



# Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives





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Policymakers and Stock Exchanges  
on Sustainability Reporting Initiatives**



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## Preface

Today the world faces a number of critical development challenges, from chronic poverty and economic instability to climate change and harmful emissions. The United Nations is working to identify and address some of the world's greatest challenges through the formulation and then implementation of sustainable development goals. As part of the United Nations post-2015 agenda, the sustainable development goals will play a crucial role in catalysing efforts to address the urgent challenges of the twenty-first century. Every institution, in every sector, will have a moral imperative to contribute to these goals. This is our common challenge, to secure our common future.

Sustainability reporting plays an important role in providing the tools that will be needed to implement the sustainable development goals. High-quality corporate reporting on the environmental and social issues that businesses face can help identify targets and measure progress. Such reporting can play an important role in driving investment to sustainable business practices, financing the sustainability outcomes that the world seeks.

The demands of investors and other stakeholders for improved sustainability reporting have already begun to bear fruit. In recent years, policymakers and stock exchanges around the world have been greatly accelerating their efforts in this area. The stock exchanges in Brazil and South Africa, for instance, have become leading examples of promoting corporate sustainability reporting – examples that even exchanges in more developed countries look to for lessons. Government regulators from France to India, from Sweden to China, have begun introducing new rules requiring corporate sustainability reporting.

In 2009, United Nations Secretary-General Ban Ki-moon launched the Sustainable Stock Exchanges initiative, an effort co-organized by UNCTAD, the Global Compact, the United Nations-supported Principles for Responsible Investment and the United Nations Environment Programme Finance Initiative. Since that time the Sustainable Stock Exchanges has seen major stock exchanges around the world sign its voluntary public commitment to promote improved corporate reporting – and ultimately performance – on environmental, social and governance issues.

We are not at the end of this work, but we are at the end of the beginning of this work. With more than a decade of sustainability reporting experiences to look back upon, we have today enough examples that we can begin to talk of best practices and share the lessons learned.

In 2012 at the United Nations Rio+20 Conference, member States reiterated “the importance of corporate sustainability reporting”, in the context of sustainable economic growth. Member States called on the United Nations to assist industry, interested Governments and relevant stakeholders to develop models for best practice. The United Nations Secretary-General appointed UNCTAD as an official implementing body for this call to action. This guidance is UNCTAD’s first response to this call to action. Developed through the UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the guidance benefits from the inputs of leading stock exchanges and accounting professionals, investors and standard setters. The guidance serves as a voluntary technical tool and provides an opportunity to share best practice experiences in this area.

Mukhisa Kituyi  
Secretary-General of UNCTAD

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## I. Overview: Roadmap for developing sustainability reporting initiatives

This guidance is a voluntary technical aid to assist stock exchanges and regulators who have responsibility for corporate reporting practice and are contemplating the introduction of a new initiative – or further development of an existing one – to promote corporate sustainability reporting. Sustainability reporting in this context is treated as reporting on social and environmental policies and impacts.<sup>1</sup> An increasing number of stock exchanges and regulators have introduced, or are in the process of developing, such initiatives to help companies reach the following objectives:

- (a) Meet the evolving information needs of investors;
- (b) Navigate increasingly complex disclosure requirements and expectations;
- (c) Manage sustainability performance;
- (d) Understand and address social and environmental risks and opportunities.

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<sup>1</sup>This approach is in line with the United Nations Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, which also treats sustainable development reporting as reporting on environmental and social impact (United Nations, 2013:24). It notes that social issues, as indicated in the ISO 26000 definition of social responsibility, include economic development aspects such as job creation, poverty alleviation and community development. The report also notes that most exchanges and regulators already have extensive rules or guidance in place on corporate governance and financial information, including how governance and financial rules should be applied to meet sustainable development goals (UNCTAD, 2011a).

These developments take place within a broader international policy context that sees a growing number of member States encouraging corporate sustainability reporting as a key tool for promoting sustainable development (box 1).

### **Box 1. The United Nations context: Member States call for sustainability reporting initiatives**

UNCTAD is the host for the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). Its twenty-ninth session in 2012 deliberated on the increasing number of national regulatory and stock exchange initiatives to promote sustainability reporting. This included reports on the outcomes of the United Nations Conference on Sustainable Development, also known as Rio+20 (Rio de Janeiro, June 2012) and specifically on paragraph 47 of the outcome document entitled “The future we want”. In that paragraph, member States called on governments and other stakeholders, with the support of the United Nations system, “to develop models for best practice and facilitate action for the integration of sustainability reporting”. It was also noted that UNCTAD had been designated as one of the official implementing bodies of the Rio+20 call for action on sustainability reporting.

In this context, the Group of Experts discussed the increasing demand for sustainability reporting and the increasing number of national regulatory and stock exchange initiatives to promote such reporting. The Group of Experts furthermore noted “the influential role that stock exchanges can play in promoting high-quality sustainability reporting through listing rules and voluntary sustainability indices” and “the diverse nature of different requirements and initiatives and a need for further efforts towards promoting a harmonized approach to sustainability reporting among member States”. Finally, the Group of Experts agreed on the need for “further analysis and deliberations on sustainability reporting initiatives with a view to sharing experiences in this area between countries and providing best practice guidance to policymakers and stock exchanges”. (UNCTAD, 2012:3–4).

