Integration of Sustainability into Corporate Governance

A survey of financial firms' public sustainability information

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Summary

How do financial firms integrate sustainability into their corporate governance? To answer this question, Finansinspektionen (FI) conducted a survey of the sustainability reports and other sustainability-related information published by the firms. The survey included 67 firms.

A central theme in the discussion about sustainability is that the firms' information and reporting about sustainability aspects is insufficient. Improved transparency and comparability are required to understand the sustainability-related risks and opportunities a firm is exposed to and, in particular, how a firm chooses to manage these risks and opportunities.

Finansinspektionen (FI) has previously communicated that sustainability should be a natural part of the financial firms' business models and risk management. To realise this goal, firms must take sustainability-related aspects into consideration in their corporate governance. It is also reasonable for different types of financial firms to work with sustainability in different ways, for example depending on the focus and size of their operations. In this survey, we have studied how financial firms describe their management of sustainability aspects via their corporate governance and how these matters are integrated at an operational level. The survey is based on the firms' public sustainability information.

Since the requirement to prepare a sustainability report is new, it is natural for the quality to vary in the beginning. The law requires firms to have prepared internal governance documents, implemented them within the organisation and come to a conclusion about how this work will be followed up, which takes time. A common standard for the presentation of the sustainability report has not yet emerged. However, FI has noted that an increasing number of firms are applying the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD).[1] Both the Government and FI support these recommendations.

FI has reached three primary conclusions following its survey:

1. There is ambiguity regarding how sustainability policies are integrated at the operational level.

Only around half of the firms describe how sustainability policies are applied in practice in the day-to-day operations. Because there are no descriptions of how policies are integrated at the operational level and their results, it is difficult to assess whether the firms' sustainability policies have had an effect on the operations.

1 The Financial Stability Council formed the TCFD in December 2015 with the assignment to produce recommendations for voluntary reporting of climate-related information about financial risks. The recommendations were presented in June 2017.

2. There is weak transparency with regard to significant sustainability-related risks.

Two-thirds of the firms describe their significant sustainability-related risks, but the descriptions of how the risks are identified and managed are often unclear. Only around one-third of the firms clearly describe their routines for identifying and managing sustainability-related risks as part of their regular risk management. The results can indicate that the firms have progressed to varying degrees in their work with these risks.

3. It is difficult to compare sustainability-related information.

Uniform structures for the presentation of sustainability-related information are lacking. The sustainability information is also often spread across many different documents, making it more difficult for external stakeholders such as investors, customers and consumers to read and compare the information.

Background and purpose

The purpose of this survey of sustainability information was to study financial firms' descriptions of how they integrate sustainability into their corporate governance. The new requirements in the Annual Accounts Act create a framework that sets out what information about sustainability FI can expect from firms.

BACKGROUND

In 2015, the Swedish Government adopted a more ambitious policy for achieving a sustainable financial market. Among other objectives, this was to lead to the financial system making a contribution to sustainable development. Finansinspektionen (FI) has since been placing greater focus on sustainability. We have done so partly through specific assignments issued to FI in appropriation directions from the Government, partly though other supervisory initiatives and though active participation in international efforts in this area.

In several earlier contexts, FI has stated that sustainability should be a natural part of financial firms' business models and risk management. If this is to be achieved, firms must take sustainability-related aspects into consideration in their corporate governance. The integration of these matters into corporate governance is central if a firm is to identify and be prepared for sustainability-related risks in a structured manner. It is more likely that a firm whose senior management is communicating the importance of integrating sustainability aspects will do this in a way that is appropriate for both the firm and its stakeholders.

A central theme in the discussion of sustainability is the problem that firms' information and reporting about various sustainability aspects is insufficient, both quantitatively and qualitatively. Improved transparency and comparability are required in order to allow external parties to understand the sustainability-related risks and opportunities a firm is exposed to and, in particular, how a firm chooses to manage them. Consequently, FI has used this survey to study how financial firms describe their management of sustainability aspects via their corporate governance and integrate these matters at an operational level. The survey is based on public sustainability information.

PURPOSE

The overall purpose of the survey was to study financial firms' descriptions of how they integrate sustainability into their corporate governance. This is one part of FI's specific efforts to increase the transparency and comparability of sustainability-related information. By giving FI greater insight into how financial firms work with sustainability issues, this information also contributes to our efforts to integrate sustainability into supervision. With regard to the listed companies subject to financial reporting supervision under the Securities Market Act (2007:528), the aim was also to chart whether the sustainability reports are compliant with certain formal requirements.

BASIS OF THE SURVEY

New requirements were introduced into the Annual Accounts Act (1995:1554) in 2016. These new requirements mean that firms which meets the size criteria stipulated in the act are required to produce a sustainability report. These requirements apply irrespective of industry. Under Chapter 6, Section 12 of the Annual Accounts Act, the report shall contain information about sustainability aspects in the following areas:

- environment
- social conditions
- staff
- respect for human rights
- anti-corruption.

These rules form the framework that sets out what information FI can expect to receive from firms. The legislative history of the amendment[2] and the guidelines on non-financial reporting[3] that have been published by the European Commission provide clarification about the purpose of the requirements.

The act states that the sustainability report shall provide information about sustainability issues in order for it to be possible to understand the firm's development, position, financial performance and the impact on business. The legislature's intention is to make information about sustainability issues more transparent and comparable. The legislative history states that the legislature expects firms to use international sustainability rules as a starting point in their work and expects their reporting to use sustainability targets such as the environmental quality targets adopted by the Riksdag for comparative purposes.[4]

Through its appropriation directions, FI is tasked with monitoring the implementation of the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD).[5] In light of this, FI has also examined some of the information financial firms provide that is linked to these recommendations.

