TRADE INTERCHANGE
Smarter Supplier Management

ARCUS®
Supplier Management Software

INCREASING TRANSPARENCY

TRADE INTERCHANGE REPORT: ESG REPORTING

An examination of the legislation regarding the reporting of Environmental, Social and Governance Information

WHITE PAPER
November 2022

What is

ESG REPORTING?

Why is it important?

Companies have a responsibility to eliminate any negative sustainable and ethical impact they may have, regardless of whether this is on a direct, or indirect basis. It goes without saying that organisations have their own impact on the wider world, and the larger the organisation, the more extensive this typically is. Whether this impact is positive or negative, comes down to the ESG practices.

In recent years, likely due to the ever-growing concerns surrounding climate change, companies have come under increased scrutiny as to whether their brand is ethical and sustainable. According to PwC, and the global investor survey, 79% of respondents believe ESG risks are an important factor in investment decision making.[1]

There are numerous reasons for this. Firstly, the UK has signed up for the Paris Agreement, which means it is legally bound to reduce its carbon footprint to a 1.5-degree trajectory, which cannot be done without the UK's largest organisations reducing emissions across all three scopes.

Also, consumers are becoming more concerned about the sustainable and ethical impact of brands they use, which is borne out of a collective desire to build a more sustainable and ethical world. Although there is a unified desire, there is a distinct lack of knowledge surrounding the method of approaching this. According to Deloitte, almost half of consumers don't know what commitments they can trust, or simply don't trust organisations on climate change and sustainability issues.[2]

Therefore, it starts with an increase in transparency regarding the sustainable and ethical practices of organisations, which is where the value of reporting is key.

There have been various instances throughout the past decade of companies hiding their activities from their consumers, or committing misleading acts of greenwashing, or even being unaware that unsavoury activities have been present in their supply chain.

Greenwashing Definition:

Greenwashing is the act of making an organisation's activity, product, or brand image more sustainable and environmentally friendly than it is.

As sustainability has become integral to a positive brand reputation, there have been more instances of companies using this as a marketing ploy, however the act of becoming a more sustainable company requires an overhaul which requires capacity, cost and effort that brand image can't catch up with.

Therefore, companies leave out information to make products appear to be more sustainable than they are.

A study conducted by Synthetics Anonymous in 2021 found that around 60% of environmental claims made by the largest fashion brands are greenwashing.[3]

The act of reporting or disclosing increases the level of trust in a company. The willingness for transparency suggests that companies are confident enough in their ethical and sustainable activities to be open, without it posing a risk to brand reputation or it evidences a commitment to a journey to improve aspects of the organisation that need work.

They are willing to make this public despite the risk of damage to brand, which is evidence of commitment to a more important cause. For a long time, reporting has largely been a company choice, but in recent years, new regulations have emerged to increase the extent to which companies need to report on their activities, and this is only going to be tightening. The need to report introduces several challenges and pain points for organisations to overcome, and improve transparency between them, their stakeholders, and their consumers.

What is the current UK legislation?

Due to the increase in demand and necessity for transparency, reporting legislation has evolved and changed dramatically over the past few years alone. As pressures for an overhaul of ESG compliance has increased, with it, the regulations and reporting legislation surrounding best company practices has evolved.

The two key reporting frameworks that frequently recur within UK reporting legislation are the Task Force on Climate-related Financial Disclosures (TCFD) and Streamlined Energy and Carbon Reporting (SECR).

The TCFD released their set of reporting frameworks covering four different areas. governance, strategy, risk management and metrics, and targets.

This framework has become the most widespread recommended reporting framework in the UK, and a part of the more recent government legislation. The Carbon Disclosure Project now aligns their questionnaires for disclosure with the recommended framework set out by TCFD, further demonstrating the wider use of this particular framework.

Initially, only quoted companies had to report on greenhouse gas emissions,[4] but since 2019, all large UK companies have been required to disclose their greenhouse gas emissions.

