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Sustainability Reporting in Canada's Financial Institutions

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Abstract

While the financial services sector is often recognized as leaders in sustainability reporting (SR) in Canada, the challenge that lies ahead for individuals who are accountable for SR within their organization or for those who consult other organizations on SR, is navigating the many reporting regulations while meeting the needs of a diverse group of stakeholders. The purpose of this paper is to analyze this issue and identify barriers to enhanced SR within the financial services sector.

Through secondary research consisting of an extensive literature review and by developing primary research in the form of a survey, cross section of Canadian financial institutions (banks, credit unions, Crown corporations, insurers) and consultants were engaged to determine the gaps to moving SR forward in a consistent, transparent and meaningful way.

Our analysis proved revealing and lead to a series of recommendations that will enable the financial industry to work together on a plan to yield maximum impact for the organization in a way that enables reporting on material issues in a consistent way that is meaningful to stakeholders, cost effective and delivers maximum business benefits.

Keywords

Sustainability, Corporate Social Responsibility, Sustainability Reporting

Introduction

Sustainability reporting (SR) is the practice of measuring performance, disclosing results and being held accountable to stakeholders for performance towards the goal of sustainable development (GRI, 2011). The financial sector (including banking, asset management and insurance) is often viewed as a leader in the SR field (CFERF, 2009). This can primarily be accredited to the introduction of the Public Accountability Statement (PAS) reporting requirement that was introduced in 2000 (CFERF, 2009). Companies such as VanCity and TD Bank are leaders in the financial SR field as they have robust, comprehensive and mature reports. Through our research, it was found that the development of these reports is a growing expense in terms of both employee time and money at Canadian financial institutions. Coupled with concern that readership of sustainability reports has decreased, business leaders are beginning to question whether or not SR is in fact a useful business tool within the financial services sector.

Depending on the maturity of an organization's sustainability strategy, which includes the development of SR and practicing disclosure, some organizations may be left trying to determine the value that reporting has for their individual company. Organizations can reap the benefits of producing reports including communication of risk management initiatives, enhanced brand loyalty and reputation, increased transparency, attraction of investors and strengthened competitiveness (Global Reporting Initiative, 2013).

LITERATURE REVIEW

There is an abundant amount of research in the SR field including reviews and recommendations (Marshall et. al, 2013). The scope of the literature review was designed to highlight the importance of sustainability reporting, stakeholder interest in sustainability reporting and to identify and discuss recent developments in sustainability reporting. The literature review is organized according to key themes of interest for sustainability reporting.

SUSTAINABILITY REPORTING STANDARDS

There is a lack of consistent standards to evaluate SR against, which is a challenge for many reporters. This lack of consistency leads to low levels of understanding of the objectives for reporting. This could make the quality of each report highly dependent upon the individual reporting desires of the companies producing them (PWC, 2011). As financial reporting rules and standards increase, the growth in the quantity of information reported can paint an unclear picture of the organization and therefore impact the quality of the overall report (PWC, 2011).

SUSTAINABILITY REPORTING AND LOW READERSHIP

Sustainability reports can be challenging to develop considering "there is no other communication produced …aimed at so many different audiences, with such different interests, language, perspective and information needs" (Baker, 2013, p. 10). This poses challenges for many organizations that cite low readership as a primary challenge in sustainability reporting. From the reader's perspective, there is a belief that reporters are not being transparent and only reporting positive information. Finding this balance is an important element in demonstrating the credibility of an organization's report, and the majority of readers surveyed feel that having a report assured lends credibility to the report (KPMG, 2008).

Even when the CSR report is targeted to the correct audience, many companies spend months compiling information and reporting on CSR, however when you ask CSR executives who are reading their reports, the answer tends to be "hardly anyone" (Hensley, 2013, p. 1). While CSR reporting continues to move towards a digital platform, many reports are still printed each year – and reporters have no way of knowing if these are read. For those who report online, it is recommended that measurement methodology dig deeper than the number of visitors per month to understand how readers arrived a the webpage, which sections were most widely read, which pages were landed on and left immediately and where readers are located (Baker, 2013).

