UNEP

Frequently Asked Questions on Corporate Sustainability Reporting

Tackling the big questions around the global corporate sustainability reporting agenda

FRIENDS OF PARAGRAPH 47

CORPORATE SUSTAINABILITY REPORTING

UNITED NATIONS ENVIRONMENT PROGRAMME

Global Reporting Initiative™

In collaboration with

CDSB Climate Disclosure Standards Board

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Introduction

This document contributes to the work of the Group of Friends of Paragraph 47 (GoF47) and its Secretariat, provided by the United Nations Environment Programme (UNEP) and the Global Reporting Initiative (GRI). The document seeks to provide context for the work of the GoF47 and to support other Governments by addressing the key questions they are asking about corporate sustainability reporting.

The Governments of Brazil, Denmark, France and South Africa formed the GoF47 in June 2012, following the United Nations Conference on Sustainable Development (UNCSD), also known as Rio+20. Paragraph 47 of the outcome document, known as "The future we want", acknowledged the importance of corporate sustainability reporting[1]. The founding member Governments are pioneers in the promotion of sustainability reporting practice and policy and this publication builds on their experience as well as input from relevant stakeholders.

The GoF47 charter[2] explains the Group's commitment to promoting and supporting corporate sustainability reporting as follows:

> *We have drawn lessons from the environmental, social and economic crises of recent decades and acknowledge that we face challenges such as climate change, depletion of natural resources, population growth, inequality and poverty. These challenges can be addressed by collaborative work by all actors concerned and by fostering a culture of transparency, accountability and trust. In developing such a culture, we believe sustainability reporting has a major role to play.*

This document is divided into three sections. The first sets out the background to sustainability reporting and introduces readers to what it is, who is involved in developing it and why it is important for the global sustainability agenda. Section 2 provides an overview of current sustainability reporting policies, initiatives and practices. Section 3 focuses on the opportunities for GoF47 and others to develop corporate sustainability reporting further.

Paragraph 47 of The Future We Want

We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested Governments and relevant stakeholders with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity-building.

The focus of this document is on sustainability reporting[3] by the private sector, whose contribution to the achievement of sustainable development objectives is recognised in paragraph 46 of "The future we want"[1]. Although not all companies and/or organisations are incorporated, the term "corporate sustainability reporting" is used in this document to describe reporting by the private sector.

Examples of activity to advance sustainability reporting and those leading these activities are provided in this publication. However, as this publication aims to provide general context for the work of GoF47, it does not provide a full inventory of all initiatives on sustainability reporting and the examples given in this document are not comprehensive or selected according to a particular methodology. For a more comprehensive overview of sustainability reporting initiatives around the world, readers should refer to the Carrots and Sticks series[4].

1. UN Conference on Sustainable Development (2012) Outcome document "The future we want", available at http://sustainabledevelopment.un.org/futurewewant.html
2. UNEP (2012) Group of Friends of Paragraph 47 charter, available at www.unep.org/resourceefficiency/Business/SustainableandResponsibleBusiness/Reporting/FriendsofParagraph47/tabid/105011/Default.aspx
3. Defined in the answer to FAQ 2
4. GRI et al. (2013) Carrots and sticks, available at www.globalreporting.org/reporting/reporting-support/publications/research-and-development-publications/Pages/default.aspx

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Section 1:
Context and Background

01 Why is corporate sustainability reporting relevant for the global sustainability agenda?

Businesses have an important role in driving and investing in innovation to meet the requirements of sustainable development and in reporting to decision-makers about the way in which their activities contribute to the global sustainability agenda.

The report of the UN Secretary-General's High-Level panel on Global Sustainability[5] describes the global sustainability agenda as aiming to eradicate poverty, reduce inequality, make growth inclusive and production and consumption more sustainable whilst combating climate change and respecting a range of other planetary boundaries. In order to achieve the objectives of the global sustainability agenda, "deep structural changes are needed in the ways that societies manage their social and environmental affairs and hard choices are needed to move from talk to action". The success of those changes, decisions and actions depends in part on the quality of information available to guide them.

Paragraph 46 of the Rio+20 outcome document[1] recognises that the active participation of the private sector can contribute to the achievement of sustainable development, including through the important tool of public-private partnerships.

The relevance of corporate sustainability reporting for the global sustainability agenda has been highlighted in UN conferences on sustainable development over the last two decades, including:

In **1992** the UN Conference on Environment and Development (UNCED) held in Rio de Janeiro, endorsed the first global call to promote sustainable consumption and production, recognising environmental management, openness, including environmental reporting by corporations and public dialogue, as "among the highest corporate priorities and as a key determinant to sustainable development"[6].

A decade later in **2002**, the outcome document from the World Summit on Sustainable Development (WSSD), the Johannesburg Plan of Implementation[7], endorsed sustainability reporting and encouraged businesses to use the GRI's Sustainability Reporting Framework[8], which includes the GRI Sustainability Reporting Guidelines.

2012 – Paragraph 47 of the Rio+20 outcome document[1] builds on the first Rio conference in 1992 and the subsequent World Summit on Sustainable Development in 2002. It highlights the role of corporate sustainability reporting in enhancing the private sector's contribution to sustainable development and calls on companies to consider integrating sustainability information into their existing reporting practices. Further it calls for industry, Governments, the UN and other relevant stakeholders to engage to further enhance sustainability reporting.

5. UN High-Level Panel on Global Sustainability (2012) Resilient People, Resilient Planet, A Future Worth Choosing, available at www.un.org/gsp
6. UNCED (1992) Agenda 21, paragraph 30.3, available at www.sustainabledevelopment.un.org/content/documents/Agenda21.pdf
7. WSSD (2002) Johannesburg Plan of Implementation, available at www.johannesburgsummit.org/html/documents/summit_docs/2309_planfinal.htm
8. GRI (2013) Reporting Framework Overview, available at www.globalreporting.org/reporting/reporting-framework-overview/Pages/default.aspx

02 What is corporate sustainability reporting?

Corporate sustainability reporting communicates information that is relevant for understanding a company's long-term economic value and contribution towards a sustainable global economy by taking account of the company's economic, environmental, social and governance performance and impacts.

Corporate sustainability reporting is an emerging discipline for which there is currently no universally agreed definition. In the most recently published generation of the GRI Sustainability Reporting Guidelines (G4)[9], sustainability reporting is defined as "a process that assists companies in setting goals, measuring performance and managing change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care. Sustainability reporting – mainly through but not limited to a sustainability report, is the key platform for communicating the company's economic, environmental, social and governance performance, reflecting positive and negative impacts."

An alternative definition[10] describes a sustainability report as "a firm-issued general purpose, non-financial report that provides information to investors, stakeholders (e.g. employees, customers and Non-Governmental Organisations (NGOs)) and the general public about the firm's practices involving environmental, social and governance issues either as a stand-alone report or as part of an integrated report."

The GoF47 charter[2] offers another perspective: "We understand sustainability reporting as the disclosure of information concerning the significant economic, social, environmental and governance impacts and performance of a company. Sustainability reporting is a key way to assume corporate responsibility and to demonstrate a company's long-term economic value. We understand corporate responsibility as the responsibility of a company for the impacts of its activities on society and the environment, exercised through transparent and ethical behaviour that contributes to sustainable development, including the health and welfare of society."

Corporate sustainability reporting is sometimes regarded as synonymous with corporate social responsibility reporting, whereby a company highlights its interactions with local, human and natural communities and its operating practices, consumer issues and community involvement. Some companies therefore describe their corporate sustainability reports as Citizenship Reports. Another widely used term to describe both corporate governance and sustainability reporting is non-financial reporting, which recognises them as complementary to but distinct from financial reporting. However, as decisions about sustainability may impact and be affected by the financial performance and practices of a company, sustainability reporting does not exclude financial reporting.

The GoF47 charter[2] offers another perspective:

We understand sustainability reporting as the disclosure of information concerning the significant economic, social, environmental and governance impacts and performance of a company.

