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Aligning Financial and Sustainability Data: What, Why, When and How

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INTRODUCTION

What is Aligned Financial-Sustainability Data?

Four years ago, in 2020, companies could voluntarily report carbon emissions and other sustainability data, hand-type sustainability data into software applications if needed and report data without an external review. None of these are true today. We are in the new era of mandatory reporting, scalable, accurate and compliant data preparation processes, and internal and external audits of sustainability data.

In the race to get the basic job done – round up data and fill out mandated forms – it is easy to lose sight of the bigger picture and what's coming next. There is now just one global reporting framework as the alphabet soup of TCFD, CDP, GRI, IOSCO, IFRS, SASB, ISSB and IAASB have harmonized. Interoperability is now defined (CDP). And for many companies that reporting starts in 2025, reporting on 2024 data. And more companies, whether listed or not, must start reporting in 2026 (Workiva). And finally, the requirements are for Integrated Reporting, where financial and sustainability data are aligned, creating a complete picture for investors in a single report.

"Integrated reporting brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates."

IFRS

"Challenges such as climate change, nature loss and social inequality are increasingly defining the global economic outlook, business agenda and investment landscape. For investors like us, these are not political or ideological questions – they are about investment fundamentals. The current trajectory for climate change, nature loss and social inequality threatens to erode significant value in our clients' portfolios"

Schroeders ($751B AUM)

In practice, there are two levels of Integrated Reporting: Combined and Fully Integrated. The table below highlights their differences.

Comparison of Combined and Fully-Integrated Financial-Sustainability Reporting

COMBINED REPORTING

- The Management Discussion section in the Annual Report will have presentation and discussion of financial statements, followed by presentation and discussion of sustainability and ESG reporting
- Financial and sustainability statements will be audited
- The preparation of data is done separately but is intended to be two views of the same assets and activities

FULLY-INTEGRATED REPORTING

- The Management discussion section of the Annual Report presents a single, holistic view of the firm, including strategic direction and tradeoffs. The single report shows that sustainability is fully integrated strategic plans so as to maximize enterprise value and decouple growth in revenues from growth in emissions.
- Financial and sustainability reporting are tied to the financial system, e.g. to the Chart of Accounts and General Ledger.
- Sustainability data is prepared as rigorously as financial data, in accordance with the Government, Risk and Compliance (GRC) standards that apply to financial data. The IFRS mapping tool demonstrates this requirement.

Why Align the Data?

The European reporting standard is inclusive and will directly impact nearly 75% of the European economy. However, due to the value chain requirements, other companies beyond the EU border that do business with or within the EU will also be impacted.

Further, a recent survey of top executives shows that 81% of companies who don't have to comply with the EU reporting requirements plan to comply anyhow (Workiva). Why are they doing this? Of course, it is easiest to align with one's customers, who will likely be subject to these reporting requirements and require the same from vendors. But there are other strategic factors at work.

88% of institutional investors say they are more likely to invest in a company if it has integrated financial-sustainability reporting. And the same survey found that 91% of executives said Integrated Financial-Sustainability Reporting will lead to better business decisions (Workiva). So both sides, investors and executives, believe the outcome is valuable to their current roles.

Tactically, there is a shift in responsibilities for sustainability reporting. In the past, sustainability teams operated largely independently. Going forward, sustainability is moving under the finance role. Whether using combined or fully-integrated reporting, a CFO must now consider sustainability data in the external reporting they deliver and ensure the associated disclosure risks are appropriately managed.

Where Will Your Sustainability Data Go?

- **Bloomberg terminals.** Bloomberg has launched new features that puts every element of reported data into a single framework, ready to use by any analyst. (Bloomberg)
- **CDP disclosures.** The new CEO of CDP, the voluntary reporting agency, has announced full alignment with IFRS reporting frameworks and expects to see 75,000 companies report in 2024. CDP discloses its ratings. (CDP)
- **NZDPU.** The Net Zero Data Public Utility is a comprehensive database of EU filings and voluntary disclosures. It feeds Bloomberg and other data providers. Its standardized formats follow well-established reporting standards, enabling investors to rapidly analyze and compare companies. (NZDPU)
- **AI Models.** The large wealth managers have been using AI for years, and were early adopters of the recent powerful advances at OpenAI and others. Constantly scouring the internet for data, they match predicted returns to new data sources, looking for the investor advantage. Every scrap of data a company releases, including its sustainability data, feeds their investment models.

For CFOs and finance teams, the increased scrutiny from AI has hit at the same time as the demand to produce the new sustainability data. Ad hoc methods of the past only get riskier, as every scrap of data feeds into investor decisions and valuations.

To de-risk reporting, CFOs will want to leverage what is working well: Data preparation and reporting procedures for financial data. In sum, regardless of the details of regulations, derisking disclosures by using integrated reporting is key in this current environment.