STANDARDIZED METRICS

There are a number of SR standards including the Global Reporting Initiative, Sustainability Accounting Standards Board (SABS), Integrated Reporting (IIRC), Securities and Exchange Commission (SEC), Canadian Securities Administrators (CSA), National Association of Insurance Commissioners (NAIC), Carbon Disclosure Project (CDP), Public Accountability Statement (PAS) etc. Each of these initiatives has developed their own set of criteria, measurement, tracking and reporting mechanisms. Research has demonstrated a key reporting challenge being "the lack of standardized, comparable, sector-based metrics that are updated regularly (and possibly audited by an independent third party)" (The Canadian Institute of Chartered Accountants, 2010, p. 12).

The following sections provide an overview of recent developments in terms of sustainability reporting.

There are few global regulatory reporting requirements, although some practices have emerged in Canada (the Public Accountability Statements), South Africa, Denmark and the North American Insurance Commission (Public Accountability Statements, 2013; PWC, 2011; Leurig & Dlugolecki, 2013).

The Hennick Centre and Jantzi-Sustainalytics has recommended to the Ontario Minister of Finance that it consider standardized metrics in an effort to focus SR on materiality issues that affect the decisions of investors and the long-term financial performance of businesses. (Sustainalytics, 2009).

Aviva, an international property and casualty insurance company headquartered in the UK, created the Corporate Sustainability Reporting Coalition (CSRC) in advance of the 2012 Earth Summit in Rio with the purpose to encourage governments to commit to an international reporting framework (Aviva, 2012). Representing companies with over US $2 trillion in assets, Aviva convened a diverse set of stakeholders including the Association of Chartered Certified Accountants, Global Reporting Initiative, the Carbon Disclosure Project, Ceres, UNEP-fi and a number of financial institutions and non-governmental organizations (Aviva, 2012).

Developed in 2002 by Ceres, an investor based coalition in the United States, the GRI provides three levels of standards (A, B, and C) for reporting with the goal to improve the comparability of businesses (Moffat, 2010). There are 15 business sectors identified for additional reporting metrics (Ceres, 2009). KPMG reported that 78% of global reports follow the GRI framework up from 9% the previous year (KPMG, 2013).

SASB, launched in 2011, is the most recent reporting initiative aimed at developing reporting standards and metrics by business sector (SASB, 2011). US based, it was created to provide relevant sustainability information required to make investment decisions (SASB, 2011). The sector standards were created with input from multiple stakeholders within each business area (SASB, 2011).

Integrated Reporting (IR) is being referred to as the "Holy Grail" of corporate reporting advocating for a single annual report (Eastes, 2013). This framework relates to "how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013, p. 8).

The US Securities and Exchange Commission (SEC) introduced non-binding reporting on climate change and the financial risks to the business operations (SEC, 2010). To date, only 27% of publically traded US companies have complied with this direction in their reports (Hirji, 2013).

The Canadian Securities Administrators published a notice, 51-333 in 2010 outlining the expectations of businesses to report on their environmental activities (CSA Staff Notice 51-333, 2010). This is not a mandatory reporting requirement and there is no available information on the number of companies complying with the notice.

The National Association of Insurance Commissioners (NAIC) adopted the first mandatory reporting process on climate change risk for all US insurers in 2009. This was borne out of "the potential impact of climate change on insurer solvency and insurance availability and affordability across all major categories of insurance" (Ceres, 2009). To date, three states – Washington, New York and California, which represent most of the large US insurers are reporting on their climate change exposures (Leurig & Dlugolecki, 2013).

Founded in 2000, the CDP based in the UK provided an annual reporting platform for climate change (CDP Canada, n.d.). In Canada, the CDP invites the largest 200 Toronto Stock Exchange businesses to complete the survey (CDP Canada, n.d.). It is a non-regulatory report and there is no assurance provided on the information submitted (CDP Canada, n.d.).

In 2001, the PAS was introduced to Canadian financial institutions (banks, trust and loan companies and insurance companies) with over $1 billion in equity (Public Accountability Statements, 2013). PAS identifies a number of reporting areas including community support, employment, taxes paid and clients (Public Accountability Statements, 2013). It is interesting to note that the PAS has not been updated since its introduction and does not contain environmental reporting metrics.

One of the main reporting challenges continues to be the lack of a common set of global metrics by which companies can be evaluated. Businesses cannot afford to report to the ever-growing number of standards – this is both inefficient and ineffective. A recent article by Brad Zarnett, founder and director of the Toronto Sustainability Speaker Series, explores the alignment of lending and insurance to a new prosperity metric (Zarnett, 2014). Further, Zarnett (2014) supports the creation of a "unifying metric that brings everyone together with shared purpose" (p. 1).