Corporate sustainability reporting is used to communicate sustainability-related information in a number of ways, including:

- How companies use and affect different types of resources, including social, financial, human and natural resources. Sometimes these resources are referred to as forms of capital, e.g. natural capital;
- As a response to particular stakeholder needs for information that will enable them to assess the long-term viability of the company;
- The positive and negative impacts that companies have on the economy, environment, and society;
- Companies' sustainability strategies, and progress towards goals;
- Information that helps companies assess their own sustainability, and the longer-term viability of their operating models and activities;
- Information that reflects companies' contributions to sustainable development.

The means by which companies report on sustainability to their stakeholders are changing and evolving, with greater numbers making use of websites, web-based navigation tools and social media, which complements traditional printed material.

9. GRI (2013) G4 Sustainability Reporting Guidelines, available at www.globalreporting.org/reporting/g4/Pages/default.aspx

10. Ioannou, I. & Serafeim, G. (2012) The Consequences of Mandatory Corporate Sustainability Reporting, Harvard Business School Working Paper 11-100, available at www.hbs.edu/faculty/Publication%20Files/11-100_35684ae7-fcdc-4aae-9626-de4b2acb1748.pdf

03 What type of information is normally included in sustainability reporting?

Sustainability reporting can include a wide range of information about a company's economic, social, environmental and governance performance and impacts. When viewed over time, they assist in placing annual positive and/or negative information in context, in addition to demonstrating the long term commitment of the company to this issue.

Sustainability reporting can cover a wide range of subjects. Often environmental, social and governance (ESG) matters are considered to be the main pillars of sustainability reporting. However, emerging international standards and practices have both widened and refined the scope of sustainability-related practices and associated reporting. For example, the content of sustainability reporting can be informed by the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises[11], United Nations Global Compact (UNGC) Principles[12] or ISO 26000[13]. Although there is no set format or content for corporate sustainability reporting, companies should report information that is important to them and their stakeholders (i.e. material, see below). They might include information about some or all of the following matters:

- Consumption of non-financial resources such as energy, fossil fuels, water, forestry products, etc.;
- Production of waste and pollutants, such as waste sent to landfill, greenhouse gas emissions, waste water discharges, etc.;
- Risks and opportunities associated, for example, with climate change, resource shortage, demand for new products, regulation related to the sustainability agenda, and supply chain resilience;
- Participation in the work of local community groups and NGOs towards outcomes that benefit society;
- The policies, company arrangements and position taken on matters that relate to corporate sustainability;
- Innovation to produce goods and services that support the sustainability agenda;
- Human rights due diligence;
- Corporate governance;
- Human resources management;
- Social issues;
- Anti-corruption policies;
- Objectives, targets and performance in relation to sustainability related goals and initiatives, performance management systems and stakeholder engagement arrangements instigated to assess and achieve progress against those goals.

Originally non-financial reports followed the reporting boundary of financial reports, based on ownership & control and information from the most recent annual cycle. However, many non-financial report guidelines are evolving to encompass supply chain issues and forward looking information (e.g. GRI G4, IIRC[14], GHGP Scope 3).

11. OECD (2013) Guidelines for Multinational Enterprises, available at www.oecd.org/daf/inv/mne
12. UN Global Compact (2000), The ten principles, available at www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/
13. International Organization for Standardization (2012) ISO 26000 Social responsibility, available at www.iso.org/iso/home/standards/iso26000.htm
14. International Integrated Reporting Council

04 Who is contributing to the sustainability reporting policy agenda?

Governments, UN agencies, International Organisations, the private sector, non-governmental organisations and civil society are all contributing to the development of the sustainability reporting agenda.

GOVERNMENTS – Around the world Governments are introducing laws and practices that require, encourage and support sustainability reporting. Section 2 describes some of the actions that Governments are already taking in relation to corporate sustainability reporting.

- GoF47 – To advance the recommendations outlined in Paragraph 47 of the Rio+20 outcome document, to promote corporate sustainability reporting through policy and regulation and develop a process to encourage uptake from relevant stakeholders.

PRIVATE SECTOR, INCLUDING STOCK EXCHANGES taking action to advance sustainability practices, include:

- Companies and their professional advisors that prepare sustainability reports and develop sustainability reporting practices and tools through business groups and associations, including the World Business Council for Sustainable Development (WBCSD), World Economic Forum (WEF) and others;
- Investors have also developed various initiatives to advance and encourage corporate sustainability reporting, including the Investor Network on Climate Risk (INCR), the International Corporate Governance Network (ICGN), the UN-supported Principles on Responsible Investment, the Corporate Sustainability Reporting Coalition (CSRC) and the Equator Principles;
- Many stock exchanges worldwide have listing requirements in place or have issued guidance, facilitated training or developed indices related to sustainability reporting. The Sustainable Stock Exchanges Initiative (SSEI) is co-organised by the United Nations Conference on Trade and Development (UNCTAD), the UNGC, the Principles for Responsible Investment (PRI) and the UNEP Financial Initiative to explore how exchanges can work together with investors, regulators and companies to enhance corporate transparency and performance on environmental, social and corporate governance issues and to encourage responsible long-term approaches to investment.

SPECIALIST REPORTING AND STANDARDS ORGANISATIONS, including CDP (formerly the Carbon Disclosure Project), the Carbon Trust, the Greenhouse Gas Protocol Team at the World Resources Institute (WRI)[22], GRI, the emerging initiatives of Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC).

CIVIL SOCIETY – Various groups and organisations such as the World Wide Fund for Nature (WWF), Friends of the Earth, Transparency International and Amnesty International work singly and in coalition to establish initiatives, convene dialogues, raise awareness, advocate for particular outcomes, build consensus and encourage transparency on a wide range of issues such as remuneration, human rights, corporate social responsibility and accountability.

The UN SYSTEM and INTERNATIONAL ORGANISATIONS – Various UN agencies[25] and International Organisations have developed sustainability frameworks, tools, guidance and forums to encourage sustainable practices and associated reporting. These include:

- UNGC's ten principles;
- UNCTAD hosts the International Standards of Accounting and Reporting (ISAR) working group;
- UNEP embraced GRI and constituted it as a UNEP collaborating centre.

15. SSEI (2009) About, available at www.sseinitiative.org/about
16. UNCTAD Investment and Enterprise Division
17. UN (2013) Global compact, available at www.unglobalcompact.org
18. PRI (2013) About the PRI initiative, available at www.unpri.org
19. UNEP (2013) Finance initiative, available at www.unepfi.org
20. CDP (2013) About us, available at www.cdproject.net/en-US/Pages/About-Us.aspx
21. Carbon Trust (2013) About us, available at www.carbontrust.com/about-us
22. GHG Protocol (2013) About WRI and WBCSD, available at www.ghgprotocol.org/about-ghgp/about-wri-and-wbcsd
23. SASB (2013) Vision and mission, available at www.sasb.org/sasb/vision-mission
24. IIRC (2013) The IIRC, available at www.theiirc.org/the-iirc
25. UN, Greening the blue (2013) Our approach, available at www.greeningtheblue.org/our-approach

05 Why do companies produce corporate sustainability reports?

Companies produce sustainability reports for a range of reasons including to publicly communicate their sustainability practices, comply with mandatory reporting requirements, respond to stakeholder demands, increase transparency and track progress against their commitments to sustainability.

Companies produce sustainability reports in response to the increasing demand for them to manage a wider range of resources than just financial capital and in the interests of the efficiency of the company and also in response to compliance requirements. Sustainability reporting and the processes associated with it also provide internal and external benefits (see FAQ 6) to companies such as cost savings, easier access to capital, improved performance on financial markets and increased stability. In summary, drivers for sustainability reporting include:

- Legislation and associated compliance requirements;
- Mandatory stock exchange listing requirements;
- Voluntary stock exchange guidelines;
- Demand for information from stakeholders, such as investor demand through CDP or GRI[26];
- Requirements of organisations seeking transparency and accountability or aiming to drive sustainable behaviour such as UNGC and UN Guiding Principles on Business and Human Rights[27];
- Availability and widespread use of voluntary guidelines and frameworks;
- Desire to experience benefits of reporting (see FAQ 6), such as competitiveness, improved performance on financial markets and cost savings;
- As a marketing and communication tool to demonstrate sustainability management to stakeholders and increase confidence and trust in the company;
- As part of an internal company commitment to sustainability;
- As a tool for setting and monitoring targets, evaluating performance against those targets and re-defining strategy;
- In order to strengthen the company's licence to operate.