The survey is based on four thematic blocks. These have been developed on the basis of the requirements in the Annual Accounts Act and are relevant aspects of corporate governance. An account of the purpose of each thematic block is presented in the results section. The four blocks are:

- sustainability strategy and business model
- policy and division of responsibility

2 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy* [Companies' reporting of sustainability and diversity policy].

3 Guidelines on non-financial reporting (methodology for reporting non-financial information) 2017/C 215/01.

4 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

5 The Financial Stability Council formed the TCFD in December 2015 with the assignment to produce recommendations for voluntary reporting of climate-related information about financial risks. The recommendations were presented in June 2017.

- significant risks and risk management
- key performance indicators.

MATERIAL ANALYSED

The survey is primarily based on the sustainability reports produced by financial firms on the basis of the requirement under the Annual Accounts Act. In addition to the sustainability report, many of these firms also publish other sustainability-related information, for example sustainability overviews, sustainability accounts and sustainability-related information in the annual report. The survey also covered this type of material. In this report, the term sustainability information denotes all sources that have been used in the survey.

SAMPLE

The sample encompassed 71 firms subject to FI's supervision that met the size criteria for producing a sustainability report pursuant to the Annual Accounts Act. Four of the 71 firms have not produced any sustainability reports, despite meeting the size criteria. Consequently, no sustainability information from these firms is included in the survey. We have surveyed sustainability information from a total of 67 financial firms.

Subsidiaries are able to refer to group-wide sustainability reports instead of producing their own. In these cases, the survey has been based primarily on the group's sustainability information.

Distribution of the sustainability information surveyed

Sustainability report drawn up by	**Banking and financing**	**Insurance**	**Fund management and investment***	**Other****	**Total**
Firm	10	9	4	2	**25**
Group	26	8	3	5	**42**
Total	**36**	**17**	**7**	**7**	**67**

*Includes AIF managers.
**Includes infrastructure firms, e-money institutions, payment service institutions and consumer credit institutions.

Results: Sustainability Strategy and Business Model

The majority of firms describe some form of sustainability strategy. Large firms are often better than small firms at describing their sustainability strategy and how they take sustainability aspects into account in their business model. However, it is difficult to determine what action firms are taking in order to achieve their sustainability strategy.

The Annual Accounts Act states that the sustainability report shall indicate the firm's business model. At the same time as it is reasonable for different types of financial firms to work with sustainability in different ways, for example depending on the focus and size of their business, FI believes that the description of the firm's business model in its sustainability report should relate in a natural way to the sustainability aspects. This is also consistent with what is set out by the Government in the act's legislative history.[6]

A sustainability strategy describes how the board of directors or senior management believe the firm will achieve various goals within the field of sustainability. The business model describes how the business is to be structured in order to achieve the strategy. The strategy and business model together can paint a picture of the management's vision of how the business is to operate. The Annual Accounts Act contains no requirements linked to the firm's strategy, but the strategy may nonetheless be important from a governance perspective. That is why FI has looked at the descriptions of the sustainability strategy and how it is linked to the business model. The TCFD recommends that firms describe the climate-related risks and opportunities that may be linked to the firm's business model and strategy.

FI has examined how firms describe the following:

- Sustainability strategy.
- How the business model takes sustainability aspects into account.
- The link between sustainability strategy and business model.
- Sustainability-related risks and opportunities linked to the business model.

Sustainability strategy

Just over three quarters of the firms describe some form of sustainability strategy. On the whole, large firms describe their sustainability strategy in a clearer way than small firms, for example by describing what sustainability targets the firm has and how these are to be achieved.

6 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

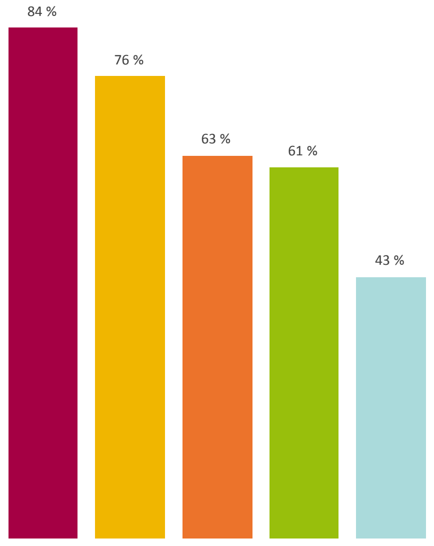
How the business model takes sustainability aspects into account

Eighty-four per cent of the firms state that they take sustainability aspects into account in some way in their business model and describe how this is done. Large companies' descriptions indicate that they take sustainability aspects into account in their business model in a more explicit way that small firms. Sixteen per cent of the firms do not describe if or how sustainability aspects are taken into account in their business model.

The link between sustainability strategy and business model

Sixty-three per cent of the firms in the survey describe the link between their sustainability strategy and business model, but only 45 per cent of the firms are deemed to describe this link in a clear way. One example of a sustainability strategy could be for the firm to use one of the UN's global sustainability goals, e.g. "climate action", as guidance for making decisions that are responsible and sustainable in the long term. If the firm is a bank, the business model could be linked to this strategy by, for example, describing how relevant sustainability criteria are taken into account when conducting credit assessments. The firms that neither describe a sustainability strategy nor how sustainability aspects are taken into account in their business model are generally small companies.