The Chartered Institute of Management Accountants states "there is no comparability of non-financial information, so anyone trying to understand performance needs to learn a new language for every report they read" (PWC, 2011, p. 13).

There are a number of themes identified in the literature review. Most notably, there is some level of uncertainty across the industry about the true value and benefits of SR. Challenges such as cost of production and reduced readership remain at the forefront of the list of concerns associated with reporting. However, many organizations can reap the benefits of producing reports including: communication of risk management initiatives, enhanced brand loyalty and reputation, increased transparency, attraction of investors and strengthened competitiveness (Global Reporting Initiative, 2013). Despite efforts put forth in terms of SR from the financial industry, there is a clear gap between whether or not these reports provide value.

RESEARCH METHODOLOGY

An extensive literature review was completed that examined the current state of SR that also included a review of historical documentation in order to appreciate the evolution of the practice. Through this literature review, it was found that in the Canadian financial sector, SR is a maturing discipline. With the crucial role the financial industry plays in the economy by providing access to capital, insurance and investment opportunities for private individuals and business, reporting on sustainability and demonstrating transparency and ethical behaviour is an important part of doing business.

In addition to the literature review, a comprehensive survey was developed and modeled after the Corporate Sustainability Reporting in Canada – CFERF Executive Research Report that was published in March of 2009. The target audience for this new survey included financial institutions, SR consultants and non-governmental organizations that have an interest in the topic of SR. *Appendix A* lists the organizations that participated in the survey.

A study commissioned by the Canadian Financial Executives Research Foundation (CFERF, 2009), reported that SR "is not only being driven by the regulators, but also by the private investors, institutional investors and financial service organizations (banks and insurance companies)" (p.2). To our knowledge there has been no update to the findings of this report since its release in 2009. In addition to asking some of the questions posed in the CFERF study, a number of new questions were added to this survey.

The study conducted between March 8 and March 31, 2014 included 64 multiple-choice questions and a number of open-ended questions targeted at those who have experience with sustainability reporting. We included 35 of the 64 questions for specific comment in this paper.

We selected a cross section of Canadian financial institutions, including four banks, seven credit unions, two Crown corporations and three insurers (property /casualty and life). The list of participating organizations can be found in Appendix A. The business structures of these organizations included publicly traded corporations, co-operatives and Crown corporations. Additionally, we reached out to individuals known for their work on SR including five consultants, two associations and one non-governmental organization (NGO). In total, we invited 26 individuals to participate in the survey and attained an 88% engagement rate. Our analysis from the 23 respondents involved reviewing the aggregate responses as well as breaking down the responses by business sector and business structure. This was a purposeful sample that was designed to reflect a range of financial institutions including banks, credit unions, Crown Corporations and insurers. Some of the tables exclude the 'others' category as the question was intended for a financial institution organization. This sample size was purposeful and adequate as it was designed to reflect a range of financial institutions including banks, credit unions and co-operatives in Canada that produce sustainability reports. Each year, the Globe and Mail publishes Canada's top companies by industry and according to revenue. Many of these leading companies that replied to this survey are included in the 2012 list including four banks, two Crown corporations, two life insurers and five co-operatives (credit unions and insurers) (The Globe and Mail, 2013).

RESEARCH FINDINGS: DISCUSSION AND ANALYSIS

Information was gathered from 23 respondents, and the breakdown of the business sectors is as follows – ten banking and credit unions, three insurers (property/casualty and life), two Crown corporations and eight others including consultants, associations and an NGO. It should be noted that three of the organizations that identified themselves as banking/credit unions also conduct insurance business, however banking is their main purpose and therefore remained in this category. Also included in the banking category are the two Crown corporations whose main function is financial loans.

The business structures include the following - six publicly traded, seven co-operatives (includes credit unions), two Crown corporations, one NGO, five consultants and two associations. The positions of the 23 individuals who completed the survey range from 11 sustainability reporters to six individuals who describe their function as providing consulting expertise to the sustainability reporting (some of these are internal employees from areas such as communications) and six individuals who are sustainability experts within consultancies, associations and NGOs.

