

# ESG REPORTING: TURNING DISCLOSURE INTO DISCIPLINE

## Strengthening Oversight Through Structured Reporting

Environmental, Social and Governance (ESG) reporting is no longer an optional exercise or a “nice to have” for many investors. For asset managers and owners alike, it is now a structural and integral part of the investment process. While the demand for transparency is clear, delivering consistent and meaningful reporting remains a challenge.

Globally, the reporting landscape is varied. Different jurisdictions can have different requirements, asset classes exhibit distinct characteristics, and investment strategies are far from uniform. This complexity is compounded by the diverse range of information that asset owners require from their underlying managers, third-party sources or data providers. Even the definitions of sustainability goals can differ amongst stakeholders. Although effective reporting is essential for stakeholder communication, the emergence of a single standard for all themes remains unlikely.

### The Real Goal: Progress Over Perfection

The objective of reporting on sustainability-related risks and opportunities is not a “box-ticking” compliance exercise. The real goal is to track progress against defined objectives using agreed-upon metrics that measure performance. The emphasis must be on outcomes, not on inputs.

Establishing clear objectives is the essential first step (as outlined earlier in this series *Determine ESG Objectives*). However, even with well-defined targets, reporting on progress remains challenging when disclosure frameworks can differ or data quality issues arise.

Progress reporting requires transparency between what is being disclosed and how this ties back to set objectives. Achieving this requires credible metrics, consistent methodologies and robust processes for validating and explaining results. Any limitations in the information included should be clearly highlighted and explained along with clear visibility into any assumptions that have been used. Reporting perfection is unlikely to be achievable.

### Who is Watching? Understanding the Stakeholders

Before delving into the mechanics of reporting, it is important to define the audience. Reporting serves several overlapping – but not always aligned – stakeholder groups:

- **Regulators:** Monitoring compliance with local and international sustainability rules and requirements.
- **Beneficiaries and clients:** Increasingly focused on both responsible investment practices and financial risk management.
- **Investment teams:** From sustainability leads to investment committees, these groups rely on reporting to help inform decision-making.

Each stakeholder group brings distinct expectations. Reporting that satisfies regulatory requirements may still fall short for beneficiaries seeking detailed evidence of progress on, say, real-world impact. While it can be tempting to focus solely on regulatory compliance, the most effective reports strike a balance between meeting compliance standards and communicating meaningful information.

## Regulatory Demands and Framework Fatigue

The regulatory environment for sustainability disclosures continues to evolve at different speeds across global markets. For instance, Europe's Sustainable Finance Disclosure Regulation (SFDR) has a longer history and has been more prescriptive than standards in other regions, while the adoption of sustainability standards introduced by the International Sustainability Standards Boards (ISSB) in countries such as Australia, Canada and the UK may lead to subtle variations from one another. Meanwhile, other voluntary initiatives continue to advance transparency on different topics but vary in requirements.

Asset managers are navigating multiple frameworks and standards simultaneously, particularly when operating across borders. As a result, establishing a single standard that applies to all asset classes, investment strategies and jurisdictions is currently unrealistic. A private equity fund operating in Asia is subject to different regulatory reporting requirements than a listed equities portfolio in Europe for example.

Asset owners should be mindful of the complexities involved in reporting and strive to avoid oversimplifying the process. They should be thoughtful about the volume of ESG-related data requested from asset managers. Rather than sacrificing comparability, the focus should be on establishing reporting expectations, clearly defining metrics and methodologies, and promoting transparency – while respecting limitations and differences in approaches.

Regulatory reporting serves a specific purpose, but many asset owners will also have a variety of sustainability-related objectives to report on. For example, they may need to monitor progress of specific impact goals such as the UN Sustainable Development Goals (SDGs). While asset owners should be mindful of collecting too much data that isn't relevant, asset managers need to service asset owners who require data to meet both regulatory and non-regulatory requirements.

## The Anatomy of a Good ESG Report

Effective reports demonstrate consistent characteristics:

- 1 **Transparency** – They go beyond presenting binary outcomes by clearly explaining how results were generated, what assumptions were made, and sources of the underlying data.
- 2 **Accountability** – They openly acknowledge gaps, limitations and challenges. In a space where greenwashing can thrive, transparency and honesty help build trust.
- 3 **Forward-looking** – They connect current performance to future plans, rather than focusing solely on past actions.
- 4 **Alignment with objectives** – The metrics used directly tie to the goals that asset owners or asset managers have committed to, ensuring relevance and consistency.

Consistency is a critical component of effective reporting, yet often the most difficult to achieve. This is where thoughtful consolidation, analysis, and interpretation become essential. For asset owners, synthesising disparate data into a coherent and actionable format can be time intensive. That's why it is important to understand the nature and quality of the data being consolidated – a theme explored in our paper *Determine ESG Measurement Criteria*.

## The Asset Owner's Role: From Collector to Curator

Asset owners face a distinct challenge. They often receive reports from multiple asset managers or third-party providers, each using different definitions, formats and data inputs. This can result in a fragmented collection of documents, datasets and dashboards that is challenging to form a cohesive or actionable view of overall performance from.

To gain a meaningful view of progress on sustainability at the total portfolio level, asset owners need to utilise a robust framework for consolidating and assessing data. This includes processes to normalise inputs, critically evaluate conclusions, and synthesise information across their portfolio. It's not a passive exercise – it demands dedicated resources, appropriate tools and well-defined workflows.

## Reporting is a Process, Not a Product

Too often, reporting is approached as a once-a-year exercise – a report that is published, set aside, and then hastily revisited the following year. Instead, it should be incorporated within a continuous feedback loop, enabling ongoing reflection, learning and improvement throughout the investment cycle.

Every report should spark meaningful internal dialogue to prompt questions such as:

- Are we making measurable progress?
- Are our metrics still relevant and aligned with our latest objectives?
- Are we capturing what truly matters?
- Are we uncovering new insights?

It's also valuable to periodically audit the reporting process itself. Where is data consistently weak? Which asset managers are offering genuine insight versus generic responses? What elements can be automated, and where is human judgment essential? This shift in mindset - from viewing reporting as a compliance exercise to leveraging it as a strategic tool – is what transforms reporting from a regulatory obligation to a source of competitive advantage.

## Monitoring Beyond the Report

While reporting is the visible output, effective oversight should begin upstream – within the investment process itself. This includes:

- Conducting thorough pre-investment due diligence
- Integrating ESG-related risks and opportunities into valuation models
- Engagement with companies on material sustainability issues
- Implementing voting policies that reflect sustainability commitments

Monitoring the process is just as important as evaluating outcomes. For asset owners, sustainability-related considerations shouldn't be confined to reports – they should be thoughtfully integrated into capital allocation and risk management practices. That clear throughline – from objective-setting to data-gathering to investment decision-making – is what ensures risks and opportunities are truly integrated into the investment process, as discussed in our previous paper *Implement an ESG Investment Process*.

## Reporting with Purpose

ESG or sustainability reporting can be complex, fragmented, and at times frustrating. Yet for asset owners with defined objectives or regulatory obligations in this area, it remains essential. When done well, it strengthens accountability, enhances transparency, and ensures that sustainability goals become guiding principles.

While full standardisation may remain out of reach for now, the future of sustainability reporting can be structured, integrated, purposeful and aligned with long-term value creation.



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