Informatica

White Paper

Meeting ESG Reporting Mandates by Enhancing Data Management

Where data & AI come to LIFE

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Data Strategies to Increase Compliance, Mitigate Risk and Maximize Opportunity

In recent years, environmental, social and corporate governance (ESG) has become a hot topic. It's no longer "good to have" but a "must-have" requirement for many organizations, a considerable shift for companies that voluntarily reported ESG in the past but are now required to in many locales.

Growing environmental concerns (e.g., climate change, access to clean water, waste pollutants in oceans, animal extinction, etc.) and investor awareness are significant drivers for this dynamic shift.

Governmental environment policy commitments, such as ones reaffirmed by the G7[2] and G20[3] — including limiting global warming to 1.5 Celsius and repledging $100 billion to support climate change for poorer countries — are adding to this urgency of bringing accountability to ESG reporting.

For example, data privacy is part of the ESG framework and directly falls under the "social" construct. It's a top-of-mind topic for any organization worldwide, and it has become mainstream. This is especially true where media outlets have been found to have data breaches. Even top organizations are publishing details on how they actively shield the personal and private information of their consumers, including initiatives to drive literacy with their employees on the ethical usage of data.

As a result, reports previously created on a best-endeavors basis are now mandatory. And enterprises must demonstrate the same level of controls for ESG reporting that they deliver for traditional financial reporting — disclosing climate-related financial information and reporting their climate-related risks and opportunities. They also must evaluate climate-related risks within their overall risk management profile, add those risks to their strategic plan and pinpoint the potential financial impact of each risk.

Companies with high environmental, social and governance (ESG) performance have outperformed their peers, achieving 3.7x higher operating margins and bgenerating 2.6x higher shareholder returns.[1]

Levent Ergin
Global Chief ESG Sustainability Strategist, Informatica

[1] https://www.accenture.com/us-en/insights/strategy/delivering-promise-sustainability
[2] https://groupofnations.com/summit/g7/
[3] https://www.g20.org/en

Four Key Considerations for Meeting ESG Reporting Mandates

Around the world, new laws require both publicly traded and private organizations to abide by ESG reporting mandates (see Figure 1). Top examples of these rules include the United Kingdom's Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, the Sustainable Finance Disclosure Regulation (SFDR) in the European Union and the United States' Securities and Exchange Commission ESG (SEC) regulations.

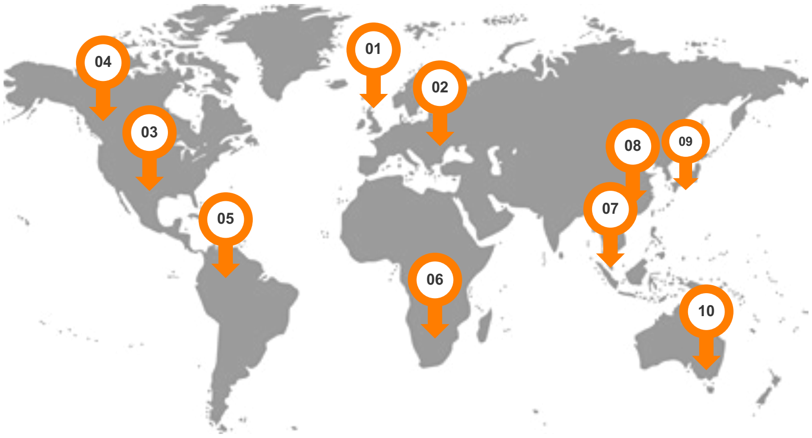

Figure 1: Regulators move from voluntary to mandatory disclosures

01. United Kingdom

Taskforce on Climate-related Financial Disclosures (TCFD) went live in April 2022

02. European Union

- EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) level 1 went live in March 2021
- Sustainable Finance Disclosure Regulation (SFDR) level 2 went live in Jan 2023
- Corporate Sustainability Reporting Directive goes live in Jan 2024

03. United States

- SEC's proposed ESG disclosures using TCFD will go live on January 2025
- California SB 253 and SB261 will go live on January 2026