TABLE 1: ANNUAL REVENUE OF SURVEYED COMPANIES

Annual Revenue	Number of companies
Less than $500 million	9
$10 billion - $20 billion	6
$1 billion - $5 billion	3
Not applicable	2
Over $5 billion - $9.9 billion	1
$10 billion - $20 billion	1
More than $20 billion	1

The annual revenues vary widely depending on the business structure from large banking institutions to smaller consultancies; the analysis of the responses demonstrated that within the business sectors, the larger organizations dedicated more budget and staff to the SR function. As illustrated in Table 2, the publicly traded organizations have more SR experience with 67% reporting for more than 12 years. It should also be noted that 14% of the co-operatives and credit unions have reported for this period and neither of the Crown corporations has reported for this length of time.

There was almost complete consensus on the question (with the exception of one company from the banking, credit union, Crown corporation sector) of the importance for companies to regularly measure and report on their sustainability performance to senior management and the board of directors.

TABLE 2: EFFECTIVENESS OF REPORTING SYSTEMS AND PROCESSES

Question	Respondents	Yes	No
Does your company have an effective system and process for periodically measuring and reporting on its sustainability performance to senior management and/or the board of directors?	Banks, Credit Unions, and Crown Corporations	67%	33%
	Insurance	67%	33%
Does your company have an effective system and process for measuring and reporting on its sustainability performance to shareholders, employees and external shareholders?	Banks, Credit Unions, and Crown Corporations	75%	25%
	Insurance	67%	33%
Has your company developed an effective strategy for managing the sustainability issues relevant to its business goals?	Banks, Credit Unions, and Crown Corporations	75%	25%
	Insurance	32%	68%

Ninety-six per cent of the survey respondents indicated that it is important to report on sustainability. The results also indicated that businesses responding to this survey were unclear about whether their organization has an effective system and process for measuring SR. This suggests that most respondents may consider developing an SR system that addresses areas of concern in their organizations.

There is similarity between the two business sectors on whether their company has an effective system and process for measuring and reporting on its sustainability performance to shareholders, employees and external stakeholders. There was also concurrency among responses between business structures to this question.

According to Table 2, the responses are almost polar opposite between the banks, credit unions, Crown corporations and the insurance sector to the question of whether their company has developed an effective strategy for managing the issues relevant to its business goals. Supporting information gathered from the survey also indicate that when the responses are broken down by business structure 67% of the publicly traded companies and 86% of the co-operatives have an effective strategy for managing the sustainability issues relevant to their business goals.

Table 3 provides responses for the question: Which best describes your organization's external reporting coverage of its environmental and social performance? The three most selected external reports from all business structures in ranking order were separate sustainability report, carbon disclosure report and the integrated report. Table 3 further highlights that only Crown Corporations have integrated annual reporting, whereas other FI's are reporting sustainability in a separate report.

TABLE 3 - EXTERNAL REPORTING COVERAGE

Respondent Category	Integrated Annual Report	Separate Sustainability Report	Carbon Disclosure Report
Publicly Traded	0%	83%	100%
Co-operatives and Credit Unions	43%	14%	14%
Crown Corporations	50%	50%	0%

Table 4 summarizes responses to the question: Which of the following stakeholders are considered the most important when reporting? Average score, 5 being the highest score.

TABLE 4 - STAKEHOLDER IMPORTANCE

Stakeholder group	Score (out of 5)
Employees	3.20
Shareholders (refers also to member owners for co-ops and credit unions)	2.55
Customers	2.40
Community	1.80
Institutional Investors	1.60

In terms of Stakeholder importance, organizations were asked the following question: which of the following Stakeholders are considered most important when reporting? As illustrated in Table 4, when all information was analyzed by business structure, in all cases, employees and shareholders ranked in top three spots.

According to data collected, 52% of those surveyed believe that a sustainability report is able to meet the needs of diverse stakeholders somewhat effectively, while 31% feel that it does this effectively. 13% are convinced that these needs are met very effectively and 4% are doubtful that the needs are met effectively at all.