Graph 1: Strategy and business model



- The firm describes how the business model takes sustainability aspects into consideration.
- The firm describes its sustainability strategy.
- The firm describes the link between the sustainability strategy and the business model.
- The firm describes which sustainability-related opportunities may be linked to the business model.
- The firm describes which sustainability-related risks may be linked to the business model.

Sustainability-related opportunities and risks linked to the business model

Sixty-one per cent of the firms describe in some way the sustainability-related opportunities that can be linked to the business model and almost all of these provide examples of such opportunities. The firms provide a wide range of examples encompassing everything from digitalisation to new financial solutions such as green loans and green bonds.

Forty-three per cent of the firms describe the sustainability-related risks that can be linked to their business model. This relatively low proportion may be an indication that the firms have difficulty identifying these risks. Risks linked to money laundering and terrorist financing are the examples of risks that are listed most frequently by firms. However, the firms list fewer examples of climate-related risks. Accordingly, FI concludes that the firms are adhering to a limited extent to the TCFD's recommendations that firms describe the climate-related risks that can be linked to their business model and strategy.

Conclusion

The majority of firms have formulated a sustainability strategy and describe this and the sustainability aspects that are taken into account by their business model. However, in over half of these cases, it is difficult to determine on the basis of the sustainability information how the sustainability strategy is linked to the business model and what risks are associated with the firm's business strategy. As a consequence, it is difficult to determine what action firms are taking in order to achieve their sustainability strategy.

Results: Policy and Division of Responsibility

Many firms state that they have produced sustainability policies, but it is not clear whether a similar number have procedures for compliance with these policies and for reporting the results. Nor is it possible to determine from the firms' sustainability information where in the organisation the management of sustainability issues takes place. A large proportion of the firms have signed up to global guidelines and initiatives, but the diffuse nature of these makes it difficult to compare different firms' sustainability information.

A policy can be described as the fundamental principles governing how a firm is to act. Clear policies and instructions are therefore important tools for the governance of an organisation. The provisions of the Annual Accounts Act state that a firm shall specify its policy for sustainability aspects in its sustainability report. If there is a policy in place, the firm shall describe the results of the policy and the audit procedure that has been introduced for the purposes of complying with it. If a firm does not apply a policy for one or more sustainability aspects, the reasons for this shall be specified clearly in the report. FI has also studied whether a firm's sustainability information contains information about how it has organised itself for the purposes of dealing with sustainability issues and where in the organisation responsibility for these matters lies.

There are a large number of voluntary guidelines and initiatives concerning how sustainability information should be structured and what information should be included. Guidelines and initiatives can also act as tools in sustainability work.

FI has examined how firms describe the following:

- Sustainability policies.
- Audit procedures linked to sustainability policies.
- Organisation and responsibility for sustainability issues.
- Which sustainability-related guidelines and initiatives the firms have signed up to and the firms' attitude to sustainability targets adopted at the national level.

Sustainability policies

Sixty-six per cent of the firms state that they have a sustainability policy that covers all sustainability aspects. For 25 per cent of the firms, it is not possible to determine whether they have a sustainability policy, and for the remaining nine per cent, it is unclear which sustainability aspects the policy covers.

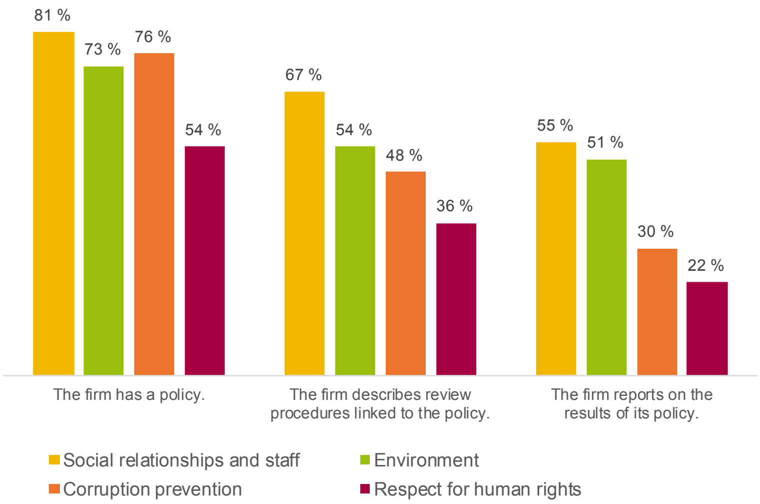
Seventy-three per cent of the firms in the survey state that they have an environmental policy, while it is unclear whether the remaining 27 per cent of firms have any such policy. Only one firm has an explicit justification for not having an environmental policy. A similar distribution also applies to the number of firms that have policies for social conditions and staff and for anti-corruption. When it comes to respect for human rights, the proportion of firms that have distinct policies is lower than for the other sustainability aspects. However, a significantly larger number of the firms have provided explicit justification why they do not have a policy for respect for human rights.

Audit procedures linked to sustainability policies

Around half of the firms describe their audit procedures linked to the various policies, with the exception of human rights, where only 36 per cent describe these. For policies linked to the environment, anti-corruption and social conditions and staff, between 48 and 67 per cent of the firms describe their audit procedures.

A large proportion of firms do not describe any results of their policies. Depending on the policy, only between 22 and 55 per cent of the firms describe the results, with the lowest proportion being for the policy for human rights and the highest for social conditions and staff.

Graph 2: Policies for different sustainability aspects



Organisation and responsibility for sustainability issues

Important factors in the governance of sustainability issues are where in the organisation decisions concerning sustainability polices are made, where responsibility for sustainability issues lies and if and how the board is involved in sustainability-related issues. FI concludes that the sustainability information from the vast majority of the firms does not contain any information about the organisation and responsibility for sustainability issues.