In 2013 during the ISAR intersessional period, the United

Nations published the Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, in which the Panel proposed that “in future – at latest by 2030 – all large businesses should be reporting on their environmental and social impact – or explain why if they are not doing so.” (United Nations, 2013:24). Some investor and civil society organizations are encouraging member States to consider making sustainability reporting a sustainable development goal in the context of the post-2015 development agenda.<sup>2</sup>

This guidance benefits from the advice of international experts (annex I) and builds on analysis provided in the following publications: Corporate Governance Disclosure in Emerging Markets: Statistical Analysis of Legal Requirements and Company Practices (UNCTAD, 2011a), Corporate Greenhouse Gas Emission Reporting: A Stocktaking of Government Schemes (OECD, 2012), Sustainable stock exchanges: A report on progress (Sustainable Stock Exchanges Initiative, 2012), and Carrots and Sticks: Sustainability Reporting Policies Worldwide – Today’s Best Practice, Tomorrow’s Trends (United Nations Environment Programme (UNEP) et al., 2013) and additional research on current best practices from around the world. A selection of national approaches is provided in annex II to illustrate the types of initiatives examined.

The illustrative examples and expert advice provided in this paper are based on sustainability reporting initiatives that stock exchanges and/or regulators in different member States have already implemented.<sup>3</sup> The policy suggestions are made on the understanding that there is no one-size-fits-all approach; rather, that different countries under different

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<sup>2</sup>For example, the Corporate Sustainability Reporting Coalition.

<sup>3</sup>This guidance benefited from the expert advice of the UNCTAD-ISAR Ad Hoc Consultative Group on Sustainability Reporting Initiatives (annex I).

circumstances will need to tailor their sustainability reporting policies to best fit their specific conditions. In this regard, the document seeks to provide stock exchanges and regulators with a road map of four main elements to be considered in the design of their own policies in this area (see following table).

### **Main elements to consider when developing sustainability reporting initiatives**

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<b><i>Institution</i></b>	Which institution (or group of institutions) is best positioned to introduce a sustainability reporting initiative? What are the implications that arise from the roles of different institutions?
<b><i>Scope</i></b>	What is the scope of application (i.e. does the reporting initiative apply only to certain sectors or types of companies)? What is the scope of subject matter (i.e. the sustainability issues being addressed)?
<b><i>Disclosure model</i></b>	Which disclosure model should be used (e.g. voluntary versus mandatory)? What are the implications of each and best practice examples of implementation?
<b><i>Design and implementation</i></b>	Is the initiative aligned with international standards? Does it incorporate compliance promotion mechanisms? What measures can ensure that initiatives are maximally effective and produce the desired policy outcomes?

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Each of the main elements in this road map is discussed in a section of the report below (sections II–V).

Each section contains a number of recommendations for consideration by regulators and stock exchanges. These are summarized in section VI.

## **II. Identify the institution: Stock exchanges and/or regulators**

Sustainability reporting initiatives can originate from several types of institutions within countries and can be customized, depending on the national situation. Much of the existing mandatory social and environmental corporate reporting is triggered by issue-specific rules emanating from government ministries and for which the information being reported is not always publicly available or easily accessible. The focus of this guidance is on broad sustainability reporting initiatives – both mandatory and voluntary – that seek to promote a comprehensive public reporting framework, to be introduced by stock exchanges and or regulators with oversight on corporate reporting.<sup>4</sup>

Which institution, stock exchange or regulator is most appropriate to launch a sustainability reporting initiative will depend on a market's unique circumstances. However, some general guidance can be provided based on factors such as the current regulatory environment, a stock exchange's regulatory powers and relationship with its regulator, and the competitive position of the exchange. These factors are explored in more detail in sections A and B below.

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<sup>4</sup> Regulatory oversight of corporate reporting is handled by different bodies in different countries, but is commonly in the hands of securities regulators.

## A. The existing national rule landscape

Stock exchanges and regulators should consider the market's current sustainability reporting landscape. Particularly in developed markets where sustainability issues tend to be more heavily regulated, a number of environmental and social disclosure rules may already exist. Stock exchanges and regulators should assess the degree to which existing rules are meeting investors' information needs and where the exchange might fill a disclosure gap or help facilitate or enhance investor access to such disclosures. Where a disclosure is required by law, it is sometimes made only to the regulator. A stock exchange may help facilitate access to such information by, for example, requiring that the actual disclosure also be made publicly (where the regulation does not require this), or by requiring disclosure of an inventory of regulatory disclosures so as to enable investors to understand where regulatory disclosures happen and/or engage with companies and regulators to gain access to such information.

In markets where various issue-specific disclosure rules exist, stock exchanges or regulators should consider introducing a more comprehensive reporting initiative. For example in France, the Second Grenelle Act includes multiple articles related to sustainability reporting and supersedes past sustainability articles such as the one contained in the 2002 New Economic Regulations. A comprehensive approach to sustainability reporting can help regulators avoid the emergence of a "spaghetti bowl" of numerous ad hoc single-issue disclosure rules that can lack coherence and be confusing for companies to follow.

Introducing a comprehensive sustainability reporting initiative can involve cooperation between different

government entities and/or stock exchanges. For example, when the Government of India Ministry of Corporate Affairs came out with the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business in July 2011, the Securities and Exchange Board of India decided to require listed companies to prepare business responsibility reports based on the guidelines.

