This article first appeared in *Reporting*: ey.com/reporting.

The poll

The third EY survey of institutional investors reveals an increased appetite for companies to disclose their environmental, social and governance risks – an appetite that is not currently being satisfied.

It is clear from the latest EY research that there is a general, global trend toward increased interest in nonfinancial information on the part of investment professionals. But are investors getting the environmental, social and governance (ESG) information they need?

The Paris Conference of Parties meeting in December 2015 to negotiate a global climate agreement (subsequently signed by 194 nations) is the most prominent of a number of events that have propelled ESG to the top of the global agenda. The third EY survey of institutional investors, examining their views on the use of nonfinancial information, found that meaningful ESG analysis is increasingly important. However, the survey (which gathered responses from 320 decision-makers at buy-side institutions around the world, a third of which have more than US$10b assets under management) also reveals that they are disappointed by companies' ESG disclosures.

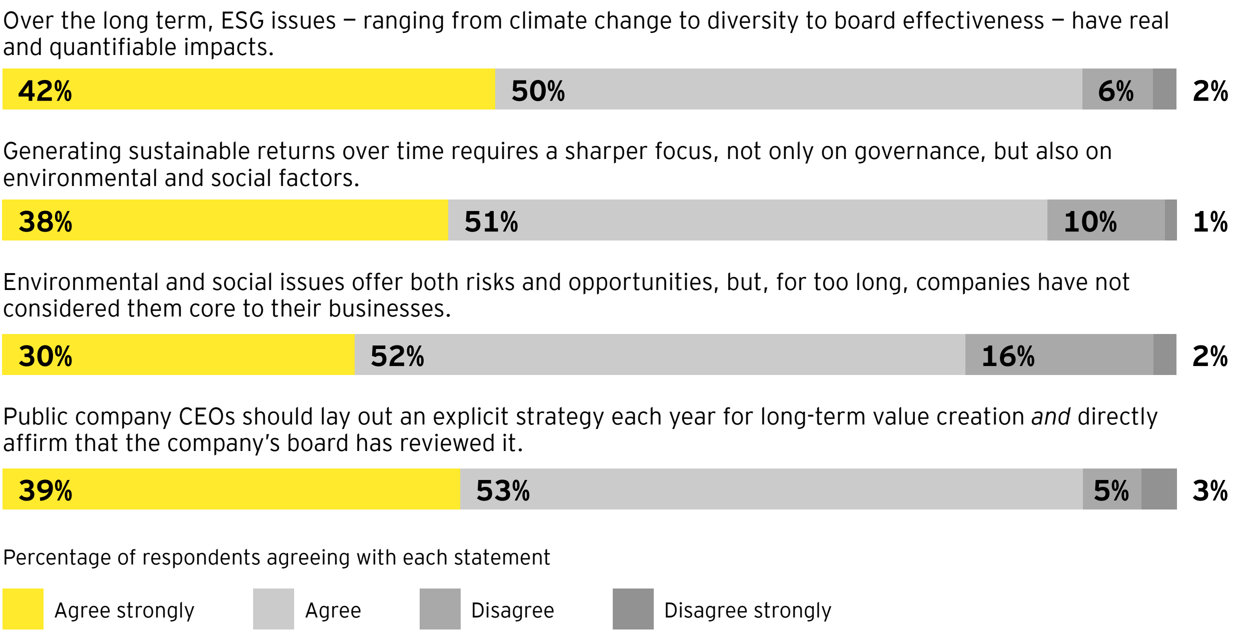
60% of respondents believe that companies don't disclose ESG risks that could affect their business and that they should disclose them more fully.

This represents an increase of 21 percentage points on the previous survey.

The suggestion that investors' demands in this area are not being met is troubling because, as the latest survey shows, there is broad support for ESG-related themes:

Investors echo strong support for recent calls for greater CEO and board accountability

To what extent do you agree with the following statements?



Investors who remain skeptical about the value of nonfinancial factors tend to disregard any causal relationship between a company's ESG performance and financial performance. However, it's commonly understood that serious reputational and environmental risks can and do surface, and that they can have very real impacts on the bottom line. Investors who used ESG factors in their analysis point to the long-term benefits of investing in companies that pay close attention to ESG factors, as well as the lower investment risk with those companies.

