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Big Four Accounting Firms Enter The ESG Reporting Fray

Companies' attempts to transition to a more socially responsible, sustainable model have long been plagued by the challenge of measuring progress. With no universal reporting formats, businesses have struggled to monitor their environmental, social, and governance (ESG) performance. There have been various attempts at building a comprehensive, standardized framework, but so far, no single candidate has emerged victorious. Instead, companies use a patchwork of different formats, metrics, and standards. Can a recent joint effort by the Big Four accounting firms and the World Economic Forum (WEF) to develop a comprehensive set of benchmarks succeed where so many have failed?

ESG investing has grown exponentially in recent decades as more and more investors seek to channel money into companies that have a positive impact on the world. However, despite its rapid growth, the ESG investment sector has been dogged by persistent issues with quality and reporting.

Too often, companies with high ESG ratings are proved to have serious problems that current reporting rules missed and many investors are confused by the plethora of different standards, benchmarks, metrics, and frameworks that litter the ESG reporting landscape. At the heart of these issues is the fact that there is no single, universal set of standards for measuring, monitoring, and reporting on ESG performance. As a result, even companies with a deep commitment to social responsibility can find it difficult to document their successes and identify areas that need improvement. Worse yet, bad actors can take advantage of the confusion to claim ESG credentials they have no real right to.

These problems mean that developing a standardized reporting framework has become a key objective for the ESG investment industry. Unfortunately, various attempts to do so have been stymied by a lack of uptake, disagreement over standards, and the challenges inherent in developing a comprehensive framework that works for all industries.

The Big Four enter the fray

In a bid to solve the problem, the Big Four accounting firms – KPMG, EY, Deloitte, and PwC – collaborated with the World Economic Forum (WEF) and the International Business Council (IBC) to produce a white paper titled *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*.

The paper outlines the results of a six-month open consultation process aimed at developing a comprehensive ESG reporting framework that the IBC hopes will be adopted by 120 or so global companies it counts as members.

The framework is arranged around four pillars. Each pillar has a set of core metrics that are used to measure a company's performance, as well as a set of expanded metrics that provide additional detail. For the most part, the 21 core metrics and 34 extended metrics are based on existing measures borrowed from popular reporting frameworks. Many of the governance metrics are taken from the GRI Reporting Standards, for example, and many of the environmental metrics are borrowed from the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Several metrics from the Sustainability Accounting Standards Board (SASB) Standards and the Greenhouse Gas (GHG) Protocol, among others, are also referenced.

The Four Pillars

Principles of Governance	Planet	People	Prosperity
Firms should pursue good governance, with an emphasis on the principles of agency, accountability, and stewardship	Firms should seek to protect the planet from degradation through sustainable consumption and production, sustainably managing natural resources, and taking urgent action on climate change	Firms should support efforts to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment	Firms should support efforts to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature

Source: World Economic Forum. Measuring Stakeholder Capitalism. September 2020.

Will it work?

Some are cautiously optimistic about the potential uptake of the WEF/IBC framework. If the members of the IBC adopt the framework, that could give it a boost as the IBC's membership includes many prominent global firms.

However, rival frameworks are emerging. Around the same time that the WEF/IBC published their white paper, a coalition of sustainability standard-setters including the Carbon Disclosure Project, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, and the Sustainability Accounting Standards Board announced their own joint initiative. In a document titled *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, the standards-setters outlined their plan to develop a comprehensive global standard for ESG reporting.

This suggests that the WEF/IBC framework – while an important step along the road to a global standard – may not be the final word in sustainability reporting.

Intuition Know-How has a number of tutorials that are relevant to ESG investing and reporting:

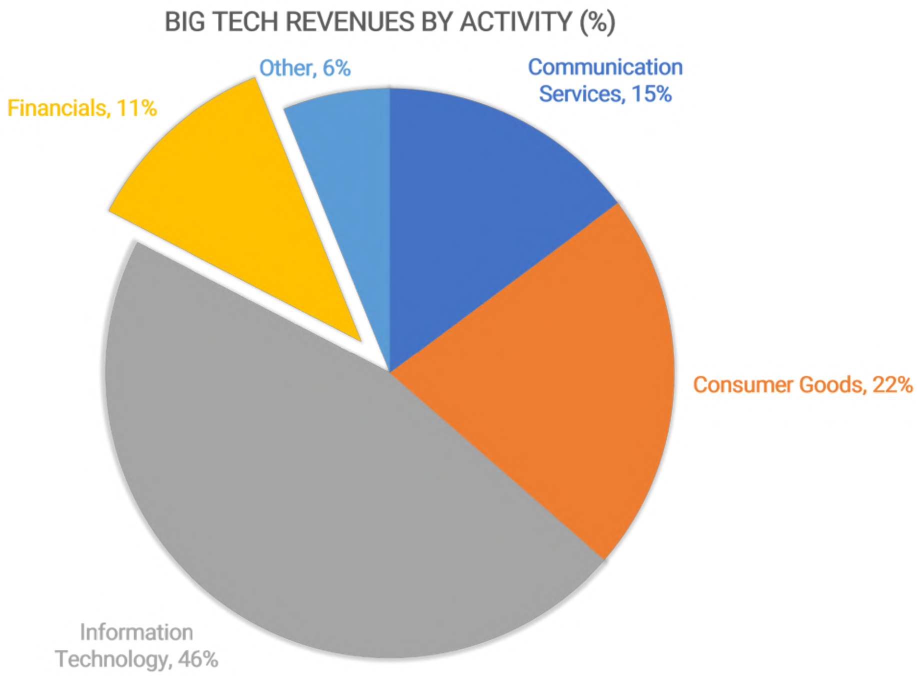
- ESG & SRI – Primer
- ESG & SRI – An Introduction
- ESG & SRI – Investing
- ESG Factors
- SRI Strategies
- ESG & SRI Reporting (Coming Soon)
- Green Assets (Coming Soon)
- ESG & SRI Scenario – Retail (Coming Soon)
- ESG & SRI Scenario – Institutional (Coming Soon)
- Corporate Governance
- Corporate Social Responsibility (CSR)

