.

Is non-financial information (NFI) really non-financial?

Throughout this report, NFI is used to reference all information outside the financial statements (metrics and narrative). It is recognized that NFI, may be an imperfect term as the information may ultimately have a financial dimension or impact.

[a] For the purposes of this report, the term 'interviewed' refers to all investors that we engaged in discussions with to support this research. This includes those that participated in the roundtables and one-to-one interviews.

1. Introduction

There is an increasing volume of corporate information available outside of audited financial statements. The relevance and reliability of this information is an important issue for capital market participants.

WBCSD and PwC have worked together to understand the investor perspective on the following questions:

- To what extent are investors able to use NFI effectively in their decision-making?
- What can be done to improve the quality and relevance of reporting on NFI?
- What role can assurance play, if any, in increasing confidence in NFI?

The project builds on WBCSD's Assurance 1.0 project outlined in *Assurance: Generating Value from External Assurance of Sustainability Reporting (2016)* and is part of WBCSD's Redefining Value program.[1]

WBCSD's Redefining Value program and the investor perspective

WBCSD's Redefining Value program aims to help companies measure and manage risk, gain competitive advantage and seize new opportunities by understanding environmental, social and governance (ESG) information. The program accomplishes this by building collaborations and developing tools, guidance, case studies, engagement and education opportunities to help companies incorporate non-financial performance into mainstream business and finance systems. The goal is to improve decision-making and external disclosure, eventually transforming the financial system to reward the most sustainable companies.

An important foundation for this is to examine and understand investors' expectations of assurance reports. The results outlined in this report will be relevant for policymakers, regulators and standard setters to support the development of guidance while assisting with implementation tools to improve practice in the important area of NFI.

During discussions with investors, it was clear that high-quality, reliable information is key for satisfying investor requirements. Therefore, while this report focuses primarily on assurance, WBCSD and PwC believe that there is additional work to do in helping companies drive the processes that result in relevant and robust NFI.

The global context

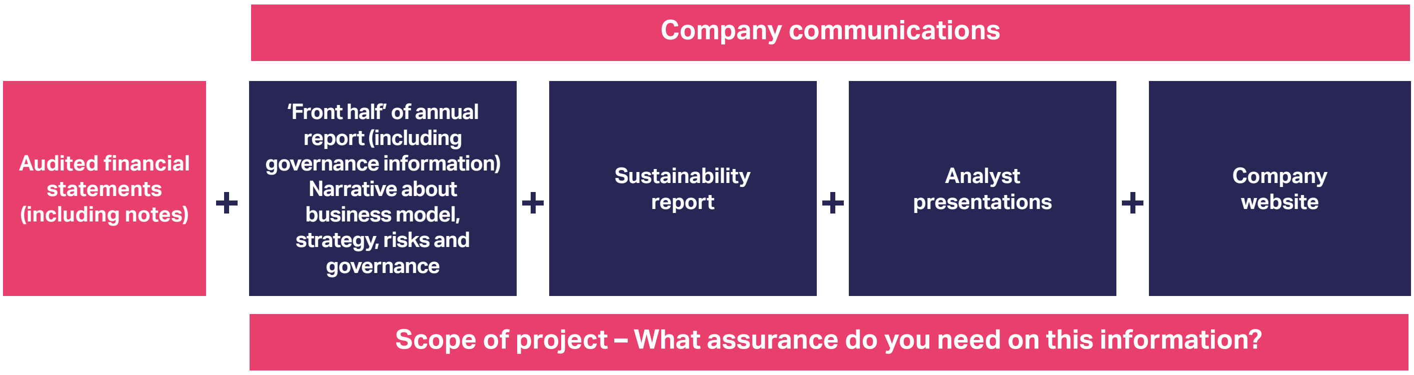
Numerous factors contribute to the availability and volume of NFI. Some of these include:

- **Market expectations** drive requests for further information and recognise that NFI – including ESG information – can provide important insight into long-term value creation and the longevity of a company.
- Companies' efforts to show how they are strategically **responding to global trends** including disruptive technologies, constraints on resources, climate risks, transition to the low-carbon economy and the Sustainable Development Goals (SDGs).
- **Sector-specific rules**, guidance and initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.[2]
- An increase in **regulation** and recommended best practice, including stock exchange listing requirements and other supranational requirements such as the EU Non-Financial Reporting Directive.[3]