Guidelines, initiatives and sustainability goals adopted at the national level

The government bill concerning the reporting of sustainability and diversity policy states that it shall be natural for firms to describe their position in relation to the Riksdag's environmental quality objectives.[7]

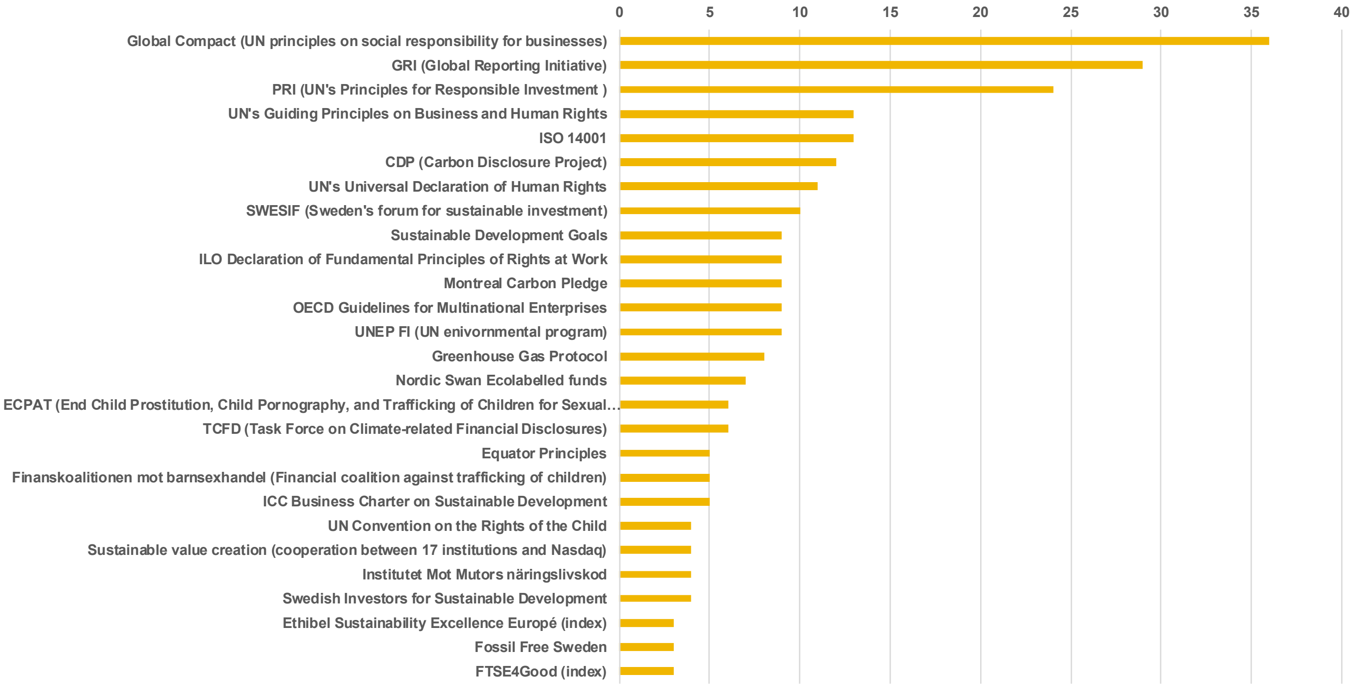
7 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 46.

Only one firm refers to these objectives, which indicates that these are neither well known nor firmly rooted within the firms.

Thirty-nine per cent of the firms describe clearly their position in relation to the 2030 Agenda goals. Almost half of the firms do not refer to the 2030 Agenda at all, which may be an indication that the 2030 Agenda is not very well known or firmly rooted within the firms either.

In addition to the 2030 Agenda, there is a range of different domestic and international guidelines within the field of sustainability. Eighty-eight per cent of the firms state that they have signed up to one or more initiative. The number of initiatives and guidelines that the firms say they are taking into account is 134. The most common are the UN Global Compact and the Global Reporting Initiative (GRI) (the 25 most common are shown in the graph below). Only six firms state in their sustainability information that they are working in line with the TCFD's recommendations.

Graph 3: The 25 most common guidelines and initiatives, number of registered firms



Conclusion

A relatively large proportion of the firms have produced policies for the various sustainability aspects. However, it is not possible to assess on the basis of this information whether the same proportion have procedures for compliance with these policies and reporting their results. When it comes to the organisation of and responsibility for sustainability issues, it is not possible to infer such information, in spite of this being an important aspect of the governance of sustainability issues.

The diffuse nature of the initiatives and guidelines means that there is no standardised structure for presenting sustainability information.

There are also sizeable differences in terms of how the firms formulate their sustainability goals, which makes it difficult to compare information from different firms. Only six firms state that they are adhering to the TCFD's recommendations.

Results: Significant Risks and Risk Management

There are major differences in how well the firms describe significant sustainability-related risks in their operations and which processes they use to identify and manage these risks. The descriptions are often unclear, and one-in-three firms do not describe any significant sustainability-related risks at all. The survey indicates that large firms are more likely than small firms to have integrated sustainability-related risks into their ordinary risk-management procedures.

Under the Annual Accounts Act, a firm shall provide information about significant sustainability-related risks in its sustainability report. The firm shall also describe how these risks are managed and how they can be reduced. This information shall focus on the areas in the firm's operations where the probability is highest that these risks may lead to serious consequences. Significant risks linked to the firm's operations, including the firm's business relationships, products or services, shall be described. Under the TCFD's recommendations, climate-related scenario analysis should be used in order to identify and quantify climate-related risks.