## **B. Separation of regulatory powers and the competitive position of stock exchanges**

Initiators of a sustainability reporting initiative should consider how authority is separated in their market between stock exchanges and regulators. The regulatory oversight of stock exchanges in many jurisdictions has been tightened in recent years to adjust to the model of stock exchanges that are for-profit entities. In some countries, several of the regulatory functions traditionally performed by stock exchanges have been completely removed from their mandate and given to regulatory bodies. The structures of these regulatory entities are also varied: some are government-backed agencies (e.g. the Monetary Authority of Singapore, the Hong Kong Securities and Futures Commission and the Mexican Comisión Nacional Bancaria y de Valores) and some are private companies (e.g. the Tokyo Stock Exchange Regulation).

As a result, the self-regulatory powers of stock exchanges now differ greatly, as does the extent of regulatory oversight that they are subject to. For example, in the United Kingdom of Great Britain and Northern Ireland, the London Stock Exchange no longer sets listing rules or approves new listings: this function is performed by the Financial Conduct

Authority. At the other end of the spectrum, the Australian Securities Exchange (ASX) is a largely self-regulatory organization, although it shares some functions, such as member and intermediary regulation, with the Australian Securities and Investments Commission. Somewhere in the middle of the spectrum would be the stock exchanges of the United States of America which retain some regulatory powers with most authority held by the Securities and Exchange Commission. In countries where the stock exchange does not have regulatory powers and cannot set listing rules, the stock exchange can consider the implementation of voluntary initiatives, while regulators can consider both voluntary and mandatory initiatives.

In countries where stock exchanges retain regulatory powers to set listing rules, the degree to which the exchange competes with other local or global exchanges is an important contextual consideration. Stock exchanges need to ensure that any disclosure requirements do not significantly discourage potential listee companies from listing on their exchange. Therefore, a stock exchange with a strong competitive position or one that enjoys a quasi-monopolistic position (e.g. serves a local largely captive market) may be better positioned to introduce new initiatives, particularly mandatory initiatives, for its current and prospective listed companies.

Stock exchanges and regulators may wish to work with forums which can help stock exchanges and regulators consider how to best implement sustainability reporting initiatives (box 2).

## Box 2. The Sustainable Stock Exchanges Initiative



[www.SSEinitiative.org](http://www.SSEinitiative.org)

The Sustainable Stock Exchanges initiative is a peer-to-peer learning platform for stock exchanges and regulators to share best practices. Launched by United Nations Secretary-General Ban Ki-moon in 2009, the Initiative holds biennial global dialogues which bring together senior capital market regulators, chief executives of stock exchanges and institutional investors and looks at how their joint efforts can enhance disclosure – and ultimately performance – on sustainability issues. The Initiative is co-organized by UNCTAD, the United Nations Global Compact, the UN-supported Principles for Responsible Investment (PRI) and the UNEP Finance Initiative.

### III. Define the scope: Companies included and subjects covered

Stock exchanges and regulators, when determining the appropriate scope of application and subject matter for a sustainability reporting initiative, should take into consideration the existing capacity of companies to report on sustainability issues and focus on the disclosure of information that is material to investors and other stakeholders.

## **A. Scope of application: Number and types of companies included**

Sustainability reporting initiatives may seek to focus on those enterprises with the most significant sustainability impacts, while taking into the consideration the capacity of companies – especially small and medium-sized enterprises (SMEs) – to prepare such reports. Particularly in the case of mandatory disclosure initiatives, one policy option is to only require a subset of companies to disclose on sustainability issues, such as only large enterprises, enterprises that operate in specific high-impact sectors, or State-owned enterprises. For small enterprises, either mandatory initiatives with differential reporting standards appropriate to their capacity or voluntary reporting schemes could be considered.

Since 2012, the listing agreement of the Indian Stock Exchange mandates that business responsibility reports addressing environmental, social and corporate governance issues must be disclosed as a part of annual reports for the top 100 listed entities by market capitalization. This reporting requirement in India is currently voluntary for all other listed entities. Such an approach – mandatory sustainability reporting for only the 100 largest companies – can be part of a gradual introduction of reporting requirements with the aim of eventually covering a broader group of large enterprises.

In addition, the application of sustainability reporting initiatives should seek to avoid creating disproportionate burdens on listed companies versus private companies. In conjunction with the competitive environmental issues discussed above, initiatives that create a disproportionately high burden on listed companies compared with private companies may influence a company's decision to list. While

the financial and non-financial reporting obligations for listed companies will in almost every jurisdiction exceed those of private companies, the differential between the two should be carefully considered. Some privately held companies are among the largest transnational corporations in the world and have concerned stakeholders demanding more sustainability information. Moreover, private equity fund managers are increasingly demanding sustainability information from the companies in which they invest (PRI, 2013). As a result, regulators should consider the application of sustainability reporting initiatives to both private and listed companies.