Although some countries are introducing legislation that requires assurance on ESG information,[4] most assurance is voluntary and can vary greatly in scope and level. NFI reporting systems and information are relatively immature compared to financial information which is governed by accounting standards and subject to audit. The variance could also be from the hesitation by some companies to obtain assurance, especially where there is not necessarily an established framework. National and international assurance standard setters are currently investigating how to facilitate the assurance process for this type of information.

Investors interviewed for this research said they want information that is relevant and reliable. This paper explores what more can be done to enhance the credibility of information outside the financial statements.

What do we mean by NFI?



Although, WBCSD's primary focus is on ESG information, there is a broader spectrum of information outside the financial statements that is not usually subject to assurance but that is increasingly used by investors. This information includes non-GAAP financial measures and other key performance indicators (e.g. organic sales growth, occupancy rates), as well as other metrics, statements and narrative on ESG-related risks and opportunities.

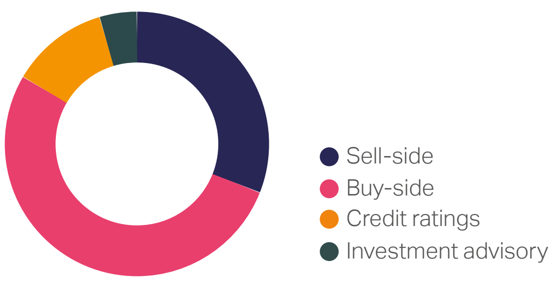
Our approach

WBCSD and PwC hosted a series of roundtables in the following cities: Frankfurt, Hong Kong, Johannesburg, London, New York, São Paulo, Tokyo and Toronto. These were supplemented by interviews with investors in Denmark, the Netherlands, India and Australia. In total, over 50 investors were consulted to understand their views on the following questions:

- What information outside the financial statements is most useful for their investment process or analysis?
- How do they use NFI information?
- How confident do they feel in NFI?
- What gives them that confidence and what would enhance the credibility?

WBCSD and PwC placed emphasis on qualitative discussions to add context to existing investor-focused research such as that conducted by the CFA Institute in 2017[5] and PwC in 2014.[6]

Roundtable and interviewee participants



Buy-side investors, who made up over half (55%) of the investors spoken to, included mostly fund managers, as well as a mix of corporate governance, stewardship and ESG specialists. Sell-side analysts covering various industry sectors made up nearly one-third (29%). Other parties also attended the roundtables, including corporates (which comprised a mix of investor relations, finance and sustainability functions and a non-executive director), professional institutes, sustainability consultants, standard setters, government agencies and NGOs.

The outcomes of the discussions raise a number of questions for other participants in the corporate reporting system, such as:

- **Companies:** Companies are being asked to provide more and more information, but is all this information meeting the needs of their investors? Are they explaining what is relevant for their business and why? Have we reached the point that if companies are not addressing this, then regulators have to intervene?
- **Data aggregators and providers:** An increasing number of investors are relying on data aggregators for their primary information needs. What is their role in this area?
- **Standard setters and regulators:** There are numerous standards and frameworks, which are adding to the complexity for both companies and investors. Has practice kept up with the intent of policymakers and is it future proof? Is it possible for them to step in to promote consistency, relevance and reliability without stifling innovation?

2. How investors use NFI

The answer was almost unanimous: NFI is used for investment decision-making.

Discussions indicated that NFI is needed for screening, valuation, and stewardship purposes to:

- Give context to financial information
- Understand corporate culture and governance
- Identify risks to delivering company strategy
- Understand the long-term sustainability of the business model
- Identify opportunities
- Provide signals for divestment strategy

This is consistent with recent investor surveys. In PwC's 2014 global investor survey *Corporate reporting: what investors want to know*, 73% of investors surveyed rated disclosures on where the company is positioned in the wider value chain as important, with 63% saying the same for disclosures on the company's dependency and impact on the future supply of resources. Furthermore, in the CFA Institute's 2017 survey, *Global perceptions of environmental, social and governance issues in investing*, 73% of respondents said they take ESG issues into account in their investment analysis and decisions.