FI has examined how firms describe the following:

- Significant sustainability-related risks.
- How they identify significant sustainability-related risks.
- How they manage significant sustainability-related risks.
- Whether and, if so, how they use climate-related scenario analysis.

Significant sustainability-related risks

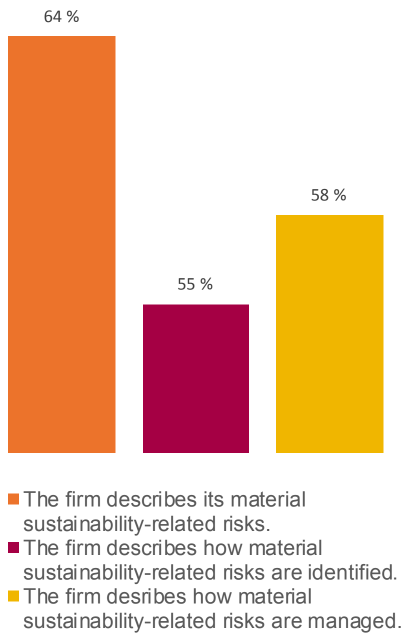
Sixty-four per cent of the firms, primarily large firms, describe their significant sustainability-related risks. The risks mentioned most frequently relate to the firm's suppliers or the investments made by the firm. The majority of the firms also highlight risks associated with money laundering and terrorist financing as being significant to their operations. One explanation of this may be the legal requirements introduced in this area in recent years. The majority of firms also identify information security as one of the most significant sustainability-related risks.

For 34 per cent of the firms, there is no indication of which risks are deemed to be significant to their operations.

Identification of significant sustainability-related risks

Fifty-five per cent of the firms describe how they identify significant sustainability-related risks. It is primarily the large companies that describe this in a clear manner, which may suggest that they have made more progress in terms of integrating sustainability-related risks into their ordinary risk-management procedures. Thirty-four per cent of the firms, primarily those that are small, provide no information at all about how the firm identifies sustainability-related risks.

Graph 4: Significant risks



Just over half of the firms state that they have a method for continually identifying sustainability-related risks. The methods described are aimed primarily at identifying risks linked to external parts of the firm's operations, for example suppliers or partners. Most of the firms state that they screen existing suppliers annually. It is also common for the firms to conduct various types of sustainability analysis in conjunction with investments. The vast majority of those firms that have funds in their product range screen the funds' holdings continually on the basis of a sustainability perspective. Thirty-nine per cent of the firms do not describe how the firm continually captures sustainability-related risks in its operations.

Management of significant sustainability-related risks

Fifty-eight per cent of the firms describe how they manage significant sustainability-related risks, but these descriptions differ and are often unclear. Thirty per cent of all the firms state that these risks are managed within the scope of ordinary risk-management procedures.

Climate-related scenario analysis

Only four of the firms write anything in their sustainability information about climate-related scenario analysis. Two of these firms state that they have conducted some type of scenario analysis. One of the four firms states that its work with scenario analysis has been terminated because there is no consistent framework for how this type of analysis is to be conducted.

Conclusion

There are large differences in terms of how clearly the firms describe significant sustainability-related risks, which may indicate that there are large differences in terms of how much progress the firms have made in their work with these risks. The general impression that emerges is that large firms have made more progress than small firms in this respect. At the same time, it is possible to determine from the firms' sustainability information that this work is in the process of being developed. A number of firms are working to design and implement new methods for identifying sustainability-related risks in their operations.

Around one third of the firms do not describe any sustainability-related risks. This may indicate that they do not have appropriate processes in place for identifying such risks or that they believe there are no significant sustainability-related risks in their operations.

Only four firms say anything at all about climate-related scenario analysis. This suggests that scenario analysis is generally not being used at present in order to identify and quantify climate-related risks and opportunities.

Results: Key Performance Indicators

There are large differences in terms of which non-financial performance indicators are being used by the firms in their sustainability information. These differences make it difficult to compare outcomes between different firms. There is also a wide variation in the extent to which the performance indicators are being assessed against targets or outcomes from previous years, which makes it difficult for the reader to place the indicators provided into context.

The Annual Accounts Act states that a firm shall include in its sustainability report non-financial key performance indicators that are relevant to its operations. Non-financial performance indicators for the various sustainability aspects contribute to the reader's understanding of the firm's development, performance, position and the impact of the firm's operations from a sustainability perspective. The TCFD also recommends that a firm report the non-financial performance indicators used in order to assess and manage relevant climate-related risks and opportunities, and that these are used to assess progress against targets or historical outcomes.

Performance indicators can be used in several ways, for example in order to measure a firm's exposure to certain sustainability-related risks. They can also be used to measure the firm's own impact on various sustainability aspects.