Additionally, the Streamlined Energy and Carbon Reporting (SECR) policy was implemented in April 2019, which required three groups of businesses to comply with the new regulations unless they had specific exemptions, according to The Carbon Trust.[5]

These included:

1. Quoted companies who had an existing requirement to report under the greenhouse gas reporting legislation
2. Unquoted companies that met the definition of 'large' under the Companies Act 2006
3. 'Large' Limited Liability Partnerships (LLPS) must prepare and file a 'Energy and Carbon Report

Further cited by The Carbon Trust,[5] companies are considered 'large' if they meet at least two of the following three criteria in a reporting year:

- A turnover of £36 million or more
- A balance sheet of £18 million or more
- Or 250 employees or more

Additional

REPORTING INFORMATION

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) runs and hosts one of the world's largest databases of sustainability information, which is accessible for people and other organisations to search, view and get a clear idea of a specific company's sustainability operations.

The CDP assists running the Science Based Targets Initiative, as a collaboration between them, the United Nations Global Compact, World Resources Institute and the Worldwide Fund for Nature. This is a platform where companies who have committed to carbon reduction in line with a 1.5-degree trajectory have made their commitments public and must disclose on their progress as part of the process.

Global Reporting Initiative

The Global Reporting Initiative is an independent standards organisation that allows other organisations to report, understand, and disclose on their ESG impacts. They offer a registration and verification process that helps companies to report comprehensively across the standards. The Global Reporting Initiative are used widely, particularly in the US.

Sustainability Accounting Standards Board

These are a set of sustainability reporting frameworks assembled by the Value Reporting Foundation, which has now become part of the IFIS Foundation. These allow organisations to provide industry-based disclosures regarding both risks, and opportunity that has a direct impact on the value of the organisation. These standards vary between a wide range of industries, so using the standards enables companies to report on the ESG issues that are the most relevant to them.

Reporting

MOVING FORWARD

Where is ESG Reporting going?

In November 2020, cited in the Roadmap to Sustainable Investing,[6] the UK announced that it intends to make climate-risk disclosures fully mandatory across the economy by 2025.

In 2021, a roadmap to sustainable investing[6] was published by the government. Within this roadmap, details were set out surrounding new Sustainability Disclosure Requirements, as well as an indication of how the world needs to progress to achieve net-zero.

In 2022, new legislation has been introduced that requires the UK's largest organisations to report and disclose based on the framework set out by TCFD. This includes private companies with over 500 employees and 500 million in turnover.[8]

However, it is widely acknowledged that regardless of company size and revenue, it remains best practice to report across ESG activities. As a result, the government encourages all other companies to report similarly, although this remains voluntary.

The Chancellor, Rishi Sunak, announced new Sustainability Disclosure Requirements[6] in July 2021, which is an integrated framework that covers three types of disclosure:

1. Corporate Disclosure
2. Asset Manager and Asset Owner Disclosure
3. Investment Product Disclosure

Pain Points when disclosing:

The concept of disclosure is an imperative one, as it is important to increase transparency between companies, their stakeholders, and their consumers, if we are to create a more sustainable, ethical world to live in. However, collecting the information necessary to report isn't an easy task and has numerous challenges.

To calculate the true impact of your ESG activity and to be able to report comprehensively across the organisation's activities, both directly and indirectly (i.e. Scope 3 emissions). Then companies need to know more about their supplier activities, particularly across their ESG activities. However, getting and verifying this information to gain an accurate image of your supplier activities is easier said than done. According to Harvard Business Review, 90% of the world's largest companies now produce CSR reports, however, only a small fraction of them is third-party validated, which means that the data is less trustworthy.[7]

Now investors are required to disclose on the environmental impact of their investment products, ESG practices within the company product is becoming a key component of their criteria for investment, enhancing the urgency for companies to ensure that they are also ESG compliance, and that third-party due diligence has taken place to gain and retain investors.

