Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

29th SESSION
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Room XIX, Palais des Nations, Geneva

Friday, 2 November 2012
Morning Session

Sustainability Reporting

Presented by

Doug Morrow
Vice President Research, Corporate Knights, Canada

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Corporate Knights
The Company for Clean Capitalism

Trends in Corporate Sustainability Reporting

Prepared for: ISAR

November 2nd, 2012
Outline

- About Corporate Knights
- The Drivers of Corporate Sustainability Disclosure
- Corporate Knights and Sustainable Stock Exchanges
- Next Steps for 2013
- Q&A
Corporate Knights is a specialized media and investment research company

- **Corporate Knights has 3 main activities:**
  - **Corporate Knights Magazine:** Publishes the world's largest circulation magazine focused on the intersection of business and society. Distributed quarterly in *The Washington Post* and Canada’s *Globe and Mail*
  - **Corporate Knights Capital:** Research team provides quantitative sustainability services for investors and benchmarking services for corporates
  - **Council for Clean Capitalism:** Secretariat to council of companies working to catalyze policy changes so that sustainable activity in the economy is better rewarded and financed

"**Corporate Knights** is one of the most advanced practitioners seeking ESG correlation to core business metrics such as revenue growth, cost reduction, and profitability."

- **Michael E. Porter**, Harvard Business School
  October, 2012
Rising Expectations for Corporate Sustainability Disclosure

The Modern Public Company

- Shareholders
- Stock Exchanges
- Employees
- Customers
- Regulators
- NGOs
- Local Communities
Corporate Knights and Sustainable Stock Exchanges

- Corporate Knights commissioned to prepare quantitative disclosure study to support the Sustainable Stock Exchanges 2012 Global Dialogue at Rio +20

- Analyzed the world’s stock exchanges on three measures of disclosure performance

- Purpose:
  - Determine the world’s most advanced stock exchanges from a sustainability disclosure standpoint
  - Identify disclosure trends for seven ‘first generation’ sustainability indicators
  - Find pockets of successful policy
Key Findings

1. Disclosure not (yet) consistently practiced by small and micro-cap companies
Sustainability Disclosure Largely a Large Company Phenomenon

All Public Companies (n = ~54,000)

Small and Micro-Caps (n=~50,000)

Sustainability Disclosure rate: 11%

Mid, Large and Mega-Caps (n = ~4,000)

Sustainability Disclosure rate: 60%
Key Findings

1. Disclosure not (yet) consistently practiced by small and micro-cap companies

2. Great process of ‘catch up’ taking place among emerging markets-based exchanges
## Growth in Sustainability Disclosure: Emerging Markets Playing Catch Up

<table>
<thead>
<tr>
<th>Payroll</th>
<th>Energy</th>
<th>Water</th>
<th>Waste</th>
<th>GHGs</th>
<th>Employee Turnover</th>
<th>LTIR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Composite exchange with highest disclosure rate, 2010</strong></td>
<td>Finland</td>
<td>Finland</td>
<td>Portugal</td>
<td>Finland</td>
<td>Finland</td>
<td>Italy</td>
</tr>
<tr>
<td><strong>Composite exchange with fastest growing disclosure rate, 2006-2010</strong></td>
<td>Chile</td>
<td>China</td>
<td>South Africa</td>
<td>South Africa</td>
<td>South Africa</td>
<td>South Africa</td>
</tr>
</tbody>
</table>
Key Findings

1. Disclosure not (yet) consistently practiced by small and micro-cap companies

2. Great process of ‘catch up’ taking place among emerging markets-based exchanges

3. Enormous discrepancies across sectors
## Disclosure of First Generation Indicators by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>First Generation Sustainability Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Energy</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>22%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30%</td>
</tr>
<tr>
<td>Energy</td>
<td>21%</td>
</tr>
<tr>
<td>Financials</td>
<td>17%</td>
</tr>
<tr>
<td>Health Care</td>
<td>29%</td>
</tr>
<tr>
<td>Industrials</td>
<td>27%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>25%</td>
</tr>
<tr>
<td>Materials</td>
<td>39%</td>
</tr>
<tr>
<td>Telecommunications Services</td>
<td>29%</td>
</tr>
<tr>
<td>Utilities</td>
<td>31%</td>
</tr>
</tbody>
</table>
Key Findings

1. Disclosure not (yet) consistently practiced by small and micro-cap companies

2. Great process of ‘catch up’ taking place among emerging markets-based exchanges

3. Enormous discrepancies across sectors

4. The top performing stock exchanges all have some form of disclosure standards in place
## Overall Sustainability Disclosure Performance

<table>
<thead>
<tr>
<th>Rank</th>
<th>Composite Stock Exchange</th>
<th>Disclosure Score (Maximum 20)</th>
<th>Disclosure Growth Score (Maximum 10)</th>
<th>Disclosure Timeliness Score (Maximum 10)</th>
<th>Overall Score (Maximum 40)</th>
<th>Sustainability Disclosure Regulations (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Netherlands</td>
<td>14.1</td>
<td>8.8</td>
<td>9.4</td>
<td>32.3</td>
<td>✓</td>
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<tr>
<td>2</td>
<td>Denmark</td>
<td>15.9</td>
<td>5.6</td>
<td>10</td>
<td>31.5</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Spain</td>
<td>17.6</td>
<td>8.2</td>
<td>5.6</td>
<td>31.5</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Finland</td>
<td>19.4</td>
<td>6.8</td>
<td>5.3</td>
<td>31.5</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>South Africa</td>
<td>16.5</td>
<td>10</td>
<td>4.7</td>
<td>31.2</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Sweden</td>
<td>12.3</td>
<td>7.1</td>
<td>9.1</td>
<td>28.5</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>18.8</td>
<td>6.5</td>
<td>2.9</td>
<td>28.2</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>15.3</td>
<td>9.7</td>
<td>3.2</td>
<td>28.2</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Norway</td>
<td>11.8</td>
<td>7.9</td>
<td>8.2</td>
<td>27.9</td>
<td>✓</td>
</tr>
<tr>
<td>10</td>
<td>France</td>
<td>18.2</td>
<td>4.4</td>
<td>4.1</td>
<td>26.7</td>
<td>✓</td>
</tr>
</tbody>
</table>
Key Findings

1. Disclosure not (yet) consistently practiced by small and micro-cap companies

2. Great process of ‘catch up’ taking place among emerging markets-based exchanges

3. Enormous discrepancies across sectors

4. The top performing stock exchanges all have some form of disclosure standards in place

5. Absolute number of large companies disclosing ‘first generation’ sustainability indicators is rising
Disclosure of First Generation Indicators, by Year

Absolute number of Mid, Large and Mega-Cap Companies Disclosing First Generation Indicators

- Payroll
- Energy
- Water
- Waste
- GHGs
- Employee Turnover
- LTIR
Recommendations

▪ A mandatory disclosure framework urgently needed

▪ Graduated, sector-specific approach

▪ Secular shift to incentivize Integrated Reporting
Next Steps

▪ Corporate Knights organizing second iteration of SSE report, to be launched in October 2013

▪ Working with series of partners

▪ Goal: create globally recognized benchmark for sustainability disclosure practices of stock exchanges

▪ Focus: cross-referencing policies with practice, at level of individual stock exchange

▪ Sponsorship opportunities
Thank you

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