How to Align the Data?

At the center of accounting and finance are two financial statements that also play a large role in integrated financial-sustainability reporting: The balance sheet and the income statement. The long-term assets on the balance sheet comprise the investments and long-term contracts the company has undertaken that give it operating control over a set of assets. And the expense line of the income statement comprises various operating expenses, including those associated with Scope 1 and 2 emissions.

Going a level deeper, the Chart of Accounts lists all the categories of expenditures by a company, and the General Ledger includes all of the transactions (e.g. sales and payments) within those accounts. One can use the long-term asset account to help identify what should be included in sustainability reporting. And separately, one can review the master vendor list in the operating expense area of the income statement to narrow in on the transactions relevant to sustainability reporting.

When working with early adopters of integrated financial-sustainability reporting, GLYNT has built customized integrations into accounting systems and worked to narrow down vendor lists. Once a focused vendor list is in place, it is an easy matter to capture invoices from these vendors as they come in every month.

What makes the capture easy is that the identifiers in the accounting system – general ledger category or code, invoice ID, vendor ID and so on – are fully integrated into the data GLYNT prepares. In this way we track what is expected, what is missing, and how this data should flow into the next business system. Further, GLYNT provides a Monthly Sustainability Close after the Financial Close, so we capture invoices recorded in the financial reporting for the period. This prevents timing issues with invoices received but booked in another period in the financial statements, meeting another critical requirement of the standards.

For the finance team, the transaction-level integration for a documented and verified set of vendors creates a clear and confident reporting boundary. Materiality is resolved in two ways:

- If a transaction is financial material, it is naturally included in the sustainability data capture.
- If a transaction is environmentally material, but not part of the transactions for the period, the matter is escalated, as it should be. Relying on the financial record for materiality removes the siloed materiality test for sustainability reporting.

Finally, integration at the transaction level creates a robust audit trail, and enables sustainability data to be prepared and presented to auditors in the same manner as financial data. This supports efficient ways of working internally for the finance teams and prevents audit fees from spiraling, as the auditors can use existing tooling and protocols to provide assurance.

Five Tips for Getting Started

Getting started on integrated reporting can be daunting. If we think of integrated reporting as essentially setting up SOX-level reporting for a new data set, then it is important to note that it can take up to 18 months to go from a cold start to full SOX compliance. Internal and external audits alone can take four to six months (RSMUS).

#1 Start Now. Given these long timelines to compliance, our first tip is Start Now. A rather obvious tip, but worth stating.

#2 Know the Rules. Get trained on the requirements of the CSRD, and the IFRS standards. Here are two sources to help:

- The Timeline
- The Standards
  - CSRD
  - IFRS

#3 Find a Small Project and Use the Data. No doubt you'll spend time on the large project of scaling data capture and building the compliant sustainability data preparation system. But at the same time, we encourage you to find a small project and do end-to-end data capture and reporting. Take it one step further, and get the data used in a business decision. You'll learn a lot, drive the large project with more authority and create terrific stakeholder support for your efforts. After all, the first small project showed a new profit opportunity or operational efficiency, right?

#4 Talk to Your Auditors. Learn how to prepare your data for streamlined and efficient audits. This a second early win you can take to the CFO. Set up those audit-ready archives and feed them with accurate, documented data.

#5 Connect Your Data. In GLYNT's experience, going from a cold start to fully integrated transaction-level sustainability data is tough. The key reason is no one knows what to look for and what the data really means. So, as you do your first small project, start connecting your data. Then, once you see how this works, switch the large project over to the same method. You'll benefit from setting up your data flows once, at the standards expected for every company within the next 2 years.

Use your connected data to leverage the experience and expertise of the financial operations team. They have been issuing compliant, accurate, low-disclosure risk data for years. Build on their systems for reduced risk.

Next Steps

No matter what else you do, get started! Small steps every day can break a big challenge down into a doable activity. Identify your small project to keep everyone focused on what Integrated Financial-Sustainability Reporting means to your company's revenues, emissions, investor relations and valuation. Set a date for your internal audit. This will keep your large project focused, too.

And finally, talk to a sustainability data service provider like GLYNT.AI. We're already compliant, speeding your journey, and GLYNT.AI saves 80% over standard systems through powerful AI-first automation, while delivering 99.5% accuracy. It's hard to argue with data that is better, faster and cheaper.

GLYNT.AI | *The Sustainability Data Company*

GLYNT is The Sustainability Data Company, producing investor-grade data for businesses around the world. Our audit-ready sustainability data enables accurate reporting, operational efficiencies and access to financial capital. With a purpose-built machine learning system, GLYNT is the automated solution for all types of water, waste, energy and emissions data. Speed work, lower costs, and power ESG, carbon accounting and other business systems with accurate, actual data from GLYNT. Learn more at glynt.ai