Companies produce sustainability reports in response to the increasing demand for them to manage a wider range of resources than just financial capital and in the interests of the efficiency of the company and also in response to compliance requirements.

26. GRI (2012) Sustainability information important to investors and analysts, available at www.globalreporting.org/information/news-and-press-center/Pages/Sustainability-information-important-to-investors-and-analysts-New-research-reveals-that-investors-and-analysts.aspx
27. Business & Human Rights Resource Centre (2013) Text of business & human rights standards, available at www.business-humanrights.org/Gettingstarted/Textofbusinesshumanrightsstandards

06 What are the benefits of sustainability reporting?

Sustainability reporting can produce benefits for the reporting organisation and others through a focus on long-term strategy, governance and planning, increased awareness of risks and opportunities and better benchmarking and transparency.

Sustainability reporting can produce internal and external benefits for the reporting company and for others, including:

- Increased awareness of risks and opportunities;
- Appreciation of the link between financial and non-financial performance;
- Improved long-term management strategy and business planning;
- Support for governance and accountability on sustainability goals;
- Streamlining processes, reducing costs and improving efficiency;
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;
- Reduced risk of environmental, social and governance failures;
- Comparing performance internally, and between companies and sectors;
- Mitigating, or reversing, negative environmental, social and governance impacts;
- Improving reputation and brand loyalty;
- Building relationships with stakeholders;
- Enabling external stakeholders to understand a company's true value, including tangible and intangible assets;
- Enabling consumers of information to decide how to allocate their own resources through investment, purchasing and policy decisions;
- Demonstrating how the company influences, and is influenced by, expectations about sustainable development.

There is an emerging body of research that suggests a positive correlation between financial returns and sustainability reporting[28].

28. Gaspar (2013) Sustainability and financial performance: The chicken-egg dilemma, available at www.greenbiz.com/blog/2013/03/06/sustainability-financial-performance-chicken-egg

07 What are the guiding principles for sustainability reporting?

Guiding principles influence the characteristics of sustainability reporting to encourage particular outcomes, e.g. transparency, comparability, focus on materiality, accuracy and reliability[29].

Approaches to sustainability reporting can be informed by many guiding principles including, among others:

- Transparency and accountability – the main principles that underpin reporting;
- Balance and neutrality – so that reported information is not biased, reflects both positive and negative aspects of the company's performance and is not written in such a way as to influence how it will be received (either favourably or unfavourably) by the report reader;
- Consistency and comparability – consistency refers to the use of the same policies and procedures either from period to period within an entity or in a single period across entities. Consistency enables comparability, which is the quality of information that enables users to identify similarities in and differences between two sets of information, for example, through the use by organisations of similar definitions and data determination techniques. Comparability enables performance to be evaluated and benchmarked;
- Accuracy and completeness – ensures that reported information is sufficiently accurate and complete to enable readers to assess the reporting company's performance. Information is accurate where processes and controls have been applied so as to reduce the risk that reported information contains misstatements. Information is complete where sufficient detail is provided to enable readers to understand the nature and degree of any omissions, estimates, assumptions and uncertainties;
- Timeliness – ensures that information is provided regularly and within a defined reporting cycle so that information is available to decision-makers before it loses its capacity to influence decisions;
- Clarity and understandability – means that information is understandable, accessible and useable by readers. Understandable, clear information avoids technical terms, unfamiliar language and excessive and unnecessary detail and may present results using graphics and tables to aid understanding;
- Reliability – enables disclosed information to be subject to examination that establishes the quality and relevance of the information. Reliable information is supported by evidence and internal controls that provide a clear trail from monitored information to the information presented in the sustainability report and may also be supported by external assessments, such as assurance of information;
- Flexibility – to choose the appropriate policy approaches that suit particular economic environments and also give flexibility on how multi-national companies report within the context of multiple global reporting requirements. Some flexibility also enables new reporters, including small and medium sized enterprises, to start at a basic level and improve their reporting quality and expertise over time;
- Building on existing reporting frameworks – to recognise that many companies are already reporting following established guidelines and indicators that work for them;
- Materiality – in order to prevent reports from being too long or cluttered by irrelevant information, action on sustainability reporting should encourage reporters to focus on topics that have a direct or indirect impact on an company's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large;
- Linking reporting and action – in order to assess whether and to what extent reporting is helping Governments and others to meet their sustainability goals, specific links between reporting and national and international priorities and goals (such as the Sustainable Development Goals) may be developed;
- Stakeholder responsiveness – to recognise that an organisation's relationships and engagement with its stakeholders are vital to developing and evaluating a sustainability strategy and identifying and managing risks;
- Making reporting achievable and practical for business – by taking into consideration the economic environment and general business practice, and the notion that reporting should not impose too great an administrative burden on companies.

29. The principles of balance and neutrality, comparability, accuracy and completeness, timeliness, clarity and understandability and reliability are all reflected in the GRI Reporting Principles for Defining Quality, the International Accounting Standards Board "Qualitative Characteristics" and the International Integrated Reporting Council Consultation Draft Framework's "Guiding Principles".

Section 2:
Current Practice

08 What are Governments doing to support and promote corporate sustainability reporting and why?

Governments are encouraging corporate sustainability reporting through various interventions - including legislation and other regulatory initiatives, and/or by providing guidance, procedures and other tools to the private sector, with a view to stimulating good business practice, competitiveness, transparency and progress towards national sustainability goals.

Governments make different types of interventions to encourage corporate sustainability reporting including:

- The introduction of legislation and/or regulatory initiatives on corporate sustainability generally and on specific aspects of sustainability such as climate change, valuation of natural capital and product sustainability;
- Development of guidance on sustainability reporting;
- Reform of governance rules such as regarding the role given to boards and general assemblies, participation of worker representatives on boards, benefit allocation and so on;
- Provision of tools to assist companies with monitoring, measuring and reporting sustainability-related matters, such as labels, ratings, self-evaluation processes and so on.

National Government departments in Australia, China, Denmark, France, India, Germany, Norway, Spain, Sweden and the United States (amongst others) have developed Governmental policy initiatives and regulation to promote sustainability reporting and/or ESG disclosure. The European Commission[30] has adopted resolutions and proposed amendments to Council Directives for enhancing the transparency of certain companies on social and environmental matters.

The GoF47 charter highlights that the Governments involved "are of the view that the development of models of best practice on policy and market regulation on corporate sustainability reporting is an important step towards making sustainability reporting widespread practice. Policy and regulation will level the playing field and create enabling conditions for the business sector to contribute to sustainable development."

Governments support and promote CSR for various reasons including:

- **To stimulate progress in terms of competitiveness and sustainability –** Sustainability reporting provides companies with methodologies for measuring and monitoring their non-financial risks, for improving the quality of their social management and for identification of stakeholder concerns. Information disclosed in sustainability reports provides evidence of the environmental and social impacts of corporate activity, helps Governments and others to understand and assess the contribution that the private sector makes to sustainability initiatives and targets and informs the development of sustainability reporting policies that trigger economic, social and environmental progress[31];
- **Accelerate progress and transparency on sustainability goals –** Although many initiatives to promote sustainability are already in place, progress towards achievement of goals set by those initiatives is slow[32]. Therefore regulatory activity on corporate sustainability reporting may help to accelerate progress towards sustainability-related goals;
- **Improve the quality and quantity of sustainability reporting –** Research shows that Governments have a greater role to play in driving disclosure[33], which in turn can drive more widespread adoption of sustainability reporting practices as well as greater consistency and standardisation of disclosures;
- **Support more robust decision-making and effective sustainability policies –** More reliable data enables Governments to make informed decisions about environmental resources and to increase the effectiveness of policies and programmes to sustain the resources on which businesses depend[34];
- **Encourage good business practice –** Disclosure of sustainability information is increasingly the basis of good business conduct as stakeholders progressively expect companies to be more accountable and transparent. Governments can leverage that good practice by building on it, and on common aspects of the standards and approaches that have been developed to date.