NFI helps provide context to the investor for a better understanding of financial information and the overall performance of the business. For some, it goes further and supports baseline decisions for investment because it provides information about the quality of the business and its long-term viability, complementing the valuation model.

Moreover, some said that risks identified in their analysis of NFI can affect the risk factors they apply in their valuation models. Some investors said that NFI can provide a window to opportunities and can positively affect valuations, although mainly indirectly. Some also feel there is not enough high-quality information available for them to respond to their clients' interests in sustainable products.

However, there is less uniformity across the investment community when it comes to how much they use NFI and what the key constraints are, whether real or perceived.

3. What determines the extent to which investors use NFI?

Investors said that NFI is relevant to their understanding of the business. Many said that they would like to incorporate NFI into their valuation models, but there is currently no straightforward, consistent way to do so.

Challenges in using the information arise from the many reporting frameworks and initiatives in this area, the sheer volume of information reported and the perceived lack of high-quality, consistent and comparable information. This complicates corporate reporting and leaves investors guessing at the relevance of the information provided, all the while leaving clear gaps.

> *"Turning 'non-financial' metrics into something that can be picked up for valuations is really difficult."*
>
> SELL-SIDE ANALYST

Types of NFI

Non-GAAP financial and non-financial measures (such as like-for-like sales, revenue per franchise and production volumes) are widely used in valuation forecasts, whereas other operational information on the ESG issues (such as water usage and safety metrics) is included much less frequently.

ESG information, particularly environmental and social metrics (except for carbon emissions), is seen by investors as less mature than financial information. Protocols or frameworks for their measurement and disclosure have come into effect relatively recently and, for some areas, are still evolving. Requirements and practices for providing governance information have been established for much longer. As a result, investors are more familiar with and able to use this information.

Over the course of the discussions, investors highlighted several factors that affect whether they use ESG information:

- The materiality of the information disclosed, including whether it is relevant to the business, its operations and its strategy
- Comparability across peers and over time
- The maturity of measurement protocols or methods
- Whether the financial impact is known and can be quantified or whether it can only be described in the narrative
- The perception of whether the information is reliable (i.e. how rigorous is the measurement)

Relevance and materiality

As overarching principles, investors said they want companies to:

- Provide explanatory information about the relevance of NFI to the company's business model and strategy in the short-, medium- and long-term; and
- Integrate NFI into their performance story, making clear the related financial impact.

Beyond that, they want companies to determine what is most relevant and therefore should be reported. For example, a company may determine that employee wellbeing rates or a happiness index may be relevant to its business as measures of improvement on past issues (e.g. better retention rates that mean less induction and training costs) or as indicators of future value or intellectual property development. Without providing this explanation, investors may view such information as superfluous or make incorrect assumptions about its relevance. This can cause investors to lose interest and trust in the reported information.

> *"Companies seem to share what is easy to share rather than what is important."*
>
> SELL-SIDE ANALYST

> *"Companies need to assess for themselves what the financial impacts of NFI are. It is in their interest to do it."*
>
> SELL-SIDE ANALYST

Metrics versus narrative

Investors emphasized the importance of metrics and narrative to provide context for the data points. For example, water consumption rates in isolation are of little use if not put in the context of local geography and whether there are abundant supplies or water constraints. It is also important for investors to understand how critical the resource is and the impact on the business' ability to continue operating. This additional information enables investors to understand the potential impact on costs (e.g. if premiums for access may need to be paid) and revenues (e.g. if production and eventually sales could be affected), as well as risks (whether operational or to the company's long-term viability). This information can then be incorporated into valuation models and used in their discussions with management and the board of directors.

Investors are also interested in having forward-looking metrics and quantification of risks. While some estimates are more challenging to determine, investors consider initiatives like the TCFD recommendations as beneficial and the right way forward. Being given a range of values also enables investors to exercise their judgment using all the information available to them.