Companies may not currently have a system for efficiently retaining and managing that level of transparency with suppliers, or even have that level of visibility across the supply base. This makes it difficult to achieve targets.

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ARCUS®

SUPPLIER MANAGEMENT SOFTWARE

ARCUS® Supplier Information Management (SIM) allows you to efficiently on-board ESG information from your suppliers, significantly increasing the level of transparency. This is done through configurable questionnaires and APIs, to ensure you are collecting the necessary data to determine whether your suppliers are in-line with your ESG goals, whilst our dashboards offer a visual oversight over ESG activity across your entire supply base.

Dashboards:

ARCUS® Analytics, our embedded Microsoft Power BI dashboards, uses the data on-boarded through APIs and questionnaires to provide you with a configurable oversight of your supply base, which can be presented to other key stakeholders to demonstrate supplier compliance with ESG corporate goals and legislation, and allows organisations to gain control over supplier information, and maximise their insights. This allows organisations to make more informed, strategic decisions regarding the ESG activities of their supply base, as well as helping organisations track the ESG values of their supply base over time, and minimising data silos across the organisation by allowing all relevant stakeholders to view the information through a single pane of glass.

API
INTEGRATIONS

ARCUS® Connect, the software's native API, enables integration with other solutions, ensuring all information can be automatically shared across systems, eliminating the need to re-key data while enhancing accuracy. With the increased pressure faced by companies to prove their ESG credentials, Trade Interchange has further developed ARCUS®.

SIM's API capabilities and ESG questionnaires to deliver Supplier Management Hub. By integrating with various other systems – using APIs to automate collection of ESG information, data is centralised within ARCUS® directly from the official source and regularly updated, which removes data silos.

With Supplier Management Hub, ARCUS® SIM connects with numerous official sources of ESG and food data information, including:

- Alcumus SafeContractor
- BRCGS
- Corruption Perceptions Index
- Dun & Bradstreet
- FSSC 22000
- NAVEX Global RiskRate
- Red Tractor Standards
- Roundtable on Sustainable Palm Oil (RSPO)
- Soil Association
- Universal Human Rights Index Database
- Waste Carriers, Brokers and Dealers Register
- Sedex
- The Science Based Targets Initiative
- Hamilton Grant
- Erudus

Our drive to grow our ESG offering means that we are continually adding Environmental, Social and Governance integrations to this collection, so we can continue to increase the scope of data our clients can collect on their suppliers from the official source.

Questionnaires &

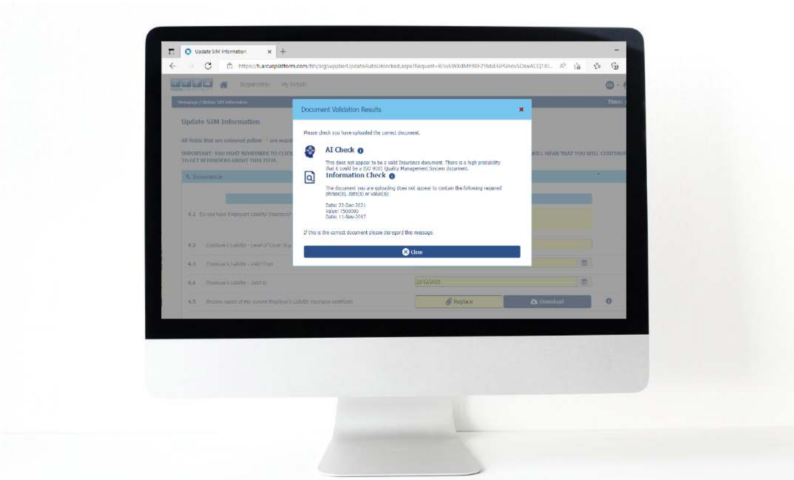
ARTIFICIAL INTELLIGENCE

Easily on-board supplier information in the same format and verify using Artificial Intelligence.