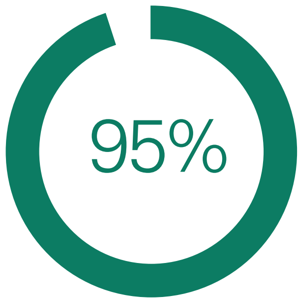
30. European Commission (2013) Non-financial reporting, available at http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm
31. For example, the UNIDO/UNEP Green Industry Platform specifically encourages organisations to report on their progress in moving towards a green economy through Green Industry practices.
32. For example, the UNEP Global Environment Outlook/GEO-5 concludes that of the 90 most important internationally agreed environmental goals and objectives, significant progress has been made in relation to only four.
33. Utopies (2012) Sustainability Reporting at Crossroads – Reporting Trends Survey, available at www.utopies.com/spip.php?rubrique107
34. UNEP (2012) Global Environment Outlook (GEO-5), Summary for Policy Makers p.7., available at http://www.unep.org/geo/geo5.asp

09 How many businesses currently prepare sustainability reports?

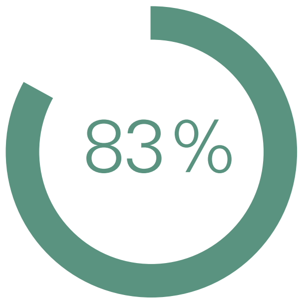
Thousands of companies now produce sustainability reports, and while this number is growing, they only constitute a small share of global business.

Thousands of companies now produce sustainability reports. According to an international study released by KPMG[35], 95% of the 250 biggest companies in the world now report their sustainability performance, compared to 83% in 2008 and 64% in 2005. This study looked at the corporate responsibility reporting of the biggest companies in 34 countries and concluded that, "Corporate responsibility reporting has become the de facto law for business". More than 11,000 companies, including small and medium enterprises (SMEs) send a "Communication on Progress" to the UNGC.

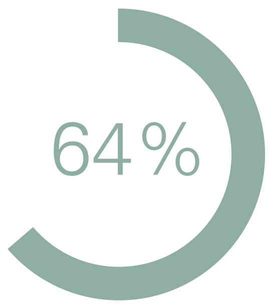
At least 5,800 reports published in 2011 are tracked in online databases such as corporateregister.com and the GRI Sustainability Disclosure Database[36], with year-on-year growth of 17-20% from 2007 to 2011. Although the number of reports is increasing, reporting companies still constitute only a small share of global business with its roughly 82,000 multi-national enterprises and many more SMEs[37].



Of the 250 biggest companies in the world now report their sustainability performance…



compared to 83% in 2008…



and 64% in 2005.

35. KPMG (2011) Corporate Responsibility Reporting Survey, available at www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/default.aspx

36. GRI (2013) Sustainability Disclosure Database, available at http://database.globalreporting.org

37. EU Program for Employment and Social Solidarity / CREM and Adelphi (2010) The State of Play in Sustainability Reporting in the EU

10 Do small and medium sized enterprises prepare sustainability reports?

Given the collective impact of SMEs, their reporting needs to be up-scaled significantly. Many Governments, NGOs, Civil Society Organisations and International Organisations are now focusing on providing tools, resources and incentives to encourage more SMEs to take up the practice of sustainability reporting.

The benefits of sustainability reporting (see FAQ 6), apply to most companies. However, most voluntary and Governmental reporting initiatives focus their reporting requirements on publicly listed and large private companies in the first instance so that capacity can be built through those companies that have access to the greatest resources and have the most significant sustainability impacts.

The motivations for SMEs to report on sustainability can differ from the reporting motivations of larger companies. Increasingly, requests to report come from large companies that ask their suppliers, often SMEs, to report certain types of sustainability information. This enables the purchasing company to make procurement decisions in line with its sustainability policies and goals, and to determine whether its suppliers' practices support those goals. A GRI study[38] found that opportunities for SMEs associated with sustainability reporting include a more competitive advantage where they are seeking to become part of a selected supply chain[39].

Lack of resource and expertise are two of the main challenges facing SMEs. In order to encourage sustainability reporting, they therefore need simpler frameworks, subsidised or free advisory services and training and tools to support reporting that are targeted on the industrial sector in which they operate. Accordingly, some companies offer tools especially designed for SMEs such as the International Network for Environmental Management (INEM) Tool Kit[40] for small companies. GRI has a dedicated certified training program to teach sustainability reporting practices and skills to SMEs and beginner reporters. Companies that rate and benchmark sustainability reports are also introducing special categories for SMEs, such as the CERES-ACCA North American Awards for Sustainability Reporting – Best SME Report[41].

38. GRI (2011) Sustainability Reporting: How Valuable Is the Journey; and Global Action, Local Change – Moving towards Sustainable Supply Chains, available at www.globalreporting.org/resourcelibrary/Starting-Points-2-G3.1.pdf

39. For example, 62% of the purchasing organisations that co-ordinate their activity through CDP's supply chain program say that they recognise or reward suppliers for good carbon management practices and some say that they will deselect suppliers that fail to implement sustainable practices.

40. INEM (2013) Environmental Management and Audit System,available at www.inem.org/?Menue=151

41. CERES (2013) Global initiative for sustainability ratings, available at www.ceres.org/about-us/the-global-initiative-for-sustainability-ratings

11 What are the steps involved in corporate sustainability reporting?

Generally the following 12 steps feature in processes for corporate sustainability reporting.

Identifying applicable requirements – Where legislation applies to all or some of the content that is to be included in a sustainability report, companies must identify, understand and comply with the relevant law. Similarly, they must identify, understand and comply with the requirements of others that request or require sustainability reports, including Stock Exchanges and NGOs.

External stakeholder engagement – Given the advantages and drivers of corporate sustainability reporting (discussed in FAQ 6), a company may start by considering the objectives of and audience for its sustainability reporting. Generally a sustainability report will communicate to its key stakeholders (including Governments and local authorities) their performance in relation to environmental, social and governance issues. Many companies therefore establish an on-going stakeholder engagement process in order to understand its stakeholders' perspectives, to determine what is most material to stakeholders and to ensure that the sustainability information serves their needs as well as the company's objectives for reporting.

Internal stakeholder engagement – Corporate sustainability reporting is a multi-disciplinary exercise that can cover a wide range of subject matter (see FAQ 3). It therefore requires input from a range of functions within a company including governance and risk departments, health and safety, finance, investor relations, customer relations and so on. Therefore, a company may set up an internal structure designed to bring together the relevant internal personnel who might not otherwise have occasion to work together.

Agreeing the reporting cycle – Like financial statements, sustainability reports are often prepared annually. However, in view of the different availability and type of information needed for sustainability reporting, the annual reporting cycle for which sustainability reports is prepared may be different from the financial reporting cycle. In order to manage the sustainability reporting process, a company needs to decide on the reporting cycle.

Reflecting strategy – Many companies recognise that sustainability considerations are increasingly central to the business and that they should be embedded into and aligned with the company's overall strategy, decision-making and risk assessment processes.

Data collection – Once a company has decided on the type of information it will report in order to satisfy its obligations, reporting objectives, strategy and the needs of stakeholders, systems and processes are put in place to collect the data and information needed for reporting.

Boundary setting / scope of reporting – Decisions need to be made about the boundary / scope of information that will be collected, for example, whether and to what extent data from subsidiary companies and suppliers will be collected, and how far along the life cycle of a product information will be collected.

Materiality: deciding report content – Having identified the relevant requirements, engaged with stakeholders, established the sustainability strategy and its links with the business strategy and collected data, companies need to determine what to report. Often the decision on exactly what to report will be determined by identifying those matters that are most material. Materiality can be assessed in various ways. Generally material matters are the most significant for assessing a company's sustainability performance[42]. Stakeholder engagement - a process of gathering the views of those affected, or potentially affected - is therefore a vital part of determining the materiality of an issue.

Strategy and performance management – Plans for a company to become more sustainable are often long-term. A company may introduce performance-monitoring systems, set targets, strategies and key performance indicators towards achieving its sustainability-related goals. Disclosure of targets and performance against these is often a component of sustainability reports so that stakeholders can see the context of the results.

42. For example, in the "UN Guiding Principles on Business and Human Rights", the materiality of an issue is determined by its impact, the extent to which it affects the organisation and any external parties.