FI has investigated the following:

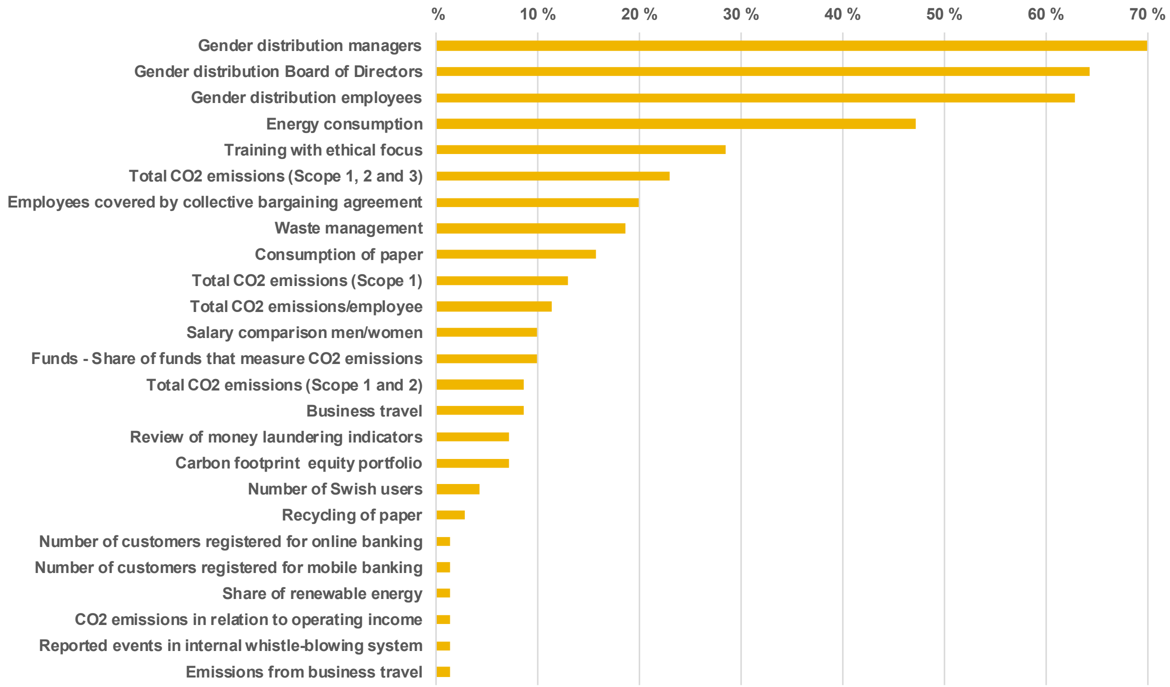
- Which non-financial key performance indicators the firms report.
- How the firms analyse non-financial key performance indicators.

Non-financial key performance indicators that are reported

The firms report a wide range of non-financial performance indicators. Only one firm describes any type of financial impact as a result of climate-related risks or opportunities. The indicators reported by the firms pertain primarily to their own impact on various sustainability aspects and thus not to the impact of sustainability aspects on the firms. As shown in Graph 5, the gender distribution among employees, managers and the firm's directors is the only non-financial performance indicator that the majority of the firms report. The second most common indicator is energy use.

Environment is the sustainability aspect that the largest number of non-financial performance indicators can be linked to. A wide range of environmental indicators are provided. The most common environmental performance indicator is the firm's own energy use, closely followed by carbon dioxide emissions, which were reported by 46 per cent of the firms. Carbon dioxide emission can be reported under the classifications Scope 1, Scope 2 or Scope 3[8]. In the majority of cases, it is unclear which of these the carbon dioxide emissions are classified as, which makes it harder for the reader to interpret the results.

Graph 5: Proportion of firms that have specified a certain non-financial performance indicator



The firms' analysis of the non-financial performance indicators varies. The TCFD recommends that climate-related performance indicators be used to assess progress against the firm's targets or historical outcomes. Just over one third of the firms have performed this type of analysis of the specified indicators. Twenty-five per cent of the firms have analysed certain performance indicators, but these analyses have not been performed in a consistent manner for all indicators. One third of the firms have not performed any analysis of the specified performance indicators. The fact that a firm does not analyse a non-financial performance indicator against a specific target may indicate that the firm is not working actively with the area to which the indicator pertains.

Conclusion

The majority of the firms report non-financial performance indicators in their sustainability information. The wide variation in terms of the indicators used makes any comparison of different firms more difficult. When the specified performance indicator is not linked to the firm's targets or outcomes from previous years it makes it difficult for the reader to put them into context. This also makes it difficult for the

8 According to the Greenhouse Gad Protocol, a firm's direct carbon dioxide emissions are classified as Scope 1. Scope 2 includes carbon dioxide emissions from the electricity the firm uses, and Scope 3 includes indirect carbon dioxide emissions that arise in the firm's supply chain.

reader to understand the firm’s development, performance and exposure to sustainability-related risks.

The survey also indicates that financial firms are adhering to a limited extent to the TCFD’s recommendations for reporting of how non-financial performance indicators are used to assess climate-related risks and opportunities.

Results: Requirements in the Annual Accounts Act

The firms that produce a sustainability report themselves are largely complying with the formal requirements in the Annual Accounts Act. Some of the firms that are covered by a group-wide report have not disclosed the information on time. There are also shortcomings in terms of the references to reports that are produced by parent companies or subsidiaries.

Eighteen of the 67 firms included in the survey are listed companies that are subject to financial reporting supervision under the Securities Market Act. FI has audited these firms' sustainability reports on the basis of the formal requirements in the Annual Accounts Act.

FI has investigated the following:

- How parent companies that have produced a sustainability report themselves are complying with the formal requirements.
- How subsidiaries that have not produced their own sustainability report are complying with the formal requirements.

Parent companies that have produced a sustainability report themselves

According to the legislative history of the amendment[9], the main rule is that the sustainability report shall be included in the directors' report. Thirty-eight per cent of the firms have published the report in accordance with the main rule. One alternative to the main rule allows a firm to produce a special report that is separate from the annual report. Sixty-two per cent of the firms have done so. The legislature stipulates that to be permitted to produce a report that is separate from the annual report, this must be stated in the directors' report. All firms that produced a separate report disclose this in their directors' report.