As Payments Competition Heats Up, Big Tech Firms Run Into Regulatory Roadblocks

Despite the efforts of some activists, the technology industry remains largely unregulated – able to do more or less what it likes with user data, and largely free from content restrictions. Recently, however, the world's Big Tech firms have begun to move into the highly-regulated financial industry. As they try to grab a share of the rich revenues available in banking, payments, lending, and other financial services, their free-wheeling cultures are running up against hard regulatory limits. Can Big Tech companies adjust to playing by the rules – and what does it mean for the evolving payments industry?

Few financial sectors have seen more change and innovation than the payments industry. As technology has made communication and data exchange faster and easier and new cryptography techniques have enhanced information security, a growing number of new firms have entered the payments space. Regulatory efforts such as Europe's Payment Services Directives (PSD and PSD2) have also encouraged the development of new tools and providers by opening up payments systems.

Among those eager to make inroads into the payments business are Big Tech firms. Google Pay, Apple Pay, Amazon Pay, and Facebook Pay have all launched to varying levels of success as the world's tech powerhouses seek to build new revenue streams and expand their share of the consumer's wallet.



Source: BIS. Big tech in finance: opportunities and risks. 2019. The sample includes Alibaba, Alphabet, Amazon, Apple, Baidu, Facebook, Grab, Kakao, Mercado Libre, Rakuten, Samsung, and Tencent.

In general, Big Tech firms have taken a relatively cautious approach to the financial sector, working with licensed partners to offer services rather than building them from the ground up.

Google, for example, reportedly plans to launch consumer bank accounts in partnership with Citi (although details are scarce) and Apple chose to launch its branded credit card in partnership with Goldman Sachs. Using a licensed partner means that tech companies can avoid investing in costly banking licenses or the intensive due diligence and compliance required of licensed financial services providers.

However, despite their caution, Big Tech firms' financial products have not escaped regulatory scrutiny. In Europe, for example, Apple is facing new rules that may require it to share information about its proprietary Apple Pay technology. And Facebook's attempt to launch a so-called stablecoin named Libra – a digital currency pegged to the US dollar and other currencies – has run into stiff opposition from global financial regulators and lawmakers.

What is Libra?

Libra is a proposed digital currency that will run on a blockchain operated by a centralized network of Libra Association servers.

Libra will be a stablecoin. Originally, each libra was intended to be backed by a basket of real assets, but Facebook is now proposing a basket of different libras backed by different currencies – a euro libra, a dollar libra, and so on.

The Libra Association originally included 28 founding members, led by Facebook. However, in the face of regulatory backlash, prominent firms such as PayPal, eBay, Stripe, Visa, and Mastercard have withdrawn.

Other legal constraints to Big Tech's expansion into finance are also emerging. In Brazil, for example, Facebook's WhatsApp mobile payments service was suspended over competition concerns, and companies like Apple and Google are on competition authorities' radar in Europe and the US.

Incumbents prepare to fight back

Another related roadblock in the path of Big Tech's move into finance is the reaction of incumbents. Few existing players are prepared to allow Big Tech firms to steal a march on their customers, and big banks and others are preparing to push back on the advance of tech firms.

One key advantage that Big Tech firms enjoy is that they have access to extensive data about their customers. Part of their rationale for moving into payments is that this will give them access to transaction data, which can then further inform their advertising strategies and enhance their understanding of their users.

Traditionally, banks and other financial firms have enjoyed a near-monopoly on transaction data. However, new regulations such as open banking rules in Europe and the growth in transaction data collection by retailers and others have eroded this advantage. With Big Tech firms now also accessing growing volumes of transaction data, incumbents are increasingly aware that they face a significant competitive challenge.

In response, they are actively lobbying lawmakers for level-playing field rules that will see new entrants required to follow the same rules as licensed providers. As regulators take an increasingly skeptical view of the power of Big Tech firms and as these firms push aggressively into hotly contested new markets, it seems probable that stricter rules are on the way.

Intuition Know-How has a number of tutorials that are relevant to payments and consumer/retail banking:

- Payments – An Introduction
- PSD2 & Open Banking
- Digital Money & Mobile Payments
- Payments Systems (Coming Soon)
- Payment Cards (Coming Soon)
- Credit Cards (Coming Soon)
- Cards & Payment Programs (Coming Soon)
- Bitcoin & Blockchain
- Business of Consumer (Retail) Banking