Deciding on measurement and reporting approaches and accounting policies – Different approaches towards the measurement and reporting of information exist. Except where a particular measurement or reporting approach is prescribed by regulation, companies may choose how to measure and report information. To maximise transparency, companies are often asked or choose to disclose the basis, policy or methodology used to collect, measure and prepare disclosures in their sustainability reports.

Communication – Increasingly, companies are innovating in order to determine the most effective channels for communicating sustainability information, whether through websites, printed literature, social media or web-based navigation tools.

Response channels – Many companies now invite their stakeholders to respond to the corporate sustainability report, to guide continuous improvement.

12 What are the costs and internal efforts involved for companies preparing sustainability reports?

The costs of issuing a sustainability report may vary. Many elements contribute to the cost, including data collection, report preparation and publishing costs, external assurance, and costs associated with implementing new processes, including staff training, on data collection.

The costs of reporting can vary depending upon the choices made by companies and whether internal staff costs are taken into account as well as external consultancy, publishing and assurance costs. Some large companies employ sustainability or other professionals and/or establish sustainability or multidisciplinary teams to manage sustainability reporting. Others add data collection and reporting to the tasks of existing staff and produce the sustainability report through the external relations or communications team. Key external costs include IT/database expenditure and data collection systems where it is necessary to establish a new system, although such costs normally decrease after systems are fully implemented. There is some evidence to suggest that external assurance represents the highest cost[43]. Studies commissioned by the UK, France[44], Denmark[45] and the European Commission[46] provide an indication of the costs of reporting.

The costs of reporting can vary depending upon the choices made by companies and whether internal staff costs are taken into account as well as external consultancy, publishing and assurance costs.

43. "Note d'analyse" of IRSE, available at www.institutrse.com/images/stories/etude_cot_VF.pdf
44. For example, the French Government calculated that, for a company with 500 to 999 employees the cost could vary from €17,000 to €33,300, for a company with between 1,000 and 4,999 employees the costs could range from €33,300 to €61,600 and for bigger organisations, from €197,000 to €357,000.
45. For example, a study on the costs of compliance with the Danish Financial Statements Act estimated the cost of publication to be between €871 and €43,830 per business, depending on the chosen type of report.
46. For example, the European Commission estimates additional direct costs for large organisations of less than €5,000 per year to comply with the proposed amendments to Council Directives.

13 What voluntary initiatives and frameworks already exist to assist companies with corporate sustainability reporting?

A variety of private sector companies and voluntary initiatives already help companies with their sustainability reporting by offering reporting frameworks and protocols, reporting systems, standards and guidelines, and services for review and assurance.

Some initiatives deal with particular subject areas such as greenhouse gas (GHG) emissions, climate change or the impacts of business activity on forests or water. Others deal with particular aspects of reporting such as measurement approaches, valuation of non-financial impacts or supply chain reporting. Companies that have gained the most widespread uptake are:

- GRI was founded in 1997 and publicly inaugurated at the UN Headquarters in 2002. GRI produces what has become the leading global framework for sustainability reporting, which includes the Sustainability Reporting Guidelines. Key features of GRI's Framework include its:
  - Comprehensive scope, covering the main sustainability issues;
  - Continuous development, reflecting user experience;
  - Consensus-based, multi-stakeholder and multi-constituency development and company governance model;
  - Universal relevance, including for private sector public agency and civil society organisations;
  - GRI collaborates closely with organisations that provide frameworks, systems and principles that complement their work, including the UNGC, OECD, the UN-supported PRI, International Finance Corporation (IFC), IIRC and CDP.
- WRI is a global policy research organisation working with Governments, business and civil society to build transformative solutions that protect the earth and improve people's lives. WRI works through four programs focusing on climate protection, governance, markets and enterprise, and people and ecosystems. WRI has produced a series of protocols on GHG accounting that are widely used by companies and referenced by CDP, GRI and the International Organization for Standardization (ISO) as the de-facto standard for GHG monitoring, measurement and reporting.
- CDP manages a global reporting system that collects information from the world's largest companies about their climate change risks, opportunities, strategies and performance and the way in which they consume and affect natural resources including water and forests. CDP aims to support the development of a world where capital is efficiently allocated to create long-term prosperity rather than short-term gain at the expense of our environment. By leveraging market forces including shareholders, customers and Governments, CDP has incentivised thousands of companies and cities across the world's largest economies to measure and disclose their greenhouse gas emissions, climate change risk and water strategies. In 2012, 4,200 organisations reported to CDP.
- Climate Disclosure Standards Board (CDSB) is an international non-governmental organisation committed to the integration of environmental information into mainstream corporate reporting. The CDSB Framework provides guidance for use by organisations when making disclosures in their mainstream financial reports about the risks and opportunities that environmental challenges present to their business. CDSB's Framework is "standards ready" for adoption by regulators contemplating the introduction or development of environmental disclosure practices.
- UNGC is an initiative that works toward the vision of a sustainable and inclusive global economy that delivers lasting benefits to people, communities and markets. The UNGC incorporates a transparency and accountability policy known as the Communication on Progress (COP) and the annual posting of a COP is an essential demonstration of a participant's commitment to the UNGC and its ten principles.

14 How does integrated reporting fit in?

Integrated reporting, as proposed by the IIRC, is a form of corporate reporting that intends to provide a clear and concise representation of how an company creates value, now and in the future, in terms of its strategy, business model, governance, performance and prospects.

The IIRC is in the process[47] of developing an international integrated reporting <IR> framework, which sets out the principles for the preparation of an integrated report. The IIRC's secretariat was co-founded by The Prince of Wales' Accounting for Sustainability Project, GRI and the International Federation of Accountants, all of which help to promote sustainable development and associated reporting as well as <IR>. However, <IR> and sustainability reporting are separate but complementary activities. Whereas sustainability reporting is designed to inform a wide range of decision-makers about the extent to which a company has impacted or will impact resources and relationships on which people and planet depend for continuance, <IR> is designed to inform providers of financial capital (primarily) about a company's ability to continue creating value.

<IR> is designed to support the decision-making, engagement and voting practices of providers of financial capital by encouraging the allocation of financial resource to reward and support value creation within planetary limits and societal expectations. <IR> therefore encourages companies to report on the way in which their activities affect (positively or negatively) all forms of resources (also known as capitals) including financial, social and natural capital. By assessing the way in which it uses, changes and adds to or depletes different forms of capital, both the organisation and their stakeholders can determine whether, to what extent and how the company contributes to the sustainable development agenda.

<IR> is designed to support the decision-making, engagement and voting practices of providers of financial capital by encouraging the allocation of financial resource to reward and support value creation within planetary limits and societal expectations.

47. IIRC (2013) Draft International Integrated Reporting Framework public consultation, available at http://www.theiirc.org/consultationdraft2013

15 Do companies have their sustainability reports assured or verified and, if so, how?

As interest in sustainability reporting grows among investors and other stakeholders, some companies are choosing to have the information disclosed in their sustainability reports assured by a third party.

External assurance can greatly enhance the credibility of sustainability disclosures. Investors, rating agencies and other analysts increasingly look for assurance when making investment and rating decisions based on sustainability performance. For example, issues such as carbon risk and the ability to trade emissions may have direct financial implications. Generally assurance or verification involves a systematic, independent and documented process for the evaluation of reported sustainability information against pre-defined criteria or benchmarks and, in some cases, according to an assurance or verification standard. Different terms can be used to describe the assurance or verification of sustainability reports including "expert opinion", "independent assessment" and "agreed procedures". All assurance or verification activities are designed to provide company management and readers of sustainability reports with information about the quality and credibility of the report. GRI's G4 Implementation Manual Guidelines (page 51) use the term "external assurance" to refer to "activities designed to result in published conclusions on the quality of the report and information (whether it be qualitative or quantitative) contained within it". An assurance or verification exercise normally culminates in an objective and independent declaration or opinion by the assuror/verifier designed to increase confidence about the validity and credibility of the information in the sustainability report.

The assurance or verification process is usually undertaken by an independent third party and is therefore referred to as "external" assurance or verification. Some companies use internal staff to check the quality of information in their sustainability reports as part of an internal assurance / verification process, but this answer focuses on external assurance.