04. Canada

OSFI Summarizes Responses to Its Climate Risk Discussion Paper in Oct 2021

05. Brazil

The Central Bank of Brazil (BCB) released mandatory ESG regulations set to come into force between Oct 1 2021 and Dec 1 2022

"I would describe the current state of climate reporting as: Choose your own adventure, and grade your own paper. You can handpick whatever makes you look good, and ignore the rest. With the proposed SEC rules, in addition to other global regulations, that's rapidly coming to an end. Companies will need comprehensive ESG data management capabilities to meet these increasingly stringent expectations from regulators, investors, and customers."

Tegan Keele
Climate Data & Technology Leader, KPMG US

06. South Africa

Introduction of South Africa's Climate Change Bill to parliament in Nov 2021

07. Singapore

MAS announced to pilot four digital platforms under Project Greenprint to address the financial sector's needs for good data on sustainability in Nov 2021

08. Hong Kong

- HKMA introduced key measures on sustainable banking and green finance in May 2019
- HKMA supports the NGFS Glasgow Declaration in Nov 2021

09. Asia Pacific Japan

All publicly listed companies on the Tokyo Stock Exchange will have to report on TCFD as of April 2023

10. Australia and New Zealand

- APRA issued climate change financial risks (CPG 229) for banks, insurers and superannuation trustees aligned to TCFD in Nov 2021
- RBNZ issued Emissions Reduction Plan Discussion Document in Nov 2021

For example, to meet the TCFD requirements, companies must address four key considerations:

- **Governance:** Describe the organization's climate-oriented governance practices
- **Strategy:** Specify the actual and potential impacts of climate-related risks and opportunities on businesses, strategy and financial planning
- **Risk management:** Disclose how the company identifies, assesses and manages climate related risks
- **Metrics and targets:** Identify the measures used to assess and manage relevant climate-related risks and opportunities

Meeting these mandates requires an investment of time and resources from each organization. But savvy leaders recognize that compliance with ESG regulations can also present valuable opportunities. Companies that support environmental goals can help the world mitigate the impact of climate change, move toward a circular economy and meet the environmental goals that are so important to today's investors, shareholders and customers.

"In the long run the cost of investing in sustainability is less than the cost of not investing in it. Disruption, in its negative sense, would be a greater cost — be it environmental, social or operational. Sustainability is essentially the opposite of disruption. Companies, therefore, need to invest in the present to sustain the future."[4]

Ignacio Carmelo Sison
Chief Corporate Officer,
Del Monte Pacific

[4] https://globalreportinginitiative.medium.com/the-chief-sustainability-officer-organizationalstrategist-and-futurist-6fc1ea38d7ef

Proven Processes Serve as a Foundation for ESG Reporting

To comply with emerging ESG regulations, executives are looking to learn lessons from their company's financial reporting efforts. Chief sustainability officers, chief data officers, chief risk officers and chief operating officers are building processes to establish a solid foundation for accurate, efficiently generated ESG reports.

We recommend that decision-makers adopt the following six steps to enable ESG reporting.

Figure 2: Steps to mobilize an ESG program

The final step, preparing for ESG reporting and disclosures, requires a renewed focus on data. Most companies affected by new ESG mandates rely heavily on third-party data to support their operations. They may do business with thousands of suppliers, making it difficult to get real insight into their carbon footprint.

Organizations need to cleanse the data they receive and check its quality before ingesting it into an ESG data lake or warehouse. They know that only clean data harmonizes well with existing data, resulting in the data quality needed to support internal stakeholders. They also want to have a single golden record for each supplier — eliminating duplicate, erroneous or out-of-date information.

" As Informatica and our customers bring data to life in inspiring ways, we also maintain a commitment to strong governance, and social and environmental responsibility. We are creating an environment where we are able to thrive, drive business growth, and support our communities worldwide."

Amit Walia
Chief Executive Officer,
Informatica

A Comprehensive ESG Strategy Starts with Data Management

Undoubtedly, ESG data management has become a critical aspect of corporate sustainability reporting. Collecting, integrating and managing ESG data from various sources can be time-consuming, costly and prone to errors without it.