### **B. Scope of subject matter: Focus on material sustainability issues**

Stock exchanges and regulators should consider explicitly including sustainability issues in their definitions of material information. Stock exchanges and/or securities regulators require companies to determine and disclose material business risks. “Material” is usually defined by the securities regulator or a standard setting body, which may provide some examples of the kinds of information that could be material. As an example, according to the Corporate Governance Principles and Recommendations with 2010 Amendments put out by the ASX Corporate Governance Council, each company needs to determine the material business risks it faces. These include sustainability considerations in addition to more traditional forms of risk such as operational, technological, and market-related risks (ASX, 2007:33). Further, guidance issued by the United States Securities and Exchange Commission stipulates that if in doubt, climate change-related risks should be regarded as material (Securities and Exchange Commission, 2010). The

UNCTAD-ISAR publication *Guidance on Corporate Responsibility Indicators in Annual Reports* states that “The management of the enterprise is responsible for making adequate decisions with respect to the application of the materiality principle and its effects on the content of its corporate responsibility reporting” (UNCTAD, 2008:12).

Guidance on material issues should also specifically include the material aspects of reasonably foreseeable environmental and social impacts resulting from future projects and activities currently in a planning or project development phase, such as land acquisitions, deployment of new technologies, or mergers and acquisitions. Such disclosure, combined with stakeholder dialogue, can help companies identify and avoid potentially significant sustainability problems and liabilities before they arise.

Material issues can vary greatly depending on the industry, the business model and the regions of operation. One policy option is for stock exchanges and/or regulators to require companies to conduct their own materiality analysis and to disclose both their process and the results. This approach can avoid a need to provide prescriptive guidance on exactly what to report. Guidance exists on how to conduct a materiality analysis, for example, from the Carbon Disclosure Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council and International Organization for Standardization. This approach will encourage companies to think – actively, and on an ongoing basis – about how sustainability issues affect their business and to define the thresholds that deem an issue material.

In certain contexts, stock exchanges and/or regulators may consider providing minimum requirements for disclosure

or examples of information that companies should consider reporting. This could relate to specific sectors or to issues of local imperative. For example, mine remediation is widely accepted as a material issue among mining stakeholders; stock exchanges and/or regulators should consider highlighting this to mining companies and encouraging such companies to disclose on related policies, programmes and performance appropriately.

#### **IV. Decide on a disclosure model: Mandatory or voluntary**

Sustainability reporting initiatives can be categorized into two main types: mandatory and voluntary. Mandatory approaches may be based on a comply or explain or a prescriptive framework, while voluntary approaches leave reporting to the company's discretion but have the potential to be effective where certain drivers exist. The two approaches can be used simultaneously with mandatory reporting reserved for only some issues or some companies. They can also be used sequentially, with voluntary reporting used for an initial period to allow companies to develop capacity, eventually to be supplanted by mandatory reporting to ensure a harmonized approach among all companies.

Companies are more likely to report specific information if such disclosure is made mandatory by a stock exchange or regulator (UNCTAD, 2011a; Ioannou and Serafeim, 2012). Consequently, some member States, for example, France, Denmark and Sweden, have made sustainability reporting mandatory for at least some corporations, in particular large enterprises and State-owned enterprises.

That said, UNCTAD data also show that some voluntary initiatives have been very effective, while some mandatory rules have been largely ignored. In the area of sustainability reporting, many countries show far more reporting than would otherwise be required by mandatory rules. For example, for the ISAR corporate governance benchmark disclosure item “Policy and performance in connection with environmental and social responsibility” only 56 per cent of 25 emerging markets require this item, yet 91 per cent of 188 of the largest companies in those markets were disclosing this item (UNCTAD, 2011a:6). Therefore, while mandatory rules generally produce more disclosure overall, well-designed voluntary approaches can also be an effective option, particularly for jurisdictions introducing a sustainability reporting initiative for the first time (section IV.B).

### **A. Use a comply or explain framework when requiring sustainability disclosure**

Stock exchanges and regulators should consider using a comply or explain framework when requiring sustainability disclosures from companies.<sup>5</sup> This approach is common among existing mandatory sustainability reporting initiatives and is the model proposed by the United Nations High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (United Nations, 2013:24). This model allows flexibility so as not to impose an undue burden on report preparers. Under a comply or explain framework, companies typically

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<sup>5</sup> “Comply or explain” has been adapted by some organizations and re-named “apply and explain”, “if not why not” or “report or explain”. This report does not distinguish among these different iterations of the concept and uses the term “comply or explain”, unless otherwise referencing alternative terminology used by other organizations.

report against a specified standard set of disclosure items, or they are asked to produce a sustainability report and explain their approach to the selection of information included in the report. In the former case, companies should explain any gaps in disclosure as compared with the specified standard – providing guidance on how to explain any gaps is highly recommended. In the latter case, companies are simply required to explain why they do not publish a sustainability report at all, if that is the case.

ASX, for example, has adopted a comply or explain model for its Corporate Governance Principles and Recommendations, which contain provisions for sustainability issues. Companies are encouraged to apply the recommendations set out in the guidelines and are required to provide a statement in their annual report disclosing the extent to which they have followed the recommendations. Companies that have not followed all the recommendations must identify the recommendations that have not been followed and explain the reasons why.

Similarly, the Johannesburg Stock Exchange (JSE) expects all issuers to address the principles set out in the King Code of Corporate Governance, which currently covers 75 principles, including on sustainability and integrated reporting, disclosing how each principle has been applied or explain why or to what extent they were not applied. In addition, the assessment of the principles must be documented in the form of a register that must be made available on the website of the issuer.