A range of different providers including accountants and specialist consultants can provide external assurance or verification of sustainability reports. Providers are governed by different codes of conduct or standards, depending upon their affiliation. For example, accountants in professional practice are governed by the International Federation of Accountants' Code of Ethics for Professional Accountants, which means that they must adhere to certain standards and procedures in order to safeguard their independence. Non-accountants providing assurance or verification services may adopt other independent standards, such as those prescribed by ISO, to guide their activities.

The exact way in which an assurance or verification exercise is undertaken depends on the terms of the engagement between the assuror/verifier and the commissioning company, as well as the standard that is applied for conducting assurance activities (see below). However, in general, verification or assurance activities check the systems or models that are used to prepare information for inclusion in a sustainability report, as well as the information itself.

Companies are not typically required to have their sustainability reports verified or assured, although there are exceptions (see below). In many cases sustainability-related information might be included in an annual report because it presents a risk to the company likely to affect its condition or performance. In such cases, although there is generally no specific requirement for such information to be verified or assured, it will normally be reviewed by the company's financial auditor to check that there is no material misstatement between the sustainability-related information and the financial statements.

Even where organisations are not required to do so, some choose to have their sustainability reports assured or verified because it helps to build confidence in the reported information and build relationships of trust. Industry reports and surveys undertaken by Ernst & Young LLP / Boston College[48] and KPMG[49] highlight trends and verification levels. Assurance Standard AA1000 states: "credibility can be considerably enhanced through independent external assurance using accepted professional standards. Reporting organizations and their stakeholders increasingly accept that robust independent external assurance is a key way of increasing the credibility and effectiveness of their reporting and ultimately their performance".

The approach used to conduct the assurance or verification exercise depends on the type of assurance/verification required, the needs of the intended user and the objectives of the assurance or verification activity. The type of assurance may be defined as 'limited', 'reasonable', 'moderate' or "agreed upon procedures". As the terminology suggests, limited assurance conveys less assurance than reasonable assurance.

48. Boston College Center for Corporate Citizenship and Ernst & Young LLP (2013) Value of Sustainability Reporting
49. KPMG (2011) International Survey of Corporate Responsibility Reporting

As of November 2013, there is no globally agreed standard for the assurance of sustainability related information[50]. However, the following standards are among the most commonly used:

- International Standard on Assurance Engagements (ISAE) 3000[51];
- ISO 14000[52] and 26000[53] series of standards;
- AccountAbility's AA1000 assurance standard[54].

GRI's G4 Guidelines encourage the use of external assurance but it is not a requirement in order to be "in accordance" with the Guidelines. This notwithstanding, in 2012, over 46% of reports listed on GRI's Sustainability Disclosure Database indicated some form of external assurance. Generally it is not a statutory requirement, although French regulations[55] require businesses within scope of the law to examine and disclose in their annual reports the social and environmental impact of their activities and to have the information verified by an independent third party, which can be the company's financial auditor or a body accredited by the French Committee of Accreditation.

GRI[56] identifies seven qualities for the external assurance of reports. External assurance providers should:

- Be independent from the reporting organisation and therefore able to reach and publish an objective and impartial opinion or conclusion on the report;
- Be demonstrably competent in the subject matter and assurance practices;
- Apply quality control procedures to the assurance engagement;
- Conduct the engagement in a manner that is systematic, documented, evidence based and characterised by defined procedures;
- Assess whether the report provides a reasonable and balanced presentation of performance, taking into consideration the veracity of data in the report as well as the overall selection of content;
- Assess the extent to which the report preparer has applied the GRI Guidelines in the course of reaching its conclusions;
- Issue a written report that is publicly available and includes an opinion or set of conclusions, a description of the responsibilities of the report preparer and the assurance providers and a summary of the work performed to explain the nature of the assurance conveyed by the assurance report.

50. For example, a survey by Corporate Register [Assure View, the CSR Assurance Statement Report] reported 20% of statements included in the survey were fully compliant with the AA1000 Accountancy Standard, with a further 11% of statements referencing the standard, but not fully compliant with it. In addition, 37% of statements referenced International Standard on Assurance Engagements 3000 (IASE 3000), although the degree of adherence appeared to vary widely. Also, 44% of statements referenced the "Global Reporting Initiative Guidelines". The Corporate Register survey noted that both AA1000 and ISAE 3000 are intended for the guidance of assurance providers, while the GRI Guidelines are intended as guidance for reporting organisations.
51. International Standard on Assurance Engagements (2012) ISAE 3000, Assurance engagements other than audits or reviews of historical financial information, available at www.ifac.org/sites/default/files/publications/files/B005%202012%20IAASB%20Handbook%20ISAE%203000.pdf
52. ISO (2013) 14000 - Environmental management, available at www.iso.org/iso/home/standards/management-standards/iso14000.htm
53. ISO (2013) 26000 - Social responsibility, available at www.iso.org/iso/home/standards/iso26000.htm
54. AccountAbility (20008) AA1000 assurance standard, available at www.accountability.org/standards/aa1000as/index.html
55. Grenelle II Law (2010) LOI no 2010-788 du 12 Juillet 2010 portant engagement national pour l'environnement, available at www.legifrance.gouv.fr/jopdf/common/jo_pdf.jsp?numJO=0&dateJO=20100713&numTexte=1&pageDebut=12905&pageFin=12989
56. GRI (2013) G4 Implementation Manual, page 51, available at www.globalreporting.org/reporting/g4/Pages/default.aspx

Section 3:
Opportunities for Further Development and Increased Uptake of Corporate Sustainability Reporting

16 What are the opportunities for developing the progress that has already been made in sustainability reporting?

Following the introduction of regulatory and voluntary approaches to sustainability reporting in many jurisdictions, opportunities exist to achieve better consistency, communication, metrics and outcomes.

- **Encourage greater international consistency of approach to sustainability reporting by considering how characteristics shared by national approaches may be leveraged so as to consolidate and streamline good practice and eliminate duplication.** Fragmented national approaches to sustainability reporting can produce variation in the quality, quantity and relevance of disclosures and prevent effective use of information by markets and stakeholders because it is difficult to compare and understand.

  The CSRC[57] has called upon UN member states to commit to developing a convention on corporate sustainability reporting. The call to action was prompted in part by SSEI[58], which indicated that stock exchanges would welcome a global approach to consistent sustainability reporting[59].

  Some harmonisation activities are already underway that could inform development of a global framework, including:

  + Sector-specific initiatives - The oil & gas, cement, mining and metals industries have convened committees to agree common global approaches to climate change and sustainability reporting. The activity to date could inform convergence activity by other industries;

  + Regional initiatives - In some jurisdictions, sustainability reporting requirements have been put in place at state, national and regional level. For instance, the EU consultation on non-financial reporting concluded that the EU should draw on existing reporting frameworks rather than create new standards and principles. This was confirmed in an EU proposal[30] to amend the fourth[60] and seventh[61] EU Council Directives, which states that companies may use existing national and international reporting frameworks to disclose information required under the proposed amendments.

  Being required to negotiate multiple regulations in different jurisdictions can increase the compliance costs for multinational companies. A more consistent international approach to sustainability reporting could emerge from identification of the best of existing market practice, whilst allowing flexibility to reflect differences in policy objectives, culture, experience and business operations. Models that have successfully led to increased global harmonisation on other subjects, such as the convergence of national accounting standards through International Financial Reporting Standards (IFRS) and OECD's model tax convention may provide insight into the pathways that can be used to encourage greater international consistency on sustainability reporting.

- **Encourage a common language and common units of measurement and communication to emerge –** Common language and common units of measurement are a pre-requisite for the exchange of information needed to support schemes aimed at promoting sustainability, such as carbon trading schemes and for benchmarking. National financial reporting rules are increasingly coalescing around IFRS and it is possible that sustainability reporting rules will follow the same path. New macro-level metrics such as national Sustainable Development Indicators and measures beyond traditional Gross Domestic Product (GDP) measurements could also facilitate a more comprehensive assessment of wellbeing, environmental health, and progress towards a green economy.

- **Link reporting and the achievement of sustainability outcomes –** Companies can identify the benefits of reporting for their own companies, however it is harder to identify the contribution that sustainability reporting makes to wider sustainability reporting goals. There are opportunities to develop tools to help monitor the overall global effectiveness of sustainability policies by linking corporate reporting with sustainable development objectives and goals.