Investors are also keen to receive narrative on management's future plans, especially on how the company will deal with externalities. Although a company may transition away from certain products or materials (e.g. coal or plastic), it needs to show that such changes are necessary for the business to succeed in the future and be a long-term viable venture.

> *"Metrics are a good starting point for the conversation, but narrative can be just as important."*
>
> BUY-SIDE, STEWARDSHIP SPECIALIST

Time horizon

Different investors have different time horizons, mandates and interests. In terms of forward-looking information, particularly about the viability of an organization, some investors say they look just a few years ahead, while others may be looking at forecasts as far as a generation ahead.

Even long-term investors, such as pension funds, will have short-term funding needs. They will be concerned about current year data and expected performance in the coming year. They will use NFI to the extent that it can provide insight on these topics. However, they will also be interested in the long-term success of a company. Will it be able to continue to operate in the future, and for how long? Is management addressing current challenges and risks with a long-term view? Again, disclosures such as those the TCFD recommendations are helpful.

Strength of governance

Investors say that NFI can provide them with a view of a company's overall corporate governance and management capability through the method and consistency of application, the approach to transparency and the results. Lack of transparency and frequent changes in method or policy often impact investors' assessment of a company. Some investors interviewed said that if they think a company has good governance in place, they are more likely to use NFI in their analysis.

There was also a consensus among the investors interviewed that governance metrics and disclosures are important and give insight into the company's practices and culture. Currently, investors see governance information as more mature and, as a result, they use it more than environmental and social metrics.

In countries where governance structures are still developing or there have been governance concerns, investors see these metrics as critical. In such an environment, a company's approach to governance will illustrate its attitudes to data management, authenticity of reporting and the environmental and social factors relevant to the company.

In other markets where regulation on corporate governance and reporting practice have been long established, governance metrics are often a starting point and area of focus for many investors.

Comparability

To investors, comparability is the foundation of good information flows. Investors are interested in comparability against peers and within the company itself over time. However, investors recognize that comparability between companies is more challenging – this is because NFI is often entity specific and companies use different measurement processes.

Investors want to be able to benchmark and analyze trends, but they are aware that, as companies innovate and evolve in their reporting, trends may be distorted because of what is reported and how it is measured. Investors want disclosure on the methodology used and the calculations behind the non-financial metrics. If they can understand the differences between different companies' metrics and calculation methods, they will be able to make informed comparisons.

Investors also showed a strong interest in industry-specific KPIs as a means to promote comparability. Some suggested that industry bodies could create frameworks for NFI disclosures that are relevant across a particular industry. This could make clear any outliers in the industry, including whether a company may be omitting information that their peers are reporting. This opens an opportunity for dialogue with the company.

The influence of big data and data aggregators

Investors increasingly rely on information sourced from outside the company to help them make a judgement about the company's performance. As a result, the data aggregators and data providers who source information on multiple companies, compile indices and provide benchmarks are extremely important in the corporate reporting system. Many investors interviewed said they use at least one ESG specialist data provider to pull and summarize publicly available information as their first point of reference on ESG information. Some of these ESG data providers give a score or rating. Investors said they refer to the annual report or sustainability report for narrative and clarifications if necessary.

Companies need to be aware that any missing or unclear information in their reporting could result in a negative score or could be misinterpreted. Some investors will engage in dialogue with a company directly to clarify such issues, but not all will.

Standards for reporting

Investors want a more consistent approach to reporting and disclosure to find NFI more useful. To enhance comparability, investors want consensus among standard setters, data aggregators and investor representatives on a global framework and standards for NFI. In the absence of such standards, investors are looking for a company-led solution that would reflect transparency in methods used, consistent application and comparability within industry sectors.

Several investors indicated they also feel that many ESG disclosure requirements are in response to stakeholders other than investors. They think investor-focused guidance on ESG reporting is needed, particularly for the context on NFI and the importance of showing the financial impact of NFI.

However, some investors noted that new technology means we are in an endless cycle of new information. They think the current standard-setting process itself may need to change to keep pace. Users of information will also need to adapt.

4. Confidence in NFI

In addition to being relevant, investors want to have confidence in the reliability of NFI. There are various ways investors get confidence in reported information.