The frameworks used by ASX and JSE are examples of a principles approach versus a rules-based approach to non-financial reporting. A principles approach in corporate governance, typically coupled with a comply or explain

framework, establishes a high-level set of basic principles, while acknowledging that the specific implementation of those principles may take different forms in different companies and industries that are equally effective and appropriate. As the ASX guidance states, a principles approach tied to a comply or explain framework allows a company to explain how its practices accord with the spirit of the relevant principle. Companies are still required to demonstrate that they understand the relevant issues and have considered the impact of any selected alternative approach.

## **B. Consider starting with a voluntary initiative**

Voluntary sustainability reporting initiatives also have the potential to be effective where certain drivers exist. Companies may be more likely to comply with a voluntary disclosure recommendation when significant demand for sustainability information exists on the part of key stakeholders (investors, customers, government officials), and companies consider that there are benefits (operational and reputational) to such reporting.

The effectiveness of a voluntary approach can be demonstrated by the rise of corporate sustainability reporting on the part of thousands of companies not legally required to do so. An important tool for enhancing the effectiveness of a voluntary sustainability reporting initiative is the creation of a related sustainability index. Such indices typically highlight top performers, allowing public pressure and competitiveness between firms to drive disclosure and ultimately performance (International Finance Corporation, 2011). In Brazil, for example, the BM&FBOVESPA stock exchange launched its carbon efficient index in 2010 which, within 24 months of its

launch, led to a 44 per cent increase in the number of companies voluntarily reporting emissions data.

Employing a voluntary scheme can be particularly appropriate when introducing a sustainability reporting initiative for the first time, and especially when doing so in a jurisdiction that has little experience producing sustainability reports. Such voluntary schemes can be a useful educational phase for companies, allowing them to build the necessary capacity to produce high-quality sustainability reports.

### **C. Signal the sustainability disclosure policy direction**

Stock exchanges and regulatory authorities should consider advising relevant stakeholders on the future direction their policy will take, and companies should be allotted sufficient time to adapt. When the initiative is intended to evolve from one disclosure model to another, for example from voluntary to mandatory, clarity on its direction enhances the uptake of sustainability disclosure in a market. For example, in 2012, the Hong Kong Stock Exchange included a voluntary environmental, social and governance reporting guide in its listing requirements and indicated that it would consider strengthening the rule to comply or explain by 2015 (Hong Kong Stock Exchange, 2012). Similarly, the chief executive of the Singapore Exchange (SGX) at a conference in 2013 announced that it would move to a comply or explain reporting regime in the future (Green Business Times.com, 2013).

Several stock exchanges that initially promoted voluntary sustainability disclosure among listed companies have moved to mandating sustainability disclosure. For example, Bursa Malaysia introduced its corporate social

responsibility framework in 2006. Since the end of 2007, however, listed companies must, according to the stock exchange's listing requirements, disclose their practices that support sustainable business. If there are none to report, a statement must be provided to that effect.

## **V. Adopt design and implementation factors that maximize desired policy outcomes**

### **A. Promote responsible investment practices**

Responsible investment refers to the efforts of investors to incorporate sustainability issues into investment decisions and to actively engage with investee companies to encourage improved sustainability practices (UNCTAD, 2011b:34). Stock exchanges and regulators should consider promoting responsible investment practices among investors as a means of creating further demand for high-quality sustainability reporting.

The United Nations-supported PRI is the largest investor initiative focused on mainstreaming the integration of sustainability issues within investment decision-making. Promoting membership of the Principles among investors can assist them in further developing their understanding of the impact of sustainability issues on investment practices.

### **B. Consider making reference to international standards**

Reporting on sustainability performance in accordance with international standards and guidelines provides a

consistent and comparable approach to sustainability issues. Consistency and comparability add value to sustainability disclosures for investors and other stakeholders. The benefits of a harmonized approach among companies worldwide have long been evident in financial reporting, as reflected in the efforts of policymakers to work towards the convergence of international financial reporting standards.

With a view to promoting a harmonized approach among member States, stock exchanges and regulators should consider requiring companies to report on sustainability issues in accordance with an international reporting framework. In Sweden, for example, all State-owned enterprises are required to produce a sustainability report using Global Reporting Initiative guidelines.

A practical approach that should take place early in the process of introducing a sustainability reporting initiative is for stock exchanges and/or regulators to first take stock of which – if any – major standards are already in use by companies for sustainability reporting and the extent of application of these standards. For example, if 80 per cent of large companies in a jurisdiction already voluntarily report using the same set of guidelines, it may be useful to begin by simply expanding the application to 100 per cent of large companies, or beyond. This can aid significantly in the scoping process and the choice of a reporting standard. In any event, it is highly recommended that the final scoping (section III) should remain subject to the findings from design considerations on international standards and multi-stakeholder consultations.

Stock exchanges and/or regulators should also consider the role they may play in facilitating training exercises for companies to assist them in better understanding existing national, regional or international sustainability reporting

frameworks. Such training exercises can be a useful complement to both mandatory and voluntary sustainability reporting initiatives. They are especially helpful in assisting with capacity-building in developing countries. BM&FBOVESPA, for example, works with the Global Reporting Initiative to run training workshops for companies listed on its exchange.

Stock exchanges and regulators may wish to monitor the development of the international integrated reporting framework, participate in its further development and consider its use once finalized. Integrated reporting is an emerging area in corporate reporting that aims to offer an organization's providers of financial capital with a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long terms. Integrated reporting recognizes that the creation of value is influenced by societal issues and environmental challenges, as well as by the quality of stakeholder relationships. The International Integrated Reporting Council is leading efforts towards the development of an international framework for integrated reporting, a final draft of which is expected to be disseminated in 2014.