57. Arriva (2013) The EU in 2013: Embedding corporate sustainability reporting, available at www.aviva.com/corporate-responsibility/programme-updates/15615
58. SSEI (2012) A report on progress, available at www.sseinitiative.org/publications
59. Similarly , UNCTAD argues that a global standard should draw on and encourage adoption of existing tried, tested and market-accepted provisions and practices - UNCTAD (2010) World investment report 2010, available at http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/WIR-Series.aspx Similarly , UNCTAD argues that a global standard should draw on and encourage adoption of existing tried, tested and market-accepted provisions and practices - UNCTAD (2010) World investment report 2010, available at http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/WIR-Series.aspx
60. Fourth Directive: annual accounts of companies with limited liability, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003L0051:EN:HTML
61. Seventh Directive: consolidated accounts of companies with limited liability, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:156:0033:0042:EN:PDF

17 What are the policy options for introducing and building capacity in sustainability reporting?

Governments can support and promote sustainability reporting through a range of interventions, regulation, guidance, consensus building, capacity building, sharing good practice and supporting companies already working in this area.

Governments can support and promote sustainability reporting through a range of interventions including:

- Capacity building by developing abilities, encouraging voluntary reporting and supporting relationships and values that enable companies to embark on and develop their sustainability reporting practices;
- Using legal instruments such as regulation; for example introducing laws on CSR generally and on specific aspects of sustainability reporting such as climate change, valuation of natural capital, and product responsibility. Also using legal instruments to introduce public procurement rules, stock exchange provisions and financial regulation;
- Introducing political and institutional consultative processes and encouraging social and civil dialogues for building consensus, determining effective approaches to regulation, and going 'beyond the law' to help move society towards a sustainable model of development;
- Promoting continuous exchange of experience between Governments on best practices on policy and the market regulation tools being used to promote sustainability reporting;
- Provision of tools to assist companies with monitoring, measurement and reporting of sustainability-related matters;
- Support for companies and initiatives already working to encourage sustainability reporting, and building upon existing frameworks.

Where legal instruments are used, the type of law that is introduced can vary according to its obligations, prescriptions, and the authorities responsible for its enforcement. In some jurisdictions so-called "soft law" has been introduced which sets out an obligation but does not prescribe how that obligation should be satisfied. However, mandatory legislative requirements can also allow for a high degree of flexibility, as is the case with regulation based on the "comply-or-explain" principle.

Comply/apply/report or explain approaches, are flexible both for the introducing Government and for those to which the provisions apply. In the case of sustainability reporting, a report or explain approach enables companies to determine how to report, leaving scope for them to choose their preferred framework, sustainability indicators and standards. This would facilitate capacity building amongst new reporters, including SMEs, to start at a basic level and improve quality and expertise over time. Furthermore, a report or explain approach is relatively simple to enact and implement. It does not require complex or excessively prescriptive regulation.

18 What activities could complement and support policy options and actions?

Companies, stock exchanges, civil society, investors and non-governmental organisations individually and collectively can engage in activities that support and complement policy options and actions. Together they can help to build capacity for sustainability reporting and promote a culture of transparency.

This answer considers actions that can be taken by companies, stock exchanges and civil society. The role of investors is addressed separately in FAQ 19.

Companies can:

- Support the further growth of sustainability reporting by working with their supply chains to encourage those organisations to adopt and report sustainable processes and practices that are then disseminated throughout supply chains;
- Actively engage with their stakeholders to inform their understanding and reporting of matters that are most important and relevant to stakeholders;
- Build capacity through collaboration with other organisations and participation in various forums which help to build consensus on sustainability reporting, share best practices and promote a culture of transparency;
- Collaborate with others to assess the needs of different organisations, set priorities, design training programs, exchange knowledge, develop general and industry-specific tools and approaches for sustainability reporting and identify optimum approaches to transparency and accountability.

Stock exchanges can:

- Encourage transparency and increase and improve sustainability reporting among listed companies through the introduction of listing requirements and guidance;
- Drive and promote voluntary sustainability reporting through the creation of indices and the facilitation of training on sustainability reporting for their registrants[62];
- Introduce sustainability related requirements, guidance and indices individually or in collaboration with others, such as through the Sustainable Stock Exchanges Initiative[63]. Examples of the requirements, guidance and indices that have been introduced by stock exchanges worldwide are under development.

It should be noted that some stock exchanges are limited in their ability to act, as in various jurisdictions their authority is either shared with or is the exclusive remit of regulators and legislators.

Of the various corporate disclosure initiatives identified through research by the Stakeholder Forum for a Sustainable Future[64], 25% were initiated or driven by civil society. The research also shows that the main focus of civil society's activity on corporate disclosure relates to environmental impacts, human rights and supply chain responsibility. Civil society's involvement has resulted in the establishment of initiatives such as the Human Rights Due Diligence Project[65], Publish What You Pay[66] and the Dialogue on a Convention for Corporate Social Responsibility and Accountability[67].

Civil society can:

- Contribute to the development of sustainability reporting through advocacy, involvement in multi-stakeholder dialogue and requesting information about environmental, social and governance performance from companies;
- Work with non-governmental organisations such as Transparency International and the European Coalition for Corporate Justice (ECCJ);
- Read corporate reports and provide feedback to companies and other stakeholders on the quality and substance of those reports;
- Draw attention to instances where companies are not meeting their sustainability targets or where targets are insufficient.

62. For example, with effect from 2012, BM&FBOVESPA (Brazil) recommends that listed organisations report whether they publish a regular sustainability report and where it is available, or explain why not. This Stock Exchange also operates a corporate sustainability. The criteria and methodology are used to survey organisations each year.
63. SSEI (2009) available at http://www.sseinitiative.org
64. Stakeholder Forum for a Sustainable Future (2012) Unpublished research.
65. Due diligence project (2013) About us, available at www.duediligenceproject.org/About.html
66. Publish What You Pay (2013) About us, available at www.publishwhatyoupay.org/about
67. Dialogue on a convention for corporate social responsibility and accountability (2013) About us, available at www.csradialogue2012.org/index.php?option=com_content&view=category&layout=blog&id=49&Itemid=56

19 What can investors do?

Investors can play a role in advancing sustainability reporting by: providing companies with feedback on the quality and substance of their reports; incorporating long term environmental, social and governance considerations into decisions on investment and divestment, etc; requesting disclosures on sustainability issues and on the management of material issues; encouraging corporate Board members to be responsible for sustainability reporting, and; allocating resources to companies that demonstrate positive sustainability impacts.

Much mainstream reporting is provided for existing and potential investors in corporations. In particular, financial statements and accompanying disclosures by those charged with the governance of companies are intended to inform the decisions of existing and potential providers of financial capital. Investors' interest in sustainability reporting is increasing as it becomes a more mainstream activity, helping them identify the ways in which environmental, social and governance issues affect organisations' ability to create value[68].

Investors can play a role in advancing sustainability reporting by:

- Providing companies with feedback on the quality and substance of their reports;
- Incorporating long term environmental, social and governance considerations into decisions on investment and divestment, etc.;
- Requesting disclosures on sustainability issues and on the management of material issues;
- Encouraging corporate Board members to be responsible for sustainability reporting;
- Allocating resources to companies that demonstrate positive sustainability impacts.

There is evidence[69] of demand for sustainability information by investors. There is also evidence[70] that investors are using sustainability information for engagement with companies in their portfolio, for benchmarking and assessment of risks. While there is some evidence that investors are using sustainability information to make capital allocation decisions[71], research suggests mixed results for various reasons, including:

- Limited availability of information[72];
- The voluntary nature of reporting means that the quality, quantity and relevance of disclosures vary significantly and investors are unable to determine the relevance of information for their analyses[73];
- Policy limitations and uncertainties;
- Differences in the planning horizons over which investors work and the time horizons over which sustainability targets are set;
- Lack of awareness of sustainability issues and capacity to incorporate non-financial information into the investment decision making.