An ESG sustainability data management hub can help companies develop a centralized approach to manage their ESG data: a solution that can integrate ESG data from various sources such as carbon emissions data, ESG rating agency data and supply chain ratings data. Data governance and quality can then be applied to ensure the data is accurate and consistent.

A centralized hub of data can become the golden source of truth for all ESG data, with all the controls required by regulators, and enable a comprehensive strategy to address the following business imperatives:

Comply with regulations: Satisfy industry regulations from EU Taxonomy, SFDR for Financial Services in the European Union, CSRD for all large publicly listed companies in the EU and TCFD for organizations across most G7 and G20. Allow compliance teams to leverage clean, valid and transparent data used in regulatory report submissions and respond quickly to regulatory requests.

Supply chain due diligence and the circular economy: Oversee the ESG performance of suppliers and take corrective action to improve sustainability practices. This entails "Scope 3" carbon emissions in the supply chain, human rights conventions and companies' environmental policies. It also supports the circular economy, finding opportunities to decarbonize a company's supply chain across the four "Rs" — reduce, reuse, recycle and remove — in areas such as waste management and end-of-life treatment of products.

ESG integration: Allows for the integration of ESG data into business decision-making processes across risks and opportunities and strategy and resource allocation.

ESG impact measurement: Measures ESG performance and alignment to 17 sustainable development goals (SDGS) established by the United Nations.

Additional ESG Data Challenges to Consider

- Evolving ESG strategies and frameworks
- Unknown data quality, due to lack of data quality metrics
- Limited ESG data that is subject to existing controls
- Disaggregation of ESG data across internal and external systems
- ESG data variations supported by data vendors
- Large scale of change required to support ESG mandates
- Complex reporting requirements using various standards

Net-zero carbon emissions: Helps set science-based targets with the Science-Based Targets initiative (SBTi) and measure progress with clean trusted ESG data to achieve net-zero carbon emissions.

Streamlining Compliance and the ESG Reporting Cycle

Streamlining compliance with ESG mandates and taking advantage of related business opportunities requires a focus on the complete ESG reporting cycle (see Figure 3).

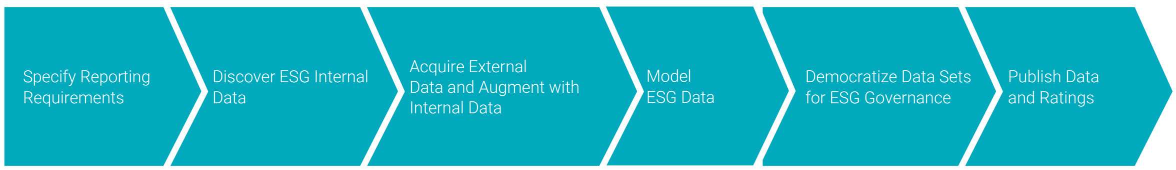

Figure 3: ESG data reporting lifecycle

To execute each step in the ESG reporting cycle, enterprises must concentrate on the following five key data elements.

- **Access and availability:** Organizations must access data that originates from multiple sources, including databases, spreadsheets, logs, Internet of Things sensors, machine data and business applications. Preparing this data for consumption requires ingesting it into a data warehouse, database or data lake.

- **Quality and completeness:** To ensure that data is fit for purpose, companies must manage data quality dimensions such as completeness, conformity, consistency, accuracy and integrity. Without proper attention to data quality, it can be difficult to easily process and analyze data, compromising its overall utility and the reliability of its results.

- **Common reference data definitions:** It's important to identify the data definitions and business context associated with business terminology, taxonomies and relationships. Companies also need to define data policies, rules, standards, processes and measurements.

- **Data lineage and transparency:** To develop a better understanding of the data, enterprises need to clarify the availability, ownership, security and quality of the data as it flows across the organization. They also must demonstrate where the data originated, trace its journey through the systems in the organization and show how it changed along the way.