Even while an international standard on integrating reporting is still under development, some jurisdictions have nevertheless moved toward this model of disclosure. For example, JSE requires (on an apply or explain basis) that listed companies publish an integrated report in accordance with the King III Code. In addition, the Report of the United Nations High-Level Panel of Eminent Persons on the Post-2015 Development Agenda noted that many companies recognize a need to "adopt 'integrated reporting', on their social and environmental impact as well as financial

performance”. They call for a new global partnership to encourage companies to follow this practice (United Nations, 2013:11).

International standards, while important for the international harmonization of practices and the benefits that brings, may not always capture all material national issues. Therefore stock exchanges and/or regulators should consider complementing international standards with guidance on disclosure related to unique national sustainable development priorities (section D).

### **C. Use a multi-stakeholder consultation**

A multi-stakeholder consultation approach throughout the rule development process can be useful for creating widespread adoption and buy-in, especially in the development of voluntary initiatives. A multi-stakeholder dialogue can identify priorities and challenges from a range of perspectives to assist stock exchanges and regulators in the design and implementation of a sustainability reporting initiative. Optimum buy-in can be created by consulting with key stakeholders throughout the development process as opposed to once a specific approach has been decided: i.e. stakeholders should be involved in the design of the initiative, not merely its approval.

For example, in November 2010, the European Commission launched an online public consultation to gather views on the disclosure of non-financial information by enterprises. It also hosted a series of multi-stakeholder workshops on the disclosure of environmental, social and governance information. Representatives from business, investment funds, trade unions, human rights groups,

governments, media and consumer organizations shared views on the importance of environmental, social and governance disclosure and put forward proposals for European policy in this field. If an international standard is being used, then it is also helpful to use a standard that has been developed through international multi-stakeholder consultations.

Collaboration between two or more rule-making bodies in the development of sustainability reporting initiatives can further strengthen the process and result. For example, the Securities and Exchange Board of India bases its sustainability disclosure requirement on the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business published by the Ministry of Corporate Affairs in 2011. In Australia, the Department of Sustainability, Environment, Water, Population and Communities is currently working in partnership with state and territory governments to improve the National Pollutant Inventory.

#### **D. Provide sustainability guidance**

Sustainability guidance developed by a stock exchange or regulator to complement existing international standards can reflect sustainability imperatives that are globally aligned but locally relevant. Guidance does not need be prescriptive or exhaustive, but can lay a foundation for embedding sustainability and improving transparency. Information that helps link multiple international standards and provides guidance on how such standards can be applied is particularly useful. In markets with a heavy concentration in a few industries, sector-specific insights into material issues can also provide value and make use of existing sector reporting

guidance provided by the Global Reporting Initiative. Guidance tailored to SMEs may also be useful.

To begin the process, stock exchanges and/or regulators should consider publishing an official statement explaining the rationale for corporate sustainability reporting to help companies better understand the benefits. For example, JSE states that integrated reporting raises investor awareness, as it brings together sustainability performance and financial performance data. In Canada, the National Instrument 51-102 Continuous Disclosure Obligations states that there is investor interest in environmental matters and explains that reporting should provide insight into risks relating to a company's business so that investors can assess the effect of these risks on the company's operations and/or financial performance. *Powering Business Sustainability – A Guide for Directors*, published by Bursa Malaysia, highlights the relevance of sustainability to businesses and the importance of engaging with stakeholders (Bursa Malaysia, 2010). SGX has also issued guidance on sustainability disclosure that provides the exchange's view of sustainability and the implications for companies.

### **E. Provide incentives for disclosure**

Stock exchanges and/or regulators can provide a range of incentives to increase the rate of company uptake of sustainability disclosure initiatives. Public recognition for sustainability reporting is a form of incentive that the Brazilian stock exchange BM&FBOVESPA has used successfully. By releasing an annual inventory of companies that publish a sustainability report, the stock exchange has created positive recognition and an increase in brand value and awareness for

companies that disclose sustainability information. Based on company feedback, JSE has decided to leverage the issuer-investor interface as a key incentive going forward. Investor engagement on sustainability performance and disclosure has been indicated as a valuable incentive for issuers, and JSE is working to promote this, for example, through an annual event enabling selected constituents of its Socially Responsible Investment Index to present its sustainability investment case to institutional investors.

For mandatory reporting rules, stock exchanges and regulators could review the sanctions they already have in place for non-compliance with listing rules and corporate reporting regulations, particularly those related to non-financial reporting, such as corporate governance issues. To promote compliance, it can be a useful exercise to conduct periodic reviews of the corporate reporting of random samples of companies, or samples of the largest firms. Since 2007, UNCTAD and ISAR have been assisting member States to conduct such studies on the implementation status of corporate governance disclosure, providing actionable information to stock exchanges and regulators to further enhance their disclosure frameworks where necessary.<sup>6</sup>

Investors and other users of corporate reports should be encouraged to play a watchdog role in ensuring that they receive information that is required and communicate with investee companies, stock exchanges and regulators about any disclosure gaps. Investors and other stakeholders play a critically important role in monitoring the disclosure activities of companies. While stock exchanges and regulators can set the

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<sup>6</sup>See <http://unctad.org/en/Pages/DIAE/ISAR/Corporate-Governance-Disclosure.aspx>.

rules of a market and sanction non-compliance, they cannot reasonably be expected to identify every instance of non-compliance. Such watchdog activities are largely in the hands of market participants themselves, who help determine the success of both mandatory and voluntary initiatives.