Overwhelmingly, investors depend on their dialogue with company management to assess how much they can rely on the information provided. However, there was a general view that, when the information is assured by an independent third party, they can have more confidence in the information, although it may not necessarily change how they use it.

During the discussions, investors identified four key elements that contribute to their confidence in assessing how useful the information is.

Elements that contribute to investor confidence are:

Perception of management and the board

Investors consistently cited their perception of management and the board as the most significant contributing factor to their confidence in a company's reported information. Their perception of management and the board is influenced by those parties':

- **Authenticity:** How annual reports and other communications complement each other and stem from a single consistent story impacts investors' view of the authenticity of management. Further, some investors said that they compare the statements made by the Chair and the CEO to ascertain whether they contain their individual perspectives or are scripted.
- **Approach to governance:** If the company demonstrates strong governance, for example through its disclosures of policies and processes, investors generally have more confidence in the reported information.
- **Track record:** Investors look for indications of whether management and the board have achieved what they have said they would and how they have dealt with externalities.
- **Knowledge of the business and processes:** This tells investors whether the board is truly involved in the strategy and in monitoring its implementation as well as has a deep understanding of the risk areas, including environmental and social matters and factors that affect the company's long-term success.
- **Openness:** Investors say they look for what is sometimes left unsaid or unwritten. For example, investors will consider whether information has been omitted from disclosure to hide bad news, or whether it is genuinely not relevant. This will help them assess the need for further dialogue with the company.
- **Willingness to communicate:** When investors have access to management, they can get a better understanding of what is reported including any necessary clarifications.

> *"If there is a logic and coherence in the front half that tallies with the numbers in the financial statements, then you do get a good deal of confidence."*
>
> BUY-SIDE, CORPORATE GOVERNANCE SPECIALIST

Balance

Investors are more confident about the quality and reliability of information when it tells a balanced story. For instance, investors are interested in how the narrative and metrics reported outside the financial statements corroborate those in the financial statements. In other words, they look to see whether the integrated report, annual report, presentations and the standalone sustainability report tell a consistent story.

Investors are also looking for a balance between the positive and negative, including adjustments to arrive at non-GAAP financial measures. For example:

- Are they overly positive, telling only favorable news, implying the omission of unfavorable news?
- Does the company only make one-off adjustments that result in higher profits in each period?
- Are there inconsistencies in how disclosures are presented year-on-year or between segments, preventing negative information being disclosed?

As mentioned earlier, investors will also heed missing information. If some companies disclose particular metrics but others do not, investors will question why, and it may raise concerns. Therefore, the way different components of reporting fit together and tell a story will impact the level of confidence investors have in that information.

Plausibility

When analyzing NFI, investors will assess whether the information is plausible given the context, which is assessed through:

- Investors' knowledge of the sector
- Comparison to and benchmarking against industry peers
- Experience of the company
- Consistency with other reported information

The above helps them assess its reliability and the need to have a dialogue with management and the board.

Independent assurance

Investors said that they view independent assurance positively because it improves their confidence in reported information. They also said that a third party's expert view can influence the perception of management and the board in terms of their attitude and approach to controls, risk management and governance.

The discussions also covered the cost of getting NFI assured relative to the benefits of doing so. They emphasized that external assurance would be worth the cost only when the information being assured is relevant to their decision-making and understanding of the business.

5. The role of assurance in providing confidence

Investors showed an interest in NFI being assured to help strengthen their confidence in reported information.

Investors cautioned against NFI reporting being a process-driven exercise, resulting in box-ticking, which they feel would not add any value to the credibility of the information and would constrain company reporting simply to meet compliance requirements.

Some investors also said that it can be confusing because the word "assurance" can represent different things. They understand that an independent assessment is defined in audit and assurance standards but also see "assurance" used to describe work that is more advisory in nature and does not purport to comply with ISAE 3000 (Revised) - the standard for assurance over NFI). This leads to considerable confusion about what constitutes assurance (as understood in the context of financial reporting) and other services which may contain elements of the assurance process.