- **Identification, classification and tracking of sensitive data:** Companies need to embrace best practices for discovering, securing and managing sensitive data at every stage of its lifecycle. Protection can include data masking, encryption and tokenization. Data governance, policy management and monitoring can help secure sensitive data and let organizations know when to delete, archive and retire data.

Choose a Solution with Critical Cloud Data Management Capabilities

To address ESG reporting mandates, companies must deploy data management technology. When choosing a solution for ESG reporting, look for one that supports the following capabilities.

Data discovery: The solution should enable data discovery across all internal IT assets, including structured, semi-structured and unstructured data. Choose a technology with broad, complete metadata connectivity. By supporting various data file formats, legacy technologies and stored procedures in database applications, an enterprise data catalog solution helps you quickly build a data catalog and automate data lineage.

Data understanding: Data governance features help the business define critical data elements, creating a single definition across the business for key terms, such as "greenhouse gases." Using artificial intelligence and machine learning, some tools can automatically link each business term to the underlying technical metadata. When the data is used in a field on a report, business users can easily drill down into the source of the data, providing complete traceability of the data.

"The data lineage [capability] helps [users] see where the data is, how it's flowing and the quality end to end. It's really powerful, helping the business find data quicker than ever before."[5]

Keeley Miles,
Director, Global Data Strategy,
Ford Motor Credit Company

[5] https://www.informatica.com/gb/about-us/webinars/reg/gettting-started-on-the-esg-reporting-journey_3634035.html

Data trust: Data quality capabilities help build trust in the data, allowing data lineage information to be overlayed on the actual data, which can be useful in an audit. Advanced solutions use natural language processing, enabling business users to type in simple data quality rules without any programming experience. Rules are executed against all of the connected sources, delivering an immediate view of data quality. This self-service feature allows business users to address data quality issues at the source, propagating trusted data throughout the company's systems.

Single view of data: Master data management features help create a single, 360-degree view of the data — for suppliers, products and customers, for example. The technology supports integration of data into data models for reporting, and users can feed the data into an ESG data lake or warehouse.

Data democratization: Leading solutions offer a self-service data marketplace that democratizes data, giving the business access to clean, trusted data. Users can then integrate ESG data into all operating model decisions, allowing the business to take strategic ESG actions and prove progress. They can also use the data marketplace to perform attestations for regulatory reporting.

Automated data consumption: Cloud-based data marketplace capabilities can help consumers shop for data and request data sets. This feature is especially helpful for companies that handle a high volume of ESG-related data requests, because it automates the data consumption process.

Support ESG Compliance with AI-Powered, Cloud-Native Data Management

The need to comply with regulations related to the handling of data and for overarching data governance will continue to rise as more business entities begin to comply with ESG reporting mandates. The ability to disclose climate-related financial information requires near-real-time, easy access to trusted, relevant data, no matter where it resides — in local systems, hybrid clouds or multiple clouds — and no matter who needs to use it. The Informatica® Intelligent Data Management Cloud features AI-powered, cloud-native data management and governance that provide the capabilities and scalability needed to discover, cleanse, integrate, catalog, master, govern and protect the immense volume and variety of data involved in every aspect of ESG compliance. Powered by more than 200 intelligent data services in a single platform, it enables you to achieve the insights, agility and business outcomes that lead to success.

Next Steps

To learn more about how we can help you meet ESG reporting mandates with the Informatica Intelligent Data Management Cloud, please contact **esg@informatica.com**.

About Us

Informatica (NYSE: INFA) brings data and AI to life by empowering businesses to realize the transformative power of their most critical assets. When properly unlocked, data becomes a living and trusted resource that is democratized across your organization, turning chaos into clarity. Through the Informatica Intelligent Data Management Cloud™, companies are breathing life into their data to drive bigger ideas, create improved processes, and reduce costs. Powered by CLAIRE®, our AI engine, it's the only cloud dedicated to managing data of any type, pattern, complexity, or workload across any location — all on a single platform.

Where data & AI come to LIFE

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