## **F. Promote accessible and timely disclosure**

Sustainability information, as with other forms of corporate reporting, should be made available to all current and potential future investors. In practical terms, this means that information should be made available to the general public (UNCTAD, 2011a:23–24). In Brazil, France, India, Norway and Pakistan, among other countries, companies are encouraged to publish a sustainability report on their websites. Regulators or stock exchanges may also wish to set up a central web database that provides a comprehensive and searchable inventory of company sustainability reporting, much like many regulators and stock exchanges already do in regard to financial reporting and corporate governance disclosure (e.g. the EDGAR online database of the United States Securities and Exchange Commission).

In order to improve the usability and comparability of the information and help inform readers of their corporate strategy, companies should be encouraged to publish sustainability reports concurrently with annual reports. Sustainability reports are often released after financial reports, sometimes several months later, which poses a problem for investors wishing to compare a company's financial and sustainability reporting at the same time.

## **G. Encourage third-party assurance**

Stock exchanges and/or regulators may wish to consider creating a requirement to have sustainability data assured by an independent party or defining the legal accountability for the accuracy of such data. Sustainability information supported by an assurance statement from third parties is considered more credible and reliable by many investors. Furthermore, companies that have gone through an assurance process are more likely to increase the quality of their existing data management systems, leading to higher quality sustainability reports.

Two commonly used international standards for assuring sustainability reports are the International Auditing and Assurance Standards Board (IAASB) International Standard on Assurance Engagements 3000, known as ISAE 3000, and the AA1000 standard developed by a multi-stakeholder body organized by the consulting firm AccountAbility. In addition, the International Federation of Accountants (IFAC) has issued an assurance standard for greenhouse gas information. Several countries have also issued national assurance standards on sustainability information, including Japan, Germany, the Netherlands and Sweden.

Bursa Malaysia's Powering Business Sustainability: A Guide for Directors, for example, recommends internal and external assurance to improve the credibility of reporting. The Republic of Korea has environmental reporting guidelines that identify verifiability as a key element of sustainability reporting and note that sources of reported information should be testable and verifiable in an objective manner by third parties. In Argentina, companies required to publish a report on

balancing social and environmental responsibility must be in compliance with AA1000.

Assurance standards can be cost prohibitive for some companies, and capacity for widespread assurance on sustainability reporting must be further developed to meet any large increases in demand. If assurance requirements are not a possibility, stock exchanges and regulators may wish to promote voluntary assurance and/or provide other mechanisms to further strengthen data quality, such as requiring report preparers to disclose data collection methods.

## **VI. Conclusions and key recommendations**

This document provides best practice guidance to policymakers and stock exchanges on the development and implementation of sustainability reporting initiatives. The guidance seeks to assist stock exchanges and corporate reporting regulators in the context of an international trend wherein stock exchanges and regulators in several countries are introducing new sustainability reporting initiatives.

Key recommendations of the guidance are as follows:

(a) Introducing voluntary sustainability reporting initiatives can be a practical option to allow companies time to develop the capacity to prepare high-quality sustainability reports;

(b) Mandatory sustainability reporting initiatives can be introduced on a comply or explain basis, to establish a clear set of disclosure expectations while allowing for flexibility and avoiding an undue burden on enterprises;

(c) Stock exchanges and/or regulators may consider advising the market on the future direction of

sustainability reporting rules. Companies should be allotted sufficient time to adapt, especially if stock exchanges or regulators are considering moving from a voluntary approach to a mandatory approach;

(d) Sustainability reporting initiatives should avoid creating reporting obligations for companies that may not have the capacity to meet them. Particularly in the case of mandatory disclosure initiatives, one option is to require only a subset of companies (e.g. large companies or State-owned companies) to disclose on sustainability issues;

(e) Stock exchanges and regulators may wish to consider highlighting sustainability issues in their existing definitions of what constitutes material information for the purposes of corporate reporting;

(f) With a view to promoting an internationally harmonized approach, stock exchanges and regulators may wish to consider basing sustainability reporting initiatives on an international reporting framework;

(g) Considerations for the design and implementation of sustainability reporting initiatives include using a multi-stakeholder consultation approach in the development process for creating widespread adoption and buy-in and creating incentives for compliance, including public recognition and investor engagement.

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## Annex I: Members of the UNCTAD-ISAR Consultative Group on Sustainability Reporting Initiatives

UNCTAD gratefully acknowledges the valuable inputs to this document made by experts listed here. UNCTAD expresses appreciation to Mr. Steve Waygood for serving as Chairperson of the Consultative Group and to the Sustainalytics research team that assisted with the research and drafting of this document.

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## Best Practice Guidance for Policymakers and Stock Exchanges

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\* Participated in the 18 April 2013 meeting in Geneva to review the zero draft of the proposed guidance document.

*Note:* Consultative Group experts participated in their personal capacity; their professional affiliations are provided for information only. The views expressed in this document do not necessarily represent the views of each member of the Consultative Group or the official views of their organizations.