When an auditor audits the sustainability report, they check whether or not a sustainability report has been produced. According to the trade organisation FAR's recommendations for auditors (Revr12[10]), the auditor should, in certain cases, supplement their statement with an explanation. This is applicable in situations where it is deemed that the sustainability report has been produced in all essential respects, but where some of the areas stipulated in law are missing or incomplete. No supplements to the auditors' statements have been noted. This indicates that, in the opinion of the auditor, the audited sustainability reports contain the sustainability information required under the Annual Accounts Act.

9 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*.

10 FAR's (the trade organisation for auditors, accountants, tax advisers, payroll consultants and management consultants) recommendation in auditing matters number 12 – *Revisorns yttrande om den lagstadgade hållbarhetsrapporten* [The auditor's statement concerning the statutory sustainability report].

Subsidiaries that have not produced their own sustainability report

When a subsidiary refers to a sustainability report that has been produced by its parent company, the firm shall indicate this in a note in its annual report. Only two-fifths of the firms have done so. The rest of the firms only indicate this in the directors' report, which means they are not complying with the requirements in the Annual Accounts Act.

When a subsidiary refers to its parent company's sustainability report, it shall also provide the parent company's name, organisation registration number and the location of its registered office. Eighty per cent of the firms do not provide complete information in accordance with this requirement. For half of these, there is no information about the parent company's organisation registration number and registered office. This means that the majority of firms are failing to provide complete information in accordance with the requirements.

When a parent company produces a report for a group, this shall state which firms are covered by the report. The majority of firms specify which firms are covered by the report, but in the majority of cases, this is not clear because the information may be located in the body text and under different headings.

Under the Annual Accounts Act, when a subsidiary refers to a sustainability report produced by its parent company, this shall be published no later than in conjunction with the publication of the subsidiary's annual report. Two-fifths of these report have been published at a later date than the subsidiary's annual report. This means that these firms are not complying with the disclosure requirements. In one case, the parent company's sustainability report was only issued three months after that subsidiary's annual report had been signed.

Conclusion

Subsidiaries that have not produced their own sustainability report have not provided all the information required under the Annual Accounts Act. Parent companies are also failing to specify clearly which firms are covered by a group-wide report and, in some cases, the report has not been published on time. All in all, this makes it difficult in many cases for the reader to know which report a firm is covered by.

Other Observations

There is a great deal of variation between the firms in terms of where sustainability information is published, which does not further the aims of transparency or comparability. FI has also noted that some firms that should have produced a sustainability report have not done so.

Information about the firms' sustainability work is currently found in a large number of different places. Aside from the sustainability report, information for this survey has been gathered from sustainability overviews, sustainability accounts, sustainability-related information in annual reports and from the firms' websites. Some firms choose to have an extensive sustainability report, while others keep it very brief and have more extensive information in other documents. This distribution of information does not promote transparency and comparability.

FI has identified a number of firms that meet the size criteria for producing a sustainability report, but either have not done so or refer to a parent company's report that, in turn, cannot be found.

In addition to what emerged from the formal audit FI has conducted of 18 firms that are subject to financial reporting supervision under the Securities Market Act, FI has identified shortcomings in reporting by other firms. These pertain to subsidiaries that either have not referred to or have provided an incomplete reference to their parent company's sustainability report.

The Way Forward

The results of the survey indicate that the financial firms' are making efforts to integrate sustainability into corporate governance, but that further work is required in future. FI also concludes that the transparency and comparability of the firms' sustainability information is limited. The results of the survey will be used by FI's future dialogue with the firms.

FI's basic premise is that sustainability shall be a natural part of financial firms' governance and thus a natural part of financial supervision. We are therefore working to integrate sustainability aspects into ongoing supervision. The survey shows that the firms have begun integrating sustainability into corporate governance but that many of them need to do more.

It is easier for the reader to understand the sustainability information if the firms' sustainability reporting is relevant, clear and comparable. It is favourable when the sustainability information contains, in addition to the statutory requirements, more of the information recommended by the TCFD. Examples of this type of information are the results of scenario analysis and how specified performance indicators compare to the firm's targets, which improves comparability and transparency for the reader. We conclude that more Swedish firms have chosen over the course of the year to support the TCFD's recommendations. Accordingly, FI expects this to be reflected in the firms' sustainability information in the future.

The financial firms' sustainability information indicates that sustainability-related risks are being taken into account to a varied extend in the firms' risk management. It is vital that sustainability is a natural part of the firms' risk management; something which is dependent on the organisation having awareness of and expertise in sustainability-related issues. This is also dependent on firms having functional processes that ensure sustainability-related risks are captured. FI takes the position that the Annual Accounts Act requires that this be described in the firms' public reporting.

The ability to assess what practical progress the firms subject to supervision have made in terms of integrating sustainability into their corporate governance requires continued dialogue with the firms. We will be using the results of this survey in this dialogue. The survey has provided FI with greater knowledge in the field of sustainability, which is contributing to future efforts to integrate sustainability into ongoing supervision.

Glossary

The following definitions apply to the terms used in this report.