The aggregate response to how effectively do you feel that a sustainability report is able to meet the needs of its diverse group of stakeholders resulted in 44% of the respondents feeling that a SR is able to meet the needs of its diverse group of stakeholders while 56% do not support this statement. When broken down by business sector and business structure, the result remained the same. A number of respondents elaborated with the following comments:

> "Reports continue to be useful to analysts and rating organizations who find it easier to locate all relevant information in one document. However, evidence showing the extent to which stand-alone reports are read by the communities, employees, suppliers, investors us slim." *Consultant*

> "The needs and interests of these stakeholders are diverse - e.g. sustainability analysts are looking for data; employees are interested in stories." *Publicly Traded*

> "The one-size-fits-all sustainability report is virtually useless. Too much information for the casual reader, too little or the wrong information for the specialist." *Publicly Traded*

> "You need not only different messages, but different mediums to effectively communicate to the diverse audiences." *Publicly Traded*

> "Readership of the report itself is low. However, the information published in the report can be used in the other communication media throughout the year to reach out to the stakeholders." *Cooperative/Credit Union*

Based on these open-ended comments, reporters are finding that sustainability reports have several audiences, from employees, to stakeholders to communities – even though the level of readership is unclear. Because each audience reads these reports for different reasons, an abundance of information is typically included, leading to long reports that are costly to produce. In addition, because these reports can be geared to several audiences, it may be hard to clearly decipher the reports' intended messages.

TABLE 5: FACTORS DRIVING SUSTAINABILITY BY SECTOR

	Banking	Insurance
1	Brand reputation	Brand reputation
2	Employee morale/retention	Regulatory requirements
3	Management information	Employee morale/retention
4	Stakeholder pressure	Consumer interest
5	Regulatory requirements	Stakeholder pressure

The survey listed a number of factors driving sustainability reporting and highlighted in Table 5 are the top five by business sector. It is worth noting that the same four appear for both business sectors however in different ranking order. Another factor not listed in the survey that a number of respondents identified was that: "Sustainability reporting can have an impact on the placement of the organization in various [external] rankings/surveys." *Publicly Traded.* These surveys are intended to provide stakeholders with an independent assessment of an organization's sustainability performance and may be valuable information to consider for potential customers or future employees.

TABLE 6: SUSTAINABILITY REPORT AUDITING AND ASSURANCE

Respondent Category	An Independent 3rd Party	Your Internal Audit Department	Not audited but plan assurance in the near future	No plans for external assurance
Banks, Credit Unions, and Crown Corporations	45%	9%	9%	37%
Insurance	0%	33%	0%	67%
Publicly Traded	33%	16%	0%	50%
Cooperatives and Credit Unions	16%	16%	16%	50%
Crown corporations	50%	0%	0%	50%

According to the responses depicted in Table 6, the banks are leaders in using external reporting audit or assurance with the insurers much less engaged in this activity. In analyzing both the business sector and business structure, there is minimal interest in future plans for external audit or assurance.

TABLE 7: SUSTAINABILITY REPORTING STANDARDS, REGULATIONS, OVERSIGHT AND ASSURANCE

Questions	Respondents	Yes	No	Don't know	Not applicable
Should all Canadian Sustainability reports in the financial services sector have external assurance?	Entire Set	46%	9%	45%	
Does your Board of Directors have oversight for the annual sustainability report?	Banks, Credit Unions, and Crown Corporations	41%	50%		9%
	Insurance	33%	67%		0%
	Publicly Traded	33%	67%		0%
	Cooperatives and Credit unions	57%	29%		14%
	Crown Corporations	0%	100%		0%
Do you have a Stakeholder or Expert Engagement Panel to provide feedback on your annual sustainability report?	Banks, Credit Unions, and Crown Corporations	27%	73%		
	Insurance	67%	33%		

As depicted in Table 7, when asked if all Canadian sustainability reports in the financial services sector should be externally assured there is an even split in the responses. This held true for the business sector and business structure analysis also. The survey respondents showed little interest or traction for this process.

There was a marked difference in the response to this question between the publicly traded and Crown corporations compared to the co-operative sector. The latter had a majority of respondents with board oversight for the SR. It would be interesting to delve further into this difference. One reason may be that the co-operative board of directors are more directly engaged in the governance of the organization often with dedicated board sustainability committees.

When organizations were asked, do you have a Stakeholder or expert engagement panel to provide feedback on your annual sustainability report, it was interesting to note that the banking and insurance sectors had almost polar opposite responses. The business structures are similar with publicly traded and co-operatives showing 33% who have a stakeholder/expert engagement panel and 67% without while the Crown corporations are split 50/50.