This is further complicated because investors often interpret any assurance opinion provided by an accounting firm as being the same level of assurance (reasonable assurance) provided as in a financial statement audit.

What information investors say they want assured on

Although many investors interviewed said that they could not ignore unassured NFI, they do have some concerns about using some information that has not been assured. For instance:

- Is there a risk that the information they are using may be incomplete or misstated?
- Are they getting the whole picture about the business and its prospects, including the risks it faces?
- Are underlying changes in the measurement methodologies affecting trend analyses and comparability, which are not evident to them and not being checked for appropriateness?
- Are the information systems and governance processes for capturing and disclosing the data robust enough to be relied on?

Areas on which investors want more confidence include:

- **Risks:** Investors want to know whether management has identified and reported on all material risks.
- **Policies:** Investors want to understand the appropriateness of a company's policies. They are also interested in knowing whether management is conservative or aggressive in applying and developing policies.
- **Effectiveness of governance processes:** Investors are interested in whether governance policies and procedures are implemented as described in the narrative. They want to know the effectiveness of the governance process and if there are any weaknesses in the governance structure of a company.
- **Internal controls:** Investors are interested in whether the systems and internal controls responsible for producing information are sufficient and working as intended. They are interested in where there are weaknesses or improvements to be made.
- **Measurement and valuation:** Investors would like to know whether a company has selected the appropriate and relevant framework, methodology or measurement protocol to calculate a metric. They also want to know that calculations are being done correctly and consistently.

- **Metrics:** Investors want to trust the relevance and integrity of metrics disclosed. They want to know whether the metrics most relevant to the business strategy have been disclosed, and that those metrics have not been manipulated and are not misleading, especially where these are used for remuneration. Particularly for ESG metrics, investors want comfort that management are not "greenwashing" but that their claims are backed by evidence and relevant to the business model and strategy.
- **Peer comparison:** Investors would like to know how a company's metrics compare with those of its peers to allow for better benchmarking. This includes information about which metrics and methodologies peers are using.
- **Assumptions for scenarios:** Although there is some skepticism around assurance for forward-looking information, investors want to know if scenarios and estimates are reasonable and how sensitive they are to changing factors. They also want to know whether management is conservative or aggressive when measuring the company's impact. This will be applicable, for example, to disclosures based on the TCFD recommendations.

The level of assurance investors want on NFI

Investors spoke about the different levels of assurance available, distinguishing primarily between reasonable and limited assurance.

Reasonable assurance	Limited assurance
Usually used for financial statements audits	Lower level than audit – procedures are usually inquiry or analysis
Provides opinion on whether statements are fairly presented, in all material respects, in accordance with appropriate framework	Provides statement that did not encounter anything that indicates that information is not materially prepared in accordance with the appropriate framework

Those investors who want assurance over NFI, prefer reasonable assurance, emphasizing the growing importance of NFI in decision-making.

However, for the vast majority of NFI the level of assurance provided today is limited assurance. WBCSD's Reporting matters 2018 showed that out of 158 sustainability reports reviewed globally, 60% opted for limited assurance, 13% had reports with a combination of reasonable and limited assurance, and only 6% had reasonable assurance.[7] 22% of the companies reviewed did not engage any external assurance provider.

Assurance reports

Investors interviewed said they want assurance reports to give them a better understanding of the assurance work performed on NFI and where significant judgements have been applied. Some reflected that what has been developed for financial statement audit reports could potentially be adapted for NFI assurance reports.

Investors also prefer that an assurance report should be presented within the same report containing the NFI being assured. They thought that the frequency of assurance on such information should be annual.

Given that many investors obtain NFI through data aggregators, they said it is important that they know which of that information is assured, but such information is not always readily available.

6. The way forward

Many parties play a role in the corporate reporting system. Armed with the knowledge of what investors say they want, there are steps various actors can take to build the credibility of reported NFI.