## Annex II: Selection of examples of stock exchange and regulator sustainability reporting initiatives

Stock exchange or regulator (Country)	Description of sustainability reporting initiative	Scope of companies	Disclosure model	Sustainability reporting	Multi-Stakeholder approach	Sustainability guidance	Incentives for disclosure	Accessibility of disclosures	Third-party assurance	Advocate for reporting initiative
		CoE = comply or explain, V = voluntary M = mandatory								
		● Yes   ○ No								
ASX (Australia)	Includes sustainability issues in its corporate governance principles and recommendations, on a comply or explain basis. Explicitly includes sustainability risks in its definition of material business risks	All	CoE	○	●	●	○	●	○	○

### Notes:

- <sup>1)</sup> All companies on Main Market.
- <sup>2)</sup> Mandatory for top 100 companies by market capitalization on the National Stock Exchange of India and the Bombay Stock Exchange. Voluntary 'apply or explain' for all other companies on each exchange.

<i>Stock exchange or regulator (Country)</i>	<i>Description of sustainability reporting initiative</i>	<i>Scope of companies</i>	<i>Disclosure model</i>	<i>Sustainability reporting</i>	<i>Multi-Stakeholder approach</i>	<i>Sustainability guidance</i>	<i>Incentives for disclosure</i>	<i>Accessibility of disclosures</i>	<i>Third-party assurance</i>	<i>Advocate for reporting initiative</i>
BM&F BOVESPA (Brazil)	Recommends listed companies publish a sustainability report or explain why not. Provides training work-shops on sustainability reporting. As an incentive, publishes an inventory of listed companies with sustainability reports	All	CoE	●	●	●	●	●	○	●
Toronto Stock Exchange (Canada)	Provides guidance on their timely disclosure policy, which includes environmental and social issues as being material for listed companies	All	V	○	○	●	○	●	○	○
Shanghai Stock Exchange (China)	Encourages companies to voluntarily disclose on sustainability issues and issued Guidelines on Environmental Information Disclosure by Listed Companies.	All	V	●	○	●	●	●	○	○

Stock exchange or regulator (Country)	Description of sustainability reporting initiative	Scope of companies	Disclosure model	Sustainability reporting	Multi-Stakeholder approach	Sustainability guidance	Incentives for disclosure	Accessibility of disclosures	Third-party assurance	Advocate for reporting initiative
Bursa Malaysia (Malaysia)	Requires listed companies to provide a description of their <i>corporate social responsibility</i> activities in their annual reports, or explain why not. Encourages listed companies to publish an annual Global Reporting Initiative sustainability report. Developed a detailed guidance on sustainability reporting, assurance, stakeholder engagement, key performance indicators and governance.	All	CoE	●	○	●	○	●	●	●
SGX (Singapore)	Encourages companies to publish Global Reporting Initiative sustainability reports and issued a policy statement and accompanying <i>Guide to Sustainability Reporting for Listed Companies</i> to encourage companies to adhere.	All	V	●	○	●	○	●	●	●

*Notes:*

- <sup>1)</sup> All companies on Main Market.
- <sup>2)</sup> Mandatory for top 100 companies by market capitalization on the National Stock Exchange of India and the Bombay Stock Exchange. Voluntary 'apply or explain' for all other companies on each exchange.

<i>Stock exchange or regulator</i> <i>(Country)</i>	<i>Description of sustainability reporting initiative</i>	<i>Scope of companies</i>	<i>Disclosure model</i>	<i>Sustainability reporting</i>	<i>Multi-Stakeholder approach</i>	<i>Sustainability guidance</i>	<i>Incentives for disclosure</i>	<i>Accessibility of disclosures</i>	<i>Third-party assurance</i>	<i>Advocate for reporting initiative</i>
JSE (South Africa)	Requires companies to comply with the King Code, which promotes sustainability disclosure and integrated reporting, and requires listed companies to publish an integrated report.	All	CoE	●	●	●	●	●	○	●
The Stock Exchange of Thailand (Thailand)	Published the <i>Principles of Good Corporate Governance for Listed Companies</i> in which companies are encouraged to voluntarily disclose sustainability policies. Founded the CSR Institute, which provides guidance on sustainability reporting and responsible investment. As of 2013, the Securities and Exchange Commission requires companies to disclose sustainability activities in their annual reports.	All	V	●	●	●	○	●	●	●

Stock exchange or regulator (Country)	Description of sustainability reporting initiative	Scope of companies	Disclosure model	Sustainability reporting	Multi-Stakeholder approach	Sustainability guidance	Incentives for disclosure	Accessibility of disclosures	Third-party assurance	Advocate for reporting initiative
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CoE = comply or explain, V = voluntary

M = mandatory

● Yes | ○ No

## Regulators

British Government (United Kingdom)	The Companies Act 2006 requires companies listed on the Main Market of the London Stock Exchange to report scope 1 and 2 greenhouse gas emissions	All <sup>1)</sup>	M	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Securities and Exchange Board of India (India)	The Securities and Exchange Board of India has mandated the inclusion of business responsibility reports as part of the annual reports for listed entities on the National Stock Exchange of India and the Bombay Stock Exchange	All	M/V <sup>2)</sup>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>				

### Notes:

<sup>1)</sup> All companies on Main Market.

<sup>2)</sup> Mandatory for top 100 companies by market capitalization on the National Stock Exchange of India and the Bombay Stock Exchange. Voluntary 'apply or explain' for all other companies on each exchange.

<http://SSEinitiative.org>