TABLE 8: SUSTAINABILITY REPORTING OVERSIGHT

Questions	Respondents	Yes	No	Don't know	Not applicable
Are you regulated to comply with the Public Accountability Statement (PAS)?	Banks, Credit Unions, and Crown Corporations	37%	37%		26%
	Insurance	100%	0%		0%

The Public Accountability Statement (PAS) requirement applies to federally structured companies with over $1 Billion in equity. As seen in Table 8, the banking sector shows a lower number, as the credit unions and Crown corporations within this category are not required to meet the PAS criteria. The PAS was introduced in 2002 and has not been updated since its launch. A further question was asked – do you feel the PAS regulations should be updated to require environmental information? From the seven respondents who meet the PAS criteria only one respondent said yes, four said no and two selected don't know.

TABLE 9: SUSTAINABILITY REPORTING ASSURANCE

Questions	Respondents	Yes	No	Don't know	Not applicable
Does your company endeavor to comply with external reporting standards such as the Global Reporting Initiative (GRI) when reporting on sustainability performance?	Banks, Credit Unions, and Crown Corporations	73%	27%		
	Insurance	100%	0%		
Although the guidelines under the GRI are currently voluntary, would you support the full adoption of the guidelines by the appropriate accounting standards-setting bodies in the future?	Entire Set	50%	36%	14%	
Do you support the following sustainability reporting approach? (below)					
Regulated..	Entire Set	41%			
Voluntary..		36%			
Don't Know..		23%			

Table 9 shows the strong GRI engagement with the exception of a few credit unions. In the same table, the aggregate response shows a 50% support rate for a future direction whereby appropriate accounting standards-setting bodies would adopt the GRI standard.

Some comments provided by the respondents to the open-ended questions included:

> "GRI is too onerous, especially for the smaller organizations." *Co-operative/Credit Union*

> "I would support greater collaboration between GRI and accounting standards setting bodies."

> "Widespread adoption of consistent guidelines for industry sectors would be ideal. Whether GRI or other guidelines, something that could be applied to various business sectors and be material for those businesses would be the best approach." *Publicly Traded*

Finally, Table 9 identifies a similar response rate between voluntary and regulated reporting with almost a quarter of the respondents not declaring their opinion.

In Table 10 respondents provided answers to the question: In your experience, what are the key challenges of sustainability reporting? (Average Score, 5 being the highest score)

TABLE 10 - KEY SUSTAINABILITY CHALLENGES

Challenge	Score
Availability of data	4
Accuracy of data	3.4
Access to resources – employees, financial, etc.	3.3
Support of senior management	2.6
Support of board of directors	1.6

The question in Table 10 elicited consensus among the business sectors and business structures. The issue of data availability and accuracy is the top ranked challenge.

Table 11 captures responses to the question: What is the complexity of measuring the cost/benefit of sustainability reporting?

TABLE 11: SUSTAINABILITY REPORTING AND COST/BENEFIT COMPLEXITY

Complexity	Score
Easy	9%
Somewhat easy	18%
Difficult	41%
Very difficult	32%
Don't know	0%

In Table 11, 73% of the respondents believe that it is either very difficult or difficult to measure the cost/benefit of sustainability reporting. In an environment of cost containment within businesses this is concerning as it appears that quantification of reporting is challenging. However, 86% of respondents feel that the benefits of sustainability reporting outweigh the costs associated with this activity.

Table 12 summarizes responses to the question: Do you believe there is a correlation between your sustainability performance and your financial performance?

TABLE 12 - SUSTAINABILITY AND FINANCIAL PERFORMANCE CORRELATION

Respondent Category	Yes	No	Don't know	Not applicable
Publicly Traded	83%	0%	17%	0%
Co-operatives and Credit Unions	100%	0%	0%	0%
Crown Corporations	50%	0%	50%	0%
Consultants and others	25%	0%	12%	63%

In this question, the publicly traded and co-operatives have a very similar response while the Crown corporations were evenly split. Further analysis by business sector showed the banking sector's overwhelming response at 92% indicating that there is a correlation between their sustainability performance and their financial performance while the split for insurers was 67% to 33%.

It is interesting to note that in Table 13, 82% of all respondents are in favour of integrated reporting while only three of the respondents (from the co-operative sector) identified that they presently produce such a report. Furthermore, 36% of the banking sector has indicated that they plan to produce a combined report within the next three years.