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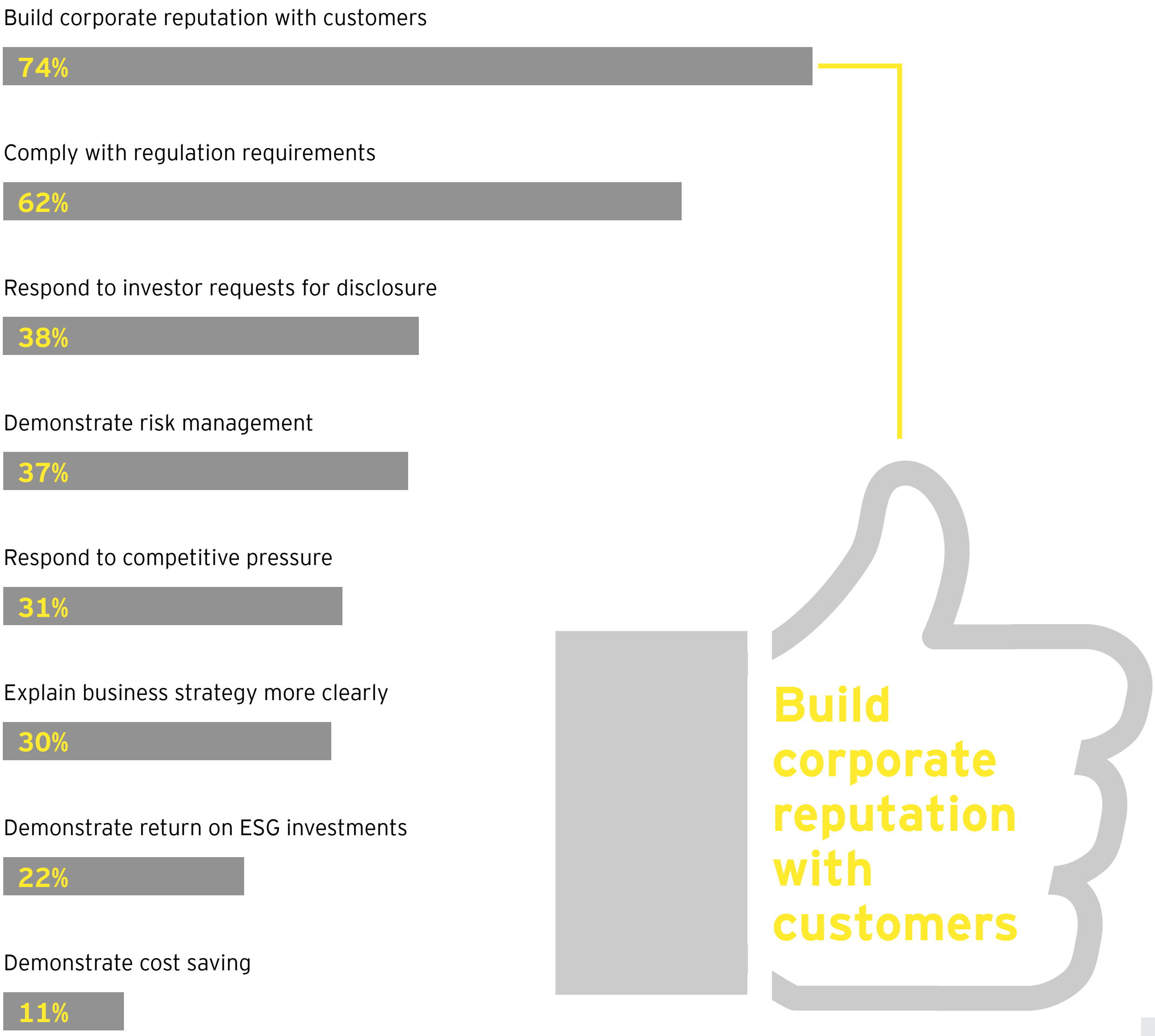
WHAT MOTIVATES COMPANIES' NONFINANCIAL REPORTING?

If investors want more issuers to report on their ESG activities, what motivates companies to disclose that information? According to the investors surveyed, the biggest motivating factor for most companies remains building their corporate reputation with customers, followed by complying with regulatory requirements. Investor demands play a role as well, along with the incentive of improving stock valuations, but to a much lesser degree:

Issuers seek to impress customers and meet regulatory requirements with nonfinancial reporting

What do you believe motivates a company to report details on its nonfinancial and ESG activities?



INVESTORS DEMAND MORE FROM COMPANY ESG REPORTS

The investors surveyed said that the most useful source of nonfinancial information for making investment decisions was a company's own annual report.

31%	of respondents said a company's annual report was essential when it came to making investment decisions, and **32%** said it was very useful.
18%	said an integrated report was essential, and **39%** said it was very useful.

However, fewer than half of respondents (44%) view company sustainability reports as "very useful" or "essential." The responses raise questions as to whether sustainability reports are too highly curated and too solution-oriented for investors. Rather than being a source of comfort for an organization, such reports, by nature, should create some discomfort. Otherwise, it becomes easy for the exercise to produce a mostly triumphant message, raising questions as to its long-term credibility.

THE APPEAL OF ESG ANALYSIS IN RISK MANAGEMENT

One of the key benefits provided by ESG analysis for investors is risk avoidance and measurement. When asked if certain disclosures would make them change their investment plan, 39% of the investors in the survey said that a risk or history of poor governance would force them to rule out an investment immediately, while 32% said they would do the same due to human rights risk from operations and 20% said limited verification of data and claims would rule out an investment. The top reason for reconsidering an investment, at 76% of survey respondents, was risk or history of poor environmental performance, followed by risk from resource scarcity at 75% and risk from climate change at 71%.

The survey also showed that investors have high regard for board and audit committee oversight, which are typically viewed as keys to good corporate governance and risk management. Both mandatory board oversight and audit committee oversight were important to the investors surveyed: similar numbers said both types of oversight were "essential" or "very useful."

For a copy of the full report, *Is your financial performance revealing the true value of your business to investors?*, please go to ey.com/investorsurvey2017.

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