Supplier information is on-boarded through configurable questionnaires so you can ensure you are collecting all the ESG information you need from your suppliers. Through intelligent question-branching you can be sure that suppliers are only being asked questions relevant to them, increasing efficiency in the process. The information is automatically authenticated when supplier supporting documentation is scanned and verified at the point of upload through Artificial Intelligence with 99.5% accuracy, eliminating the need to complete time-consuming manual checks.

Documents scanned by Artificial Intelligence include:

- Insurance
- Health and Safety Policy
- BRC Certificate
- Environmental Policy
- Modern Slavery Policy
- Environmental Management System Certificate
- OHSAS 18001 Certificate
- CHAS Certificate
- Waste Carriers Licence Details
- ISO 9001 Quality Management System



Driving

BEST PRACTICE

Mike Edmunds, Trade Interchange's co-founder and managing director, explains why cutting-edge technology holds the key to achieving sustainable practices

Ensuring your suppliers align with your targets is no easy task, particularly within the food and drink industry, where supply chains are typically spread across the globe and often rely on paper-based records.

With consumers more concerned than ever before about the health and future of our planet, the burden is now firmly on everyone to prove their sustainability credentials. It's fair to say the stakes have never been higher, with brands that fail to live up to these expectations rarely getting a second chance with consumers.

Relying on others within the supply chain to simply do the right thing is no longer enough and puts your business at increased risk from a number of factors, including the so-called 'greenwashing' phenomenon, where sustainability measures are exaggerated; as well as outdated information and the possibility of human error.

Protecting your business does not have to be difficult – by using the right tools you can build a true and ongoing picture of your supply chain.

Trade Interchange's ARCUS® SIM software provides users with tailored questionnaires which can be stored centrally in the cloud.

This is used alongside other supporting documents and data to reflect individual performances across the sustainability spectrum, which allows you to increase visibility with your suppliers and ensure they align with your values across numerous areas. These include carbon emissions, sustainable palm oil practices, energy consumption, wastage and other priorities.

Scoring and keywords can be assigned to various questions, offering individual companies the opportunity to rate and track their priorities.

Manufacturing Site Audit and Manufacturing Site Information plug-ins are all available, enabling businesses to mark each step in the sustainability journey and better manage the associated risks.

Using Power BI dashboards, information can be accessed and updated in real-time – offering you a visual overview of supplier information, to more easily identify when suppliers aren't compliant, so actions can be taken to solve these issues. Through the native API, data can be centralised with ARCUS® from the original source of information, reducing the risk of rekeying errors and enhancing confidence in your supplier data. We have numerous new APIs which have expanding our ESG offering, and are continually expanding on the number of data sources to integrate with.

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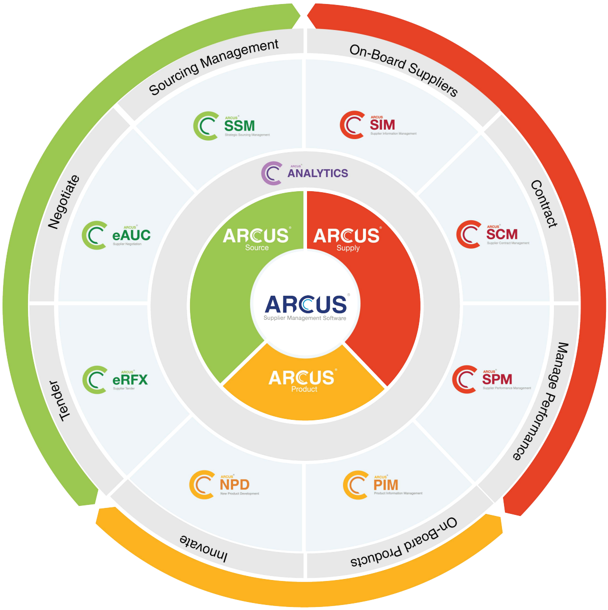

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