TABLE 13 - INTEGRATED SUSTAINABILITY REPORT APPLICABILITY

Respondents	Yes	No and do not plan to	No, but plan to within the next 3 years	Not applicable
Banks, Credit Unions, and Crown Corporations	36%	28%	36%	0%
Insurance	0%	66%	0%	34%

The respondents were asked to identify all of the challenges that they felt were barriers to integrated reporting. The highest-ranking challenges relate to alignment of the sustainability strategy with corporate strategy, lack of senior management support and lack of expertise while budget ranked much lower. Table 14 shows the key challenges preventing integrated reporting from highest to lowest.

TABLE 14: KEY CHALLENGES PREVENTING INTEGRATED REPORTING

Key Challenge	Number of Respondents Identifying as Challenge
Lack of sustainability strategy being aligned with corporate strategy	13
Lack of senior management support	11
Lack of expertise to prepare this report	10
Fear of sustainability reporting being engulfed by financial	9
Other	9
Lack of board of directors' support	8
Budget [resources - employees and financial]	7
Time constraints	5

Some additional comments to this question included:

> "As an industry we need to land on material non-financial KPIs before we can move to integrated reporting otherwise there is no value to external stakeholders." *Publicly Traded*

> "Lack of expertise to prepare this report." *Publicly Traded*

> "Fear of sustainability reporting being engulfed by financial reporting." *Co-operative/Credit Union*

With respect to publicly traded companies who have institutional investors and shareholders, 33% of respondents felt that the reports were used for decision making by institutional investors and 17% felt that the information was used for decision making by shareholders.

In the customer category, 43% of respondents replied yes and 36% replied no when asked whether or not SR reports are used for decision-making purposes. Of these companies, 17% of the publicly traded companies, 66% of co-operatives and 50% of Crown corporations responded yes, customers do use the information found in the SR report to make decisions. 55% of the banking sector responded in the affirmative and 27% in the negative; in the insurance sector 67% felt that SR reports were not used for decision making by customers and 33% didn't know.

TABLE 15: SUSTAINABILITY REPORTING: PERCEPTIONS OF USEFULNESS

Questions	Respondents	Yes	No	Not applicable	Don't Know
Are you in favour of integrated reporting?	Entire set	82%	18%		
Do you believe your institutional investors are using existing sustainability reports to make investment decisions?	Entire set	23%	23%	54%	
Do you believe your shareholders are using existing sustainability reports to make investment decisions?	Entire set	18%	32%	50%	
Do you believe your employees (existing and future) use the sustainability reports to gain information about your organization?	Entire set	86%	14%		
Do you believe your customers use sustainability reports to gain information about your organization?	Entire set	43%	36%		21%
Do you support the efforts to identify material environmental, social and governance (ESG) issues for sectors and the creation of sector specific metrics?	Entire set	94%	0%		6%
Would you support the creation of a working group with representation from Canadian financial institutions to develop common metrics to support the development of sustainable reporting?	Entire set	64%	4%		32%

Close to 100% of all respondents support the development of sector driven metrics. When the respondents were asked if they would support the creation of a working group to develop common sustainability reporting metrics, a majority replied yes with 67% of publicly traded and cooperatives and 63% of the others in the affirmative. Further, almost half of the survey respondents believe that their customers review their SR to learn more about their organizations. In addition to this, 86% believe that their employees use SR to learn about their organizations. In both of these cases, it highlights the importance of having accessible and accurate SR.

KEY SURVEY CONCLUSIONS

There is a close correlation between the responses from the business sectors (banking, insurance) and the business structures (publicly traded, co-operatives, crown corporations, consultants, associations and NGOs) as well as the 'other' category respondents. We purposely selected a variety of business structures to understand the similarities and differences.

Although a large majority (96%) of respondents believe it is important for companies to regularly measure and report on their sustainability performance to senior management and/or the board of directors, only 66% have effective systems and processes in place for this activity.

We were most interested in learning how effective the respondents felt a single sustainability report's ability to meet the needs of its diverse group of stakeholders. The responses showed that 56% thought the single report was somewhat effective or not effective while 44% stated it was effective or very effective, demonstrating a divide between the respondents, although the comments provided were less supportive and highlight some of the issues identified.

On the topic of external auditing and assurance of sustainability reports, the majority of business sectors do not subscribe to this process. The banks, Crown corporations and publicly traded organizations are the greatest users of assurance and auditing. A few companies employ their internal audit departments to perform this function. The further question asking if all Canadian sustainability reports should be externally verified offered only a 46% support for this direction. Similarly, the board of director oversight for the annual sustainability report within the companies is split with more co-operative structured organizations' board of director's providing oversight.