- **Business relationship:** A long-term commercial connection, relationship or agreement that a firm enters into with an external party. Business relationship also denotes the relationship with suppliers and sub-contractors.[11]
- **Business model:** How the firm's business is structured for the purpose of achieving its strategy.
- **2030 Agenda** The UN's resolution on sustainable development that was adopted in September 2015. The agenda involves all 193 member states of the UN committing to work to achieve a socially, environmentally and economically sustainable world by 2030. The agenda contains 17 goals and 169 targets.
- **Key performance indicators:** Information that may be of significance, even if it does not, in the traditional sense, have any financial link to the development of the firm's operations, position or performance. For example, these can denote quantified data about targets and results with respect to emissions, waste or energy use, and a firm's choice of suppliers and partners on the basis of sustainability aspects. Further examples are data on work-related injury rates and staff turnover. This provision does not entail any general requirement for numerical data to be provided.[12] The European Commission's guidelines for non-financial reporting state that firms are expected to specify the key performance indicators they deem to be most useful for monitoring, assessing progress and improving comparability between firms and sectors. When appropriate, a firm can also consider presenting and explaining this information in relation to targets and benchmarks.[13] With regard to climate-related key performance indicators, the guidelines refer to the TCFD.[14]
- **The European Commission's guidelines on non-financial reporting:** Non-binding guidelines produced pursuant to Article 2 of Directive 2014/95/EU.[15] The aim of these guidelines is to help firms concerned to report non-financial information that is relevant, useful, consistent and comparable.

11 Govt Bill 2015/16:193, pp. 66–67.

12 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 88.

13 Guidelines on non-financial reporting (methodology for reporting non-financial information) 2017/C 215/01, p. 12.

14 Guidelines on non-financial reporting (methodology for reporting non-financial information) 2017/C 215/01, p. 12.

15 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

- **Formal requirements:** Stipulated requirements concerning formalities such as how the report is to be published and disclosed, how references are to be made and how the auditor's statement is to be drawn up.
- **Firm:** When the term firm is used in the section that describes the results of the survey, it is the 67 financial firms whose sustainability information FI has surveyed that is being referred to.
- **Audit procedure:** The procedure used in order to ensure that a firm is adhering to policies and strategies. Examples of audit procedures are internal audit and follow-up of how policies are being adhered to. For example, the information about audit procedures can describe how the firm investigates and monitors environmental issues and working conditions at its suppliers and commercial partners.[16]
- **Sustainability aspects:** In the survey, the term sustainability aspects is used to denote the areas specified in Chapter 6, Section 12 of the Annual Accounts Act.
  - environment
  - social conditions
  - staff
  - respect for human rights
  - anti-corruption.
- **Sustainability information:** A collective term for all of the publicly available information about a firm's sustainability work that has been taken into consideration in the survey. This includes sustainability reports, sustainability accounts, sustainability overviews and information on a firm's website.
- **Sustainability report:** The sustainability report that is produced pursuant to the Annual Accounts Act.
- **Sustainability strategy:** The firm's strategy for achieving its sustainability goals.
- **Environment:** Encompasses current and foreseeable impact of the firm's operations on the environment, health and safety. Examples of environmental aspects are the use of energy from renewable and non-renewable sources, greenhouse gas emissions, water use, air pollution and land use.[17]
- **Small firms:** In this report, small firms denotes firms that have a balance sheet total of less than SEK 50 billion.
- **Anti-corruption:** Pertains to how firms manage efforts to tackle corruption. The term corruption includes providing and

16 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, pp. 66–67.

17 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

accepting bribes.[18] On the matter of tackling corruption, the report may contain information about existing tools for tackling corruption.[19]

- **Respect for human rights:** Refers to the prevention of human rights violations.[20] Human rights can be categorised in various ways, but always in no particular order. Human rights refers to every individual's right to a tolerable life, right to their innermost thoughts, protection for the family, freedom from torture and slavery, right to education and right to freedom of expression and participation in the country's governance. Human rights are specified in a large number of documents. The international standard that places expectations on firms in relation to human rights are the UN Guiding Principles on Business and Human Rights.
- **Policy:** A policy can be described as the fundamental principles guiding a firm's actions. The policy applied by the firm for sustainability aspects has to be specified in the sustainability report.[21]
- **Results of the policy:** A firm shall continually monitor and analyse its adherence to the policy that is being applied for sustainability aspects and what effects this has. For example, the firm shall report the impact of any action taken as a result of its policy.[22] The results of the policy shall be specified in the sustainability report.
- **Social conditions and staff:** Denotes, for example, gender equality, working conditions, the right to unionise, health and safety in the workplace, dialogue with local groups and protection and safety for these groups.[23]
- **Size criteria:** Under the Annual Accounts Act, firms that meet certain size criteria shall produce a sustainability report. These criteria entail that a sustainability report shall be produced by a firm that meets more than one of the following criteria in the last two years:
  balance sheet total > SEK 175 million, net turnover > SEK 350 million, number of employees > 250.
- **Strategy:** The firm's strategy for achieving its goals.
- **Large firms:** In this report, large firms denotes firms that have a balance sheet total of more than SEK 50 billion.
- **TCFD:** Task Force on Climate-related Financial Disclosures. The Financial Stability Council (FSC) formed the TCFD in

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18 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

19 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

20 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

21 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, pp. 66–67.

22 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, pp. 66–67.

23 Govt Bill 2015/16:193 *Företagens rapportering om hållbarhet och mångfaldspolicy*, p. 66.

December 2015 with the assignment to produce recommendations for voluntary reporting of climate-related information about financial risks. In June 2017, the TCFD presented its recommendations, which describe what firms should report in order to help stakeholders in the financial market to better understand how firms manage climate-related risks and opportunities.

- **Annual Accounts Act:** Annual Accounts Act (1995:1554). The sustainability report is produced pursuant to Chapter 6 of the Annual Accounts Act.

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