While much of the current regulatory effort on non-financial disclosure is aimed at reporting companies, some regulators and other stakeholders are demanding information from investors on how they incorporate non-financial corporate information into their investment activities. The UK Pensions Act require a fund's Statement of Investment Principles to cover its policy on "the extent (if at all) to which social, environmental, or ethical considerations are taken into account in the selection, retention and realisation of investments." Meanwhile, in Australia, the Financial Services Reform Act (2000) requires that all products with an investment component - including superannuation funds and mutual funds - include disclosure of the extent to which labour standards or environmental, social, or ethical considerations are taken into account in the selection, retention, and realisation of the investment. Similar requirements exist in Sweden, France, Germany, Norway, Belgium, Italy, and Austria, with legislation pending in Spain and are being discussed at an EU level[74]. Similarly, from civil society, the Asset Owners Disclosure Project (AODP)[75] is demanding institutional investors to measure and disclose the carbon footprint of their investments.

68. For example, collaborative efforts by investors are responsible for some of the main voluntary sustainability disclosure schemes such as CDP and the Corporate Sustainability Reporting Coalition. The UN-supported Principles for Responsible Investment (UNPRI), the Investor Network on Climate Risk (INCR), the Institutional Investor Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN) and the Investor Group on Climate Change (IGCC) are other examples of investor-led organisations that seek to encourage sustainability reporting.
69. For example, information reported to CDP is disseminated through Bloomberg and over 1 million CDP data points are downloaded every six weeks.
70. For example, PwC (2012) "Do investors care about sustainability? Seven trends provide clues"; DB Climate Change Advisors (2012) "Sustainable Investing, Establishing Long Term Value and Performance"; UNPRI (2013) "Integrated Analysis: How investors are addressing environmental, social and governance factors in fundamental equity valuation."
71. Aviva (2012) Analysis of companies' ESG performance on the rise, available at www.avivainvestors.com/media-centre/2012-archive/xml_028729.html
72. For example, according to research by The Conference Board, only 25% of the 3,000 organisations tracked by Bloomberg's Environmental, Social and Governance database released sustainability reports;
73. CDSB (2011) Financial institutions and climate change, available at www.cdsb.net/sites/cdsbnet/files/financial-institutions-and-climate-change-draft-summary-2011.pdf
74. Mercer (2011) Potential ESG disclosure requirement in Ontario, available at www.mercer.ch/articles/ESG-disclosure-requirement-Ontario
75. Asset Owners Disclosure Project (2013) available at http://aodproject.net/

20 What are the opportunities for developing technical and implementation aspects of corporate sustainability reporting?

Companies, Governments, investors, NGOs and others are increasingly developing new solutions to improve sustainability reporting, while developing the technical and other aspects of sustainability reporting may simplify implementation and promote increased corporate uptake.

Critical examination of the quality and quantity of reporting points to evidence[76] that further research is both necessary and timely. This could include:

- Systems for data collection and availability – That are easy and inexpensive to integrate into existing corporate systems for the consistent collection of sustainability-related data;
- Internal liaison – Sustainability reporting is based on information about a wide range of corporate activities including human resources, environmental management, finance, business recovery, product development, risk and corporate governance. Internal networks that enable those charged with responsibility for sustainability reporting to liaise with all relevant colleagues and departments should lead to greater efficiency, less duplication of effort and a more holistic approach to sustainability reporting;
- Staff training and managed resource allocation – Can help to make sure that resources and expertise are available for sustainability reporting activities;
- More robust and methodological approaches to sustainability reporting – Can encourage businesses to prepare sustainability reports as they are less likely to be perceived as mere greenwashing or public relations and media exercises;
- Identifying consistency between standards and approaches to reporting – Highlighting where there is a degree of consistency between different national requirements can reduce complexity for companies negotiating a multiplicity of reporting demands and requirements, provide greater certainty to companies about expectations of sustainability reports and thereby encourage greater uptake;
- Measurement techniques – Development of measurement techniques for the inputs and outputs relevant to sustainability reporting is advancing steadily. Research into the further tools and solutions that may be developed to answer the following measurement questions may help to encourage greater uptake of sustainability reporting:
  - + The type of input or activity data required as the starting point for measurements[77];
  - + The way in which measurements of activities, inputs and outputs should be taken, whether by estimation or direct measurement and also what formulae, coefficients, tolerance limits and control requirements should be applied;
  - + How uncertainty in measurements should be reported;
  - + What units should be used for measurements of non-financial inputs, activities and outputs?
- Organisational boundary setting – Depending on whether a company is subject to compliance requirements in relation to some of its sustainability reporting, and depending on the initiatives and schemes in which the company participates, different requirements and interpretations exist for whether and to what extent reporting should include information about the activities of the parent company, its subsidiaries, joint ventures, associates, investees, suppliers and upstream and downstream activities. A uniform or identifiable approach to organisational boundary setting might allay concerns about information "leakage" where the selection of a particular boundary approach results in non-disclosure of certain risks, activities and emissions and encourage uptake by helping companies to set organisational boundaries;
- Performance indicators – Companies currently use a wide range of performance indicators and metrics in sustainability reports. Various companies have developed indicators to be used for sustainability reporting and benchmarking. Leveraging industry coalescence around particular metrics and indicators and developing more standardised[78] approaches to expressing sustainability results through performance indicators may help aid understanding and comparability of sustainability reports and encourage uptake;
- Review, verification and assurance – New, standardised approaches for reviewing, verifying or assuring information in sustainability reports are fast emerging and should help to support uptake of sustainability reporting.

76. For example, Utopies (2012) "Sustainability Reporting at the Crossroads, Reporting Trends Survey" top diagram page 9, available at www.utopies.com/spip.php?rubrique107

77. For example, in the case of GHG emissions reporting, activity or input data can be based on quantities of fuel burnt or on direct monitoring from instruments on fuel stacks.

78. For example, various groups including the European Combined Reporting Alliance for ESG Coalition have called for performance indicators to be agreed and formalised and reflected in a global framework, ideally aligning financial and non-financial indicators.

Acronyms:

AODP	Asset Owners Disclosure Project
CDP	**formerly Carbon Disclosure Project**
COP	Communication on Progress
CSR	**Corporate Social Responsibility**
CSRC	Corporate Sustainability Reporting Coalition
ECCJ	**European Coalition for Corporate Justice**
ESG	Environmental, Social and Governance
GDP	**Gross Domestic Product**
GHG	Greenhouse gas
GoF47	**Group of Friends of Paragraph 47**
GRI	Global Reporting Initiative
ICGN	**International Corporate Governance Network**
IFC	International Finance Corporation
IFRS	**International Financial Reporting Standards**
IIRC	International Integrated Reporting Council
INCR	**Investor Network on Climate Risk**
INEM	International Network for Environmental Management
IR	**Integrated Reporting**
ISAE	International Standard on Assurance Engagements
ISO	**International Organization for Standardization**
NGO	Non-Governmental Organisation
OECD	**Organisation for Economic Co-operation and Development**
PRI	Principles for Responsible Investment
SASB	**Sustainability Accounting Standards Board**
SSEI	Sustainable Stock Exchanges Initiative
SME	**Small and Medium Enterprise**
UNCED	United Nations Conference on Environment and Development
UNCSD	**United Nations Conference on Sustainable Development**
UNCTAD	United Nations Conference on Trade and Development
UNEP	**United Nations Environment Programme**
UNGC	United Nations Global Compact
WBCSD	**World Business Council for Sustainable Development**
WEF	World Economic Forum
WRI	**World Resources Institute**
WSSD	World Summit on Sustainable Development
WWF	**World Wide Fund for Nature**

This Frequently Asked Questions document contributes to the work of the Group of Friends of Paragraph 47 of the Rio+20 Outcome Document on corporate sustainability reporting and its Secretariat (provided by the United Nations Environment Programme – UNEP and the Global Reporting Initiative – GRI). This publication builds on the experience of member Governments, as well as on the input from relevant stakeholders, and seeks to support other Governments by providing clarity to the discussion on corporate sustainability reporting. It addresses the key questions that governments interested in this agenda have been raising.

The information in this study is divided into three sections. The first sets out the background to corporate sustainability reporting and introduces readers to what it is, who is involved in developing it and why it is important for the global sustainability agenda. Section 2 provides an overview of current sustainability reporting policies, initiatives and practices. Section 3 focuses on the opportunities that the Group of Friends of Paragraph 47 and others have to develop corporate sustainability reporting further.

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