On the topic of reporting, a slight majority (41%) support the regulation of reporting while 36% prefer voluntary reporting. Similarly, the business sectors are divided on the topic as is the "other" category.

As indicated in this survey, there is an overwhelming agreement across the sector that participated that the benefits of sustainability reporting far outweighs the costs associated with the production of the report. Although approximately 73% of survey respondents find it challenging to measure the cost and benefit of reporting, a significant volume of respondents felt that there is a direct correlation between their sustainability performance and financial performance.

On the subject of integrated reporting, a large majority (82%) of respondents favour integrated reporting while only 33% of the banking sector and 66% of the insurance sector have such a report. There is an interesting identification of the key challenges for integrated reporting ranging from inexperience on integrated reporting to the concern that the more mature financial reporting will overshadow sustainability reporting.

While the questions related to whether or not the sustainability report is used for institutional investors and shareholders decision making shows that it is not, there is very strong (86%) agreement that employees (both present and future) use the sustainability report to gain information about a company. When asked the same question about their customers, the split is much closer with 43% yes versus 36% no.

It is clear from the survey responses that sustainability reporting is an important part of the Canadian financial institutions' communication plans. It is also evident that there is interest (94% of respondents) to have more sector specific metrics. The survey shows that there is also a willingness (64%) to support the creation of a working group with representation from Canadian financial institutions that would develop these metrics. While in general the majority of respondents see the value of sustainability reporting, with the absence of metrics there are barriers to qualifying this activity.

CONCLUSIONS AND RECOMMENDATIONS

While significant efforts are put forward by the financial industry in terms of SR, the challenge remains relating to how companies within the financial sector can navigate the many reporting regulations and guidelines to report on material issues in a consistent way that is meaningful to stakeholders, is cost effective and that delivers maximum business benefits.

Yet despite this fact, according to the Sustainability Reporting Survey that we conducted, 86% of respondents state that the benefits of SR reporting still outweigh the costs – and 64% of respondents are in favour of developing a Canadian working group to develop standard metrics. 50% of respondents were also supportive of an accounting standards-setting body fully adopting these guidelines in the future. The results from the Sustainability Reporting Survey that we conducted highlight the desire for maturity and consistency for the future of SR.

As a result of our research, we have identified the following seven key areas that would advance reporting in the sector as well as within individual organizations as follows:

1. With the help of a third party organization, a Canadian working group consisting of senior SR experts from a cross section of financial institutions in Canada would develop a common set of metrics, specifically financial institutions. In the absence of common metrics it is difficult to benchmark sustainability performance in meaningful ways against leaders in that sector

2. develop a strategy for managing the sustainability issues relevant to the organization's business objectives. This approach yield's the greatest benefit for the organization and for the stakeholders.

3. develop a system and process for measuring and reporting sustainability performance to senior management, board of directors, shareholders, employees and external stakeholders. Sustainability performance should be linked directly to the corporate strategy that embeds sustainability and the reporting approach should be customized to meet the needs of each stakeholder.

4. create stakeholder panels with an increased focused on identifying material, environmental, social and governance issues. Depending on the objectives, this could mean engaging both industry and expert stakeholder panels.

5. conduct a cost/benefit analysis for sustainability reporting that considers engaging in an external audit or having your SR assured. The overall cost of SR can be significant and more work is required to determine the value for the organization and its stakeholders.

6. develop a process to move organizations towards integrated reporting that would meet the needs of a more diverse group of stakeholders.

By taking action on these six key areas, the Canadian financial industry will improve its consistency, transparency and standardization in its SR. This move would shift sustainability reporting from its sometimes questionable status to one where the cost-benefit analysis can be clearly demonstrated.

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APPENDIX A – LISTING OF ORGANIZATIONS INVOLVED IN SURVEY

Note: 20 of the 23 respondents agreed to have their organization listed in this report

- Affinity Credit Union
- Assiniboine Credit Union
- BMO
- Ceres
- CIBC
- Desjardins Consulting
- Desjardins
- Export Development Canada
- EY
- Farm Credit Canada
- Globescan
- International Co-operative and Mutual Federation
- Manulife
- Meridian Credit Union
- RBC
- Servus Credit Union
- Sun Life
- TD
- The Co-operators
- Vancity

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