Possible actions

Companies

- Companies should show how they are integrating NFI into their overall organizational strategic decision-making. They should highlight which are material metrics, distinguishing them from metrics presented solely for compliance or industry practice (which should be identified as such).
- Companies should consider concisely disclosing the measurement protocols or frameworks they use for key metrics. If there have been changes in measurement or methodology from the prior year, they should explain why and the impact of the change.
- Companies should work towards strengthening their governance, internal controls and processes for NFI to be on par with financial information, ensuring appropriate board attention and oversight.
- Companies should report material NFI at the same time as the annual report and, if it's not within the annual report itself, then in an integrated and coherent way.
- When procuring assurance services for NFI, companies should balance value and costs for their shareholders. Investors expressed a preference for reasonable assurance, and some told us that increased costs are justified if assurance is on decision-critical information.

Data aggregators

- Data aggregators should identify and highlight which company metrics and disclosures have been subject to assurance. They should also include the identity or type of assurance provider and the level of assurance performed.

Assurance providers

- Innovation is needed to address what investors said could give them increased confidence in NFI. At present, not all NFI can be assured in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) if it does not meet certain criteria. However, investors are keen to have third-party insights. In the interim, as reporting standards and practice on NFI develop, assurance providers may be able to review information and provide insights to investors that enhance their confidence.
- The table on page 14 highlights information that investors use from the company and from other sources. While current assurance practice is often focused on historic performance, investors said they want comfort on information about the long-term viability of the company. The middle row of the table illustrates potential responses to this.
- Together with standard setters and regulators, assurance providers have a role to play in education about assurance, for both companies and investors. A better understanding of what assurance tries to do can help narrow any expectation gap, enhance benefits for both parties and can improve the usefulness of assurance.

Confidence in the information chain

	Value/purpose	Strategy	Behaviors/ actions	Impacts	Reputation
	What is said	**What is planned**	**What is done**	**How much net value is created**	**How others judge them**
Data/Content	Statements, commitments	Plans, policies	Narrative system, documentation	Financial and non-financial reporting, performance indicators and analyses	Endorsements/ negative reviews Stakeholder perceptions
Services to enhance credibility	Assurance and review on statements	Consistency checks; assurance on statements, effectiveness review	Consistency checks; assurance on controls, assurance and reviews that actions are aligned with strategy	Audit of financial statements; reasonable assurance on metrics and scenarios	Trust analytics
Benefits for investors	Knowledge that company's purpose is backed up by evidence	Greater insight on business model, risks and company's practice on policies	Increased confidence that controls are working appropriately and narrative is corroborated	Increased confidence in the data reported in accordance with standards	Independent reporting on how company is perceived

Standard setters

- Standard setters, both for reporting and assurance, need to address investors' and companies' challenges and concerns around having multiple standards and measurement protocols, including the resulting volume of information and lack of comparability. This can hinder the relevance and reliability of the information that is reported.
- There are already initiatives taking place on both reporting and assurance. The International Accounting Standards Board's (IASB) Management Commentary project will see how narrative reporting could complement and support IFRS financial statements. The International Auditing and Assurance Standards Board (IAASB) has commenced a project on emerging forms of external reporting (EER) to enable more consistent and appropriate application of ISAE 3000 (Revised) and increase trust in the resulting assurance reports.
- Regional professional bodies such as Accountancy Europe, the Japanese Institute of Certified Public Accountants (JICPA) and the South African Institute of Chartered Accountants (SAICA) are also having initial discussions on how to improve assurance over NFI.
- Collaboration is needed between the standard setters to promote harmonization in reporting and assurance. For example, the Corporate Reporting Dialogue brings together the main corporate reporting standard setters and related bodies, which is useful for understanding the various initiatives on NFI reporting.

Regulators

- Regulators should balance the need for implementing standards to achieve the necessary change with companies' motivation to innovate and be transparent, allowing them to report their "story." Any new standard or regulation must avoid leading companies into a "tick-box" approach that adds no value to investors, but instead it needs to be supportive of innovation in reporting.

Next steps

The research into this important area does not stop here. This project has helped identify what investors say would increase the credibility of NFI. However, this is only one part of a wider project. WBCSD and PwC expect to continue the dialogue with different stakeholders.

This report serves as a signal that more needs to be done to improve the relevance and quality of NFI, and assurance has a role to play in this journey.

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Disclaimer

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WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies. Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees.

Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues. Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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