

WEF IBC Stakeholder Capitalism Metrics: Frequently Asked Questions

Commissioned by the World Economic Forum (WEF) International Business Council (IBC), the white paper *Measuring Stakeholder Capitalism — Towards common metrics and consistent reporting of sustainable value creation* outlines a recommended set of 21 core metrics and 34 expanded metrics to further the road towards a global harmonized reporting system, called the WEF IBC Stakeholder Capitalism Metrics.

Developed in collaboration with Bank of America, KPMG and other Big Four organizations, the initiative reflects an extensive consultation process with corporates, investors, standard setters, NGOs, and international organizations, that provide a common set of existing disclosures that lead us towards a coherent and comprehensive global corporate reporting system.

Below we have provided our responses to the questions raised by clients and contacts globally when we discuss environmental, social and governance (ESG) metrics in the context of the IBC recommendations. The questions cover what the WEF IBC initiative entails and how it fits into the wider frameworks, as well as practical advice on how to start off with the WEF IBC Stakeholder Capitalism Metrics for your company — and what investors would be looking for.



Status and relationship to other reporting initiatives

There are many metric frameworks available. I am being asked to also work with United Nations Research Institute for Social Development (UNRISD) amongst others. Why would you say we should use the WEF IBC Stakeholder Capitalism Metrics over other solutions?

We wouldn't necessarily see the WEF IBC Stakeholder Capitalism Metrics as the one and final solution for sustainability and impact reporting (see also the question on convergence below). However, the WEF IBC Stakeholder Capitalism Metrics can serve as a strong baseline to report in a comparable way between businesses on topics that are universal to business. Still, you should consider which other frameworks would assist you in telling your impact story well.

How should the work of the WEF be seen in relation to the update of The Non-Financial Reporting Directive (NFRD)?

The update of the NFRD (proposal is expected in March 2021) is an EU-initiative that responds to public policy decisions by the European Commission about reporting requirements.

The WEF initiative has the objective to demonstrate companies' impacts on society, primarily focusing on one lens of the NFRD (i.e. 'inside-out').

The WEF will provide input to the NFRD and potential EU standards as desired and would go very well together with the principles of the NFRD requirements.

Wouldn't it be better to develop a set of reporting principles and let industry sectors work with investors to develop sector-specific metrics? The WEF IBC Stakeholder Capitalism Metrics are also broad and referring to various other frameworks; what is the objective of coming out with WEF IBC Stakeholder Capitalism Metrics when we already have so many others? How do you see all these frameworks fitting together?

We believe that reporting principles are fundamental for any reporting framework. However, proper standard setting should also come with due processes that are subject to strong governance in order to ensure that they are independent, comprehensive and responding to the needs of relevant stakeholders.

The WEF IBC Stakeholder Capitalism Metrics aim to serve as a catalyst towards a global reporting standard that could include industry-specific disclosures and indicators if these are desired by the stakeholders. The Statement of Intent by the five global non-financial standard setters is a showcase towards this intended success. We expect and work towards a system where the incumbent standards and frameworks are brought together into one organization or one corporate reporting system.

We very much welcome the fact that the IFRS Foundation is stepping up towards such a global system — and can expect this in the long-run to become the “gold standard” for the KPIs in scope. We do expect the IFRS Foundation to do a thorough review of work done, definitions developed, etc. Therefore, we expect the WEF IBC Stakeholder Capitalism Metrics to be used as input for the IFRS Foundation's work.

While we call this Stakeholder Capitalism, the conversations all seem to be between accountants/reporters and investors, which seems like business as usual. How do we get a greater focus on other stakeholders and impact rather than value?

The WEF IBC Stakeholder Capitalism Metrics have been collated to provide a concise set of universally applicable metrics that provide insight into the contribution of companies to societal goals (such as the SDGs). The metrics do not pretend to provide an all-encompassing framework that serves all stakeholders. Further standard setting initiatives should fulfill the needs of other stakeholders and wider or more company-specific impacts.

What role do you see for the many ESG rating agencies, e.g. DJSI, FTSE4Good, MSCI, Sustainalytics, among others? Looking at the investor perspective, are they looking at the data or just looking at the indices that the companies are in? How they are taking into consideration the ESG metrics?

In addition to the confusion and frustration about the multiple reporting frameworks, significant criticism exists on the limited insight into underlying methodologies and weightings and the lack of correlation between the ratings.

Many investors use either ratings or direct data or a combination of both. We would expect this to continue in future, as multiple types of investors and multiple views between them exist. We hope this will contribute to a model where the rating agencies all work on the same basis of information that has been defined by a global reporting standard. We would strongly encourage the rating agencies to provide further insight into their methodologies in order to create further transparency and to drive towards harmonization or convergence in this space too.



Implementation of the WEF IBC Stakeholder Capitalism Metrics

Will KPMG firms encourage all of their clients (SMEs as well as large public companies) to start reporting against the WEF IBC Stakeholder Capitalism Metrics?

KPMG firms see the WEF IBC Stakeholder Capitalism Metrics both relevant for companies who have started already and those who have yet to start. For the first group, which will include the large public companies, the WEF IBC Stakeholder Capitalism Metrics can serve as a tool to assess any potential gaps against the universal set that large businesses have agreed upon between them.

For the second group, the metrics could serve as a starting point on the journey towards a sustainable and impactful business.

Privately owned companies, particularly in the SME space, do not face the same external pressure as publicly listed companies to implement ESG into strategy (no external investors and public scrutiny). How do we approach this problem? Should companies just put ESG pressure down the supply chain, so SMEs have to adapt?

Yes. For most companies, the impact they make via their supply chain is much more significant than that of the company.

Where would you recommend companies put the information you're asking them to report?

The WEF IBC Stakeholder Capitalism Metrics serve primarily to inform stakeholders about enterprise value creation. With that in mind they are deemed to be relevant for investors and other financial stakeholders. We would expect the WEF IBC Stakeholder Capitalism Metrics to be reported in the mainstream annual report, also to demonstrate the company's integral approach to value creation. However, we would understand that companies who are starting on the journey of ESG reporting start off in a sustainability report.

What is your view on the cost of ESG reporting and how that's moved over time?

Direct costs vary with the scope of reporting topics, the complexity of your organization (e.g. 10 or 100 industrial sites) and as appropriate the level and scope of assurance.

We think you should not see the investments in ESG reporting as a simple cost; as a result of reporting on ESG. You can, for example, include results in your customer tenders, employee engagement, get better insights for decision-making and strengthen the reputation of your company.

What is the plan for future (hopefully increasingly comprehensive) reports on ESG to be independently verified/validated?

There is increasing demand by investors for assurance now that ESG factors are seen as critical for business value and investors want to include this in their evaluations. A recent consultation by the EU showed that 70% of the respondents were positive about assurance/verification requirements in an upcoming update to the European disclosure regulation. Whereas the WEF IBC paper does not address this, we would expect the future to embark on the assurance journey.

Contacts:

Tom Brown

**Emeritus Global Head of Asset Management,
Project Leader for the WEF Initiative**

KPMG in the UK

E: tom.brown@kpmg.co.uk

Wim Bartels

**Global Co-Head, Impact Measurement,
Assurance & Reporting — KPMG IMPACT**

KPMG in the Netherlands

E: bartels.wim@kpmg.nl

home.kpmg/socialmedia



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